ASIAENV

leaps&bounds

ASIA ENVIRONMENT HOLDINGS LTD ANNUAL REPORT 2009

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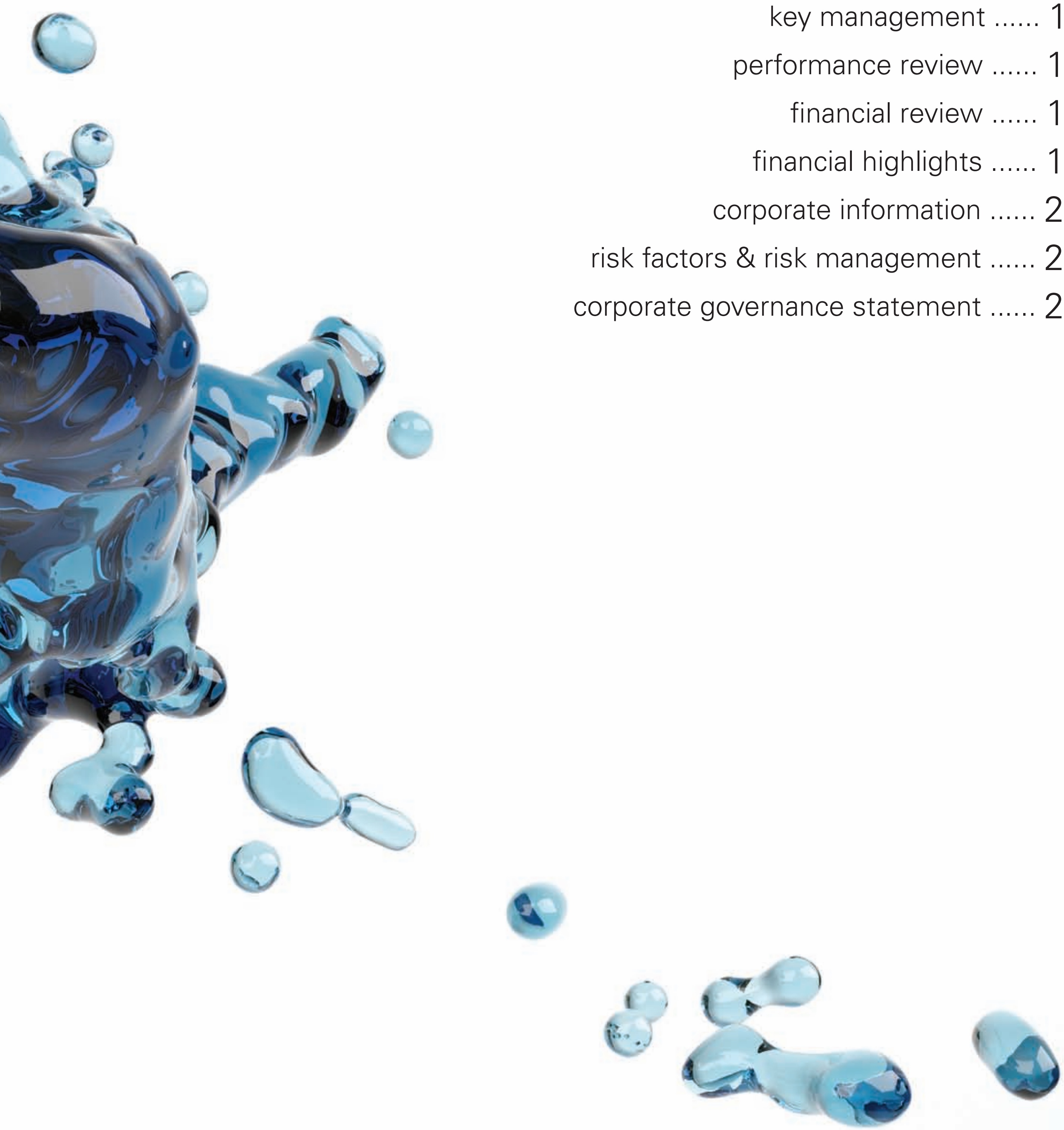
In the world there is nothing more submissive and weak than water. Yet for attacking that which is hard and strong nothing can surpass it.

Lao-Tzu (c. 570B)
Chinese philosopher

contents



mission statement

To lead in the provision of water and wastewater treatment solutions in the Asia-Pacific region by leveraging on our industry experience and capabilities, thereby contributing to a cleaner and safer environment.

corporate profile

Asia Environment Holdings Ltd is one of the leading integrated water and wastewater treatment solution providers in the People's Republic of China ("PRC").

Listed on the Singapore Exchange, the Group offers a comprehensive range of products and services that cover the entire spectrum of water and wastewater treatment, from planning and design to manufacturing and fabrication, construction, installation, operations and maintenance. Since its IPO in 2003, the Group has also undertaken Build-Operate-Transfer ("BOT") projects in water and wastewater treatment for municipals and townships.

Strategically located in Yixing, a government-designed environmental hub in the PRC, we are fully qualified to undertake large-scale turnkey projects. The Group has been awarded a Grade 1 Certificate for Contracting of Environmental Protection Projects and Grade A Certificate for Special Project Design from the PRC's Ministry of Construction as well as a Grade A Certificate for Project Consultancy from the National Development and Reform Commission and an Operation Certificate for Environmental Protection Facilities Qualification from the PRC's State Environmental Protection Administration. These coveted certificates and qualifications allow the Group to undertake projects of unlimited size and engineering complexity.

With over 20 years of experience and a notable track record of providing water and wastewater treatment solutions, we have undertaken many large-scale public projects involving water and wastewater projects for townships, municipalities and industrial parks, as well as various industries such as breweries, food processing, pulp and paper, chemical and pharmaceuticals in the PRC.

We remain committed to create a cleaner and safer environment and to lead in the provision of water and wastewater treatment solutions, both in PRC and the Asia-Pacific region.

亲爱的股东：

2009年是亚洲环保确立以通过资本运作，以技术、工程、制造、运营为支撑，进行水务项目运作来发展公司策略的第5年，也是由以项目建设为主转向项目建设与运营并重的一年。通过全体员工的共同努力，我们克服了资金紧张、工期较短等多种困难，基本完成了2009年的工作目标。

2009年工作回顾

在项目运营方面，2009年度新增5个运营收费项目：长沙望城、苏州汾湖、景德镇二期、溧水、休宁。2008年已运营的南昌、西宁、景德镇一期项目运营及收费基本正常，特别值得一提的是我司投资最大的、投资总额达6亿元多的南通项目自2008年12月28日投用后，试运营及试运营收费正常。

上述8个项目的成功运营及收费，使我司从2008年运营收费4004万元，增长到8992万元，实现运营毛利5735万元。另外，景德镇工业元气项目和岳阳老厂及扩建项目也将在今年运营收费。

在项目建设方面，除丹阳项目外，其他长沙望城、苏州汾湖、上海金山、景德镇二期及景德镇工业园项目、岳阳南津港的扩建项目均按期完成。至2009年底，西宁第三污水厂工程量过半，岳阳开发区项目完成工程量的1/3。

目前，集团在建及已经收费运行BOT投资项目16个，总日处理水量超过110万吨，总投资规模近25亿元。

在销售方面，2009年集团完成对外销售合同承订31517万元，完成销售14168万元，实现利润1322万元。

股东回报

2009年因受金融海啸的影响及建设项目较多，公司资金紧张，因此，公司将不考虑分发股息，希望股东理解。

2010年展望

随著运营项目的增多，运营管理将成为集团的管理重点，集团将努力提高运营管理水平，规范项目运营，确保项目能正常收费，以使项目尽快的产生回报。

在项目建设方面，按计划完成岳阳项目、周口项目、西宁项目及望城二期的建设。

集团将继续按照原有的经营策略，加大资金运作力度，加强项目拓展，扩大水务投资面。因集团已有较多的项目量，因此，集团下步也会开展项目的市场化和转让等工作，以解决公司持续投资的资金需求。

相信随著水务项目的不断增加，其收入也将不断提高，以后，集团将迈入有稳定现金流收入的新时代，相信集团的明天一定会更美好。

致谢

在此，我们对集团的全体员工和公司管理层为公司的发展壮大所付出的辛勤工作和巨大贡献表示深深的谢意。同时还要感谢那些与集团开展紧密合作的战略投资伙伴、融资机构、银行、股东给予我们的高度信任和大力支持。

最后，还要深深感谢董事会成员的参与和指导。

chairman & CEO statement

Dear shareholders:

It has been 5 years since Asia Environment embarked on its strategy to secure BOT projects as the next league in the Group's development. As of to-date we have completed 7 out of the 16 project which we have procured. The operation phrase of the BOT projects will be supported by the technology, engineering and management expertise gained from our turnkey and manufacturing segment. This year is also the beginning of a shift in the company focus as we move from project construction to project management. Despite the difficult economic and financial environment in 2009, through the concerted efforts of staff, we managed to overcome the obstacle of funding and tight construction deadline to complete the work objectives for 2009.

REVIEW ON 2009

In 2009, the Group has managed to complete and commenced tariff collection for the following 5 plants namely Changsha Wangcheng, Suzhou Fenhu, Jingdezhen Penyao, Nanjing Lishui and Huangshan Xiuning.

All these plants, including Nanchang Penyao and Xining Penyao which have commenced operations since 2008, are operating as expected with regular tariff collection.

Our Nantong Project, which is by far the largest investment the Group has undertaken since 2005, has commence commissioning since 28 December 2008 and is operating normally with regular tariff collection during the trial run.

The completion of the above projects has led to an increase in total tariffs collection from RMB 40.04 million in 2008 to RMB 89.92 million with gross profits of RMB57.35 million. Apart from Danyang Project, the construction phrase of other projects, such as Changsha Wangcheng, Suzhou Fenhu, Shanghai Jinshan, Jingdezhen Phase two, Jingdezhen High Tech Park and Yueyang Nanjingang were all completed in time. As at 31 December 2009, we completed more than half of Xining 3rd WWTP and one third of Yueyang High Tech Park WWTP.

Currently, the Group has clinched 16 projects with a treatment capacity of water and wastewater treatment of 1.1 million tonnes/day and amounting to RMB 2.5 billion in investment value in it portfolio.

The Group has secured RMB 315.17 million worth of EPC contracts. The Group had completed RMB 141.68 million worth of these EPC contracts with a gross profit of RMB 13.22 million.

SHAREHOLDER RETURNS

Due to the financial crisis, coupled with construction projects which are still in progress, the Group faces a tight cash flows position. In this regard, our company will not consider issuing dividend to our Shareholders, we hope to procure the understanding of shareholders.

OUTLOOK FOR 2010

With an increasing number of BOT and TOT projects that commenced commercial operations, the management will be focusing on the operation and maintenance segment. Our main focus will be to improve the operational efficiency of these projects to ensure that the returns on these projects can be realized.

In the project construction aspect, we hope to complete Yueyang, Zhoukou, and the second phase of Xining and Wangcheng accordingly as planned.

Our Group will continue to strive on in respect to deployment and the use of capital to increase our market share in the water industry by investing in more water projects. Going forward, with increasing WTP and WWTPs in our portfolio, the Group will streamline our projects to monetize suitable projects which would unlock capital for the Group to use for new projects and investments opportunities.

With increase in BOT and TOT projects, we believe that we would be able to secure stable revenue for the Group. The Group will enter a more promising phase of development.

ACKNOWLEDGEMENT

We would like to thank all our employees, and in particular the management, for their hard work and great contributions in the past year. In addition, we would also like to thank all our strategic investment partners, financing institutions, bankers and shareholders for their trust and support to us under these difficult times. Last but not least, we would like to thank our fellow Directors on the Board for their involvement and guidance.

‘Strength and growth come only through continuous effort and struggle.’

Mr. Wang Chunlin

Executive Chairman

Mr. Wang Chunlin is our Executive Director and he was appointed as the Executive Chairman in August 2005.

As the Executive Director & Chairman, Mr. Wang is responsible for the overall corporate policies, business development and management of our Group. Since 1996 Mr. Wang has been the Chairman of the Penyao Group, which operated the environment protection business before they were taken over by our Group. Prior to that, he was working in Yixing City Gaocheng Environment Protection Equipment Factory ("Yixing Gaocheng Factory") since 1987, which was the predecessor of Yixing Penyao. He held various positions in Yixing Gaocheng Factory, including the positions of Factory head and General Manager. His experience in Yixing Gaocheng Factory gave him more than 15 years of experience in the wastewater treatment industry. Mr. Wang is also the elder brother of our Chief Executive Officer, Mr. Wang Hongchun.

Mr. Wang Hongchun

Chief Executive Officer

Mr. Wang Hongchun is our Chief Executive Officer as well as one of the founders of the Group. Managing the Group for more than 10 years now, Mr. Wang oversees the management, technical aspects and operations of our Group. In addition, he is also involved in the research and development of various environmental protection products, with more than 10 products that have been patented in PRC.

Mr. Wang has been awarded several technological advancement awards from various government departments in PRC, including the State Ministry of Agriculture, Jiangsu Department of Agriculture, Wuxi City and Yixing City. Mr. Wang is also a member of the China Association of Environmental Science, a national association set up by the government for the promotion of R&D relating to environmental protection.

Mr. Huang Zhengxin

Chief Operating Officer

Mr. Huang Zhengxin was appointed as the Chief Operating Officer with effect from 14 August 2007. Prior to that, he has been our Deputy General Manager since 2000 and was promoted to become the General Manager in April 2005. He is responsible for overseeing the technical, production and engineering division of our Group. Mr. Huang also manages the day-to-day operations of our Group. He holds a Bachelor's degree on Economic Management from Nanjing Branch of the Central Party School. Between 1996 and 2000, he was the Head of JSPY Design and prior to that between 1991 and 1996, he was the Vice-Head of Yixing City Construction Environmental Protection Design and Research Institute. Mr. Huang has been awarded several technological advancement awards from various government departments in the PRC, including the State Ministry of Agriculture, State Environmental Protection Administration, Jiangsu Department of Agriculture, Wuxi City and Yixing City.

board of directors

Mr. Yao Maohong

Executive Director

Mr. Yao Maohong was appointed as Executive Director in December 2005. Prior to joining the Group he worked for more than 20 years in the environmental engineering industry and was the founder of Yixing Quanxi Environmental Protection Co., Ltd ("Yixing Quanxi") – PRC based company specializing in the research & development, manufacturing of specialized environmental protection equipments.

Yixing Quanxi was acquired by the Company in 2004 to strengthen its market position and to streamline the Company's cost structure so as to remain more competitive. Mr. Yao is overall responsible for the Group's manufacturing division in China.

Mr. Tan Choong Min

Non-Executive Director

Mr. Tan Choong Min was appointed as the Non-Executive Director with effect from 11 August 2008. He is also a member of the Audit Committee and Remuneration Committee.

Mr. Tan is currently the Director, Projects for YTL Power International Berhad ("YTL Power") and is responsible for the development of new projects and investments for the YTL Power Group. YTL Power's principal activities include power generation, electricity transmission and water utilities businesses. YTL Power's parent company, YTL Corporation Berhad has a framework agreement with the Company covering exclusive technical agreement and mutual first right of refusal to collaborate in future water related projects in China.

Mr. Ralph Justin Dixon (alternate director to Mr. Tan Choong Min)

Non-Executive Director

Mr. Ralph Justin Dixon was appointed as the alternate director to Mr. Tan Choong Min and Non-Executive director with effect from 22 September 2008.

Mr. Dixon is currently the Director of Environmental Investments for YTL Corporation Berhad ("YTL"). Mr. Dixon graduated from Warwick University in the UK with a Bsc in Management Science after completing his high school education at Shiplake College, UK. He also has a Diploma in Mandarin from the Taiwan Normal Teachers University.

He has worked in operational roles and investment banking in Asia and Europe. He started out with Hoare Govett's fund management joint venture (Kwang Hwa Investment Trust) in Taiwan, and was thereafter transferred to Hoare Govett's London office. Following that, he worked in Malaysia with Hong Leong Securities and then as a Country Manager for Dresdner Kleinwort Wasserstein, Taiwan. After 15 years in investment banking, he moved into an operational role as the CEO of the paper converting factories of an Australian paper packaging company, Detmold Packaging in Indonesia and South Africa, focused on implementing and achieving accreditation for HACCP, ISO, GMP, CSR and other sustainability programs. He recycled wood packaging subsidiary. Following that, he moved to YTL focusing on private equity in the environmental sector and CDM consulting work globally for the YTL Group.

Mr. Wee Liang Hiam

Independent Director

Mr. Wee Liang Hiam was appointed as our Independent Director on 12 February 2009. He is also the Chairman of the Audit Committee and Nomination Committee and a member of the Remuneration Committee.

Mr. Wee has extensive experience in various industries and business environments having involved with various stages from evaluation to the integration of the merged entities, including successfully leading companies to listing in the mainboard of the Singapore Exchange. Mr. Wee holds a Post-graduate Diploma in Personnel Management, a Masters in Business Administration (Accountancy) from the Nanyang Technological University, a Bachelor of Business Administration Honours degree and a Diploma in Education from National University of Singapore. Mr. Wee is an ordinary member of Singapore Institute of Management and a non-practicing member of Institute of Certified Public Accountants of Singapore, CPA.

board of directors

Mr Low Wai Cheong

Independent Director

Mr Low Wai Cheong was appointed as the Company's Independent Director on 20 May 2009. He is also the Chairman of Remuneration Committee and a member of both Audit Committee and Nominating Committee.

Mr Low is a practising advocate and solicitor of the Supreme Court of Singapore, and heads the Corporate Finance and Securities Practice at Singapore law firm Chris Chong & C T Ho Partnership. His practice areas cover the legal and regulatory aspects of Capital Markets, Corporate Finance & Securities, as well as Company Restructurings & Corporate Rescues. He is also a trainer/lecturer for corporate governance courses conducted by the Singapore Chinese Chambers Institute of Business.

Mr Low graduated from the National University of Singapore with a Bachelor of Laws and a Masters of Law Degree. Mr Low is also a non-practicing solicitor of the Supreme Court of England and Wales, and of the Supreme Court of New South Wales, Australia.

key management

Soh Yeow Hwa

Financial Controller

Mr Soh joined our Group as Financial Controller in July 2009. He is responsible for the overall financial management, taxation, treasury and cash management of our Group. Prior to joining our company, he was the Financial Controller of China Angel Food Ltd for the period of October 2006 to June 2009. Preceding his appointment in China Angel Food Ltd, Mr Soh was the Group Finance Manager of Asia Environment Holdings Ltd in 2003-2006. His responsibilities included financial reporting of the Group, implementing internal control and operation procedures.

Prior to 2004 Mr Soh had also held various finance positions predominantly in the F&B industry and had also spend several years as an auditor in both local and international set up. Mr Soh graduated with a Bachelor of Commerce from Griffith University in 1992. He is a member of CPA Australia and a non-practising member of the institute of Certified Public Accountants of Singapore.

Mr Jiang Yongjun

Deputy General Manager

Mr Jiang Yongjun is our Deputy General Manager and has been in charge of marketing and business development from 2002. Prior to this, he was working in Penyao Group from 1997 to 2002, where his last held position was the Head of Administration. Between 1988 and 1997, he was a technician in Yixing City Experimental Equipment Plant. Mr Jiang, who graduated from Nanjing Jinling Management Institute in July 2003 with an economics degree, was awarded the "Golden Bull" Award in Jiangsu Province in 1991 for his development of new products.

Mr Zhou Guoya

Head of Design

Mr Zhou Guoya started off is career with the Penyao Group in July 1998 upon his graduation from the Suzhou City Environmental Institute with a Bachelor's degree in Environmental Engineering. He joined the Group in July 1998 as a Technical Support Engineer before his promotion to become the Department Supervisor in October 2000. He was subsequently promoted to become the Department Manager of JSPY Design in July 2002 and is now the Head of Design. Mr Zhou is also responsible for the design works of our major wastewater treatment plants such as the Shanxi Yuncheng Wastewater Treatment project, the Yixing City Chemical Industrial Park Wastewater Treatment Plant, the Nanchang Honggutan Wastewater Treatment project and Pizhou Wastewater Treatment project.

INDUSTRIAL OUTLOOK

Progress does not follow a straight ascending line, but a spiral with rhythms of progress and retrogression, of evolution and dissolution.

Rapid industrialization and urbanization had aggravated the water pollution and impaired water supply. Statistics show that more than 70% of China lakes and rivers as well as 90% of the ground water in the urban areas have been polluted to some extent. The climate change, thawing glaciers and land degrading in the north, are putting 800 million China rural populations at risk. Per- capita water available in China is merely one-fourth of world's average.

To combat its issue of severe water shortage and water pollution, the Chinese Government has in its 11th Five Year Plan ("FYP") commit a total investment of RMB 1 trillion over 2006-2011. According to the FYP, China has pledged to provide safe drinking water to 160 million rural residents by 2010 and all its rural residents by 2015.

The Group has been operating in China for the past 26 years as an integrated water and waste water treatment solution provider. With an in-depth understanding of the industry, combined with it's technical and project capacities, the Group is well placed to take the opportunities offered by the glowing industry.

2009 has been a challenging year, with liquidity drying up in the global financial market as a result of the financial crisis towards the end of FY 2008, the Group met with difficulties in projects funding. Nevertheless, the Group has managed to secure more project loans and short term funding from local Chinese banks, who were less affected by the global financial crisis, allowing the Group to continue with the construction of our projects.

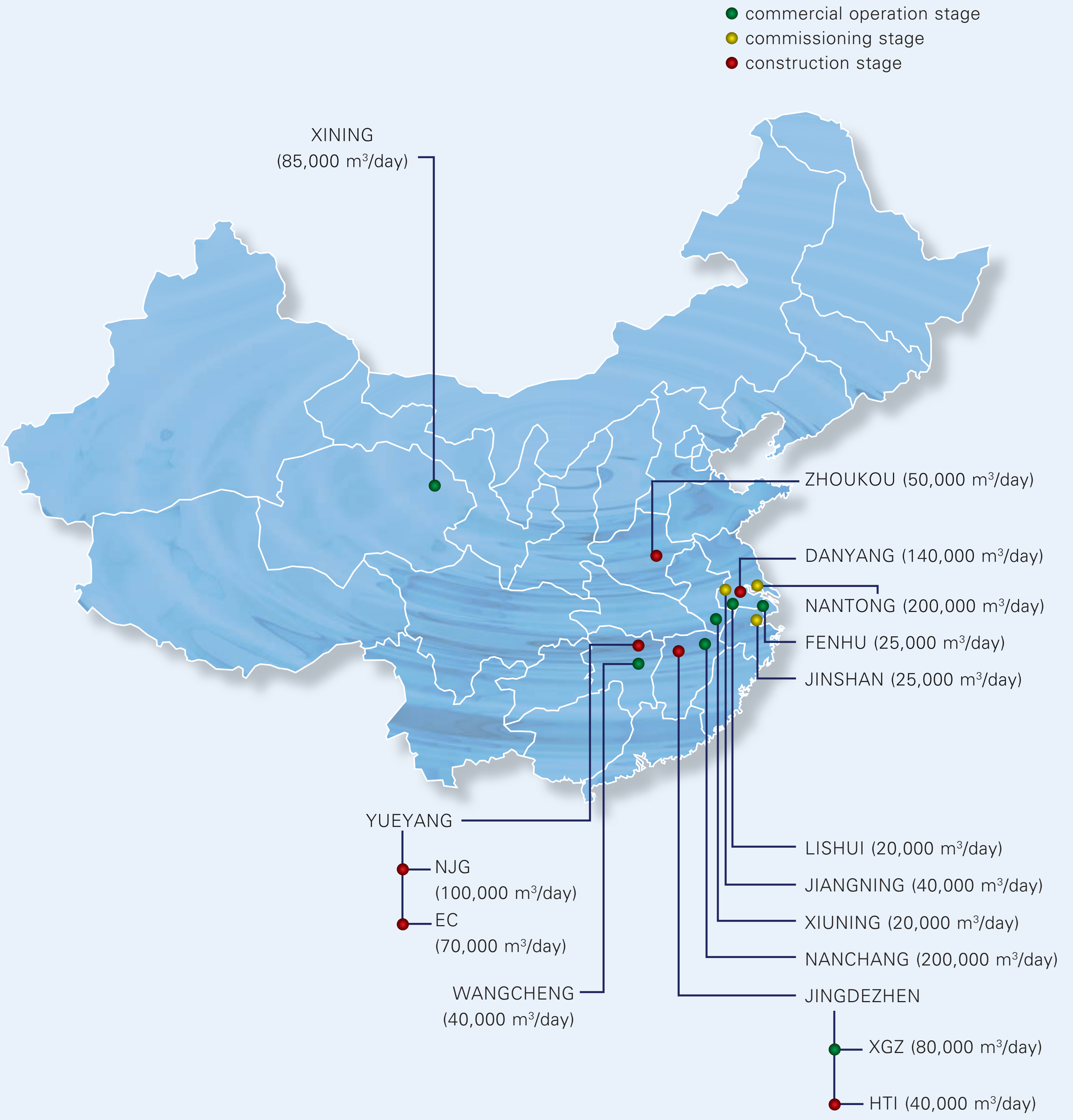
OUR PORTFOLIO OF WATER AND WASTEWATER TREATMENT PROJECTS

To date, we have 7 wastewater treatment plants in our portfolio of plants in commercial operation. This makes our total treatment capacity to 490,000 m^3 per day.

Included in our portfolio of projects in commissioning stage is also our Nantong BOT project which was signed back in 2005, being the only water supply project in our portfolio. It was also a test of the Group's ability to execute a project of such complexity which includes the installation of pipelines that stretches 70 km from the water source to the distribution points, involvement with government agencies both at the local and national level and also dealing with resettlement issues. We would expect the 3 plants in commissioning stage as at 31 December 2009 would be completed in 2010 which will add on another 265,000 m^3 treatment capacity to our portfolio bringing it to a total of 755,000 m^3 treatment capacity per day.

Finally, we have 3 major projects in progress currently in construction stage namely the Danyang Projects, Yueyang Projects and the Zhoukou Projects which was signed in late 2008 and in 2009. The constructions of these projects are in progress and we would expect that these projects would be completed in 2010 barring unforeseen circumstances.

GEOGRAPHICAL DISTRIBUTION OF PROJECTS



MAJOR DEVELOPMENTS DURING THE YEAR 2009

Commencement of Commercial Operation

JAN

MAR
Nanjing Lishui
Xiuning
Jingdezhen

SEP
Changsha Wangcheng
Suzhou Fenhu

Major Development during the Year

MAY
14 May 2009
Entry into Concession Agreements for the operation, expansion and construction of wastewater treatment projects in Yueyang City, Hunan Province.

AUG
10 August 2009
Termination of service concession agreement
– Changzhou Penyao

SEP
25 September 2009
Termination of service concession agreement
– Anqing Penyao

OCT
6 October 2009
Divestment of Siam Asia Environment Company Limited

21 October 2009
Entering into concession agreements for the operation, expansion and construction of wastewater treatment projects in Zhoukou City, Hunan Province

NOV
16 November 2009
Acquisition of 22% equity interest in Nantong Penyao by an associate, Nantong Water Holdings

16 November 2009
Arbitration proceeding against the Municipal Government of Pizhou City

DEC

REVENUE

Total revenue

The following table shows the Group's turnover by segment

	FY2009 RMB'000	FY2008 RMB'000
Turnkey projects and services	472,900	293,675
Manufacturing	99,049	80,240
Operations & Maintenance	42,678	19,175
Total revenue	614,627	393,090

The Group's revenue increased by 56.4% (RMB221.5 million) from RMB393.1 million in FY2008 to RMB614.6 million in FY2009. The increased in revenue was mainly due to:

(i) Turnkey project and services amounting to RMB179.2 million, from Nantong Penyao, and the 2 EPC projects secured in 2Q2009;

(ii) Equipment manufacturing amounting to RMB18.8 million due to an increase infrastructure project, a result of PRC increasing spending in this area; and

(iii) Operations and maintenance ("O&M") increased by RMB23.5 million arising from the Group's operating plants Nanchang BOT, Xiuning BOT and Lishui BOT projects which became operational during the year.

GROSS PROFIT

The Group's overall gross margin decreased from 34.8% in FY2008 to 26.7% in FY2009. The decrease is attributed to lower gross margin associated with the turnkey services rendered to Nantong BOT project as a result of cost over run.

NET PROFIT

The Group's net profit for FY2009 decreased by 35.5% to RMB34.2 million compared to RMB53.0 million in FY2008. The decrease of RMB18.8 million in net profits was mainly attributed to:

Administrative expenses

The Group's administrative expenses for FY2009 amounted to RMB51.6 million (FY2008: RMB41.0 million). The increase of RMB10.6 million was mainly attributable to the increase in guarantee fees amounting to RMB6.8 million as more loans was secured during the year.

Other operating expenses

The Group's other operating expenses increased from RMB7.9 million for FY2008 to RMB24.3 million for FY2009. The increase of RMB16.4 million was mainly attributable to additional provision for doubtful debts of RMB12.1 million on long outstanding customers of the Group's turnkey segment and RMB4 million on discount implicit to non-current receivables.

Finance costs

The Group's finance expenses for FY2009 amounted to RMB35.9

million compared with RMB19.2 million in FY2008. The increase of RMB16.7 million was mainly attributable to the following:

(i) Additional interest-bearing loans of RMB196.4 million and bills payable of RMB96.6 million taken up in the year ended 31 December 2009 bringing the total interest bearing loans to RMB556.3 million (FY2008: RMB359.9 million); and

(ii) RMB2.7 million arising from the finance lease taken up on 31 December 2008.

Other operating income

The Group's other operating income increase from RMB30.0 million in FY 2008 to RMB38.3 million during the year. The increase of RMB8.3 million was mainly attributable to the increase in interest income from service concession receivables.

TOTAL ASSETS

As at 31 December 2009, total assets of the Group were RMB2.16 billion, an increase of RMB595.7 million over the corresponding year as at 31 December 2008. The increase was mainly attributed to:

Service concession receivables

As at 31 December 2009, the Group's long-term and current service concession receivables amounted to RMB832.9 million as compared to RMB583.0 million in FY2008. The increase of RMB249.9 million was mainly attributed Danyang, Jiangning, Jingdezhen Dapen, Zhuokou and Yueyang projects amounting to RMB266.2 million which is offset by the disposal of the Changzhou and Anqing's BOT project amounting RMB14.2 million and repayment of the service concession receivable in relation to the BOT and TOT projects that are in commercial operation.

Cash and cash equivalent

As at 31 December 2009, the Group's cash and cash equivalents were RMB281.5 million as compared to RMB121.6 million as compared to 31 December 2008. The increase of RMB159.9 million was mainly from cash flow from operating activities due to an increased level of activities undertaken by the Group and short term loans taken up during the year.

Other receivables, deposits and prepayment

The Group's other receivables, deposits and prepayments amounted to RMB322.5 million (31 December 2008: RMB117.8 million). The increase of RMB204.7 million was mainly attributable to deposits paid for the acquisition of wastewater treatment plants in Yueyang City and Zhoukou City amounting to RMB115 million and advances to suppliers and subcontractors in relation to the construction of Built-Operate-Transfer projects which the Group is currently undertaking increased by RMB59.3 million and other EPC projects by RMB13.1 million.

TOTAL LIABILITIES

Total liabilities of the Group were RMB1.32 billion as at 31 December 2009, an increase of RMB563.3 million over the corresponding year as at 31 December 2008. This increase was mainly attributed to increase in loans and borrowings amounting to RMB501.3 million, increase in trade payables in relation to overall level of business activities amounting to RMB56.4 million and compensation of RMB11.6 million received from Xining Drainage Company to demolish and rebuild an existing administrative building on the site that will be used for the expansion of the Xining WWTP.

SHAREHOLDERS' EQUITY

Shareholders' equity as at 31 December 2009 stood at RMB823.9 million, an increase of RMB31.9 million over last year. The increase was mainly attributable to a net profit of RMB34.2 million generated by the Group during the year.

financial highlights

FINANCIAL YEAR	**2009 RMB'000**	2008 RMB'000 (restated)	2007 RMB'000
Operating results			
Revenue	**614,627**	393,090	463,524
Gross Profit	**163,982**	136,984	155,014
Profit from Operations	**101,385**	97,606	107,653
Profit before Taxation	**54,330**	68,628	94,715
Profit after Taxation	**34,657**	52,845	80,241
Profit attributable to Shareholders	**34,218**	53,028	81,815
Financial Position			
Property, Plant and Equipment	**31,842**	32,404	34,083
Cash and Cash equivalents	**281,459**	121,591	186,567
Total assets	**2,157,530**	1,561,678	1,022,015
Total liabilities	**1,326,375**	763,066	411,656
Working capital	**(209,828)**	219,787	360,213
Shareholder Funds	**823,908**	791,984	609,733
Ratio			
Operating Profit Margin (%)	**16.5%**	24.8%	23.2%
Return of Shareholders' fund (%)	**4.2%**	6.7%	13.4%
Return on Assets (%)	**1.6%**	3.4%	7.9%
Basic Earnings per share (RMB cents)	**7.98**	13.56	25.36
Net Tangible Assets per share (RMB cents)[1]	**182.75**	175.05	160.13
Net Assets per share (RMB cents)[1]	**193.61**	186.32	173.13

[1] Excludes treasury shares

REVENUE
(RMB'000)

614,627 | 393,090 | 463,524

2009 | 2008 | 2007

PROFIT BEFORE TAXATION
(RMB'000)

54,330 | 68,628 | 94,715

2009 | 2008 | 2007

BASIC EARNING PER SHARE
(RMB CENTS)

7.98 | 13.56 | 25.36

2009 | 2008 | 2007

NET TANGIBLE ASSETS PER SHARE
(RMB CENTS)

182.75 | 175.05 | 160.13

2009 | 2008 | 2007

corporate information

Board of Directors

Wang Chunlin
Executive Chairman & Executive Director

Wang Hongchun
Chief Executive Officer & Executive Director

Huang Zhengxin
Chief Operating Officer & Executive Director

Yao Maohong
Executive Director

Tan Choong Min
Non-Executive Director

Ralph Justin Dixon
(Alternate Director to Tan Choong Min)
Non-Executive Director

Wee Liang Hiam
Independent Director

Low Wai Cheong
Independent Director

Audit Committee

Wee Liang Hiam (Chairman)
Tan Choong Min
Low Wai Cheong

Nominating Committee

Wee Liang Hiam (Chairman)
Low Wai Cheong
Wang Chunlin

Remuneration Committee

Low Wai Cheong (Chairman)
Wee Liang Hiam
Tan Choong Min

Company Secretaries

Soh Yeow Hwa
Long Hsueh Ching

Registered Office

65 Chulia Street
#39-08 OCBC Centre
Singapore 049513

Share Registrar

M&C Services Pte Ltd
138 Robinson Road
#17-00 The Corporate Office
Singapore 068906
Tel: (65) 62280530
Fax: (65) 62251452

Principal Bankers

Industrial & Commercial Bank of China
Jiangsu Provincial Branch
193 Renmin Road Middle
Yixing, Jiangsu PRC

United Overseas Bank Limited
80 Raffles Place, UOB Plaza
Singapore 048624

Auditors

KPMG LLP
Certified Public Accountants
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Audit Partner-In-Charge: Ang Fung Fung
(appointed since financial year ended 31 Dec 2008)

risk factors & risk management

Business Risk

We are an integrated turnkey project specialist, covering our expertise as a manufacturer in water and wastewater treatment equipment and facilities in PRC. The growth of our business development opportunities will depend on the continued economic growth in PRC, where our main market is located and for such growth to translate into demand for water and wastewater treatment projects, products and services, and the identification of suitable long-term joint venture partners, that will participate in the equity financing of these development opportunities, and bankers and other long-term corporate partners in the region that are interested in working with us as strategic partners, and/or will be attracted to provide significant project loan financing to those projects which have been successfully awarded to the company and its operating subsidiaries.

The targeted economic growth rate for 2010 is expected to be estimated to be 8%[1]. With such growth, we expect that the demand for water and wastewater treatment products and services will keep pace especially when environmental concerns are identified as one of the top priorities in China's 11th Five Year Plan. While there are general macroeconomic risks associated with our business, these systemic risks are currently not of sufficient severity as to affect our business in general.

Product Risks

Demand for our products and services depend considerably on our ability to deliver technologically advanced products and services that meet regulatory standards. Our response to technology changes is inherent in our business in which we constantly keep abreast of changes in new technologies and regulatory standards that affect our industry. We also ensure the relevance of our products and services by incorporating new technologies which meet both regulatory standards and customers' stringent requirements.

In addition, our customers may also be required to adhere to certain environment laws that are being passed. These laws and regulations impact us indirectly as we are required to conform and meet the requirements laid down by law in order to remain relevant to our customers' needs. We have todate been in compliance of such environmental legal requirements.

We respond to product risks posed by technology and regulatory changes by investing in research and development. In addition, we have an active collaboration with institutions of higher learning so as to tap into their knowledge and expertise and to keep abreast of the latest technologies to meet the challenges of innovation, advancement and accomplishment in our products and services.

Operational Risks

Our operations face the following types of risks, namely: (a) execution risks in terms of project management expertise, including the mobilization of sufficient resources to reached major project milestones, (b) project completion risks associated with significant cost overruns that may not be recoverable, and (c) long-term risks associated with the on going operations of build-operate-transfer ("BOT") and transfer-operate-transfer ("TOT") projects which may impact the overall project viability over the operatorship period.

[1] Xinhua: Report on the National People's Congress, National Committee of CPPCC, Annual Sessions 2010.

risk factors & risk management

Costs may be subject to the rise in the prices of raw materials, project delays, claims and disputes with clients. These affect our profitability as contracts often allow for liquidated damages being claimed in the event of disputes and/or delays and any other claims that are unforeseen. As for prices of raw material, any increase in price will affect our margins.

Our response to these risks factors in our operations is to have in place a process of project steering management including our joint venture partners, and our participating subsidiaries, and project management to enforce strict schedules in the workflow and minimize delays as much as possible by adhering to a system of top-down vigilance and diligence in our supervision and enforcement of construction activity. As for liquidated damages that may arise from claims, disputes and delays in project implementations, we minimize them by maintaining the trust of our customers in our ability to address all claims, disputes and delays expeditiously. Movements in raw materials prices may be difficult to predict. However, with sources from a large number of suppliers, we are able to mitigate the effects of any increase in price of the raw materials used in our business.

For BOT and TOT projects, a typical contract could run for 20 to 30 years after completion. The risks of operating a project for such a length of time are difficult to quantify as there would be problems arising from maintenance, systems integrity and natural hazards that will affect the smooth running of a project after commissioning. Any substantial disruption will affect earnings.

Our response to the long-term risks of BOT and TOT projects is to take out adequate insurance to cover natural disasters that might affect the operations and to have adequate back up in maintenance and systems in order to mitigate any breakdown in service. In addition, we will also reduce our stakes in these long term projects to a level that any major disruption described above will have minimum impact on the Groups' profitability.

Financial Risks

There are two main financial risks associated with our business and these relate mainly to the credit we give our customers for manufactured products and the credit terms that come from long-term projects.

For manufactured products, the typically payment terms call for an initial deposit of 20%, with 50% being paid upon delivery and 20% after installation. 10% will be retained by the customer until certification is received by the government authorities (normally 12 months) or in the case where no certification is required; the retention is paid up after 15-18 months from the hand-over date.

As for the longer period turnkey projects undertaken mainly for municipalities, payment terms could stretch over 1-3 years and a third party guarantee is usually provided.

While we do not have any significant debt problems with our customers, we have in place a credit policy on the review of credit terms. Prior to signing a contract with a client, we review a prospective customer's financial standing carefully and keep up with regular credit reviews until the contract or invoice is fully paid up. We also have various incentive and penalty schemes to encourage the speedy collection of debt. In dispute cases where amicable settlement is not foreseeable, we will resort to legal action to recover the debts.

Intellectual Property Risks

To date, the Group has received various patents registered with the Chinese government. These patents run for 10 years and cover a wide spectrum of products such as multi-valve interconnection switch, improved organisms contact filter, mobile container for clean water device etc.

While protections to our intellectual property rights are governed by law, we cannot rule out entirely the possibility of infringement. To date however, there has not been any infringement that we are aware of that materially affects our earning potential.

On the other hand, there may be risks arising from third parties claiming that we have infringed on their patents and/or copyrights. We do not, as a matter of policy, infringe on third party intellectual property and have not been involved in any such legal disputes to date.

Licensing Risks

Our business is dependent on our continuing to receive the necessary licenses and certificates from the Chinese government. Currently, we hold several certifications such as the Grade 1 Certificate for Contracting of Environmental Protection Projects and the Grade A Certificate for Special Project Design. These allow us to undertake projects of all sizes and scale.

The certificates are renewable at three to five year intervals. While there is no guarantee that the certificates will be renewed, we are nevertheless confident that we could have them renewed if we continue to deliver on innovation, projects and integrity.

corporate governance statement

The Board of Directors (the "Board") is committed to ensuring high standards of corporate governance to enhance a long term shareholder value.

This report describes the corporate governance practices adopted by the Company with specific reference to the Code of Corporate Governance 2005 (the "Code"), which forms part of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"). There are other sections in this annual report which contains information required by the Code. Hence, the annual report should be read in totality.

(A) BOARD MATTERS

PRINCIPLE 1: BOARD'S CONDUCT OF ITS AFFAIRS

The Board oversees the Group's business affairs. The principal role of the Board includes:–

(a) reviewing and approving corporate policies and strategies;

(b) reviewing and approving major funding proposals, investment and divestment proposals;

(c) monitoring Management's performance;

(d) reviewing the adequacy and integrity of the Group's internal controls, risk management systems and financial reporting systems;

(e) ensuring the Group's compliance to laws, regulations, policies, directives, guidelines and internal code of conduct;

(f) ensuring accurate, adequate and timely reporting to, and communication with shareholders; and

(g) assuming the responsibility for the satisfactory fulfilment of social responsibilities of the Group.

To fulfil this role, the Board is responsible for setting the overall strategy and corporate governance practices of the Group including setting its strategic direction, establishing goals for executive management and monitoring the achievement of these goals.

Matters which are specifically reserved to the Board for approval are those involving corporate plans and budgets, material acquisitions and disposals of assets, corporate or financial restructuring, share issuances, dividends and other returns to shareholders, and matters involving interested person transactions.

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including a Nominating Committee, a Remuneration Committee and an Audit Committee. These Committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis. The effectiveness of each Committee is also constantly monitored.

The Board meets at least four times a year. Ad hoc meetings are convened as and when circumstances require. The Company's Articles of Association provides for Directors to participate in Board Meetings by conference telephone and similar means of communication. The Directors' attendances at Board and committee meetings are set out below:–

	Board of Directors		Audit Committee		Remuneration Committee		Nominating 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
Mr. Wang Hongchun	5	5	–	–	–	–	–	–
Mr. Wang Chunlin	5	4	–	–	–	–	1	1
Mr. Yao Maohong	5	4	–	–	–	–	–	–
Mr. Huang Zhengxin	5	5	–	–	–	–	–	–
Mr. Tan Chong Huat[(1)]	2	1	2	1	1	1	1	1
Mr. Tan Choong Min (Alternate: Mr Ralph Justin Dixon)	5	4	4	3	1	1	–	–
Mr. Wee Liang Hiam[(2)]	5	5	4	4	1	1	1	1
Mr. Low Wai Cheong[(3)]	3	3	2	2	–	–	–	–

Notes:

(1) Mr. Tan Chong Huat resigned as an Independent Director on 20 May 2009.

(2) Mr. Wee Liang Hiam was appointed as an Independent Director on 12 February 2009.

(3) Mr. Low Wai Cheong was appointed as an Independent Director on 20 May 2009.

Non-Executive Directors are routinely briefed by the Executive Directors or senior managers at Board meetings or separate sessions, and provided with all necessary updates on regulatory and policy changes as well as developments affecting the Company and the Group. All Non-Executive Directors may request for additional information from the Executive Directors, management and/or the Company Secretary to familiarize themselves with the Group's business and have access to Executive Directors, management and the Company Secretary.

A formal letter is sent to newly appointed Directors explaining their duties and obligations upon their appointments. On Directors' training, the Group has instituted an orientation program to familiarise new Directors with the Group's business and governance practice. The program include briefing on the business and organisation structure of the Group, visits to the Group's operational facilities in China and meetings with the Management to gain a better understanding of the business operations. From time to time, the Group provides further relevant training to the Directors in areas of relevant new laws, regulations and guidelines.

PRINCIPLE 2: BOARD COMPOSITION AND BALANCE

The Board comprises seven members with four executive, one non-executive and two independent Directors. The Board considers its present size to be appropriate for the current nature and scope of the Group's operation. The Board comprises of business leaders with strong industry knowledge and business experiences, and professionals with backgrounds in accounting and finance, legal, and management consultancy. This provides a wide diversity of expertise for balanced and well-considered decisions to be made.

The independence of each Director is reviewed annually by the NC. Although the independent directors do not make up one-third of the Board, there is a strong and independent element.

With two out of seven Directors deemed to be independent, the Board is able to exercise independent judgment on corporate affairs and provide management with a diverse and objective perspective on issues. Furthermore, the Board will be able to interact and work with the management team through a robust exchange of ideas and views to help shape the Company's strategic direction.

Non-executive and independent members of the Board exercise no management functions in the Company or its subsidiary. Although all the Directors have equal responsibility for the performance of the Group, the role of the non-executive and independent Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and rigorously examined and taking into account the long-term interests, not only of the shareholders, but also of employees, customers, suppliers and the many communities in which the Group conducts business. The Board considers its non-executive and independent Directors to be of sufficient calibre and number and their views to be of sufficient weight that no individual or small group can dominate the Board's decision-making processes. The non-executive and independent Directors have no financial or contractual interests in the Group other than by way of their fees and shareholdings as set out in the Report of the Directors.

PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is a clear division of responsibilities in the respective roles and functions of the Chairman, Mr. Wang Chunlin and the Chief Executive Officer, Mr. Wang Hongchun ("CEO"). While the Chairman is responsible for the overall corporate policies, business development and effective communication with the Group's stakeholders, the CEO oversees the management, technical and operational matters of the Group.

The Board is of the view that the clear division of responsibilities in the roles and functions of the Chairman and the CEO will improve accountability and corporate transparency and provide the Board with greater capacity to exercise independent decision making, based on professional advice where consider necessary.

The Chairman ensures that Board meetings are held when necessary and sets the Board meeting agenda. The Chairman reviews Board papers before they are presented to the Board and ensures that the Board members are provided with complete, adequate and timely information. Management staff who have prepared the papers, or who can provide additional insight in the matters to be discussed, are sometimes invited to present the papers or attend during the Board meeting.

PRINCIPLE 4: BOARD MEMBERSHIP
PRINCIPLE 5: BOARD PERFORMANCE

The NC currently comprises three members, the majority of whom, including the NC Chairman, is independent.

Chairman	:	Mr. Wee Liang Hiam	(Independent Director)
Members	:	Mr. Wang Chunlin	(Executive Director)
		Mr. Low Wai Cheong	(Independent Director)

Based on the written terms of reference approved by the Board, the principal functions of the NC are to:

- Review the structure, size and composition of the Board and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- Identify and nominate for the approval of the Board, candidates to fill board vacancies as and when they arise;
- Determine annually the independence of a Director;
- Review the ability of a Director to adequately carry out his duties as Director when he has multiple board representations;
- Recommend to the Board the re-election by shareholders of any Director under the 'retirement by rotation' provisions in the Company's Articles of Association; and
- Assess the effectiveness of the Board as a whole.

The Company's Articles of Association provide for the retirement by rotation of Directors other than a Managing Director at each Annual General Meeting. The Board believes that the success of the Company is dependent on the experience and competency of the Managing Director, that for the present, it is not necessary and does not detract from the corporate governance processes to include the Managing Director who is also a controlling shareholder, for periodic retirement by way of rotation.

The NC reviews and recommends all director appointments. Candidates may be put forward or sought through contacts and recommendations. The selection of candidates is evaluated taking into account various factors including the relevant expertise of the candidates and their potential contributions to the current and mid-term needs and goals of the Group. The independence of each Director is reviewed upon appointment, and thereafter annually, by the NC.

The key information of the Directors is as disclosed in the Board of Directors and the Directors' Report sections of this annual report.

Based on the recommendations by the NC, the Board has established processes and objective performance criteria for evaluating the effectiveness of the Board as a whole. The performance criteria include evaluation in respect of board size and composition, board processes, board information and accountability, and board performance in relation to discharging its principal functions and responsibilities.

Each Board member is required to complete a board appraisal form. The chairman of the NC collates the completed forms and prepares a consolidated report for the Board. In consultation with the NC, the Chairman would act on the results of the performance evaluation with a view to strengthening the Board with new members and/or seeking resignation of directors where appropriate. Although the Directors are not evaluated individually, the factors taken into consideration for the re-nomination of the Directors for the current year are based on the Directors' attendance at meetings held during the year and the contribution made by the Directors at the meetings.

The Board is of the view that the financial indicators set out in the Code as performance criteria for the evaluation of Directors' performance are more a measure of management's performance and hence less appropriate for Directors. Such financial indicators also may not necessarily fully measure the long-term success and value creation of the Company. The NC is of the view that further evaluations of the objective appraisal of the Board may involve cost which could be better used elsewhere.

PRINCIPLE 6: ACCESS TO INFORMATION

The Board has full access to complete information on a timely basis in the form and quality necessary for the discharge of their duties and responsibilities. Prior to each Board and committee meeting, agendas are distributed and accompanied with relevant documents to provide the necessary information on the issues to be deliberated. Staff and external parties who can provide additional insight into matters to be discussed will be present at the relevant time during the Board and committee meeting.

The Board has independent access to the Company Secretary, who provides the Board with regular updates on the requirements of the Companies Act and all the rules and regulations of the SGX-ST. The Company Secretary or her representatives also attends the 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.

(B) REMUNERATION MATTERS

PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES
PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION
PRINCIPLE 9: DISCLOSURE ON REMUNERATION

The RC currently comprises three non-executive Directors, the majority of whom, including the Chairman is independent.

Chairman	:	Mr. Low Wai Cheong	(Independent Director)
Members	:	Mr. Tan Choong Min	(Non-Executive Director)
		Mr. Wee Liang Hiam	(Independent Director)

Based on the written terms of reference approved by the Board, the principal functions of the RC are to:

- Review and submit to the Board a framework of remuneration policies for Executive and Non-Executive Directors, and senior management;

- Review and submit to the Board the specific remuneration packages and terms of employment of each Director, the Company's Chief Executive Officer and senior management, covering all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind; and

- Review and submit to the Board the setting up of share option schemes or long term incentive schemes.

As part of its review, the RC will take into consideration the salary and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of the individual directors and senior management. The RC, in carrying out its tasks, has access to professional advice on human resource matters whenever there is a need to consult externally.

The four Executive Directors are under service contracts. The contracts are for a period of 3 years and are renewable annually. The RC reviews the service contracts and any revisions are subject to their approval.

Directors' fees are set in accordance with a remuneration framework comprising basic fees and attendance fees. Executive Directors do not receive Directors' fees. Non-Executive Directors and Independent Directors are paid Directors' fees, subject to the approval of shareholders at the Annual General Meeting.

The Company adopts a remuneration policy for staff comprising of a fixed component in the form of a base salary. The variable component is in the form of a bonus that is given to the staff after the financial year-end that is linked to the Company's and the individual's performance.

A breakdown of the level and mix of remuneration paid to each Director for FY 2009 is as follows:–

	Salary (%)	Performance Bonus (%)	Shares Award (%)	Director's Fees (%)	Total (%)
Below S$500,000 but above S$250,000					
A. Directors of the Company					
Wang Hongchun	97	–	3	–	100
Wang Chunlin	97	–	3	–	100
Below S$250,000					
Yao Maohong	76	–	24	–	100
Huang Zhengxin	93	–	7	–	100
Wee Liang Hiam	–	–	–	100*	100
Tan Choong Min	–	–	–	100*	100
Low Wai Cheong	–	–	–	100*	100
B. Top 5 Executives of the Group					
Below S$250,000					
Soh Yeow Hwa	100	–	–	–	100
Jiang Yongjun	77	–	23	–	100
Cheong Kuei Jung	100	–	–	–	100
Goh Bee Leng	100	–	–	–	100
Leong Wei San	100	–	–	–	100

* Payment subject to the approval of the shareholders at the AGM.

During the financial year, there is no employee who is the immediate family member of any Director and whose remuneration exceeds S$150,000.

Saved as disclosed above, none of the executive officers has any relationship with other executive officer, Director or substantial shareholder of the Company.

(C) ACCOUNTABILITY AND AUDIT

PRINCIPLE 10: ACCOUNTABILITY

The Board is mindful of its overall responsibility to shareholders for ensuring that the Group is well guided by its strategic objectives so as to deliver long term shareholder value. The Board is supported by Board committees with certain areas of responsibilities. In addition, the Board also aims to present a balanced and fair assessment of the Group's position and prospects in its annual financial statements, results announcements and all announcements on its business and operations.

PRINCIPLE 11: AUDIT COMMITTEE

The AC currently comprises three non-executive Directors, the majority of whom, including the Chairman is independent.

Chairman	:	Mr. Wee Liang Hiam	(Independent Director)
Members	:	Mr. Low Wai Cheong	(Independent Director)
		Mr. Tan Choong Min	(Non-Executive Director)

Based on the written terms of reference approved by the Board, the principal functions of the AC are to:

- Review with the external auditors their audit plan, evaluation of the internal accounting controls, audit report, assistance given by management and any matters which the external auditors wish to discuss;
- Review the scope and results of the audit, its cost effectiveness, the independence and objectivity of the external auditors as well as the nature and extent of non-audit services provided by them;
- Recommends to the Board the appointment, re-appointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors;
- Review significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any formal announcements relating to the Group's financial performance before their submission to the Board;
- Review the adequacy and effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management policies and systems established by the Company's management;
- Review the adequacy and effectiveness of the internal audit function, the scope and results of the internal audit procedures, and ensure that the internal audit function is adequately resourced and has appropriate standing in the Company;
- Review legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from the regulators;
- Report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate; and
- Review interested person transactions falling within the scope of the SGX-ST Listing Manual.

The AC convened four scheduled meetings during the year to review the financial results of the Group. The AC has also met with both the internal and external auditors, without the presence of the Company's management at least once a year. The AC has full access to and cooperation of the Company's management and the internal auditors and has full discretion to invite any Director or executive officer to attend its meetings. The auditors, both internal and external, have unrestricted access to the AC.

The AC has reviewed the non-audit services provided by the external auditors that comprise tax services and is satisfied with the independence of the external auditors.

The AC has also put in place a policy, whereby staff of the Group may raise concerns about possible improprieties in matters of financial reporting, fraudulent acts and other matters and ensure that arrangements are in place for independent investigations of such matters and appropriate follow up actions.

The Board is of the view that the AC members have the relevant expertise to discharge the functions of an AC. Reasonable resources have been made available to the AC to enable them to discharge their duties.

PRINCIPLE 12: INTERNAL CONTROLS
PRINCIPLE 13: INTERNAL AUDIT

The Board recognised its responsibility in maintaining a sound internal controls system to safeguard the assets of the Group and ensure the effectiveness and efficiency of its operations. The Group's internal control system is designed to provide reasonable and not absolute assurance that assets are safeguarded, operational controls are in place, business risks are suitably protected, proper accounting records are maintained and financial information used within the business are adequate and reasonably accurate.

The Group outsourced its internal audit function to a professional auditing firm, Wensen Consulting Asia (S) Pte. Ltd. The appointed internal auditor reports directly to the AC and assist the Board in monitoring and managing risks and internal controls of the Group. The AC is of the opinion that the appointed audit firm is adequately resourced with qualified personal to discharge its responsibilities. The AC has reviewed the internal control plan for FY2009 and is satisfied that the internal audit function has been adequately carried out.

The AC, in conjunction with management and the Board continues to review the company's and its operating companies' major internal control systems and procedures, based on its review of the results of the work submitted by the internal audit function, and the reporting by the external auditors, and where consider necessary, based on its inquiry with management of the following up to recommendations received for the improvement of the company's and its operating companies' internal control environments, and any other matters that it considers necessary.

(D) COMMUNICATION WITH SHAREHOLDERS

PRINCIPLE 14: COMMUNICATION WITH SHAREHOLDERS
PRINCIPLE 15: GREATER SHAREHOLDER PARTICIPATION

The Company adopts the practice of providing adequate and timely disclosure of material information to its shareholders. Information on the Company's financial performance and major business developments are disseminated promptly through SGXNET, press releases as well as the Company's website. The Group may also, on an ad hoc basis, hold media and analyst briefings and publish press releases of its financial results. The materials distributed in these events are also posted on the SGXNET for the benefit of our shareholders.

In addition, shareholders are encouraged to attend the AGM to ensure a high level of accountability and to stay informed of the Group's strategy and goals. The AGM is the principal forum for dialogue with shareholders.

Each item of special business included in the notice of the meeting will be accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions will be proposed for substantially separate issues at the meeting.

Shareholders are given opportunities and are encouraged to participate in general meetings. The Board members and the Management team are present to address any questions that shareholders may have concerning the Company. The external auditors are also present to assist the Board in addressing the relevant queries from the shareholders.

DEALING IN SECURITIES

The Group has adopted a Best Practices Guide with respect to dealings in securities, and extended in application to financial futures, foreign exchange contracts and over-the-counter instruments. The Group has established a policy governing such dealings by its Directors and staff. Directors and staff are prohibited from dealing in the securities of the Company during the periods commencing two weeks before the announcement of the Company's financial statements for the first, second and third quarters of its financial year and one month before the announcement of the Company's financial statement for its full year in accordance with the guidelines set out in the Best Practices Guide. In addition, Directors and staff are required to observe the regulatory requirements of the respective markets that the Group operates in and are expected not to deal in securities and other financial instruments on short-term considerations.

Directors are required to report to the Company Secretary whenever they deal in the Company's shares. The latter updates the Register of Directors' Shareholding and makes the necessary announcements.

The Company has complied with its Best Practices Guide on Securities Transactions.

INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC, if any and that the transactions are carried out on a normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

The aggregate value of interested person transactions entered into during the year under review is as follows:

Name of interested person	**Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual) S$**	**Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000) S$**
Yixing Resort Co., Ltd	S$158,000 in connection with the supply of accommodation for guests	N.A.
Yixing Shijun Development Co., Ltd	S$376,000 interest payment in connection with advances given.	N.A.

The Company does not have any shareholders' mandate for interested person transactions.

RISK MANAGEMENT

Risk assessment and evaluation takes place as an integral part of the strategic planning cycle. Having identified the significant business risks to the achievement of their strategic objectives, each business is required to document the management and mitigating actions in place and proposed in respect of each significant risk. The significant risk management policies are as disclosed in the Notes to the Financial Statements section of this annual report.

MATERIAL CONTRACTS

There are no material contracts of the Group involving the interests of any Directors or substantial shareholders subsisting at the end of the financial year ended 31 December 2009.

financial contents

directors' report

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2009.

DIRECTORS

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

Wang Chunlin	
Wang Hongchun	
Huang Zhengxin	
Yao Maohong	
Wee Liang Hiam	
Low Wai Cheong	(Appointed on 20 May 2009)
Tan Choong Min	
Ralph Justin Dixon	(Alternate to Tan Choong Min)

DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

Name of director and corporation in which interests are held	Holdings at beginning of the year	Holdings at end of the year
Wang Chunlin		
The Company		
– ordinary shares		
– interests held	241,703	298,103
– deemed interests	62,740,661	62,740,661
– warrants to subscribe for ordinary shares at S$0.38 between 25/8/2006 and 24/8/2009		
– deemed interests	16,510,414	–
– conditional award of shares to be delivered after 22 May 2009	0 to 56,000*	–
Wang Hongchun		
The Company		
– ordinary shares		
– interests held	31,780,164	31,836,564
– deemed interests	62,740,661	62,740,661
– warrants to subscribe for ordinary shares at S$0.38 between 25/8/2006 and 24/8/2009		
– deemed interests	16,510,414	–
– conditional award of shares to be delivered after 22 May 2009	0 to 56,000*	–

Name of director and corporation in which interests are held	Holdings at beginning of the year	Holdings at end of the year
Huang Zhengxin		
The Company		
– ordinary shares		
– interests held	239,883	275,833
– warrants to subscribe for ordinary shares at S$0.38 between 25/8/2006 and 24/8/2009		
– interests held	100,155	–
– conditional award of shares to be delivered after 22 May 2009	0 to 36,000*	–
Yao Maohong		
The Company		
– ordinary shares		
– interests held	264,103	354,103
– deemed interests	17,985,461	17,985,461
– conditional award of shares to be delivered after 22 May 2009	0 to 90,000*	–

* The actual number of share awards delivered will depend on satisfactory completion of time-based service conditions.

By virtue of Section 7 of the Act, Wang Chunlin and Wang Hongchun are deemed to have interests in all the subsidiaries of Asia Environment Holdings Ltd at the beginning and at the end of the financial year.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

There were no changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2010.

Except as disclosed under the "Share-based incentive plan" and "Warrants" section of this report, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Except for salaries, bonuses and fees and those benefits that are disclosed in this report and in notes 26 and 32 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit 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.

SHARE-BASED INCENTIVE PLAN

The Company's employee share award scheme known as the "Asia Environment Holdings Ltd Share Award Plan" (the "Share Plan") was approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on 25 July 2006.

The Remuneration Committee (the "Committee") of the Company has been designated as the committee responsible for the administration of the Share Plan. The Committee comprises the following members:

Low Wai Cheong (Chairman)	Independent director
Wee Liang Hiam	Independent director
Tan Choong Min	Non-executive director

The Share Plan is a share incentive plan and is an integral part of employee incentive compensation in the Company's variable wage system. The Share Plan provides an opportunity for the directors and employees of Asia Environment Holdings Ltd and its subsidiaries (the "Group") to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standard of performance, and to give recognition to employees of the Group who have contributed to the success of the Group.

Under the Share Plan, awards are granted to eligible participants. Awards represent the right of a participant to receive fully-paid shares, free of charge, upon the participant achieving prescribed performance target(s) and completion of time-based service conditions. Awards are released once the Committee is satisfied that the prescribed target(s) and time-based service conditions have been achieved. There are no vesting periods once the awards have been released.

The shares are settled by physical delivery of shares by way of issuance of new shares or existing shares to be procured by the Company for transfer to the eligible participants.

The final number of shares given will depend on the achievement of pre-determined targets and completion of time-based service conditions over a two-year period and will be issued in the following manner:

(i) maximum of 40% of share awards granted after the first anniversary of the date of the grant; and

(ii) 100% of share awards granted after the second anniversary of the date of the grant.

Other information regarding the Share Plan are as follows:

- **Plan Size and Duration**

  The maximum number of new shares under the Share Plan which the Committee may grant on any date, when aggregated with the number of new shares issued and issuable in respect of the shares granted under the Share Plan and any other existing share schemes or share option scheme implemented or to be implemented by the Company, shall not exceed 15% of the issued share capital of the Company on the day preceding the date of grant.

  The Share Plan shall continue in force at the discretion of the Committee, subject to a maximum period of 10 years commencing on 28 August 2006, provided always that the Share Plan may continue beyond the above stipulated period with the approval of the shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

  Notwithstanding the termination of the Share Plan, any awards made to participants prior to such termination will continue to remain valid, whether such awards have been exercised or not.

- **Participants of the Share Plan**

  In respect of the Share Plan, the following persons shall be eligible to participate at the absolute discretion of the Committee:

  (a) Group employees who have attained the age of 21 years and hold such rank as may be designated by the Committee from time to time;

  (b) Associates' employees who have attained the age of 21 years and hold such rank as may be designated by the Committee from time to time; and

  (c) Non-Executive Directors who, in the opinion of the Committee, have contributed or will contribute to the success and the development of the Group, provided that written justification shall first have been provided to shareholders for their participation at the introduction of the Share Plan or prior to the first grant of awards to them.

  Persons who are the Company's controlling shareholders or their associates as defined in the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") shall not participate in the Share Plan unless:

  (a) written justification has been provided to shareholders for their participation at the introduction of the Share Plan or prior to the first grant of awards to them;

  (b) the actual number and terms of any shares under the Share Plan to be granted to them have been specifically approved by the shareholders who are not beneficiaries of the grant in a general meeting in separate resolutions for each such controlling shareholder or his associates; and

  (c) all conditions for their participation in the Share Plan as may be required by the regulation of the SGX-ST from time to time are satisfied.

- **Maximum Entitlements**

  The Share Plan provides that the number of awards to be granted shall be determined at the absolute discretion of the Committee. However, under the Share Plan, the number of shares which may be offered to controlling shareholders or their associates shall not exceed 25% of the total number of shares available under the Share Plan (the "Plan Limit") and the number of shares to be offered to a participant who is a controlling shareholder or his associate shall not exceed 10% of the Plan Limit.

For the conditional shares awarded, the cost of the awards is based on the number of shares expected to be released at the end of the performance period, valued at market price at the date of the grant of the awards.

During the financial year, the Group has recognised RMB2,108,000 (2008: RMB1,803,000) in profit or loss in respect of the conditional shares awarded and to be awarded based on the market value of the Company's shares at the grant dates.

At the end of the financial year, details of the conditional shares awarded under the Share Plan, are as follows:

	Balance as at 1 January 2009		Share awards granted during the year		Share awards released during the year		Share awards lapsed/cancelled during the year		Balance as at 31 December 2009	
Conditional award	**No. of holders**	**No. of shares**	**No. of holders**	**No. of shares**	**No. of holders**	**No. of shares**	**No. of holders**	**No. of shares**	**No. of holders**	**No. of shares**
2007	32	474,060	–	–	32	(474,060)	–	–	–	–
2009*	–	–	–	–	–	–	–	–	–	–
		474,060		–		(474,060)		–		–

* Subsequent to balance sheet date, the Group proposed the grant of 3,460,000 conditional shares to be awarded under the Share Plan to 11 employees in respect of 2009.

The details of conditional shares awarded to the Directors and Key Executives of the Group are as follows:

Name of participant	Share awards granted during the financial year	Aggregate share awards granted since commencement of the plan to end of financial year	Aggregate share awards released since commencement of the plan to end of financial year	Aggregate share awards lapsed/cancelled	Aggregate share awards outstanding at end of financial year
Directors of the Group					
– Wang Chunlin	–	520,000	(294,000)	(226,000)	–
– Wang Hongchun	–	520,000	(294,000)	(226,000)	–
– Huang Zhengxin	–	510,000	(240,000)	(270,000)	–
– Yao Maohong	–	430,000	(350,000)	(80,000)	–
Key executives of the Group					
– Jiang Yongjun	–	410,000	(210,000)	(200,000)	–
– Zhou Guoya	–	135,000	(69,500)	(65,500)	–
Employees of the Group	–	3,368,000	(1,152,920)	(2,215,080)	–
	–	5,893,000	(2,610,420)	(3,282,580)	–

WARRANTS

On 25 August 2006, the Company issued 70,898,905 warrants to subscribe for 70,898,905 new ordinary shares in the capital of the Company. Pursuant to the Warrants Issue and Offer Information Statement dated 2 August 2006, shareholders of the Company are entitled to subscribe for one warrant at an issue price of S$0.02 for each warrant for every four existing ordinary shares in the capital of the Company held by them. Each warrant holder is entitled to subscribe for one new ordinary share in the capital of the Company at an issue price of S$0.38 at any time from the date of issue of the warrants up to 24 August 2009.

On 29 November 2007, the Company issued 20,400,000 non-listed warrants to International Finance Corporation ("IFC") at nil consideration to subscribe for 20,400,000 new ordinary shares in the capital of the Company in conjunction with the grant of a revolving loan facility of US$15,000,000 by IFC. Pursuant to the Warrants Subscription Agreement dated 3 October 2007, IFC is entitled to subscribe for one new ordinary share in the capital of the Company at an issue price of S$0.74 at any time from the date of issue of the warrants up to 28 November 2010.

At the end of the financial year, details of the warrants issued by the Company in 2006 and 2007, are as follows:

Date of grant of warrants	Exercise price per share	Warrants outstanding at 1 January 2009	Warrants lapsed	Warrants outstanding at 31 December 2009	Exercise period
25 August 2006	$0.38	52,850,908	52,850,908	–	25/8/2006 – 24/8/2009
29 November 2007	$0.74	20,400,000	–	20,400,000	29/11/2008 – 28/11/2010
		73,250,908	52,850,908	20,400,000	

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

The warrants granted by the Company do not entitle the holders of the warrants, by virtue of such holding, to any rights to participate in any share issue of any other company.

AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this report are:

Wee Liang Hiam (Chairman)	Independent director
Low Wai Cheong	Independent director
Tan Choong Min	Non-executive director

The Audit Committee performs the functions specified in Section 201B of the Companies Act, the Listing Manual and the Code of Corporate Governance.

The Audit Committee has held four meetings since the last directors' report. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the SGX-ST).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

AUDITORS

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Wang Chunlin
Director

Wang Hongchun
Director

Singapore
6 April 2010

statement by directors

In our opinion:

(a) the financial statements set out on pages 46 to 127 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 31 December 2009 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

(b) at the date of this statement, having regard to the disclosure as set out in note 2 to the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

Wang Chunlin
Director

Wang Hongchun
Director

Singapore
6 April 2010

independent auditors' report

Members of the Company
Asia Environment Holdings Ltd

We have audited the accompanying financial statements of Asia Environment Holdings Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2009, the income statement, 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 46 to 127.

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, Chapter 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

(a) 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 sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

independent auditors' report

OPINION

In our opinion:

(a) the consolidated financial statements of the Group and the balance sheet 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 to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Without qualifying our opinion, we draw attention to note 2 to the financial statements which indicate that the Group and the Company recorded a deficit in net current assets of RMB209,828,000 and RMB184,545,000 respectively, as at 31 December 2009. Notwithstanding this, the financial statements of the Group have been prepared on a going concern basis. The validity of the going concern assumption used in the preparation of the financial statements is dependent on the following:

(a) the Company being able to obtain a waiver from its creditor-bank on the breach of its loan covenants as described in note 20(e) and to raise cash proceeds from the issuance of new shares;

(b) its associates being able to raise new financing to repay certain amounts owing to the Group as set out in notes 9 and 13; and

(c) the Group being able to secure new loan for the construction of one of its wastewater treatment plant and to obtain the continued support from its lenders, shareholders and its suppliers to extend the repayment terms of outstanding revolving loans and trade payables which have been classified within current liabilities.

The outcome of the above is inherently uncertain. These conditions, along with other matters as set forth in note 2, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Should the going concern assumption be inappropriate, adjustments would have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they have been recorded in the balance sheets. In addition, the Group may have to provide for further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. No such adjustments have been made to these financial statements.

KPMG LLP
Public Accountants and
Certified Public Accountants

Singapore
6 April 2010

balance sheets

As at 31 December 2009

	Note	Group 2009 RMB'000	Group 2008 RMB'000 (Restated)	Group 2007 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Assets						
Property, plant and equipment	5	31,842	32,404	34,083	–	–
Leasehold prepayments	6	73,024	29,206	22,743	–	–
Intangible assets	7	46,214	47,878	45,813	–	–
Subsidiaries	8	–	–	–	567,520	332,098
Associates	9	357,797	121,625	20,539	105,469	101,674
Long-term service concession receivables	10	825,511	577,244	206,107	–	–
Long-term trade receivables	11	8,786	15,898	14,113	–	–
Long-term other receivables	12	12,500	12,500	–	–	–
Amounts due from related parties	13	22,036	–	–	78,645	94,699
Total non-current assets		1,377,710	836,755	343,398	751,634	528,471
Inventories	14	13,187	19,378	16,406	–	–
Construction work-in-progress	15	–	99,420	–	–	–
Service concession receivables	10	7,370	5,782	3,762	–	–
Trade receivables	11	81,609	74,317	98,383	–	–
Other receivables, deposits and prepayments	12	310,032	105,280	62,843	12,364	12,095
Amounts due from related parties	13	85,983	299,155	310,656	72,721	142,986
Cash and cash equivalents	16	281,459	121,591	186,567	405	24,083
Total current assets		779,640	724,923	678,617	85,490	179,164
Total assets		2,157,350	1,561,678	1,022,015	837,124	707,635
Equity						
Share capital	17	544,311	544,311	380,907	544,311	544,311
Reserves	18	108,466	94,299	91,238	(6,656)	(3,355)
Retained earnings		171,131	153,374	137,588	29,434	59,392
Total equity attributable to equity holders of the Company		823,908	791,984	609,733	567,089	600,348
Minority interest		7,067	6,628	626	–	–
Total equity		830,975	798,612	610,359	567,089	600,348
Liabilities						
Loans and borrowings	20	328,442	249,034	85,560	–	102,861
Deferred tax liability	21	8,465	8,896	7,692	–	–
Total non-current liabilities		336,907	257,930	93,252	–	102,861
Trade and other payables	22	393,337	325,331	256,957	5,331	2,954
Amounts due to related parties	23	5,168	6,912	5,160	56,364	–
Loans and borrowings	20	575,511	158,729	48,090	208,340	–
Current tax payable		15,452	14,164	8,197	–	1,472
Total current liabilities		989,468	505,136	318,404	270,035	4,426
Total liabilities		1,326,375	763,066	411,656	270,035	107,287
Total equity and liabilities		2,157,350	1,561,678	1,022,015	837,124	707,635

The accompanying notes form an integral part of these financial statements.

consolidated income statement

Year ended 31 December 2009

	Note	Group 2009 RMB'000	Group 2008 RMB'000 (Restated)
Revenue	24	614,627	393,090
Cost of sales		(450,645)	(256,106)
Gross profit		163,982	136,984
Other operating income		38,322	30,012
Distribution expenses		(25,054)	(20,464)
Administrative expenses		(51,615)	(41,022)
Other operating expenses		(24,250)	(7,904)
Results from operating activities		101,385	97,606
Finance costs	25	(35,988)	(19,157)
Share of losses of associates		(11,067)	(9,821)
Profit before income tax	27	54,330	68,628
Income tax expense	28	(19,673)	(15,783)
Profit for the year		34,657	52,845
Profit attributable to:			
Owners of the Company		34,218	53,028
Minority interest		439	(183)
Profit for the year		34,657	52,845
Earnings per share (RMB cents):			
– Basic	29	7.98	13.56
– Diluted	29	7.98	13.28

The accompanying notes form an integral part of these financial statements.

consolidated statement of comprehensive income

Year ended 31 December 2009

	2009 RMB'000	2008 RMB'000 (Restated)
Profit for the year	34,657	52,845
Other comprehensive income		
Foreign currency translation differences for foreign operations	(4,402)	597
Other comprehensive income for the year, net of income tax	(4,402)	597
Total comprehensive income for the year	30,255	53,442
Attributable to:		
Owners of the Company	29,816	53,625
Minority interest	439	(183)
Total comprehensive income for the year	30,255	53,442

The accompanying notes form an integral part of these financial statements.

consolidated statement of changes in equity

Year ended 31 December 2009

		Attributable to equity holders of the Company									
Group	Note	Share capital RMB'000	Reserve for own shares RMB'000	Capital reserve RMB'000	Foreign currency translation reserve RMB'000	Statutory and discretionary reserves RMB'000	Equity payment reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance as at 1 January 2008		380,907	(14,154)	42,575	2,651	57,042	3,124	137,588	609,733	626	610,359
Total comprehensive income for the year											
Profit or loss, restated	38	–	–	–	–	–	–	53,028	53,028	(183)	52,845
Other comprehensive income											
Foreign currency translation differences		–	–	–	597	–	–	–	597	–	597
Total other comprehensive income		–	–	–	597	–	–	–	597	–	597
Total comprehensive income for the year		–	–	–	597	–	–	53,028	53,625	(183)	53,442
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Issue of new shares, net of expenses of RMB149,000	17(a)	121,099	–	–	–	–	–	–	121,099	–	121,099
Issue of new shares on conversion of warrants		16,264	–	(567)	–	–	–	–	15,697	–	15,697
Issue of shares as scrip dividends	30	26,041	–	–	–	–	–	(26,041)	–	–	–
Purchase of treasury shares	17(d)	–	(138)	–	–	–	–	–	(138)	–	(138)
Value of employee services received for issue of share awards under the Share Plan	19	–	–	–	–	–	1,803	–	1,803	–	1,803
Issue of treasury shares in satisfaction of share awards		–	4,751	–	–	–	(3,435)	(1,316)	–	–	–
Dividends to equity holders	30	–	–	–	–	–	–	(9,835)	(9,835)	–	(9,835)
Total transactions with owners		163,404	4,613	(567)	–	–	(1,632)	(37,192)	128,626	–	128,626
Acquisition of a subsidiary	31	–	–	–	–	–	–	–	–	6,185	6,185
Transfer from retained earnings		–	–	–	–	50	–	(50)	–	–	–
Balance as at 31 December 2008, restated	38	544,311	(9,541)	42,008	3,248	57,092	1,492	153,374	791,984	6,628	798,612

The accompanying notes form an integral part of these financial statements.

consolidated statement of changes in equity

Year ended 31 December 2008

Group	Note	Share capital RMB'000	Reserve for own shares RMB'000	Capital reserve RMB'000	Foreign currency translation reserve RMB'000	Statutory and discretionary reserves RMB'000	Equity payment reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
		Attributable to equity holders of the Company									
Balance as at 1 January 2009, as previously stated		544,311	(9,541)	42,008	3,248	57,092	1,492	159,186	797,796	6,628	804,424
Effect of rectifying an omitted accounting entry on the acquisition of an additional 22.02% equity interest in a subsidiary of an associate	38	–	–	–	–	–	–	(5,812)	(5,812)	–	(5,812)
Balance as at 1 January 2009, as restated		544,311	(9,541)	42,008	3,248	57,092	1,492	153,374	791,984	6,628	798,612
Total comprehensive income for the year											
Profit or loss		–	–	–	–	–	–	34,218	34,218	439	34,657
Other comprehensive income											
Foreign currency translation differences		–	–	–	(4,402)	–	–	–	(4,402)	–	(4,402)
Total other comprehensive income		–	–	–	(4,402)	–	–	–	(4,402)	–	(4,402)
Total comprehensive income for the year		–	–	–	(4,402)	–	–	34,218	29,816	439	30,255
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Value of employee services received for issue of share award under the Share Plan	19	–	–	–	–	–	2,108	–	2,108	–	2,108
Capitalisation of retained earnings	18(b)	–	–	13,298	–	–	–	(13,298)	–	–	–
Issue of treasury shares in satisfaction of share awards		–	1,483	–	–	–	(1,884)	401	–	–	–
Total transactions with owners		–	1,483	13,298	–	–	224	(12,897)	2,108	–	2,108
Transfer from retained earnings		–	–	–	–	3,564	–	(3,564)	–	–	–
Balance as at 31 December 2009		544,311	(8,058)	55,306	(1,154)	60,656	1,716	171,131	823,908	7,067	830,975

The accompanying notes form an integral part of these financial statements.

statement of changes in equity

Year ended 31 December 2009

Company	Note	Share capital RMB'000	Reserve for own shares RMB'000	Capital reserve RMB'000	Foreign currency translation reserve RMB'000	Equity payment reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance as at 1 January 2008		380,907	(14,154)	4,293	2,689	3,124	63,651	440,510
Total comprehensive income for the year								
Profit or loss		–	–	–	–	–	32,933	32,933
Other comprehensive income								
Foreign currency translation differences		–	–	–	(1,721)	–	–	(1,721)
Total other comprehensive income		–	–	–	(1,721)	–	–	(1,721)
Total comprehensive income for the year		–	–	–	(1,721)	–	32,933	31,212
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Issue of new shares, net of issue expenses of RMB149,000	17(a)	121,099	–	–	–	–	–	121,099
Issue of new shares on conversion of warrants		16,264	–	(567)	–	–	–	15,697
Issue of shares as scrip dividends	30	26,041	–	–	–	–	(26,041)	–
Purchase of treasury shares	17(d)	–	(138)	–	–	–	–	(138)
Value of employee services received for issue of share awards under the Share Plan	19	–	–	–	–	1,803	–	1,803
Issue of treasury shares in satisfaction of share awards		–	4,751	–	–	(3,435)	(1,316)	–
Dividends to equity holders	30	–	–	–	–	–	(9,835)	(9,835)
Total transactions with owners		163,404	4,613	(567)	–	(1,632)	(37,192)	128,626
Balance as at 31 December 2008		544,311	(9,541)	3,726	968	1,492	59,392	600,348

The accompanying notes form an integral part of these financial statements.

statement of changes in equity

Year ended 31 December 2008

Company	Note	Share capital RMB'000	Reserve for own shares RMB'000	Capital reserve RMB'000	Foreign currency translation reserve RMB'000	Equity payment reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance as at 1 January 2009		544,311	(9,541)	3,726	968	1,492	59,392	600,348
Total comprehensive income for the year								
Profit or loss		–	–	–	–	–	(30,359)	(30,359)
Other comprehensive income								
Foreign currency translation differences		–	–	–	(5,008)	–	–	(5,008)
Total other comprehensive income		–	–	–	(5,008)	–	–	(5,008)
Total comprehensive income for the year		–	–	–	(5,008)	–	(30,359)	(35,367)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Value of employee services received for issue of share awards under the Share Plan	19	–	–	–	–	2,108	–	2,108
Issue of treasury shares in satisfaction of share awards		–	1,483	–	–	(1,884)	401	–
Total transactions with owners		–	1,483	–	–	224	401	2,108
Balance as at 31 December 2009		544,311	(8,058)	3,726	(4,040)	1,716	29,434	567,089

The accompanying notes form an integral part of these financial statements.

consolidated cash flow statement

Year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)
Cash flows from operating activities			
Profit for the year		34,657	52,845
Adjustments for:			
Amortisation of:			
– leasehold prepayments		2,641	956
– intangible assets		1,664	1,428
Depreciation of property, plant and equipment		3,528	3,705
Discount implicit to interest-free balances due from related parties		7,040	–
Government grants		(1,000)	(3,510)
Impairment of:			
– property, plant and equipment		–	3
– investment in an associate		3,502	–
Interest income		(31,643)	(19,254)
Interest expense		35,988	19,157
Loss on disposal of an associate		5	–
Gain on disposal of property, plant and equipment		(1,132)	–
Loss on termination of service concession agreements		2,268	–
Property, plant and equipment written off		370	25
Share of losses from associates		11,067	9,821
Negative goodwill		–	(2,678)
Value of employee services received for issue of conditional share award under the Share Plan		2,108	1,803
Income tax expense		19,673	15,783
Operating profit before working capital changes		90,736	80,084
Changes in working capital:			
Inventories		6,191	(3,015)
Construction work-in-progress		–	(99,420)
Trade receivables		(180)	22,256
Balances with related parties (trade)		100,479	20,503
Other receivables, deposits and prepayments		(95,382)	(37,314)
Trade and other payables		72,061	51,903
Cash generated from operations		173,905	34,997
Income – government grants received		1,000	3,510
Income taxes paid		(18,816)	(10,168)
Net cash from operating activities		156,089	28,339
Cash flows from investing activities			
Interest received		31,643	19,254
Balances with related parties (non-trade)		(76,928)	(85,563)
Purchase of property, plant and equipment		(6,707)	(2,126)
Proceeds from disposal of property, plant and equipment		4,512	–
Proceeds from disposal of leasehold prepayment		533	–
Proceeds from disposal of an associate		2,499	–
Investments in service concession receivables		(267,545)	(354,354)
Receipts from service concession receivables		6,199	4,155
Purchase of leasehold prepayments		(34,779)	(5,947)
Proceeds from termination of service concession agreements		9,223	–
Prepayments for Transfer-Operate-Transfer arrangements	12	(115,000)	–
Net cash outflow on acquisition of equity interest in subsidiaries	31	–	(6,518)
Acquisition of additional equity interests in associates		–	(2,791)
Net cash used in investing activities		(446,350)	(433,890)

The accompanying notes form an integral part of these financial statements.

consolidated cash flow statement

Year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)
Cash flows from financing activities			
Deposit placed for finance lease liability		–	(12,500)
Payment of loans and borrowings		(74,527)	(14,810)
Proceeds from loans and borrowings		560,630	261,787
Deposits (pledged)/returned		(63,063)	23,778
Proceeds from issue of shares		–	121,099
Proceeds from conversion of warrants		–	15,697
Purchase of treasury shares		–	(138)
Dividends paid		–	(9,835)
Interest paid		(35,988)	(19,157)
Net cash from financing activities		387,052	365,921
Net increase/(decrease) in cash and cash equivalents		96,791	(39,630)
Cash and cash equivalents at 1 January		115,791	156,989
Effect of exchange rate fluctuations on cash held		14	(1,568)
Cash and cash equivalents at 31 December	16	212,596	115,791

During the year, amounts of RMB99,344,000 (2008: RMB73,430,000) and RMB153,901,000 (2008: RMBNil) were reclassified from non-trade and trade amounts due from related parties respectively, to investment in associates.

The accompanying notes form an integral part of these financial statements.

notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 6 April 2010.

1 DOMICILE AND ACTIVITIES

Asia Environment Holdings Ltd (the "Company") is incorporated in the Republic of Singapore and has its registered office at 65 Chulia Street, #39-08 OCBC Centre, Singapore 049513.

The financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in associates.

The principal activities of the Company are those relating to an investment holding company. The principal activities of the subsidiaries are set out in note 8 to the financial statements.

2 GOING CONCERN

As at 31 December 2009, the Group and the Company recorded a deficit in net current assets of RMB209,828,000 and RMB184,545,000 respectively. Notwithstanding this, the financial statements of the Group have been prepared on a going concern basis. The ability of the Group to continue as a going concern is principally dependent on the following:

- the Company being able to obtain a waiver from its creditor-bank on the breach of its loan covenants as described in note 20(e) and to raise cash proceeds from the issuance of new shares.

- its associates being able to raise new financing to repay certain amounts owing to the Group as set out in notes 9 and 13.

- the Group being able to secure new loan for the construction of one of its wastewater treatment plant and to obtain the continued support from its lenders, shareholders and its suppliers to extend the repayment terms of outstanding revolving loans and trade payables which have been classified within current liabilities.

Based on the directors' review of the cash flow forecast of the Group for the twelve months ending 31 December 2010, the directors consider the going concern assumption to be appropriate having regard to the Group's ability to secure borrowings in 2009 amounting to RMB560.6 million, the assistance received to date by the Group and its associates from the respective municipal governments in the People's Republic of China ("PRC") where the water and wastewater treatment plants are located in sourcing for the required financing, the continued support from its lenders, shareholders and suppliers.

If the Group and its associates are unsuccessful in securing new financing and the support from its current lenders cease to be forthcoming, or if some or all the assumptions in the cash flow forecast did not materialise, the Group would be unable to continue its operations and pay its debts as and when it fall due. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

3 BASIS OF PREPARATION

3.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS").

3.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. Non-current assets are measured at the lower of the carrying amount and fair value less costs to sell.

3.3 Functional and presentation currency

The financial statements are presented in Chinese Renminbi ("RMB"). The functional currency of the Company is the Singapore dollar. The financial statements of the Group and the Company are presented in RMB as the operations of the Group are mainly in the PRC, and the transactions in the PRC are mainly denominated in RMB. Assets and liabilities are translated from the Singapore dollar functional currency to RMB at rates of exchange ruling at the reporting date. All equity items other than the result for the current year are translated at historical rates. Resultant exchange differences are recognised directly in equity, in the foreign currency translation reserve.

All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

3.4 Use of estimates and judgements

The preparation of financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is included in the following notes:

- Note 7 – assumptions of recoverable amounts relating to goodwill impairment
- Notes 8 and 9 – assumptions of recoverable amounts relating to investments in subsidiaries and associates
- Note 10 – measurement of service concession receivables
- Notes 11 and 13 – impairment on trade receivables and amounts due from related parties
- Note 24 – recognition of revenue from construction contracts
- Note 31 – valuation of assets and liabilities acquired in a business combination

3 BASIS OF PREPARATION (CONTINUED)

3.4 Use of estimates and judgements (continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in notes 7, 8, 9, 10, 11, 13 and 24.

3.5 Changes in accounting policies

(a) Overview

Starting as of 1 January 2009 on adoption of new/revised FRSs, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements
- Disclosure of contractual maturity analysis

(b) Determination and presentation of operating segments

As of 1 January 2009, the Group determines and presents operating segments based on the information that is provided internally to the Chief Executive Officer ("CEO"), who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of FRS 108 *Operating Segments*. Previously operating segments were determined and presented in accordance with FRS 14 *Segment Reporting*. The new accounting policy in respect of operating segment disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

There is no change in the presentation of the operating segments, except for certain additional disclosures as required under FRS 108 *Operating Segments*.

3 BASIS OF PREPARATION (CONTINUED)

3.5 Changes in accounting policies (continued)

(c) Presentation of financial statements

The Group applies revised FRS 1 *Presentation of Financial Statements* (2008), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(d) Disclosure of contractual maturity analysis

The Group applies the amendments to FRS 107 *Financial Instruments: Disclosures*, which became effective as of 1 January 2009. As a result, the Group discloses the maximum amount of issued financial guarantees in the earliest time period for which the guarantees could be called upon in the contractual maturity analysis. Previously, the Group disclosed the maximum amount of issued financial guarantees in the contractual maturity analysis only if the Group assessed that it is probable that the guarantee would be called upon.

FRS 107 does not require comparative information to be restated and therefore, the contractual maturity analysis for the comparative period has not been represented. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 3.5, which addresses changes in accounting policies.

4.1 Basis of consolidation

(a) Business combinations

Business combinations are accounted for under the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the profit or loss in the period of the acquisition.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Basis of consolidation (continued)

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

(c) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in the associate, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(d) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised income or expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Accounting for subsidiaries and associates by the Company

Investments in subsidiaries and associates are stated in the Company's balance sheet at cost less accumulated impairment losses.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Foreign currencies

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of monetary items that in substance form part of the Group's net investment in foreign operations (see below), which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RMB at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RMB at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign exchange translation reserve is transferred to the profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments

(a) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise service concession receivables, trade and other receivables and amounts due from related parties.

Cash and cash equivalents comprise cash and cash balances and bank deposits.

(b) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

(b) Non-derivative financial liabilities (continued)

The Group has the following non-derivative financial liabilities: loans and borrowings, trade and other payables, and amounts due to related parties.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(c) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

4.4 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Property, plant and equipment (continued)

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

	Useful lives	**Estimated residual value as a percentage of cost**
Leasehold buildings	20 years	5 to 10%
Plant and machinery	10 years	5 to 10%
Furniture, fittings and equipment	5 years	5 to 10%
Motor vehicles	10 years	5 to 10%

No depreciation is provided on assets under construction. Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

4.5 Leasehold prepayments

Leases of land under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Leasehold prepayments for land use rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the respective lease terms or period of the service concession arrangements, whichever is shorter.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Intangible assets

(a) Goodwill

Acquisitions occurring between 1 January 2001 and January 2005

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree.

Goodwill arising on the acquisition of subsidiaries is presented in intangible assets. Goodwill arising on the acquisition of associates is presented together with investments in associates.

Goodwill was stated at cost from the date of initial recognition and amortised over its estimated useful life of 20 years. On 1 January 2005, the Group discontinued amortisation of this goodwill. This remaining goodwill balance is subject to testing for impairment.

Negative goodwill was derecognised by crediting retained profits on 1 January 2005.

Acquisitions on or after 1 January 2005

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill arising on the acquisition of subsidiaries is presented in intangible assets. Goodwill arising on the acquisition of associates is presented together with investments in associates.

Goodwill is measured at cost less accumulated impairment losses, and tested for impairment. Negative goodwill is recognised immediately in the income statement.

Acquisitions of minority interest

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

(b) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Intangible assets (continued)

(b) Research and development costs (continued)

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as an expense when incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

(c) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses. Other intangible assets that have an indefinite life or that are not available for use are stated at cost less impairment loss. Such intangible assets are tested for impairment annually as described in note 4.10.

(d) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss when incurred.

(e) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Software costs	–	2 years
Patented technology	–	5 – 10 years

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Service concession arrangements

(a) Service concession receivables

The Group recognises a service concession receivable if it has a contractual right under the service concession arrangements to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the plants. The service concession receivable is measured on initial recognition at its fair value. Subsequent to initial recognition, the service concession receivable is measured at amortised cost using the effective interest method.

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the service concession receivable (if any), which will be used to reduce the carrying amount of the service concession receivable on its balance sheet, (ii) interest income, which will be recognised as finance income in its income statement and (iii) revenue from operating and maintaining the plants to be recognised in its income statement.

(b) Intangible assets

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. Intangible assets received as consideration for providing construction services in a service concession arrangement are measured at fair value upon initial recognition, estimated by reference to the fair value of the construction services provided. When the Group receives an intangible asset and a service concession receivable as consideration for providing construction services in a service concession arrangement, the Group estimates the fair value of intangible assets as the difference between the fair value of the construction services provided and the fair value of the service concession receivable received. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period when it is available for use to the end of the concession period. The estimated useful lives are as follows:

Concession rights	–	20 – 30 years

The revenue recognition for services provided under a service concession arrangement is as follows:

(c) Construction services

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts as stated in note 4.15(a).

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Service concession arrangements (continued)

(d) Operation and maintenance services

Revenue derived from the provision of operating and maintenance services under a service concession arrangement is recognised in the period in which the services are performed by the Group.

(e) Finance income

Interest income on the service concession receivables is recognised in the income statement using the effective interest method.

4.8 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

4.9 Construction work-in-progress

Construction work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see note 4.15) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work-in-progress are presented in the balance sheet as "Construction work-in-progress" (as an asset) for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) and allowance for foreseeable losses exceed progress billings or "Excess of progress billings over construction work-in-progress" (as a liability) for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses) and allowance for foreseeable losses.

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

Progress billings not yet paid by the customer are included in the balance sheet under "Trade receivables". Amounts received before the related work is performed are included in the balance sheet as a liability, as "Advances from customers".

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Impairment

(a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reasonably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(b) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and construction work-in-progress, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at each reporting date, and as and when indicators of impairment are identified.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Impairment (continued)

(b) Non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recovered amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Government grants

Government grants consist of grants received or receivable. A grant is recognised initially as deferred income at fair value when it is received or there is reasonable assurance that it will be received and the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Jobs Credit Scheme

Cash grants received from the government in relation to the Jobs Credit Scheme are recognised as income upon receipt.

4.12 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Employee benefits

(a) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the profit or loss in the periods during which services are rendered by employees.

(b) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(c) Share-based payments

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

4.14 Provision for warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Revenue recognition

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(a) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(b) Goods sold

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, excluding value added taxes or other sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(c) Design fees

Revenue from the provision of designing services is recognised when services are rendered.

(d) Dividend income

Dividend income is recognised in the income statement when the shareholder's right to receive payment is established.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Financial guarantees

Financial guarantees are financial instruments issued by the Group that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities, if material. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantees is transferred to profit or loss.

4.17 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly to equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Finance income and finance costs

Finance income comprises interest income from bank deposits. Interest income is recognised as it accrues in profit and loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

4.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

4.20 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

5 PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold buildings RMB'000	Assets under construction RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1 January 2008	30,340	–	7,126	5,738	5,602	48,806
Additions	129	798	25	930	244	2,126
Disposals/Write-off	–	–	–	(425)	–	(425)
Translation difference on consolidation	–	–	–	(93)	–	(93)
At 31 December 2008	30,469	798	7,151	6,150	5,846	50,414
At 1 January 2009	30,469	798	7,151	6,150	5,846	50,414
Additions	4,511	–	1,487	459	250	6,707
Disposals/Write-off	(5,309)	–	(18)	(661)	(283)	(6,271)
Translation difference on consolidation	–	–	–	33	–	33
At 31 December 2009	29,671	798	8,620	5,981	5,813	50,883
Accumulated depreciation and impairment losses						
At 1 January 2008	6,146	–	4,125	2,586	1,866	14,723
Depreciation for the year	1,679	–	441	1,086	499	3,705
Impairment losses	–	–	–	3	–	3
Disposals/Write-off	–	–	–	(400)	–	(400)
Translation difference on consolidation	–	–	–	(21)	–	(21)
At 31 December 2008	7,825	–	4,566	3,254	2,365	18,010
Depreciation for the year	1,563	–	460	999	506	3,528
Disposals/Write-off	(1,843)	–	(18)	(576)	(84)	(2,521)
Translation difference on consolidation	–	–	–	24	–	24
At 31 December 2009	7,545	–	5,008	3,701	2,787	19,041
Carrying amounts						
At 1 January 2008	24,194	–	3,001	3,152	3,736	34,083
At 31 December 2008	22,644	798	2,585	2,896	3,481	32,404
At 31 December 2009	22,126	798	3,612	2,280	3,026	31,842

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leasehold buildings with a total carrying value of RMB10,992,000 (2008: RMB12,900,000) are pledged to banks for loans granted to a subsidiary.

Company	**Furniture, fittings and equipment RMB'000**
Cost	
At 1 January 2008	136
Translation difference on consolidation	(9)
At 31 December 2008 and 2009	127
Accumulated depreciation and impairment losses	
At 1 January 2008	119
Depreciation charge for the year	13
Write-off	3
Translation difference on consolidation	(8)
At 31 December 2008 and 2009	127
Carrying amounts	
At 1 January 2008	17
At 31 December 2008 and 2009	–

6 LEASEHOLD PREPAYMENTS

	Note	Group RMB'000
Cost		
At 1 January 2008		24,691
Additions		5,947
Acquisition through business combinations	31	1,472
At 31 December 2008		32,110
Additions		46,992
Disposal		(629)
At 31 December 2009		78,473
Accumulated amortisation		
At 1 January 2008		1,948
Amortisation for the year		956
At 31 December 2008		2,904
Amortisation for the year		2,641
Disposal		(96)
At 31 December 2009		5,449
Carrying amounts		
At 1 January 2008		22,743
At 31 December 2008		29,206
At 31 December 2009		73,024

The leasehold prepayments represent payments for land use rights of 14 (2008: 6) pieces of land situated in the PRC on which the buildings and wastewater treatment plants of the Group are erected. The details of the leasehold prepayments are as follows:

	Commencement date	Length of leases (years)
Leasehold prepayment I	May 2002	50 years
Leasehold prepayment II	December 1998	50 years
Leasehold prepayment III	May 2005	21.5 years
Leasehold prepayment IV	January 2008	38.8 years
Leasehold prepayment V	June 2007	30 years
Leasehold prepayments VI – XI	January 2009	25 years
Leasehold prepayments XII – XIII	September 2008	30 years
Leasehold prepayments XIV	December 2007	28.5 years

Leasehold prepayments with a total carrying value of RMB23,673,000 (2008: RMB3,278,000) are pledged to banks for loans to certain subsidiaries.

None of the leases include contingent rentals.

7 INTANGIBLE ASSETS

Group	Note	Concession rights RMB'000	Goodwill on consolidation RMB'000	Patented technology RMB'000	Software costs RMB'000	Total RMB'000
Cost						
At 1 January 2008		31,173	14,636	100	7	45,916
Disposals		–	–	(96)	–	(96)
Acquisition through business combination	31	3,493	–	–	–	3,493
At 31 December 2008 and 2009		34,666	14,636	4	7	49,313
Accumulated amortisation						
At 1 January 2008		–	–	96	7	103
Amortisation for the year		1,428	–	–	–	1,428
Disposal		–	–	(96)	–	(96)
At 31 December 2008		1,428	–	–	7	1,435
Amortisation for the year		1,663	–	1	–	1,664
At 31 December 2009		3,091	–	1	7	3,099
Carrying amounts						
At 1 January 2008		31,173	14,636	4	–	45,813
At 31 December 2008		33,238	14,636	4	–	47,878
At 31 December 2009		31,575	14,636	3	–	46,214

(a) The concession rights relate to the following:

(i) Service concession agreement entered into by Nanchang Penyao Water Pte. Ltd. and Nanchang City government, and the concession right is amortised over its estimated useful life of 20 years commencing in 2008; and

(ii) Service concession agreement entered into by Huangshan Xiuning Fuda Wastewater Treatment Pte Ltd and Huangshan City government and the concession right is amortised over its estimated useful life of 28.5 years commencing in 2009 (note 31).

7 INTANGIBLE ASSETS (CONTINUED)

(b) Goodwill stated in the balance sheet is attributable to and has been allocated for impairment testing purposes to two cash generating units – Jiangsu Penyao Environmental Engineering Contract Co., Ltd ("JSPY Contract") and Yixing Quanxi E.P. Co., Ltd ("Yixing Quanxi"), amounting to RMB2,806,000 (2008: RMB2,806,000) and RMB11,830,000 (2008: RMB11,830,000), respectively. The recoverable amount of the goodwill has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period, and a pre-tax discount rate of 19.5% (2008: 18.2%). Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts of goodwill allocated to JSPY Contract and Yixing Quanxi are based, would not result in an impairment on the carrying amount of the goodwill.

Key assumptions used in the value in use calculation include budgeted revenue which is arrived at based on estimated contract values of potential projects which JSPY Contract and Yixing Quanxi had submitted tenders or secured as at the balance sheet date. Expected project progress and timing of certification of contract sums by customers are based on past experiences on similar projects.

	JSPY Contract %	Yixing Quanxi %
2009		
Growth rate	Nil	20.0
Pre-tax discount rate	19.5	19.5
2008		
Growth rate	Nil	10.0
Pre-tax discount rate	18.2	18.2

8 SUBSIDIARIES

	Company	
	2009 RMB'000	**2008 RMB'000**
Unquoted equity investments, at cost	541,189	332,098
Allowance for impairment	(10,358)	–
	530,831	332,098
Amount due from a subsidiary (non-trade)	36,689	–
	567,520	332,098

During the year, due to the continued operating losses of certain subsidiaries, the Company performed an impairment review to assess the recoverable amount of certain subsidiaries. The estimates of the recoverable amount of these subsidiaries were based on the net asset value of the subsidiaries as at 31 December 2009 as the net asset value comprises mainly monetary assets and liabilities. Based on this assessment, impairment losses of RMB10,358,000 (2008: RMBNil) were recognised in the Company's profit or loss in relation to certain investments in subsidiaries.

8 SUBSIDIARIES (CONTINUED)

The non-trade amount due from a subsidiary is, in substance, a part of the net investment in the subsidiary and is stated at cost. The settlement of the amount is neither planned nor likely to occur in the foreseeable future.

The changes in impairment loss in respect of investments in subsidiaries during the year are as follows:

	Company	
	2009 RMB'000	**2008 RMB'000**
At 1 January	–	–
Impairment loss recognised	10,358	–
At 31 December	10,358	–

The Company recognises impairment losses at a level considered adequate to provide for potential non-recoverability of investments in subsidiaries. The level of allowance is evaluated by the Company on the basis of factors that affect the recoverability of the investments. These factors include, but are not limited to, the activities and financial position of the entities and market factors. The Company reviews and identifies balances that are to be impaired on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgement or utilised different estimates. An increase in the Company's impairment losses would increase the Company's other operating expenses and decrease the carrying value of investments in subsidiaries.

Details of the subsidiaries are as follows:

Name of subsidiary	**Principal activities**	**Country of incorporation**	**Effective equity interest held by the Group**	
			2009 %	**2008 %**
Held by the Company				
[1] Nanchang Water Holdings Private Limited ("Nanchang Water")	Inactive	Singapore	100	100
[7] Nanjing Water Holdings Pte Ltd ("Nanjing Water")	Inactive	Singapore	–	100
[1] Oriental Environment Pte. Ltd. ("Oriental Environment")	Inactive	Singapore	100	100
[1] WB Engineering & Consultancy Pte Ltd ("WB Engineering")	Provision of environmental engineering services and consulting services	Singapore	100	100
[2] Changzhou Penyao Water Supply Co., Ltd ("Changzhou Penyao")	Inactive	PRC	100	100

8 SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Country of incorporation	Effective equity interest held by the Group 2009 %	2008 %
Held by the Company				
[4] Jingdezhen Dapen Water Pte Ltd ("Jingdezhen Dapen")	Construction & operation of wastewater treatment plant	PRC	100	–
[2] Yixing P&S E.P. Co., Ltd ("Yixing P&S")	Manufacture and sale of specialised equipment for water and wastewater treatment systems	PRC	100	100
[2,6] Yixing Quanxi E.P. Co., Ltd ("Yixing Quanxi")	Research and development, manufacturing of environmental protection equipment and providing services on design, construction & engineering and installation for water and wastewater treatment projects	PRC	100	100
[2] Yixing Xinhongyang Environmental Science and Technology Co., Ltd ("Yixing Xinhongyang")	Manufacture and sale of conduit pipes for water and wastewater treatment system	PRC	100	100
[3] AE (Cayman) Limited ("AE Cayman")	Investment holding	Cayman Island	100	100
[4] Anqing Water Investment Ltd ("Anqing Water")	Investment holding	Hong Kong ("HKG")	100	100
[4] Danyang Water Investment Ltd ("Danyang Water")	Investment holding	HKG	100	100
[4] Nanchang Water Investment Ltd ("Nanchang Water Investment")	Investment holding	HKG	100	100
[4] Xining Water Investment Ltd ("Xining Water")	Investment holding	HKG	100	100
[4] Yueyang Water Investment Ltd ("Yueyang Water")	Investment holding	HKG	100	100
[4] Zhoukou Water Investment Ltd ("Zhoukou Water")	Investment holding	HKG	100	100

8 SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Country of incorporation	Effective equity interest held by the Group 2009 %	Effective equity interest held by the Group 2008 %
Held by subsidiaries				
[2] Jiangsu Penyao Environmental Engineering Contract Co., Ltd ("JSPY Contract")	Turnkey construction and engineering of water and wastewater treatment systems	PRC	100	100
[2] Jiangsu Penyao Environmental Engineering Design Institute ("JSPY Design")	Design of water and wastewater treatment products and systems	PRC	90	90
[2] Jiangsu Penyao Environmental Engineering Technology Research Centre Co., Ltd ("JSPY Research")	Research and development work on water and wastewater treatment equipment and techniques	PRC	93.5	93.5
[2] Nanchang Penyao Water Supply Co., Ltd ("Nanchang Penyao")	Construction and operation of wastewater treatment plant	PRC	100	100
[2] Nanjing Lishui Penyao Water Co., Ltd ("Nanjing Lisui")	Construction and operation of wastewater treatment plant	PRC	100	100
[2] Nanjing Penyao Water Supply Co., Ltd ("Nanjing Penyao")	Construction and operation of wastewater treatment plant	PRC	100	100
[2] Anqing Penyao Wastewater Treatment Pte Ltd ("Anqing Penyao")	Inactive	PRC	100	100
[5] Bejing Penyao Environmental Technology Co., Ltd ("Beijing Penyao")	Provision of environmental engineering services and consulting services	PRC	100	100
[2] Danyang Penyao Wastewater Treatment Pte Ltd ("Danyang Penyao")	Construction and operation of wastewater treatment plant	PRC	100	100
[2] Huangshan Xiuning Fuda Wastewater Treatment Pte Ltd ("Huangshan Xiuning")	Construction and operation of wastewater treatment plant	PRC	60	60

8 SUBSIDIARIES (CONTINUED)

Name of subsidiary	Principal activities	Country of incorporation	Effective equity interest held by the Group	
			2009 %	2008 %
Held by subsidiaries				
[2] Xining Penyao Wastewater Treatment Pte. Ltd. ("Xining Penyao")	Construction and operation of wastewater treatment plant	PRC	100	100
[2] Yueyang Penyao Wastewater Treatment Pte Ltd ("Yueyang Penyao")	Construction and operation of wastewater treatment plant	PRC	100	–
[2] Zhoukou Penyao Wastewater Treatment Pte Ltd ("Zhoukou Penyao")	Construction and operation of wastewater treatment plant	PRC	100	–
[4] Fenhu Water Investment Ltd ("Fenhu Water")	Investment holding	HKG	100	100
[4] Jiangning Water Investment Ltd ("Jiangning Water")	Investment holding	HKG	100	100
[4] Jingdezhen Water Investment Ltd ("Jingdezhen Water")	Investment holding	HKG	100	100
[4] Jinshan Water Investment Ltd ("Jinshan Water")	Investment holding	HKG	100	100
[4] Lishui Water Investment Ltd ("Lishui Water")	Investment holding	HKG	100	100
[4] Wangcheng Water Investment Ltd ("Wangcheng Water")	Investment holding	HKG	100	100
[4] Xiuning Water Investment Ltd ("Xiuning Water")	Investment holding	HKG	100	100

[1] Audited by KPMG LLP, Singapore.

[2] Audited by Jiangsu Gongzheng Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants, for the statutory audit. Audited by KPMG LLP, Singapore for consolidation purposes.

[3] Not required to be audited in accordance with the laws of the country of incorporation.

[4] Audited by Jimmy C.H. Cheung & Co., a member of the Hong Kong Institute of Certified Public Accountants.

[5] Audited by Beijing Zhongyihe Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants, for the statutory audit. Audited by KPMG LLP, Singapore for consolidation purposes.

[6] Pursuant to a restructuring exercise in 2009, Yixing Quanxi and Nanchang Water Investment became wholly owned subsidiaries directly held by the Company, from that held indirectly by another subsidiary in 2008.

[7] Dormant company incorporated in 2007 and de-registered in 2009.

9 ASSOCIATES

	Group			Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2007 RMB'000	2009 RMB'000	2008 RMB'000
Unquoted equity investments, at cost	60,138	62,930	25,452	25,452	28,244
Allowance for impairment	(3,502)	–	–	(3,502)	–
	56,636	62,930	25,452	21,950	28,244
Share of post-acquisition reserves	(25,514)	(14,735)	(4,913)	–	–
	31,122	48,195	20,539	21,950	28,244
Amounts due from associates (non-trade)	326,675	73,430	–	83,519	73,430
	357,797	121,625	20,539	105,469	101,674

During the year, due to the commencement of arbitration proceedings by an associate against a municipal government for breach of contract in respect of the associate's service concession agreement with the government, the Group performed an impairment review to assess the recoverable amount of the associate. Based on this assessment, a full impairment loss of RMB3,502,000 (2008: RMBNil, 2007: RMBNil) was recognised in the Company's profit or loss in relation to the investment in the associate.

The non-trade amounts due from associates are, in substance, a part of the net investments in associates and are stated at cost. The settlement of the amounts are neither planned nor likely to occur in the foreseeable future.

The changes in impairment loss in respect of investment in associates during the year are as follows:

	Group and Company		
	2009 RMB'000	2008 RMB'000	2007 RMB'000
At 1 January	–	–	–
Impairment loss recognised	3,502	–	–
At 31 December	3,502	–	–

The Group recognises impairment losses at a level considered adequate to provide for potential non-recoverability of investments in associates. The level of allowance is evaluated by the Group on the basis of factors that affect the recoverability of the investments. These factors include, but are not limited to, the activities and financial position of the entities and market factors. The Group reviews and identifies balances that are to be impaired on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgement or utilised different estimates. An increase in the Group's impairment losses would increase the Group's other operating expenses and decrease the carrying value of investments in associates.

9 ASSOCIATES (CONTINUED)

Details of the associates are as follows:

Name of associate	Principal activities	Country of incorporation	Effective equity interest held by the Group		
			2009 %	2008 % (Restated)	2007 %
[1] AEH Water Investments Pte. Ltd. ("AEH Water")	Investment holding	Singapore	20	20	20
[1] Nantong Water Holdings Private Limited ("Nantong Water")	Investment holding	Singapore	25	25	25
[1] Pizhou Water Holdings Pte Ltd ("Pizhou Water")	Investment holding	Singapore	25	25	25
[2] Changsha Wangcheng Penyao Water Pte Ltd ("Changsha Wangcheng")	Construction and operation of wastewater treatment plant	PRC	20	20	20
[2] Jingdezhen Penyao Water Pte Ltd ("Jingdezhen Penyao")	Construction and operation of wastewater treatment plant	PRC	20	20	20
[2] Nantong Penyao Water Supply Co., Ltd ("Nantong Penyao")	Construction and operation of water treatment plant	PRC	41.5	41.5	25
[2] Pizhou Penyao Water Pte Ltd ("Pizhou Penyao")	Construction and operation of water treatment plant	PRC	25	25	25
[2] Shanghai Jinshan Penyao Water Supply Co., Ltd ("Shanghai Jinshan")	Construction and operation of wastewater treatment plant	PRC	20	20	20

9 ASSOCIATES (CONTINUED)

Name of associate	Principal activities	Country of incorporation	Effective equity interest held by the Group		
			2009 %	2008 % (Restated)	2007 %
[2] Suzhou Fenhu Penyao Water Pte Ltd ("Suzhou Fenhu")	Construction and operation of wastewater treatment plant	PRC	16	17.8	16
[3] Siam Asia Environment Company Limited ("Siam Asia Environment")	Investment holding	Thailand	–	49	–

[1] Audited by KPMG LLP, Singapore.

[2] Audited by Jiangsu Gongzheng Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants, for the statutory audit. Audited by KPMG LLP, Singapore for consolidation purposes.

[3] Audited by The United Graduate Auditing and Law, a member of the Institute of Certified Accountants and Auditors of Thailand, for the statutory audit.

In 2009, 2008 and 2007, the Group did not receive dividends from any of its investments in associates.

The summarised financial information for the associates as set out below, is not adjusted for the percentage of ownership held by the Group:

	2009 RMB'000	2008 RMB'000 (Restated)	2007 RMB'000
Assets and liabilities			
Total assets	1,027,530	987,232	735,198
Total liabilities	948,717	872,696	664,245
Results			
Revenue	51,312	274,108	359,992
Loss after taxation	31,986	25,659	21,427

There were no contingent liabilities as at 31 December 2009 (2008: RMBNil, 2007: RMBNil).

10 SERVICE CONCESSION RECEIVABLES

	Group	
	2009 RMB'000	**2008 RMB'000**
Service concession receivables	832,881	583,026
Non-current portion of service concession receivables	(825,511)	(577,244)
Current portion of service concession receivables	7,370	5,782

The Group has entered into service concession arrangements with various governing bodies or agencies of the government of the PRC (the "grantors") to supply treated water from water treatment plants, and operate wastewater treatment plants. Under the service concession arrangements, the Group will construct and/or operate the plants for concession periods of between 20 to 30 years and transfer the plants to the grantors at the end of the concession periods.

The service concession agreements do not contain renewal options. The standard rights of the grantors to terminate the agreements include poor performance by the Group and in the event of a material breach in the terms of the agreement. The standard rights of the Group to terminate the agreements include failure of the grantors to make payment under the agreement, a material breach in the terms of the agreement, and any changes in law which would render it impossible for the Group to fulfil its requirements under the agreement.

Service concession receivables relate to receivables recognised in respect of the construction services provided as described in note 4.15(a).

The revenue for the construction services provided under the service concession agreements and the corresponding service concession receivables arising are recognised based on the percentage of completion method during the construction phase.

The percentage of completion during the construction phase is measured by reference to the value of work performed, which is agreed with the contractors and quantity surveyors. Significant judgement is required in determining the stage of completion, the extent of the construction costs incurred and the value of work performed.

Judgement is also exercised in determining the fair values of the service concession receivables. Discount rates, estimates of future cash flows and other factors are used in the valuation process. The assumptions used and estimates made can materially affect the fair value estimates.

Service concession receivables of a subsidiary with a carrying value of RMB107,948,000 (2008: RMB117,680,000) are pledged to a financial institution for a finance lease liability (note 20).

11 TRADE RECEIVABLES

	Group 2009 RMB'000	Group 2008 RMB'000
Trade receivables	112,331	103,316
Non-current portion of trade receivables	(8,786)	(15,898)
	103,545	87,418
Retention monies	7,284	2,190
	110,829	89,608
Allowance for impairment	(29,220)	(15,291)
Current portion of trade receivables	81,609	74,317

The Group's primary exposure to credit risk relating to trade receivables arising mainly from the turnkey projects and sale of equipment undertaken by its subsidiaries. The customers are categorised into municipal governments, government-linked enterprises and private enterprises. Concentration of credit risk is mainly confined to receivables from 10 major customers (2008: 8 major customers) amounting to approximately 46% (2008: 47%) of total trade receivables of the Group as at 31 December 2009.

The ageing profile of trade receivables (before allowances) from these 10 major customers as at 31 December 2009 is summarised as follows:

	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	More than 3 years RMB'000	Total RMB'000
Amounts receivable from:					
Municipal governments	–	2,541	8,993	20,304	31,838
Government-linked enterprises	–	–	–	4,127	4,127
Private enterprises	13,097	–	2,341	–	15,438

For municipal government projects, payment terms are generally between 1 and 3 years, as the local government usually pays the balance sum after the water or wastewater treatment plant becomes operational and upon receipt of funding from the central government. Owing to the slow settlement of the debts by one customer and a pending legal case undertaken by a subsidiary to recover the amount owing by another customer, an allowance for impairment amounting to RMB12,712,000 (2008: RMBNil) was made and recognised in profit or loss for these customers in the current year. As at 31 December 2009, the total allowance for impairment made for these customers is RMB19,167,000 (2008: RMB6,455,000).

For government-linked enterprises, payment terms are usually between 1 and 3 years. Although some customers do not adhere to the payment schedules, there are periodic streams of repayment from these customers. However, in 2008, due to the slow settlement of the debt by one of the customers, an allowance of RMB2,492,000 was made and recognised in profit or loss in the year. As at 31 December 2009, the total allowance for impairment made for this customer is RMB4,626,000 (2008: RMB4,626,000).

11 TRADE RECEIVABLES (CONTINUED)

For private enterprises, payment terms are generally shorter. The Group believes that no allowance for impairment is necessary as these customers have good payment records.

The Group's historical experience in the collection of trade receivables falls within the recorded allowances. Management believes that no additional credit risk beyond the amounts provided for collection losses is inherent in the Group's trade receivables.

The maximum exposure to credit risk for trade receivables at the reporting date (by type of customer) is as follows:

	Group	
	2009 RMB'000	**2008 RMB'000**
Municipal governments	49,494	43,313
Government-linked enterprises	48,257	15,457
Private enterprises	21,864	46,736
	119,615	105,506

Impairment losses

The ageing of trade receivables at the reporting date is as follows:

	Group			
	2009		**2008**	
	Gross RMB'000	**Impairment loss RMB'000**	**Gross RMB'000**	**Impairment loss RMB'000**
Less than 1 year	57,420	1,249	42,176	–
1 to 2 years	14,462	–	27,078	300
2 to 3 years	19,889	8,696	5,809	498
More than 3 years	27,844	19,275	30,443	14,493
	119,615	29,220	105,506	15,291

11 TRADE RECEIVABLES (CONTINUED)

The changes in impairment loss in respect of trade receivables during the year are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
At 1 January	15,291	12,413
Impairment loss recognised	16,617	3,656
Write-back of impairment losses	(2,618)	(207)
Write-off	(70)	(571)
At 31 December	29,220	15,291

Management uses judgement to determine the allowance for impairment which are supported by historical write-off, credit history of the customers and repayment records. The Group monitors its exposure to trade receivables and assess the adequacy of allowance for impairment monthly. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

The Group believes that no impairment allowance, other than those specifically identified, is necessary in respect of trade receivables that is due for less than 1 year. These receivables are mainly arising by customers that have a good payment record with the Group.

12 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Non-current				
Deposit	12,500	12,500	–	–
Current				
Other receivables	1,600	8,052	–	–
Advances to staff	4,974	3,926	–	–
	6,574	11,978	–	–
Allowance for impairment	(1,502)	(865)	–	–
	5,072	11,113	–	–
Deposits	44,500	51,817	11,484	11,219
Advances to suppliers	138,898	40,595	–	–
Prepayments	121,562	1,755	880	876
	310,032	105,280	12,364	12,095

12 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

The non-current deposit bears interest at 12.3% per annum and is repayable by 2014. It is pledged with a financial institution in relation to a finance lease liability (note 20).

Current deposits include the following:

(a) RMB24,303,000 (2008: RMB23,741,000) pledged with shareholders of two associates as performance guarantees in relation to turnkey projects undertaken by a subsidiary for the associates;

(b) RMBNil (2008: RMB8,010,000) for tendering of new projects;

(c) RMB6,500,000 (2008: RMB8,630,000) placed with 3 local governments for wastewater treatment plant projects; and

(d) RMB7,000,000 (2008: RMB7,000,000) pledged for a loan given to JSPY Contract to acquire 22.02% equity interest in Nantong Penyao (note 38).

Included in advances to suppliers are amounts totalling RMB130,416,000 (2008: RMB40,060,000) paid by subsidiaries to sub-contractors of turnkey projects and a contractor for the construction of a leasehold building.

Included in prepayments are amounts of RMB105,000,000 (2008: RMBNil) and RMB10,000,000 (2008: RMBNil) paid to Yueyang local government and Zhoukou local government respectively for wastewater treatment plants to be transferred to the Group under Transfer-Operate-Transfer arrangements entered into during the financial year.

Advances to staff are unsecured and interest-free, and are repayable within the next 12 months.

The changes in impairment loss in respect of other receivables during the year are as follows:

	Group	
	2009 RMB'000	**2008 RMB'000**
At 1 January	865	865
Impairment loss recognised	800	–
Write-back of impairment losses	(163)	–
At 31 December	1,502	865

13 AMOUNTS DUE FROM RELATED PARTIES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Non-current				
Loan to a subsidiary	–	–	78,645	94,699
Associates:				
– trade	10,233	–	–	–
– non-trade	11,803	–	–	–
	22,036	–	–	–
	22,036	–	78,645	94,699
Current				
Subsidiaries:				
– dividend receivable	–	–	–	71,980
– non-trade	–	–	63,984	67,430
	–	–	63,984	139,410
Allowance for impairment	–	–	(23,357)	–
	–	–	40,627	139,410
Associates:				
– trade	16,302	181,515	–	–
– non-trade	71,134	117,640	32,094	3,576
	87,436	299,155	32,094	3,576
Allowance for impairment	(1,473)	–	–	–
	85,963	299,155	32,094	3,576
Affiliated corporation (trade)	20	–	–	–
	85,983	299,155	72,721	142,986
Amounts due from related parties	108,019	299,155	151,366	237,685

An affiliated corporation is defined as one:

(a) in which a director of the Group has substantial financial interests or who is in a position to exercise significant influence; and/or

(b) which directly or indirectly, through one or more intermediaries, is under the control of a common shareholder.

Transactions with associates and affiliated corporations are unsecured and priced on terms agreed between the parties.

The loan to a subsidiary is unsecured and bears interest at 9.0% (2008: 9.0%) per annum and is repayable by 2018.

13 AMOUNTS DUE FROM RELATED PARTIES (CONTINUED)

The non-trade amounts due from subsidiaries and associates are unsecured and interest-free, and are repayable on demand, except for the non-current amounts due from associates.

The non-current amounts due from associates are unsecured, interest-free and are estimated to be repayable over a period of 8 years. The difference between the amounts carried at amortised cost and the remaining maturity amount is recognised in profit or loss over a period of 8 years, using the effective interest method.

Amounts due from associates and affiliated corporation

The ageing of trade amounts due from associates and affiliated corporation is as follows:

	Group			
	2009		2008	
	Gross RMB'000	Impairment loss RMB'000	Gross RMB'000	Impairment loss RMB'000
Less than 1 year	15,425	–	101,582	–
1 to 2 years	–	–	79,933	–
More than 2 years	11,130	–	–	–
	26,555	–	181,515	–

Management uses judgement to determine the allowance for impairment which are supported by projected cashflows for the financial year ending 31 December 2010 and repayment records of the associates. Based on historical experience in the collection of amounts due from associates and the projected cashflows of the associates, the Group believes that no impairment allowance is necessary arising from the outstanding balances.

The projected cashflows of the associates have taken into consideration the ability of the associates to generate sufficient cash flows to repay the amounts owing to the Group for the construction services rendered with respect to the construction of water and wastewater treatment plants.

The changes in impairment loss in respect of amounts due from related parties during the year are as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
At 1 January	–	–	–	–
Impairment loss recognised	1,473	–	23,357	–
At 31 December	1,473	–	23,357	–

14 INVENTORIES

	Group	
	2009 RMB'000	**2008 RMB'000**
Raw materials	3,144	4,507
Work-in-progress	3,205	5,512
Finished goods	6,838	9,359
	13,187	19,378

In 2009, raw materials and changes in finished goods and work-in-progress, recognised in cost of sales, amounted to RMB93,586,000 (2008: RMB60,733,000).

15 CONSTRUCTION WORK-IN-PROGRESS

	Group	
	2009 RMB'000	**2008 RMB'000**
Construction costs	211,885	543,319
Attributable profits	130,501	318,201
	342,386	861,520
Progress billings	(342,386)	(762,100)
Construction work-in-progress	–	99,420

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Cash at bank and in hand	162,462	79,650	405	24,083
Fixed deposits with banks	113,620	20,803	–	–
Fixed deposits with non-bank financial institutions	5,377	21,138	–	–
Cash and cash equivalents	281,459	121,591	405	24,083
Deposits pledged	(68,863)	(5,800)		
Cash and cash equivalents in the consolidated cash flow statement	212,596	115,791		

The effective interest rates per annum at the balance sheet date for cash and cash equivalents for the Group range from Nil% to 2.25% (2008: Nil% to 2.25%) per annum.

Interest rates are repriceable as and when notified by banks and the financial institution.

Deposits pledged represents the following balances placed with banks and financial institutions:

(a) RMB1,866,000 (2008: RMB800,000) as performance guarantees for projects secured by a subsidiary;

(b) RMB5,000,000 (2008: RMB5,000,000) pledged for a finance lease liability obtained by a subsidiary;

(c) RMB61,620,000 (2008: RMBNil) as collaterals for bills payables obtained by a subsidiary; and

(d) RMB377,000 (2008: RMBNil) as tender deposits for projects secured by a subsidiary.

Included in cash and cash equivalents are amounts of RMB280,762,000 (2008: RMB97,077,000) held in a country which has foreign exchange controls.

17 SHARE CAPITAL

		Company	
	Note	2009 No. of shares	2008 No. of shares
Issued and fully-paid, with no par value:			
At 1 January		428,260,820	356,831,118
Issue of new shares	(a)	–	50,000,000
Issue of shares on exercise of warrants	(b)	–	8,075,000
Issue of shares as scrip dividends	(c)	–	13,354,702
At 31 December		428,260,820	428,260,820

17 SHARE CAPITAL (CONTINUED)

Note:

(a) In 2008, pursuant to a share placement subscription agreement dated 18 June 2008, the Company allotted and issued 50,000,000 ordinary shares at S$0.485 (RMB2.425) per share for a consideration of S$24,220,000 (RMB121,099,000), net of expenses amounting to S$30,000 (RMB149,000).

(b) On 25 August 2006, the Company issued 70,898,905 warrants which entitled the holder of these warrants to subscribe for 70,898,905 new ordinary shares in the capital of the Company. Each warrant holder was entitled to subscribe for one new ordinary share in the capital of the Company at an issue price of S$0.38 at any time from the date of issue of warrants up to 24 August 2009. During the year, 52,850,908 warrants lapsed.

On 29 November 2007, the Company issued 20,400,000 non-listed warrants to International Finance Corporation ("IFC") at nil consideration in conjunction with the grant of a revolving loan facility by IFC. IFC is entitled to subscribe for 20,400,000 new ordinary shares in the capital of the Company at an issue price of S$0.74 per share at any time from the date of issue of warrants up to 20 November 2010.

In 2008, the Company issued 8,075,000 new ordinary shares following the exercise of the warrants by the holders of the warrants. At the end of the financial year, the number of warrants of the Company outstanding was 20,400,000 (2008: 73,250,908).

(c) On 7 July 2008, the Company allotted and issued 13,354,702 new ordinary shares in the Company to the eligible shareholders of the Company who have elected to participate in the application of Scrip Dividend Scheme (the "Scheme") in respect of the final dividend of S$0.02 (RMB0.10) per ordinary share for the financial year ended 31 December 2007 ("FY2007 Dividend"). The issue price of S$0.39 (RMB1.95) for each new share is approximately 10% discount to the average of the last dealt prices of a share for each of the three market days from 14 May 2008 to 16 May 2008. Shareholders who did not participate in the Scheme were paid in cash for FY2007 Dividend on 7 July 2008.

(d) In 2008, the Company completed the buy-back of 50,000 ordinary shares, representing approximately 0.0001% of its issued share capital on that date, under the terms of the Share Purchase Mandate approved by shareholders on 26 April 2007. The total consideration for shares bought back on the market is S$27,000 (RMB138,000), being on average market price, including incidental costs, of S$0.543 (RMB2.755) per share. This amount is recorded as a deduction from equity and classified under "Reserve for own shares." In 2009, the Company granted 474,060 (2008: 1,519,160) of such shares purchased to directors and employees under the Share Plan. As at 31 December 2009, the Company held 2,715,580 (2008: 3,189,640) of its own uncancelled shares.

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares (excluding treasury shares) rank equally with regard to the Company's residual assets.

17 SHARE CAPITAL (CONTINUED)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net profit attributable to equity holders of the Company divided by total shareholders' equity excluding minority interest. The Board also monitors the level of dividends paid to ordinary shareholders.

The Board seeks to maximise the returns of shareholders' equity notwithstanding the economic conditions in 2009. During the year, the Group achieved a return on shareholders' equity of 4.15% in 2009 (2008: 6.70%).

From time to time, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares purchased are intended to be used for granting of shares to directors and employees under the Group's Share Plan (note 19). Buy and sell decisions are made on a specific transaction basis by the Board; the Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are not subject to externally imposed capital requirement.

18 RESERVES

		Group		Company	
	Note	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Reserve for own shares	(a)	(8,058)	(9,541)	(8,058)	(9,541)
Capital reserve	(b)	55,306	42,008	3,726	3,726
Foreign currency translation reserve	(c)	(1,154)	3,248	(4,040)	968
Statutory and discretionary reserves	(d)	60,656	57,092	–	–
Equity payment reserve	(e)	1,716	1,492	1,716	1,492
		108,466	94,299	(6,656)	(3,355)

(a) Reserve for own shares

Reserve for own shares comprises the cost of the Company's share held by the Group.

(b) Capital reserve

The capital reserve arises due to the capitalisation of retained earnings of certain subsidiaries to increase their paid-in capital in 2004 and 2009, the proceeds from the issue of warrants, net of any related expenses, and revaluation surplus reserve due to the effect of fair value adjustments on amounts previously equity accounted for, relating to a subsidiary acquired in 2007.

18 RESERVES (CONTINUED)

(c) Foreign currency translation reserve

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of the Company and other subsidiaries whose functional currencies are different from that of RMB.

(d) Statutory and discretionary reserves

Statutory reserve

Subsidiaries of the Group established in the PRC follow the accounting principles and relevant financial regulations of the PRC applicable to wholly foreign-owned enterprises ("PRC GAAP – WFOE") or enterprises established in the PRC ("PRC GAAP") in the preparation of the accounting records and financial statements. Pursuant to accounting regulations for foreign-invested PRC enterprises (中华人民共和国外商投资企业会计制度[财会字(1992)33号]) and the PRC Company Law (中华人民共和国公司法), the subsidiaries are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP – WFOE and PRC GAAP respectively for each year to a statutory reserve. The appropriation to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends. For wholly foreign-owned enterprises, the statutory reserve may be used to set off losses or be converted into paid-in capital.

Discretionary reserve

Under the PRC Company Law, the creation of a discretionary reserve is optional. In accordance with the Articles of Association of certain subsidiaries, these subsidiaries are required to appropriate a percentage of the profit as determined by the directors of the subsidiaries to a discretionary reserve.

(e) Equity payment reserve

The equity payment reserve relates to the cumulative value of employee services received for the issue of shares under the Asia Environment Holdings Ltd Share Award Plan.

19 EMPLOYEE SHARE AWARDS

Share-based incentive plan

The Company's employee share award scheme known as the "Asia Environment Holdings Ltd Share Award Plan" (the "Share Plan") was approved and adopted by the shareholders at an Extraordinary General Meeting of the Company held on 25 July 2006.

The Remuneration Committee (the "Committee") of the Company has been designated as the committee responsible for the administration of the Share Plan. The Committee comprises the following members:

Low Wai Cheong (Chairman)	Independent director
Wee Liang Hiam	Independent director
Tan Choong Min	Non-executive director

The Share Plan is a share incentive plan and is an integral part of employee incentive compensation in the Company's variable wage system. The Share Plan provides an opportunity for the directors and employees of the Group to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standard of performance, and to give recognition to employees of the Group who have contributed to the success of the Group.

Under the Share Plan, awards are granted to eligible participants. Awards represent the right of a participant to receive fully-paid shares, free of charge, upon the participant achieving prescribed performance target(s) and completion of time-based service conditions. Awards are released once the Committee is satisfied that the prescribed target(s) and time-based service conditions have been achieved. There are no vesting periods once the awards have been released.

The shares are settled by physical delivery of shares by way of issuance of new shares or existing shares to be procured by the Company for transfer to the eligible participants.

The final number of shares given will depend on the achievement of pre-determined targets and completion of time-based service conditions over a two-year period and will be issued in the following manner:

(i) maximum of 40% of share awards granted after the first anniversary of the date of the grant; and

(ii) 100% of share awards granted after the second anniversary of the date of the grant.

19 EMPLOYEE SHARE AWARDS (CONTINUED)

Share-based incentive plan (continued)

Other information regarding the Share Plan are as follows:

- **Plan size and duration**

  The maximum number of new shares under the Share Plan which the Committee may grant on any date, when aggregated with the number of new shares issued and issuable in respect of the shares granted under the Share Plan and any other existing share schemes or share option scheme implemented or to be implemented by the Company, shall not exceed 15% of the issued share capital of the Company on the day preceding the date of grant.

  Notwithstanding the termination of the Share Plan, any awards made to participants prior to such termination will continue to remain valid, whether such awards have been exercised or not.

- **Participants of the share plan**

  In respect of the Share Plan, the following persons shall be eligible to participate at the absolute discretion of the Committee:

  (a) Group employees who have attained the age of 21 years and hold such rank as may be designated by the Committee from time to time;

  (b) Associate's employees who have attained the age of 21 years and hold such rank as may be designated by the Committee from time to time; and

  (c) Non-Executive Directors who, in the opinion of the Committee, have contributed or will contribute to the success and the development of the Group, provided that written justification shall first have been provided to shareholders for their participation at the introduction of the Share Plan or prior to the first grant of awards to them.

  Persons who are the Company's controlling shareholders or their associates as defined in the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") shall not participate in the Share Plan unless:

  (a) written justification has been provided to shareholders for their participation at the introduction of the Share Plan or prior to the first grant of awards to them;

  (b) the actual number and terms of any shares under the Share Plan to be granted to them have been specifically approved by the shareholders who are not beneficiaries of the grant in a general meeting in separate resolutions for each such controlling shareholder or his associates; and

  (c) all conditions for their participation in the Share Plan as may be required by the regulation of the SGX-ST from time to time are satisfied.

19 EMPLOYEE SHARE AWARDS (CONTINUED)

Share-based incentive plan (continued)

- **Maximum entitlements**

  The Share Plan provides that the number of awards to be granted shall be determined at the absolute discretion of the Committee. However, under the Share Plan, the number of shares which may be offered to controlling shareholders or their associates shall not exceed 25% of the total number of shares available under the Share Plan (the "Plan Limit") and the number of shares to be offered to a participant who is a controlling shareholder or his associate shall not exceed 10% of the Plan Limit.

For the conditional shares awarded, the cost of the awards is based on the number of shares expected to be released at the end of the performance period, valued at market price at the date of the grant of the awards.

During the financial year, the Group recognised RMB2,108,000 (2008: RMB1,803,000) in profit or loss in respect of the conditional shares awarded based on the market value of the Company's shares at the grant dates.

At the end of the financial year, details of the conditional shares awarded under the Share Plan, are as follows:

	Balance as at 1 January 2009		Share awards granted during the year		Share awards released during the year		Share awards lapsed/cancelled during the year		Balance as at 31 December 2009	
Conditional award	**No. of holders**	**No. of shares**	**No. of holders**	**No. of shares**	**No. of holders**	**No. of shares**	**No. of holders**	**No. of shares**	**No. of holders**	**No. of shares**
2007	32	(474,060)	–	–	32	474,060	–	–	–	–
2009*	–	–	–	–	–	–	–	–	–	–
		(474,060)		–		474,060		–		–

* Subsequent to balance sheet date, the Group proposed the grant of 3,460,000 conditional shares to be awarded under the Share Plan to 11 employees in respect of 2009.

20 LOANS AND BORROWINGS

	Note	Group 2009 RMB'000	Group 2008 RMB'000 (Restated)	Group 2007 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Non-current						
Finance lease liability		31,182	39,917	–	–	–
Secured bank loan I	(a)	57,020	71,570	85,560	–	–
Secured loan II	(b)	–	34,686	–	–	–
Secured bank loans III	(c)	126,240	–	–	–	–
Secured bank loans IV	(d)	114,000	–	–	–	–
Unsecured bank loan I	(e)	–	102,861	–	–	102,861
		328,442	249,034	85,560	–	102,861

	Note	Group 2009 RMB'000	Group 2008 RMB'000 (Restated)	Group 2007 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Current						
Finance lease liability		11,577	7,959	–	–	–
Secured bank loan I	(a)	18,048	17,270	14,440	–	–
Secured loan II	(b)	34,686	–	–	–	–
Secured bank loans III	(c)	43,760	–	–	–	–
Secured bank loans IV	(d)	144,000	–	–	–	–
Secured bank loans V	(f)	–	–	3,650	–	–
Secured bank loan VI	(g)	–	44,000	–	–	–
Secured bank loan VII	(h)	–	30,000	–	–	–
Secured bank loans VIII	(i)	–	30,000	–	–	–
Secured bank loans IX	(e)	18,500	–	–	–	–
Unsecured bank loan I	(j)	102,310	–	–	102,310	–
Unsecured bank loans II	(k)	–	29,500	30,000	–	–
Secured bills payables	(l)	96,600	–	–	–	–
Shareholders' loans	(m)	106,030	–	–	106,030	–
		575,511	158,729	48,090	208,340	–
Total loans and borrowings		903,953	407,763	133,650	208,340	102,861

20 LOANS AND BORROWINGS (CONTINUED)

Note:

(a) The 10-year loan facility is repayable by 26 June 2015. Interest is charged at 5.94% (2008: 7.83%, 2007: 7.2%) per annum. The bank loan is secured on a pledge on all the assets of a subsidiary.

(b) The secured loan is repayable in 2010. Interest is charged at 10% (2008: 10%, 2007: Nil%) per annum. The loan is secured by a deposit of RMB7,000,000 placed with the lender [note 12(d)].

(c) The secured bank loans are repayable by 26 September 2017. Interest is charged at 5.31% to 5.94% per annum. These loans are secured by assignments of all payments received in relation to the usage of wastewater treatment plants under service concession arrangements of 3 subsidiaries. Out of RMB170,000,000, an amount of RMB100,000,000 is secured by 2 leasehold prepayments with a carrying value of RMB10,936,000, and guarantees from an affiliated corporation and financial institutions.

(d) The secured bank loans are repayable by 2 December 2017. Interest is charged at 4.425% to 30% per annum. These secured bank loans are guaranteed by an affiliated corporation, financial institutions and certain directors of the Group.

(e) The unsecured bank loan is repayable by 15 June 2016 and interest is charged at 9.0% per annum.

The loan agreement contains certain financial ratios such as current ratio, liabilities to tangible net worth ratio, financial debt to tangible net worth ratio and net debt to EBITDA ratio which the Group is required to maintain at all times.

As at 31 December 2009, the Company did not meet two of these financial covenants. On the occurrence of the events of default, the bank has the right to call for the repayment of the outstanding amount, unless waived by the bank. Accordingly, the unsecured bank loan amounting to RMB102,310,000 has been reclassified to current liabilities in the Group's and the Company's balance sheets as at 31 December 2009.

On 26 February 2010, the bank granted a temporary waiver with regard to the applicability of one of the financial covenants until 30 June 2010. In addition, the bank has indicated that an approval with regard to the temporary waiver of the applicability of the other financial covenant is likely to be granted at a later date, subject to the fulfilment of certain conditions.

(f) The secured short-term bank loan was repaid in 2008 and interest was charged at 8.375% per annum. As at 31 December 2007, leasehold buildings with a total carrying value of RMB6,117,000 were pledged to the bank for this loan granted to a subsidiary.

(g) The secured short-term bank loans were repaid in 2009 and interest was charged at 4.425% to 5.875% per annum. In 2008, leasehold buildings and leasehold prepayments with carrying values of RMB12,900,000 (note 5) and RMB3,278,000 (note 6) respectively as at 31 December 2008, were pledged to the banks for these loans granted to a subsidiary. Out of RMB44,000,000, an amount of RMB14,000,000 was also guaranteed by certain directors of the Group.

(h) The secured short-term bank loans were repaid in 2009 and interest was charged at 4.883% to 7.538% per annum. These loans were guaranteed by financial institutions. Out of RMB30,000,000, an amount of RMB15,000,000 was also guaranteed by certain directors of the Group.

(i) The secured short-term bank loan was repaid in 2009 and interest was charged at 5.31% per annum. The bank loan was secured by an assignment of all payments received in relation to the usage of a wastewater treatment plant under the service concession arrangement of a subsidiary.

(j) The secured short-term bank loans are repayable in 2010 and interest is charged at 4.425% to 5.841% per annum. Leasehold buildings with a carrying value of RMB10,992,000 and leasehold prepayments with a carrying amount of RMB12,737,000 are pledged to the banks for these loans granted to subsidiaries.

(k) The unsecured short-term bank loans were repaid in 2009 and interest was charged at 4.86% to 7.20% (2008: 4.86% to 7.20%, 2007: 6.075%) per annum.

(l) The secured bills payables are repayable by 2010. The weighted average effective interest rate of bills payables of the Group at the end of the financial year is 2.35% (2008: Nil%) per annum. The bills payables are secured by bank deposits amounting to RMB61,620,000 (note 16).

(m) Shareholders' loans are unsecured and interest-free, and are repayable on demand.

20 LOANS AND BORROWINGS (CONTINUED)

As at 31 December 2009, the Group had obligations under a finance lease that is payable as follows:

	Group					
	2009			2008		
	Principal RMB'000	Interest RMB'000	Payments RMB'000	Principal RMB'000	Interest RMB'000	Payments RMB'000
Within 1 year	11,577	3,560	15,137	7,959	4,151	12,110
After 1 year but within 5 years	31,182	5,147	36,329	39,917	8,523	48,440
	42,759	8,707	51,466	47,876	12,674	60,550

In 2008, the Group concluded a sale and leaseback transaction for certain equipment in a wastewater treatment plant acquired and used for a Transfer-Operate-Transfer ("TOT") project. The TOT project was accounted for as service concession receivables of a subsidiary. In determining whether the leaseback transaction is a finance lease, the Group considered that since substantially all risks and rewards of the leased assets have not been transferred to the financial institution, and that the nature of the leased assets are of such a specialised nature which only the subsidiary can use them without major modifications. Hence, the Group has determined the leaseback to be a finance lease.

The finance lease liability bears a fixed effective interest rate of 6.64% (2008: 6.64%) per annum.

The finance lease liability is secured by service concession receivables of a subsidiary with a carrying value of RMB107,948,000 (2008: RMB117,680,000) (note 10) and a deposit amounting to RMB12,500,000 (2008: RMB12,500,000) (note 12).

Under the terms of the lease agreement, no contingent rents are payable. The lease terminates in 2014 and the lease agreement provides an option to repurchase the equipment at a specified value.

20 LOANS AND BORROWINGS (CONTINUED)

The following are the expected contractual undiscounted cash outflows of financial liabilities, including interest payments and excluding the impact of netting agreement.

	Carrying amount	Cash flows			
Group	**RMB'000**	**Contractual cash flows RMB'000**	**Within 1 year RMB'000**	**Within 1 to 5 years RMB'000**	**More than 5 years RMB'000**
2009					
Non-derivative financial liabilities					
Finance lease liability	42,759	(51,466)	(15,137)	(36,329)	–
Fixed interest rate borrowings	233,596	(281,622)	(144,042)	(95,532)	(42,048)
Variable interest rate loans	521,568	(687,816)	(256,613)	(356,405)	(74,798)
Interest-free shareholders' loans	106,030	(106,030)	(106,030)	–	–
Trade and other payables	393,337	(393,337)	(393,337)	–	–
Amounts due to related parties (non-trade)	5,168	(5,168)	(5,168)	–	–
Recognised financial liabilities	1,302,458	(1,525,439)	(920,327)	(488,266)	(116,846)
Financial guarantees to banks for associates	–	(132,000)	(132,000)	–	–
	1,302,458	(1,657,439)	(1,052,327)	(488,266)	(116,846)
2008 (restated)*					
Non-derivative financial liabilities					
Finance lease liability	47,876	(60,550)	(12,110)	(48,440)	–
Fixed interest rate borrowings	137,547	(192,715)	(9,386)	(109,067)	(74,262)
Variable interest rate loans	222,340	(251,205)	(163,271)	(75,695)	(12,239)
Trade and other payables	325,331	(325,331)	(325,331)	–	–
Amounts due to related parties (non-trade)	6,912	(6,912)	(6,912)	–	–
	740,006	(836,713)	(517,010)	(233,202)	(86,501)

20 LOANS AND BORROWINGS (CONTINUED)

Share-based incentive plan (continued)

Company	Carrying amount RMB'000	Cash flows: Contractual cash flows RMB'000	Within 1 year RMB'000	Within 1 to 5 years RMB'000	More than 5 years RMB'000
2009					
Non-derivative financial liabilities					
Fixed interest rate borrowings	102,310	(146,834)	(9,257)	(95,533)	(42,044)
Interest-free shareholders' loans	106,030	(106,030)	(106,030)	–	–
Amounts due to related parties	56,364	(56,364)	(56,364)	–	–
Trade and other payables	5,331	(5,331)	(5,331)	–	–
Recognised financial liabilities	270,035	(314,559)	(176,982)	(95,533)	(42,044)
Financial guarantees to banks for subsidiaries and associates	–	(140,000)	(140,000)	–	–
	270,035	(454,559)	(316,982)	(95,533)	(42,044)
2008*					
Non-derivative financial liabilities					
Fixed interest rate borrowings	102,861	(158,029)	(9,386)	(74,381)	(74,262)
Trade and other payables	2,954	(2,954)	(2,954)	–	–
	105,815	(160,983)	(12,340)	(74,381)	(74,262)

* Financial guarantees are not represented. See note 3.5(d)

Financial guarantees

The Group and the Company have provided financial guarantees to banks in respect of banking facilities granted to subsidiaries and associates.

The fair value of the financial guarantees granted is not material and at the balance sheet date, the Group and the Company do not consider it probable that a claim will be made against the Group and the Company under the guarantees.

21 DEFERRED TAX LIABILITY

Movements in deferred tax liability of the Group during the year are as follows:

Group	At 1 January 2008 RMB'000	Recognised in income statement (note 28) RMB'000	Acquisition of a subsidiary (note 31) RMB'000	At 31 December 2008 RMB'000	Recognised in income statement (note 28) RMB'000	At 31 December 2009 RMB'000
Deferred tax liability						
Concession rights	7,692	(352)	1,556	8,896	(431)	8,465

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Bills payables	–	10,780	–	–
Trade payables	90,554	63,432	–	–
Accrued operating expenses	251,614	226,437	4,653	2,783
Advances from customers	15,590	1,770	–	–
Other payables	35,579	22,912	678	171
	393,337	325,331	5,331	2,954

Included in the accrued operating expenses are amounts of RMB206,058,000 (2008: RMB202,061,000) relating to purchases of goods and services from suppliers and sub-contractors for turnkey projects undertaken by a subsidiary.

The weighted average effective interest rate of bills payables of the Group at the end of the financial year is Nil% (2008: 2.35%) per annum.

23 AMOUNTS DUE TO RELATED PARTIES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Non-trade				
– Subsidiaries	–	–	56,364	–
– Associate	1,464	–	–	–
– Affiliated corporations	1,741	6,912	–	–
	3,205	6,912	56,364	–
Loan from an affiliated corporation	1,963	–	–	–
	5,168	6,912	56,364	–

The non-trade amounts due to related parties are unsecured and interest-free, and are repayable on demand.

The loan from an affiliated corporation is unsecured, bears interest at 25.3% per annum, and is repayable in 2010.

24 REVENUE

	Group	
	2009 RMB'000	2008 RMB'000
Revenue from construction contracts	469,182	293,096
Sale of equipment	99,049	80,240
Operation and maintenance income	42,678	19,175
Design fees	3,718	579
	614,627	393,090

All inter-company transactions have been eliminated in arriving at the Group's revenue. The Group recognises revenue on construction contracts by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is assessed by reference to the value of work performed, which is agreed with the customers and/or the quantity surveyors, for some contracts, relative to the total contract value. Income is recognised based on management's estimates of contribution margin expected to be achieved on the construction contracts, and past experience with similar contracts.

25 FINANCE COSTS

	Group	
	2009 RMB'000	2008 RMB'000
Interest paid and payable to banks and financial institutions	35,988	19,157

26 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation comprises:

	Group	
	2009 RMB'000	2008 RMB'000
Short-term employee benefits	6,085	7,291
Post-employment benefits	241	250
Share-based payments	269	939
	6,595	8,480

27 PROFIT BEFORE INCOME TAX

The following items have been included in arriving at the profit before income tax:

		Group	
	Note	2009 RMB'000	2008 RMB'000
Government grants		(1,000)	(3,510)
Interest income		(31,643)	(19,254)
Negative goodwill	31	–	(2,678)
Non-audit fees paid to auditors of the Company		92	79
Allowances made for impairment on:			
– investment in an associate		3,502	–
– trade receivables		13,999	3,449
– non-trade receivables		637	–
– non-trade amount due from an associate		1,473	–
Amortisation of:			
– leasehold prepayments	6	2,641	956
– intangible assets	7	1,664	1,428
Bad debts written off/(recovered):			
– trade		–	209
– non-trade		–	(13)
Business tax	(a)	12,509	8,413
Depreciation of property, plant and equipment	5	3,528	3,705
Discount implicit to interest-free balances due from related parties		7,040	–
Foreign exchange (gain)/loss		(4,739)	3,606
Gain on disposal of property, plant and equipment		(1,132)	–
Impairment of property, plant and equipment	5	–	3
Loss on disposal of an associate		5	–
Loss on termination of service concession agreements		2,268	–
Operating lease expenses		1,203	1,293
Professional fee paid to a firm in which a director is a member		–	395
Property, plant and equipment written off		370	25
Research and development expenditure		3,898	116
Staff costs	(b)	21,042	21,340
Contributions to defined contribution plans included in staff costs		822	976
Government grants – Jobs Credit Scheme included in another operating income		106	–
Value of employee services received for issue of conditional shares awarded under the Share Plan, included in staff costs		2,108	1,803

Note:

(a) Business tax is based on 3% (2008: 3%) and 5% (2008: 5%) of the revenue of JSPY Contract and JSPY Design, respectively.

27 PROFIT BEFORE INCOME TAX (CONTINUED)

(b) The staff costs are arrived at as follows:

	2009 RMB'000	2008 RMB'000
Staff costs for the year	21,524	21,336
Staff costs included in work-in-progress carried forward	(657)	(175)
Staff costs previously included in work-in-progress now recognised in profit or loss	175	179
	21,042	21,340

28 INCOME TAX EXPENSE

	Group	
	2009 RMB'000	2008 RMB'000
Current tax expense		
– current year	20,104	16,039
– adjustment for prior periods	–	96
	20,104	16,135
Deferred tax expense		
– origination and reversal of temporary differences	(431)	(352)
	19,673	15,783

	Group			
	2009		2008	
	%	RMB'000	%	RMB'000
Reconciliation of effective tax rate				
Profit before income tax (excluding share of losses of associates)		65,397		78,449
Income tax using PRC tax rate	25.0	16,349	25.0	19,612
Effect of different tax rates in other countries	2.9	1,882	1.7	1,317
Effect of use of different tax basis in the PRC	2.3	1,535	(9.9)	(7,792)
Effect of concessionary tax rates	(14.0)	(9,146)	(6.8)	(5,356)
Expenses not deductible for tax purposes	9.6	6,253	5.3	4,189
Income not subject to tax	(0.2)	(115)	(1.2)	(929)
Withholding tax	2.1	1,397	2.2	1,717
Deferred tax assets in respect of tax losses not recognised	2.6	1,705	3.4	2,707
Under provided in prior years	–	–	0.1	96
Others	(0.3)	(187)	0.3	222
	30.0	19,673	20.1	15,783

28 INCOME TAX EXPENSE (CONTINUED)

The tax charge for the Group was higher (2008: lower) than the amount determined by applying the respective statutory rate of tax to the profit for the year mainly due to non-deductible expenses of the Company (2008: lower tax rates enjoyed by certain PRC subsidiaries).

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax ("CIT") Law (the "New CIT Law"), which became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%.

On 26 December 2007, the State Council promulgated "Guo Fa [2007] No. 39-Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies":

(a) from 1 January 2008, for enterprises that enjoy a preferential tax rate of 15%, the tax rate will be transitioned to 25% over five years at rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012;

(b) from 1 January 2008, the enterprises that originally enjoyed the preference of regular tax reduction and exemption, will continue to enjoy the original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference; and

(c) the enterprises entitled to benefit from the transitional preferential policies referred to above shall be enterprises established prior to 16 March 2007 that are registered with an administrative authority such as the Administration of Industry and Commerce.

Xining Penyao, Huangshan Xiuning and Nanjing Lishui are established after 16 March 2007, and they are entitled to tax concessions, whereby the profit of the first three financial years beginning with the first profit-making year is exempt from income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rate in accordance with Article 88 of the Implementation Rules for New CIT Law. The first profit making year of Xining Penyao, Huangshan Xiuning and Nanjing Lishui are considered to be 2008, 2009 and 2009 respectively.

Yixing Quanxi, Yixing Xinhongyang and Nanchang Penyao are established prior to 16 March 2007 and accordingly, they are entitled to tax concessions, whereby the profit of the first two financial years beginning with the first profit-making year (after setting off tax losses carried forward from prior years) is exempt from income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rate in accordance with the Implementation Rules for the New CIT Law. The first profit making years of Yixing Quanxi, Yixing Xinhongyang and Nanchang Penyao were 2004, 2005 and 2008, respectively.

Nanjing Penyao is established prior to 16 March 2007 and accordingly, it is entitled to tax concessions, whereby the profit of the first two financial years beginning with the first profit-making year (after setting off tax losses carried forward from prior years) is exempt from income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rate. In accordance with the Implementation Rules for the New CIT Law, the first profit-making year is considered to be 2008.

28 INCOME TAX EXPENSE (CONTINUED)

According to PRC tax regulations [国税法(2000) 38号国家税务总局关于印发《核定征收企业所得税暂行办法》], the income taxes of JSPY Contract and JSPY Design are computed based on revenue, as stated in the letters dated 4 November 2004 issued by the Yixing Local Tax Bureau. The tax rate of JSPY Contract is 5% (2008: 5%) and JSPY Design is 2.5% (2008: 2.5%) of revenue.

According to the same PRC tax regulations, the income tax of JSPY Research is computed based on revenue as stated in the letter dated 15 January 2002 issued by the Yixing Local Tax Bureau. The tax rate of JSPY Research is 5% (2008: 5%) of revenue. No revenue has been earned since the date of the subsidiary's establishment.

The following temporary differences have not been recognised:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Tax losses	38,743	27,552	–	–

The utilisation of tax losses are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which certain subsidiaries operate. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

29 EARNINGS PER SHARE

(a) Basic earnings per share

	2009 RMB'000	2008 RMB'000 (Restated)
(i) Basic earnings per share is based on the net profit attributable to ordinary shareholders of the Company	34,218	53,028

	2009 No. of shares	2008 No. of shares
(ii) Issued ordinary shares at 1 January	428,260,820	356,831,118
Effect of new shares issued	–	25,000,000
Effect of new shares issued as scrip dividends	–	6,677,351
Effect of warrants converted and issuable shares under the Share Plan	3,460,000	6,774,892
Effect of own shares held	(2,913,102)	(4,307,121)
Weighted average number of ordinary shares in issue during the year	428,807,718	390,976,240

29 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

	2009 RMB'000	2008 RMB'000 (Restated)
(i) Diluted earnings per share is based on the net profit attributable to ordinary shareholders of the Company	34,218	53,028

For the purpose of calculating the diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from the warrants issued and contingently issuable shares under the Share Plan, with the potential ordinary shares weighted for the period outstanding.

The effects of the exercise of warrants and issue of contingently issuable shares on the weighted average number of ordinary shares in issue are as follows:

	2009 No. of Shares	2008 No. of Shares
(ii) Weighted average number of:		
Ordinary shares used in the calculation of basic earnings per share	428,807,718	390,976,240
Potential ordinary shares issuable	–	8,264,447
Weighted average number of ordinary issued and potential shares assuming full conversion	428,807,718	399,240,687

30 DIVIDENDS – THE COMPANY

	2009 RMB'000	2008 RMB'000
2009: Nil [2008: One-tier tax exempt final cash or scrip dividend of 1.0 Singapore ("SGD") cent (equivalent to 5 RMB cents) per share paid in respect of the year ended 31 December 2007 on 358,767,318 shares]	–	17,938
2009: Nil [2008: Special tax exempt cash or scrip dividend of 1.0 SGD cent (equivalent to 5 RMB cents) paid in respect of the year ended 31 December 2007 on 358,767,318 shares]	–	17,938
	–	35,876
Comprising:		
– Cash dividends	–	9,835
– Scrip dividends	–	26,041
	–	35,876

Subsequent to the balance sheet date, no dividends were proposed by the Directors.

31 ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS

There were no acquisition of subsidiaries or minority interests by the Company or its subsidiaries in 2009.

On 14 October 2008, the Group acquired 60% equity interests in Huangshan Xiuning for RMB6,600,000 in cash. Huangshan Xiuning is engaged in the construction and operation of a wastewater treatment plant in the PRC. During the three months ended 31 December 2008, Huangshan Xiuning contributed a net loss of RMB199,000 to the consolidated net profit for the year. If the acquisition has occurred on 1 January 2008, the Group revenue would have been RMB393,798,000 and consolidated net profit would have been RMB52,760,000.

The allocation of purchase price of Huangshan Xiuning to the Group's share of the identifiable assets and liabilities has been determined and completed during the year. Based on the cost of acquisition of RMB6,600,000 and fair values of identifiable assets and liabilities acquired of Huangshan Xiuning amounting to RMB9,278,000 as computed in the purchase price allocation calculations prepared by the management, the Group recognised a negative goodwill amounting to RMB2,678,000.

The purchase price allocation calculations for the acquisition are as follows:

	Note	Carrying value at date of acquisition RMB'000	Fair value adjustments RMB'000	Fair value at date of acquisition RMB'000
Leasehold prepayments	6	1,472	–	1,472
Service concession receivables		20,228	2,730	22,958
Concession rights	7	–	3,493	3,493
Other receivables, deposits and prepayments		5,930	–	5,930
Cash and cash equivalents		82	–	82
Minority interest		(4,318)	(1,867)	(6,185)
Deferred tax liability	21	–	(1,556)	(1,556)
Trade and other payables		(16,916)	–	(16,916)
Net identifiable assets and liabilities		6,478	2,800	9,278
Negative goodwill recognised in income statement	27			(2,678)
Purchase consideration satisfied in cash				6,600
Cash and cash equivalents acquired				(82)
Net cash outflow				6,518

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

In addition to the related party information disclosed elsewhere in the financial statements, there were the following significant related party transactions carried out in the normal course of business on terms agreed between the parties during the financial year:

	Group	
	2009 RMB'000	2008 RMB'000
A director of the Company		
Consultancy fees	358	177
Associates		
Construction revenue on water and wastewater treatment plants	151,700	71,600
Sale of equipment	923	7,880

	Group	
	2009 RMB'000	2008 RMB'000
Companies in which certain directors of the Company have substantial financial interests		
Purchase of pharmaceutical products	178	154
Rental of hotel accommodation paid/payable	742	638
Rental of motor vehicles paid/payable	376	350
Rental of factory premise paid/payable	40	40
Interest expense	1,770	–
A firm in which a director is a member		
Professional fee paid	–	395

33 COMMITMENTS

(a) Operating lease commitments

As at 31 December 2009, the Group has commitments for future minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Within 1 year	715	1,173
After 1 year but within 5 years	2,188	824
After 5 years	1,449	1,598
	4,352	3,595

33 COMMITMENTS (CONTINUED)

(b) Capital expenditures

	Group	
	2009 RMB'000	2008 RMB'000
Capital expenditure		
– contracted but not provided for	66,000	–
	66,000	–

34 FINANCIAL RISK MANAGEMENT

Overview

The Group has a system of controls in place to create an acceptable balance between the cost of risks 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's activities.

The Audit Committee oversees 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 an outsourced internal audit service provider (the "Internal Auditor"). The Internal Auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The credit quality of customers is assessed after taking into account its financial position and past experience with the customers.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

The Group has established a credit review committee to assess the creditworthiness of prospective customers and determine appropriate terms of payment. Monthly meetings are conducted to monitor outstanding balances.

Cash and fixed deposits are placed with banks and financial institutions which are regulated.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The carrying amount of the financial assets represents the maximum credit exposure. The Group's and the Company's maximum exposure to credit risk at the balance sheet date was:

		Group Carrying amount		Company Carrying amount	
	Note	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Service concession receivables	10	832,881	583,026	–	–
Trade receivables	11	90,395	90,215	–	–
Other receivables, deposits and prepayments	12	322,532	117,780	12,364	12,095
Amounts due from related parties	13	108,019	299,155	151,353	237,685
Cash and cash equivalents	16	281,459	121,591	405	24,083
Recognised financial assets		1,635,286	1,211,767	164,122	273,863
Financial guarantees		132,000	–	140,000	–
		1,767,286	1,211,767	304,122	273,863

Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The market turmoil in early 2009 had adversely affected the level of liquidity and funding available to businesses. This had reduced the level of financing that the Group could obtain to finance its long-term investments in service concession arrangements entered into with various municipal governments in the PRC.

As at 31 December 2009, the Group did not have any undrawn credit facilities available. The directors of the Company have carried out a review of cash flow forecast of the Group for the twelve months ending 31 December 2010. As described in note 2, the Group is currently pursuing various alternatives in raising funds through new share issues, loans and borrowings. It is also procuring its associate to secure financing to repay the amounts owing to the Group. The directors believe that, based on the review of the cash flow forecast and the various plans in place to procure the required funding, the Group will be able to secure adequate funding to continue its operations, to complete the construction of water and wastewater treatment plants as contracted under its turnkey projects and to pay its debts as and when they fall due in the next twelve months. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's fixed deposits and variable interest rate loans. It does not use derivative financial instruments to hedge its interest rate risk.

Sensitivity analysis

A change of 100 basis points ("bp") in interest rates at the balance sheet date would increase/(decrease) profit before income tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended 31 December 2008.

	Group Profit before income tax		Company Profit before income tax	
	100bp Increase RMB'000	100bp Decrease RMB'000	100bp Increase RMB'000	100bp Decrease RMB'000
31 December 2009				
Variable rate instruments	(4,026)	4,026	–	–
31 December 2008				
Variable rate instruments	(1,804)	1,804	–	–

Foreign currency risk

As the Group's main operations are in the PRC and the transactions are mainly denominated in Chinese Renminbi, which is the functional currency of the PRC subsidiaries, it is not exposed to significant foreign exchange risk.

Estimation of fair values

Loans and borrowings

The carrying amounts of bank loans approximate their fair values based on the borrowing rates currently available for bank loans with similar terms and maturity.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Estimation of fair values (continued)

Service concession receivables and long-term trade receivables

Judgement is exercised in determining the fair value of the service concession receivables. Discount rates, estimates of future cash flows, and other factors are used in the valuation process.

Fair value of long-term trade receivables is calculated based on the present value of the future repayment cash flows, discounted at an effective rate of interest at reporting date.

The carrying amounts of the Group's service concession receivables and long-term trade receivables carried at amortised cost are not materially different from their fair values as at 31 December 2009 and 2008.

Other financial assets and liabilities

The notional amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

Interest rates used in determining fair values

The interest rates used to discount the estimated cash flows as at the reporting date are as follows:

	Group		Company	
	2009 %	2008 %	2009 %	2008 %
Long-term service concession receivables	5.94	7.83	–	–
Long-term trade receivables	5.94	1.79 to 6.08	–	–
Long-term deposit	12.3	12.3	–	–
Loan due from a subsidiary	–	–	9.0	9.0
Long-term amounts due from associates	5.4 to 5.94	–	–	–

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial instruments by category

The following sets out a comparison by category of carrying amounts of all the Group's and the Company's financial instruments that are carried in the financial statements.

	Note	Loans and receivables RMB'000	Liabilities at amortised cost RMB'000	Total RMB'000
Group				
2009				
Assets				
Service concession receivables	10	832,881	–	832,881
Trade receivables	11	90,395	–	90,395
Other receivables and deposits	12	200,970	–	200,970
Amounts due from related parties	13	108,019	–	108,019
Cash and cash equivalents	16	281,459	–	281,459
		1,513,724	–	1,513,724
Liabilities				
Loans and borrowings	20	–	903,953	903,953
Trade and other payables	22	–	393,337	393,337
Amounts due to related parties	23	–	5,168	5,168
		–	1,302,458	1,302,458
2008				
Assets				
Service concession receivables	10	583,026	–	583,026
Trade receivables	11	90,215	–	90,215
Other receivables and deposits	12	116,025	–	116,025
Amounts due from related parties	13	299,155	–	299,155
Cash and cash equivalents	16	121,591	–	121,591
		1,210,012	–	1,210,012
Liabilities				
Loans and borrowings	20	–	407,763	407,763
Trade and other payables	22	–	325,331	325,331
Amounts due to related parties	23	–	6,912	6,912
		–	740,006	740,006

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial instruments by category (continued)

	Note	Loans and receivables RMB'000	Liabilities at amortised cost RMB'000	Total RMB'000
Company				
2009				
Assets				
Deposits	12	11,484	–	11,484
Amounts due from related parties	13	151,366	–	151,366
Cash and cash equivalents	16	405	–	405
		163,255	–	163,255
Liabilities				
Loans and borrowings	20	–	208,340	208,340
Trade and other payables	22	–	5,331	5,331
Amounts due to related parties	23	–	56,364	56,364
		–	270,035	270,035
2008				
Assets				
Deposits	12	11,219	–	11,219
Amounts due from related parties	13	237,685	–	237,685
Cash and cash equivalents	16	24,083	–	24,083
		272,987	–	272,987
Liabilities				
Loans and borrowings	20	–	102,861	102,861
Trade and other payables	22	–	2,954	2,954
		–	105,815	105,815

35 OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic business units. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Turnkey projects and services	:	Provision of turnkey services involving the entire process from consultancy design, production, construction and engineering, installation and commissioning of water and wastewater treatment systems, and research and development work on water and wastewater treatment equipment and techniques.
Manufacturing	:	Manufacturing, fabrication, sales and installation of generic or custom-manufacture specialised equipment for water and wastewater treatment systems.
Operation and maintenance	:	Provision of operation and maintenance services of water and wastewater treatment facilities.

35 OPERATING SEGMENTS (CONTINUED)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believe that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment information provided to the CEO for the reportable segments for the years ended 31 December 2009 and 2008 is as follows:

	Turnkey projects and services RMB'000	Manu-facturing RMB'000	Operation and maintenance RMB'000	Total RMB'000
2009				
Revenue from external customers	472,900	99,049	42,678	614,627
Inter-segment revenue	–	19,901	–	19,901
Interest income	1,414	69	30,160	31,643
Interest expense	(15,317)	(365)	(20,306)	(35,988)
Amortisation of:				
leasehold prepayments	(2,050)	(75)	(516)	(2,641)
intangible assets	(1)	–	(1,663)	(1,664)
Depreciation of property, plant and equipment	(1,457)	(1,831)	(240)	(3,528)
Reportable segment profit before income tax	39,804	7,421	27,569	74,794
Share of losses of associates	(11,067)	–	–	(11,067)
Reportable segment assets	1,497,055	154,718	598,439	2,250,212
Associates	357,797	–	–	357,797
Capital expenditure:				
– leasehold prepayments	–	–	46,992	46,992
– property, plant and equipment	188	6,519	–	6,707
Reportable segment liabilities	929,467	152,316	366,060	1,447,843
2008				
Revenue from external customers	293,675	80,240	19,175	393,090
Inter-segment revenue	–	–	–	–
Interest income	980	194	18,080	19,254
Interest expense	(4,351)	(138)	(14,668)	(19,157)
Amortisation of:				
– leasehold prepayments	(415)	(76)	(465)	(956)
– intangible assets	–	–	(1,428)	(1,428)
Depreciation of property, plant and equipment	(1,529)	(1,953)	(223)	(3,705)
Reportable segment profit before income tax	77,637	2,537	11,897	92,071
Share of losses of associates	(9,821)	–	–	(9,821)
Reportable segment assets	918,331	172,958	488,168	1,579,457
Associates	121,625	–	–	121,625
Capital expenditure:				
– leasehold prepayments	5,947	–	–	5,947
– property, plant and equipment	1,291	273	562	2,126
Reportable segment liabilities	538,628	34,964	225,720	799,312

35 OPERATING SEGMENTS (CONTINUED)

Reconciliation of reportable profit or loss, segment assets and liabilities

	Group	
	2009 RMB'000	2008 RMB'000
Profit or loss		
Total profit or loss for reportable segments	74,794	92,071
Unallocated expenses		
– Other corporate expenses	(9,397)	(13,622)
Share of loss of associates	(11,067)	(9,821)
Consolidated profit before tax	54,330	68,628
Assets		
Total assets for reportable segments	2,250,212	1,579,457
Inter-segment eliminations	(363,008)	(150,589)
Other unallocated assets	270,146	132,810
Consolidated total assets	2,157,350	1,561,678
Liabilities		
Total liabilities for reportable segments	1,447,843	799,312
Inter-segment eliminations	(343,675)	(150,540)
Other unallocated liabilities	222,207	114,294
Consolidated total liabilities	1,326,375	763,066

Geographical segments

The Group operates predominantly in PRC. Accordingly, no geographical segmental information is presented.

Major customers

During the financial years ended 31 December 2009 and 2008, revenue from certain customers (named alphabetically A to C), one of which is an associate, of the Group's turnkey projects and services segment represent approximately RMB228,731,000 and RMB173,350,000 respectively. The details of these customers which individually contributed 10 percent or more of the Group's revenue in the year are as follows:

	2009		2008	
	RMB'000	%	RMB'000	%
Customer A	105,000	17.1%	48,400	12.3%
Customer B	123,731	20.1%	69,060	17.6%
Customer C	1,622	0.3%	55,890	14.2%
	230,353	37.5%	173,350	44.1%

36 FINANCIAL GUARANTEE CONTRACTS

There are no terms and conditions attached to the financial guarantees that would have a material effect on the amount, timing and uncertainty of the Group and the Company's future cash flows. The Group and the Company issued financial guarantees to certain banks in respect of banking facilities granted to certain subsidiaries and associates. The periods in which the financial guarantees will expire and the amounts utilised are as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Within 1 year	–	–	80,000	20,000
After 1 year but within 5 years				
After 5 years	132,000	–	60,000	–
	132,000	–	140,000	20,000
Amounts utilised	132,000	–	140,000	20,000

37 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Group has not applied the following accounting standards (including their consequential amendments) and interpretations that have been issued as of the balance sheet date but are not yet effective:

- Amendment to FRS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
- Amendments to FRS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- Amendments to FRS 102 *Share-based Payment – Group cash-settled share-based payment transactions*
- FRS 103 (revised) *Business Combinations* and FRS 27 (revised) *Separate and Consolidated Financial Statements*
- Improvements to FRSs 2008 – Amendments to FRS 105 *Non-current Assets Held for Sale*
- Improvements to FRSs 2009
- INT FRS 117 *Distributions of Non-cash Assets to Owners*

37 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

FRS 103 (revised 2009) and FRS 27 (amended) will become effective for the Group's financial statements for the year ending 31 December 2010. FRS 103 (revised 2009) introduces significant changes to the accounting for business combinations, both at the acquisition date and post acquisition, and requires greater use of fair values. The amendments will mainly impact the accounting for transaction costs, step acquisitions, goodwill and non-controlling interests ("NCI") (previously minority interests). The revised FRS 103 will be applied prospectively and therefore there will be no impact on prior periods in the Group's financial statements for the year ending 31 December 2010.

The amended FRS 27 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments will be applied prospectively to transactions with NCI and therefore there will be no impact on prior periods in the Group's financial statements for the year ending 31 December 2010.

Improvements to FRSs 2009 will become effective for the Group's financial statements for the year ending 31 December 2010 for amendments relating to:

- FRS 102 *Share-based payment*
- FRS 38 *Intangible assets*
- INT FRS 109 *Reassessment of embedded derivatives*
- INT FRS 116 *Hedges of a net investment in a foreign operation*

Improvements to FRSs 2009 will become effective for the Group's financial statements for the year ending 31 December 2011 for amendments relating to:

- FRS 1 *Presentation of financial statements*
- FRS 7 *Statement of cash flows*
- FRS 17 *Leases*
- FRS 36 *Impairment of assets*
- FRS 39 *Financial Instruments: Recognition and measurement*
- FRS 105 *Non-current assets held for sale and discontinued operations*
- FRS 108 *Operating segments*

37 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

Improvements to FRSs 2009 contain amendments to numerous accounting standards that result in accounting changes for presentation, recognition or measurement and disclosure purposes. The Group is in the process of assessing the impact of these amendments.

Other than the improvements to FRSs 2009, the initial application of these standards (including their consequential amendments) and interpretations are not expected to have any material impact on the Group's financial statements. The Group has not considered the impact of accounting standards issued after the balance sheet date.

38 PRIOR YEAR ADJUSTMENT

Certain comparative information in the financial statements has been restated as a result of rectifying an omitted accounting entry on the acquisition of an additional 22.02% equity interest in Nantong Penyao in 2008.

In 2008, SIIC International Investment (Shanghai) Co., Ltd ("SIIC Shanghai") injected an amount of US$5 million as a 22.02% equity interest in Nantong Penyao. Consequently, JSPY Contract entered into a share purchase agreement with SIIC Shanghai to acquire the 22.02% equity interest in Nantong Penyao. The salient terms of the share purchase agreement are as follows:

(a) JSPY Contract agrees to acquire the 22.02% equity interest in Nantong Penyao for between US$5 million to US$5.1 million depending on the exchange rate between RMB and US dollars at the point of payment.

(b) The transfer will take effect within 30 days before 2 June 2010 or earlier, subject to mutual agreement of both parties.

(c) SIIC Shanghai has the right to request to complete the transaction earlier, and JSPY Contract has to agree to SIIC Shanghai's request if certain conditions are met.

(d) JSPY Contract will place a deposit of RMB7 million with SIIC Shanghai as a guarantee that the acquisition will be completed on time.

In addition, the Company issued an irrevocable guarantee to SIIC Shanghai that JSPY Contract will perform its obligations under the share purchase agreement, and Nantong Water issued a notice stating that Nantong Water has no objections to SIIC Shanghai transferring 22.02% of Nantong Penyao's equity interest to JSPY Contract and waived its first rights of refusal to the acquisition of 22.02% equity interest.

Based on the above facts, management is of the opinion that the US$5 million capital injection, in substance, is deemed as a loan given by SIIC Shanghai to JSPY Contract to enable it to invest in Nantong Penyao. Accordingly, the Group's equity interest in Nantong Penyao is deemed to increase from 25.0% to 47.0%. Management has considered that adjustments to the comparatives are necessary in order to correctly reflect the substance of the share purchase agreement. These adjustments have resulted in a decrease in the opening balance of retained earnings of the Group as at 1 January 2009 and profit for the year ended 31 December 2008 of the Group by RMB5,812,000.

38 PRIOR YEAR ADJUSTMENT (CONTINUED)

The effects of the restatement are as summarised below:

	Group		
	As previously stated 2008 RMB'000	Adjustments 2008 RMB'000	Restated 2008 RMB'000
Balance sheets			
Associates	92,751	28,874	121,625
Loans and borrowings (non-current)	174,431	34,686	209,117
Retained earnings	159,186	(5,812)	153,374
Income statement			
Share of losses of associates	(4,009)	(5,812)	(9,821)
Profit for the year attributable to equity holders	58,840	(5,812)	53,028
Consolidated cash flow statement			
Operating activities			
Profit for the year	58,657	(5,812)	52,845
Share of losses from associates	4,009	5,812	9,821

shareholding statistics

as at 11 March 2010

No.of Issued Share	– 428,260,820
No. of Treasury Shares Held	– 2,715,580
Class of shares	– Ordinary shares
Voting rights	– 1 vote per ordinary share (no vote for treasury shares)

Shareholdings Held in Hands of Public

As at 11 March 2010, 35.64% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST which requires 10% of the equity securities (excluding preference shares and convertible equity securities) in a class that is listed to be in the hands of the public.

ANALYSIS OF SHAREHOLDINGS

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	159	6.78	24,324	0.01
1,000 – 10,000	957	40.79	5,648,688	1.32
10,001 – 1,000,000	1,206	51.41	68,885,439	16.08
1,000,001 and above	24	1.02	353,702,369	82.59
	2,346	100.00	428,260,820	100.00

TOP 20 SHAREHOLDERS

No.	Name of Shareholder	No. of Shares	%**
1	Citibank Nominees Singapore Pte Ltd	102,337,745	24.05
2	HSBC (Singapore) Nominees Pte Ltd	84,518,944	19.86
3	DB Nominees (S) Pte Ltd	51,508,700	12.10
4	Tee Yih Jia Food Manufacturing Pte Ltd	35,345,410	8.31
5	DMG & Partners Securities Pte Ltd	18,856,461	4.43
6	OCBC Securities Private Ltd	10,211,642	2.40
7	Raffles Nominees (Pte) Ltd	9,084,282	2.13
8	DBS Nominees Pte Ltd	6,789,630	1.60
9	Phillip Securities Pte Ltd	5,216,766	1.23
10	United Overseas Bank Nominees Pte Ltd	4,073,382	0.96
11	Morgan Stanley Asia (S) Securities Pte Ltd	3,055,513	0.72
12	DBS Vickers Securities (S) Pte Ltd	3,051,861	0.72
13	Asia Environment Holdings Ltd – Share Buy Back A/C	2,715,580	0.64
14	Song Wuying	2,341,000	0.55
15	UOB Kay Hian Pte Ltd	2,281,436	0.54
16	Poh Kim Leong	2,000,000	0.47
17	OCBC Nominees Singapore Pte Ltd	1,935,385	0.45
18	Kim Eng Securities Pte. Ltd.	1,458,641	0.34
19	Zong Siyan	1,280,000	0.30
20	Nomura Singapore Limited	1,250,000	0.29
		349,312,378	82.09

** The percentage of issued ordinary shares is calculated based on the number of issued ordinary shares of the company as at 11 March 2010, excluding 2,715,580 ordinary shares held as treasury shares as at that date.

TREASURY SHARES

Total number of ordinary shares held in treasury	:	2,715,580
Voting rights	:	None
Percentage of this holding against total number of issued shares excluding Treasury Shares	:	0.64%

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest		Deemed Interest	
	No. of Shares	**%**	**No. of Shares**	**%**
Atorka-Aqua ehf	75,044,307	17.63	–	–
Max Ocean Investments Limited	62,740,661	14.74	–	–
KSC Close-Ended Water Fund	50,000,000	11.75	–	–
Tee Yih Jia Food Manufacturing Pte Ltd	35,345,410	8.31	–	–
Atorka Group hf (1)	–	–	75,044,307	17.63
Wang Hongchun (2)	31,836,564	7.48	62,740,661	14.74
Wang Chunlin (2)	298,103	0.07	62,740,661	14.74

Notes:

(1) Atorka Group hf is deemed to be interested in the shares held by Atorka-Aqua ehf. The Company also has an outstanding of 20,400,000 non-listed warrants issued to International Finance Corporation

(2) Wang Hongchun and Wang Chunlin are deemed to be interested in the shares held by Max Ocean Investments Limited.

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Asia Environment Holdings Ltd. ("the Company") will be held at 80 Raffles Place UOB Plaza 1 #25-01 Singapore 048624 on Monday, 26 April 2010 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

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

2. To re-elect the following Directors of the Company retiring pursuant to Articles 88 and 89 of the Articles of Association of the Company:

Mr Low Wai Cheong	(Retiring under Article 88)	**Resolution 2**
Mr Yao Maohong	(Retiring under Article 89)	**Resolution 3**
Mr Huang Zhengxin	(Retiring under Article 89)	**Resolution 4**

[See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$100,000 for the financial year ended 31 December 2009 (2008: S$117,500). **Resolution 5**

4. To approve the payment of Directors' fees of S$100,000 for the financial year ending 31 December 2010, to be paid quarterly in arrears. **Resolution 6**

5. To re-appoint Messrs KPMG LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **Resolution 7**

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

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following 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 ("SGX-ST"), 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) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company 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 as provided in 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 SGX-ST 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 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 and subsisting at the time of the passing of this Resolution; 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 SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST 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 8**

8. **Authority to 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 8** above, approval be and is hereby given to the Directors of the Company to 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 9**

9. **Authority to issue shares under the Asia Environment Holdings Ltd Share Award Plan**

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be authorised and empowered to offer and grant awards under the Asia Environment Holdings Ltd Share Award Plan (the "Share Plan") 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 vesting of awards under the Share Plan, 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 Share Plan 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 10**

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 paragraph 1.3(d) of the Company's Letter to Shareholders dated 9 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 11**

By Order of the Board

Long Hsueh Ching
Company Secretary
Singapore, 9 April 2010

Explanatory Notes:

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

(ii) The Ordinary Resolution 8 above, if passed, will empower the Directors of the Company from the date of this 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 the Instruments 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 by SGX-ST. 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 9 above, if passed, will empower the Directors of Company to 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 10 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 vesting of awards under the Share Plan up to a number not exceeding in total (for the entire duration of the Share Plan) 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 11 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 paragraph 1.3(d) of the Company's Letter. 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 Letter.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") 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.

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 65 Chulia Street #39-08 OCBC Centre Singapore 049513 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

ASIA ENVIRONMENT HOLDINGS LTD.

(Company Registration No. 200004778C)
(Incorporated In the Republic of Singapore)

IMPORTANT:

1. For investors who have used their CPF monies to buy Asia Environment Holdings Ltd.'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 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.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, ____

of ____

being a member/members of Asia Environment Holdings Ltd. (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 Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at 80 Raffles Place UOB Plaza 1 #25-01 Singapore 048624 on Monday, 26 April 2010 at 10.00 a.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 year ended 31 December 2009		
2	Re-election of Mr Low Wai Cheong as a Director		
3	Re-election of Mr Yao Maohong as a Director		
4	Re-election of Mr Huang Zhengxin as a Director		
5	Approval of Directors' fees amounting to S$100,000 for the financial year ended 31 December 2009		
6	Approval of Directors' fees amounting to S$100,000 for the financial year ending 31 December 2010		
7	Re-appointment of Messrs KPMG LLP as Auditors		
8	Authority to issue new shares		
9	Authority to issue new shares other than pro-rata at a discount not more than 20%		
10	Authority to issue shares under the Asia Environment Holdings Ltd Share Award Plan		
11	Renewal of Share Purchase Mandate		

Dated this ____________ day of ____________ 20

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

* Delete where inapplicable

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 one or 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 65 Chulia Street #39-08 OCBC Centre Singapore 049513 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.

ASIAENV

ASIA ENVIRONMENT HOLDINGS LTD
(Co. Reg. No.: 200004778C)

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