Asia Water Technology Ltd.
annual report 2009

Renascence

Renascence Asia Water Technology Ltd. is once again placed on a track for growth with the newly appointed Board working together with the new anchor investors that are providing not merely financial resources but also management expertise, ensuring that the Group continues to realise its potential to flourish.

Contents

Corporate Mission

We envisage ourselves becoming a leading force in the water purification and treatment industry in the People's Republic of China, backed by an established track record and technological excellence. While pursuing growth, we remain committed to the protection of the environment and the preservation of the world's precious water resources.

Corporate Profile

Listed on the Singapore Exchange in 2005, Asia Water Technology Ltd. ("Asia Water") is a water treatment specialist, providing comprehensive and integrated engineering solutions for water purification and wastewater treatment systems. These solutions include the designing, procurement, installation, commissioning and management of these complex water purification and treatment systems.

Asia Water conducts its business primarily in the People's Republic of China (the "PRC") through its subsidiary, Wuhan Kaidi Water Services Co., Ltd. ("Kaidi Water"), which was incorporated in 1996. Kaidi Water possesses its own patented core technologies and works closely with leading international technology partners to develop customised and automated water purification and treatment systems.

The Group currently derives its revenue from three main business segments – water purification, wastewater treatment, and consultancy and other auxiliary projects. Asia Water has more than a decade of solid industry track record in supplying water purification treatment systems to the power generation industry. It has achieved several milestones in the industry, having supplied for Huaneng Yuhuang — which has the largest installed power capacity back in 2004 — and is one of the only three licensed water purification treatment system providers for nuclear power plants in the PRC. Leveraging on its strong technological expertise, it has diversified rapidly into the tap water purification industry and has secured major municipal projects in Hubei, Shanxi and Anhui provinces.

In the wastewater treatment segment, Asia Water has built a strong portfolio of Build-Operate-Transfer ("BOT") and Transfer-Operate-Transfer ("TOT") projects in central China. Supplying mainly to municipal governments and major industrial areas, these long-term projects provide the Group with a stable and growing recurring income base.

China's huge appetite for electricity and increasing need to treat wastewater to curb its water shortages and pollution problems continues to present good long term growth opportunities for Asia Water. Our core technologies are also highly scalable, allowing us to expand our competencies into other related industries in the water sector, such as seawater desalination.

Backed by our proven track record, technical expertise, and a firm commitment to quality and the protection of the environment and the preservation of the world's precious water resources, Asia Water is poised to ride on the waves of progress in the water industry.

Letter to Shareholders

Mr Cai Yutian
Non-Executive
Chairman

Dear Valued Shareholders,

As Non-Executive Chairman of the Board of Directors (the "Board") of Asia Water Technology Ltd. ("Asia Water" or the "Company"; with subsidiaries the "Group"), I hereby present you the annual report for the financial year ended 31 December 2009 ("FY2009").

A Year in Review

FY2009 marked a year of extraordinary challenges for the Group. Still reeling from the effects of the global credit crisis and natural disasters within China, which have affected the supply of available projects and costs of funding in the preceding year, the Group stepped into the year on a sombre note.

On deteriorating economic conditions in the second half of 2008, the Group began to meet with challenges relating to US$30.0 million in convertible bonds issued in late-2007, sparked off initially by a breach of certain financial covenants. This led the Company to seek waivers and revision of the covenants, as well as renegotiate an early redemption schedule with the bondholders. However, a highly competitive operating landscape, coupled with significantly increased expenses, greatly affected Asia Water's ability to repay its bondholders according to the agreed schedule. Despite subsequent extensions in the scheduled repayment period, and also austerity measures put in place, the Group continued to face serious difficulties in meeting its obligations.

By June 2009, it became evident that Asia Water did not appear to be in a position to fulfil such obligations in the near-term. Instead of exercising their rights to seize the Company's assets, the bondholders agreed to a standstill period and worked with the Group to restructure its convertible debt. This process led to the identification of S.I. Infrastructure Holdings Limited ("SII") and Litebay Pte. Ltd. ("Litebay") as potential investors. SII is a wholly-owned subsidiary of Shanghai Industrial Holdings Limited ("SIHL") which is the Hong Kong Stock Exchange-listed flagship subsidiary of Shanghai Industrial Investment (Holdings) Co., Ltd., a prominent Chinese investment group with diversified businesses in the infrastructure, real estate, pharmaceutical and consumer sectors. Litebay is an investment holding company related to the Anhui Guohua Investment Group Co., Ltd., another China-based investment group with businesses in the pharmaceutical, energy, coal and water treatment sectors.

Under the original proposed investment plan dated 16 June 2009, SII was to subscribe for up to approximately 1.67 billion new shares in Asia Water, infusing the Company with approximately US$23.0 million in fresh capital. The bondholders would in turn subscribe to fresh repayment bonds and warrants to make up the balance of the amount due to them, which included principal and all accrued interests and payments. Litebay was also to subscribe to approximately 197 million new shares at the same price, endowing the Group with US$2.9 million cash for general working capital purposes.

Letter to Shareholders continued

Shareholders can be assured that the Group's business will continue to centre on its core competencies of wastewater treatment and water purification, and potentially reap synergies with SII and Litebay onboard as Asia Water's majority investors.

In July and September 2009 respectively, then-shareholder EGN Nominees Pte Ltd led the requisition to convene extraordinary general meetings to change the management of the Company, as well as express its desire for better terms in the restructuring plan. The original investment plan dated 16 June 2009 was subsequently vetoed by shareholders in September 2009, during which Asia Water also announced that it was served a receivership notice by the bondholders – an event which then triggered a series of demand notices from banks in China extending credit facilities to the Group's operating subsidiaries, further weakening Asia Water's precarious financial position.

The confluence of events led to the resignation and removal of members of the Company's board over August and September 2009. In its place, a new transitional board comprising a team of non-executive directors and an interim executive director was appointed on 23 September 2009 (the transitional Board). During its term, the transitional Board undertook an extensive search for alternative investors for the Company, and while a number of interested parties emerged, there was no one investor who could provide sufficient assurance of the ability to execute an investment in the Company within the required timeline, or to offer terms that were acceptable to the bondholders and its appointed receiver (the "Receiver"). Alongside this, the transitional Board also made several attempts to negotiate for a discharge of the Receiver, but to no avail.

In early October 2009, the Receiver sought to dispose of the Company's charged assets. As these assets comprised substantially the core operating assets of the Group, such a sale would have seriously disadvantaged all shareholders of Asia Water. In the face of severe time limitations and lack of alternative rescue plans, the transitional Board turned its focus to renegotiating an improved deal with the Receiver and the original proposed investors for the Company's shareholders. Talks were concluded in end-October 2009.

Such an improved deal (the "Proposed Transactions") involved the following terms, which in summary are:

i. SII, through its wholly owned subsidiary Triumph Power Limited ("Triumph"), will subscribe for up to 1.86 billion new shares in the Company at S$0.02 apiece;
ii. Litebay will subscribe to approximately 197 million new shares in the Company at S$0.02 apiece;
iii. Triumph will subscribe US$4.5 million convertible bonds;
iv. The Company will undertake a non-renounceable 1-for-2 rights issue based on the non-enlarged share capital;
v. Bondholders will receive US$27.5 million in cash, and subscribe to US$2.0 million in zero-coupon repayment convertible bonds;
vi. Bonus warrants are to be issued to existing shareholders on a 1-for-2 basis in two tranches, the first tranche exercisable at S$0.02 per warrant share, and the second tranche exercisable at S$0.045 per warrant share.

Although the renegotiated deal has not eliminated a dilutive impact to existing shareholders, the Board believes that shareholders' interests are better represented. More importantly, shareholders can be assured that the Group's business will continue to centre on its core competencies of wastewater treatment and water purification, and potentially reap synergies with SII and Litebay onboard as Asia Water's majority investors.

Financial Performance

On the operational front, the Group halted investments on new projects in FY2009, focusing instead on optimising existing operations and enforcing internal management controls. As at end-FY2009, the Group had equity interests in ten water treatment projects located around Central China, unchanged from FY2008. Of the three projects in-progress as at end-FY2008, Huangshi Kaidi commenced operations on schedule in June 2009. Two others, namely Wuhan Dongxihu and Wuhan Huangpi, remain slated for formal commencement of operations in 2010 and 2012 respectively.

Letter to Shareholders continued

Financial Performance continued

Group revenue for FY2009 decreased 16.8% year-on-year to RMB 321.9 million. Such a change was mainly attributable to a decrease in revenue from the Water Purification business segment, in which we saw yet lesser Engineering, Procurement and Construction ("EPC") work being undertaken relative to the previous year. In FY2009, this business segment recorded RMB 221.3 million, a decrease of 23.9%. On the other hand, revenue in the Wastewater Treatment business segment showed a healthy increase of 23.5% to RMB 83.0 million. Such results reflect the Group's shift in operational strategy to increase contribution from this segment, as it can bring about greater sustainability and stability in income stream from a long-term perspective. In FY2009, revenue from the Consultancy and Others segment declined 38.3% to RMB 17.6 million, as the Group took on less consultancy projects during the reporting year. The larger percentage decrease is also representative of the once-off nature of projects under this business segment.

For the year, the Group recorded a gross profit of RMB 54.5 million, representing a gross profit margin of 16.9%. While gross profit declined 5.7% year-on-year in absolute terms, in line with lower revenues, the Group's blended gross profit margin has improved by 20 percentage points. This was attributable to the profit margin contributed by Huangshi Kaidi project and also consultancy projects undertaken for an associate of the Group.

Further down the line, Asia Water posted a net loss of RMB 180.5 million in FY2009, compared to RMB 17.9 million in FY2008. The principal cause for the widened loss was significantly increased finance expenses, which rose from RMB 65.6 million in FY2008 to RMB 146.5 million in FY2009. There was also a doubtful debt provision of RMB 25.2 million made in FY2009, vis-à-vis a writeback of RMB 2.2 million in FY2008. These clearly reflect tightened liquidity conditions within the industry and the risk premiums being demanded by lenders.

As at 31 December 2009, the Group held RMB 1.4 billion in total assets, compared to RMB 1.5 billion as at 31 December 2008. The decrease arose principally from lower trade and other receivables, as well as cash and cash equivalents, in line with business volumes. As at the end of the reporting year, Asia Water had RMB 81.6 million in cash and cash equivalents.

The Group also had RMB 1.2 billion in liabilities as at the end of FY2009, over 60% of which are in interest-bearing loans and borrowings, including the US$30.0 million in convertible bonds issued. Such gearing is far from being sustainable, and even as the Group's debt restructuring is gathering pace, it is of grave imperative that the Group continues to rebalance its capital structure until satisfactory levels are met. The nature of the industry is such that the Group will continue to require leverage, but this should be achieved through a more optimised mix of long- and short-term debt, so as to reduce overall liquidity risks and financing expenses.

China remains a water-scarce country, and against rapid economic and population growth, the demand to maximise precious water resources – particularly through reuse technologies – is set to further expand.

Events Subsequent to Year-End

On 5 February 2010, shareholders of the Company approved a series of resolutions at an extraordinary general meeting. These approvals have been critical to the execution of the Proposed Transactions, and also formally marked the beginning of the successful restructuring of the Group's debt.

I am pleased to inform that, consequentially, the Company was officially discharged from receivership on 12 February 2010. The Company was also able to resume trading of its stock on 17 February 2010, which had been in suspension since September 2009.

Additionally, on 7 April 2010, some of the transitional Board members stepped down to make way for a recomposed board of executive and independent directors, who will bring with them invaluable knowledge and expertise requisite in stewarding the Group's business going forward. On behalf of all, I wish to thank the out-going directors for having worked tirelessly on the restructuring plan and safeguarding the Group's assets in the months past. As the new Chairman to the Group, I look forward to bringing Asia Water to greater heights with our other new Board members.

Most importantly, we thank shareholders who voted in favour of the resolutions and have thus made the debt restructuring a possibility.

Outlook

China remains a water-scarce country, and against rapid economic and population growth, the demand to maximise precious water resources – particularly through reuse technologies – is set to further expand. In its 11th Five Year Plan (2006-2010), the Chinese government has pledged RMB 1 trillion in expanding and improving the country's water supply infrastructure. In particular, one-third of this budget will be allocated towards wastewater treatment, reclamation and reuse projects. The long-term fundamentals of the water treatment industry are thus clearly intact, even when disregarding the near-term boosts endowed by the Chinese government's RMB 4 trillion stimulus package.

Letter to Shareholders continued

GWC is highly experienced in water treatment project investment, capital management, engineering, construction and management, and has been voted the Ten Most Influential Water Treatment Companies in China for seven years running.

While details of the 12th Five Year Plan have yet to be unveiled, it is certain that the government's going emphasis on water resource utilisation and environmental protection can only but further strengthen. Already, the government is expected to allocate approximately 1.5% of China's gross domestic product over the next five years to environmental protection, of which a key component will be founded on water recovery and wastewater treatment. Funding towards "green" investments, including wastewater treatment projects, should also remain available, in spite of recent tightening measures by the People's Bank of China. These imply significant opportunities for established players within the Chinese water treatment industry.

With the restructuring of the Company's debt obligations near completion, I am pleased to see Asia Water once again placed on track for growth. The Group can also look forward to harnessing operational synergies with its new anchor investors, who are putting in not merely financial resources, but also management expertise, to ensure that Asia Water continues to realise its potential to flourish.

In signalling its long term commitment to Asia Water, SII has procured its joint-venture partner, General Water of China Co., Ltd. ("GWC"), to grant Asia Water a right of first refusal in respect of GWC's water treatment projects. Asia Water will also have the first right to choose to provide EPC (Engineering, Procurement and Construction) and O&M (Operations and Management) services of such water treatment projects on terms GWC may offer. Only in the event that the Company decides not to exercise such rights will GWC be entitled to engage other vendors on terms equivalent or less favourable.

It is worth noting that GWC is highly experienced in water treatment project investment, capital management, engineering, construction and management, and has been voted the Ten Most Influential Water Treatment Companies in China for seven years running. With an aggregate daily water treatment capacity of 4.3 million tonnes located across Eastern China, GWC is a formidable partner for Asia Water, which itself has 4.3 million tonnes (including projects in-progress) of daily water treatment capacity located across Central China. The Board is optimistic that this newly forged relationship will bring about significant financial and operational benefits to both parties.

Appreciation

This year's annual report has been aptly themed "Renascence", signifying Asia Water's resuscitation from its past challenges, which were so extraordinary they had at times appeared insurmountable, as great uncertainty hung over the fate of the Group. It is thus of immense relief and consolation to see that the Group has since weathered the worst of the challenges – made possible only through the support, diligence and perseverance of numerous stakeholders.

On behalf of the Board of Directors, I formally extend our deepest gratitude to – first and foremost – all officials, bankers, investors, partners, past directors and professional parties both external and internal, for working relentlessly and oftentimes round the clock to resolve the Group's debt issues in the last twenty-four months. I must also thank our local management and staff, who have tried to the best of their abilities to keep operations going even as the Group was undergoing great challenges at the holding-company level. Lastly, we wish to thank Asia Water's many faithful shareholders, who have rendered the utmost patience and understanding as the Company fought to bring itself back onto the path of normalcy.

The Board also takes this opportunity to seek shareholders' continued patience in the months ahead, as we persist with resolving fundamental issues that underpinned the Group's past problems. Results will not appear overnight; but shareholders can be assured that everything necessary is being done to improve the Group's financial position, and hence its ability to capitalise on market opportunities as the Chinese water industry continues to blossom.

We now have reason to look ahead to the future with renewed confidence.

Cai Yutian
Non-Executive Chairman

Corporate Information

Board of Directors

Cai Yutian
Non-Executive Chairman
(appointed on
7 April 2010)

Feng Jun
Executive Director
(re-designated on
7 April 2010)

Liu Yujie
Executive Director
(re-designated on
7 April 2010)

Zhou Jun
Non-Executive Director
(appointed on
7 April 2010)

Zhang Chao
Non-Executive Director
(appointed on
7 April 2010)

Zou Jiefu
Non-Executive Director
(appointed on
7 April 2010)

Yeo Guat Kwang
Independent Director
(re-designated on
7 April 2010)

Tay Ah Kong, Bernard
Independent Director
(appointed on
7 April 2010)

Tan Chong Huat
Independent Director
(appointed on
7 April 2010)

Ling Chung Yee, Roy
Independent Director

Board of Directors (transitional)

Yeo Guat Kwang
Non-Executive Chairman
(appointed on
23 September 2009)

Kareti Venkataramana
Interim Executive Director
(appointed on
23 September 2009)

Feng Jun
Non-Executive Director
(appointed on
15 December 2009)

Liu Yujie
Non-Executive Director
(appointed on
19 November 2009)

Chong Hon Kuan, Ivan
Independent Director
(appointed on
23 September 2009)

Ling Chung Yee, Roy
Independent Director
(appointed on
9 November 2009)

Company Secretary

Tong Siew Khim
(appointed on
9 February 2010)

Registered Office

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Singapore 068877
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Facsimile: (65) 6538 2896
URL: www.asiawatertech.com

Share/Warrant/Bond Registrar

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

Auditors

Ernst & Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583
Partner In-charge since financial
year ended 31 December 2006:
Tan Peck Yen

Company's Sponsor

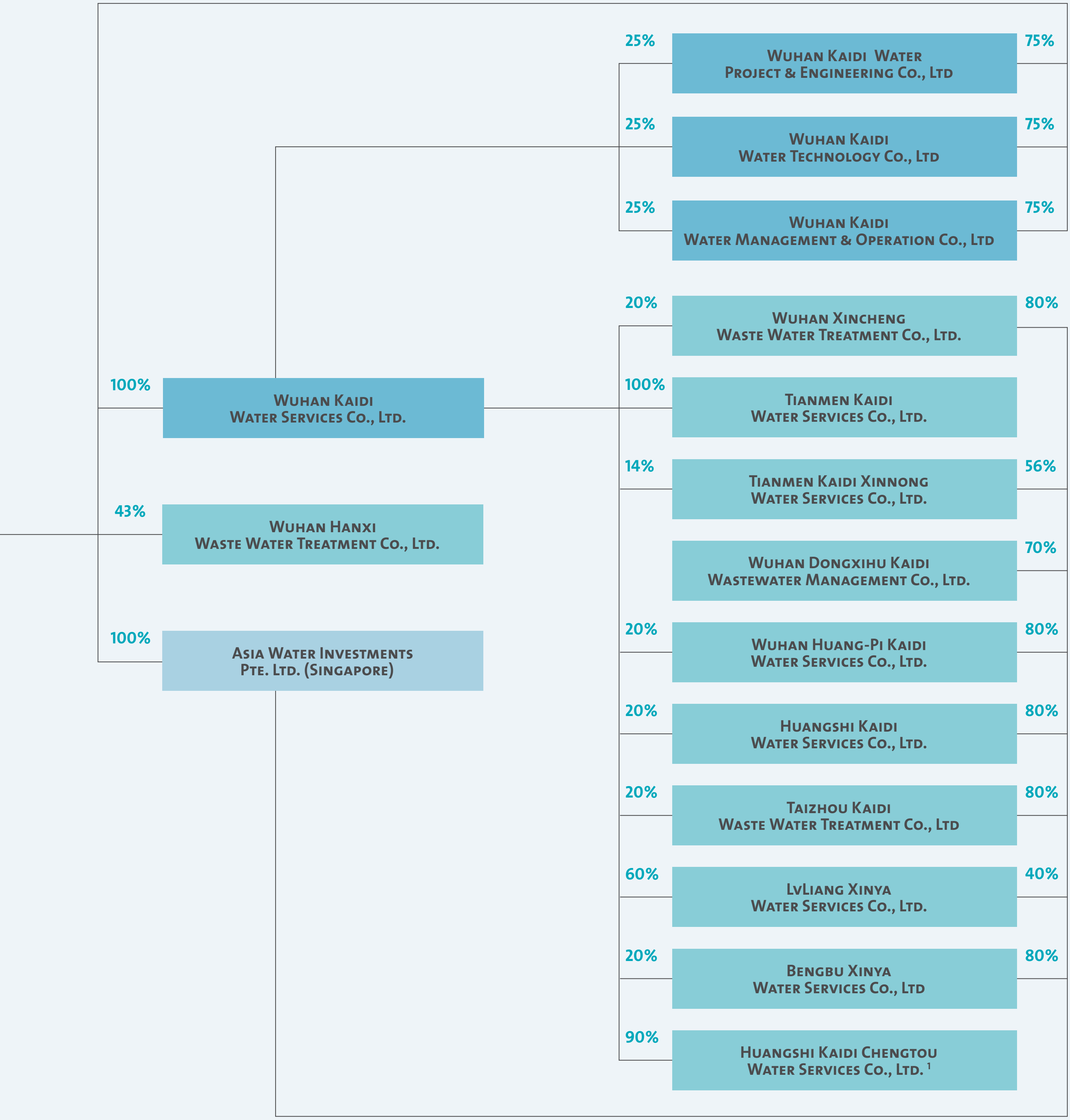
SAC Capital Private Limited
79 Anson Road #15-03
Singapore 079906
Telephone: (65) 6221 5590

Bankers

Standard Chartered Bank
(Singapore)
United Overseas Bank Limited
(Singapore)
Industrial and Commercial
Bank of China, Wuhan Branch
(People's Republic of China)
Huaxia Bank,
Wuhan Donghu Branch
(People's Republic of China)
Bank of China,
Linhai Zhejiang Branch
(People's Republic of China)

Group Structure and Business Divisions
as at 31 December 2009

**Asia Water Technology Ltd.
(Singapore)**



[1] Huangshi Kaidi Chengtou Water Services Co., Ltd. had been de-registered with effect from 11 January 2010

BOT / BOO / TOT Projects Overview — Diversified Geographical Coverage

Asia Water Technology has an unparalleled advantage for BOO / BOT / TOT projects in central China and has been actively expanding its footprint nationally.

Anhui
1. Bangbu Xinya (TW)

Hubei
2. Wuhan Xincheng (WW)
3. Tianmen Kaidi (TW)
4. Tianmen Kaidi Xinnong (TW)
5. Wuhan Hanxi (WW)
6. Wuhan Dongxihu (WW)
7. Huangshi Kaidi (WW)
8. Wuhan Huang-Pi (TW)

Shanxi
9. Lvliang Xinya (TW)

Zhejiang
10. Taizhou Kaidi (WW)

TW : **Tap Water**
WW : **Wastewater**

BOT / BOO / TOT Projects Overview

Revenue in the Wastewater Treatment business segment showed a healthy increase of 15.5% to RMB 81.1 million. Such results reflect the Group's shift in operational strategy to increase contribution from this segment, as it can bring about greater sustainability and stability in income stream from a long-term perspective.

Anhui

Bengbu Xinya Water Services Co., Ltd ("Bengbu Xinya")

20 year TOO contract with project investment of RMB 11 million

Located at Bengbu City, Huaiyuan District, Anhui Province, PRC, this landmark water treatment plant caters to the growing needs of a population size of approximately 1.3 million residents and a fast growing brewery industry. The treatment plant is capable of treating raw underground water directly instead of transporting and treating water from rivers/lakes, resulting in lower treatment costs. The treatment plant is currently operating at 80-90% of design capacity of 10,000 tons/day.

Hubei

Wuhan Xincheng Waste Water Treatment Co., Ltd. ("Wuhan Xincheng")

20 year BOT contract with total project investment of RMB 73 million

Situated within the 100,000 km² area of Wuhan City Economic Zone – a state-level technological and economic development zone boasting the highest economic output in the area – Wuhan Xincheng is the only waste water treatment facility within the region. Currently operating at 60,000 tons/day capacity (which can be expanded to its concession capacity of 120,000 tons/day), Wuhan Xincheng caters to the strong demand for treated water due to the presence of heavy industries such as automobile, iron & steel, machinery, optic electronics, and other hi-tech industries within the Wuhan City Economic Zone. The City Government has guaranteed a certain level of minimum off-take or guaranteed payments, based on the design capacity of the project throughout the concessionary period of 20 years.

Hubei

Tianmen Kaidi Water Services Co., Ltd. ("Tianmen Kaidi")

25 year TOT contract with project investment of RMB 193.2 million

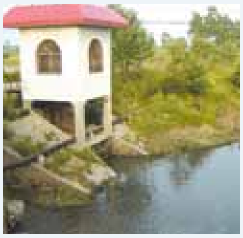
Operating two plants within Tianmen City – each with design capacity of 100,000 tons/day – with a total design capacity of 200,000 tons/day, Tianmen Kaidi is currently the sole provider (2005 – 2030) of tap water to a population of over 1.68 million residents in Tianmen City, Hubei Province. The strong position of Tianmen Kaidi within the Tianmen City will give the Group an edge over competitors when bidding for future water projects within the region.

BOT / BOO / TOT Projects Overview continued

Hubei

Tianmen Kaidi Xinnong Water Services Co., Ltd. ("Tianmen Xinnong")

25 year BOT project that runs concurrently with Tianmen Kaidi with project investment of RMB 29.2 million



Tianmen Xinnong is an expansion project of the Group's facilities in Tianmen City, Hubei Province, focusing on extending tap water coverage to more than 130,000 residents living around Tianmen City, who are facing dire water shortages. With an estimated population of 130,000 residents spread over 81 villages in the area, this project will further expand Tianmen Kaidi's tap water coverage and supply to increase utilization of Tianmen Kaidi's facilities while bringing greater social and economic benefits to the locals.

Hubei

Wuhan Hanxi Waste Water Treatment Co., Ltd. ("Wuhan Hanxi")

25 year BOT project with total project investment of RMB 460 million

Wuhan Hanxi is currently the largest wastewater treatment facility in Wuhan City with a designed capacity of 800,000 tons/day to be constructed over two phases. It is currently running at 400,000 tons/day and will be built up to 800,000 tons/day under the Phase 2 construction. The Group has completed significant parts of the common infrastructure during Phase 1 and thus expects work on Phase 2 to incur significantly lower costs and be faster.

Wuhan Hanxi specializes in the treatment of sewage which requires lower cost of treatment but yet commands comparable level of water tariffs as compared to standard industrial water. The City Government has guaranteed a minimum off-take of 80% of its overall capacity in the project's first two years of operation and 100% for the remaining years of the concessionary period.

Hubei

Wuhan Dongxihu Kaidi Wastewater Management Co., Ltd. ("Wuhan Dongxihu")

25 year BOT contract with an estimated total project investment of RMB 300 to RMB 330 million

Wuhan Dongxihu is strategically located within Dongxihu District, Wuhan City. This project was initiated to expand Wuhan Hanxi's coverage with the addition of a 101 km² drainage network, which includes a 73.8 km of sewage pipelines, 8 pumping stations and other related facilities. Upon completion, this network will link several key commercial, industrial and agricultural areas in the Wuhan Dongxihu district and the wastewater thus collected will be channeled into and treated by the Group's associate company – Wuhan Hanxi before being discharged into the river.

Hubei

Huangshi Kaidi Water Services Co., Ltd. ("Huangshi Kaidi")

27 year BOT project slated for completion in 2009 with total project investment of RMB 152.7 million

Located in Huangshi City - one of the core financial hubs in Hubei Province and amongst the most economically developed cities in central PRC – the project involves upgrading an existing wastewater treatment facility in Huangshi City with a current treatment capacity of 125,000 tons/day and to manage the existing wastewater treatment facility for a period of 27 years, catering to the needs of more than 1 million residents. The Government has guaranteed a certain level of minimum off-take based on the design capacity throughout the concessionary period.

BOT / BOO / TOT Projects Overview continued

Hubei

Wuhan Huang-Pi Kaidi Water Services Co., Ltd. ("Wuhan Huang-Pi")

30 year BOT contract with total investment value of RMB 645 – 840 million 25 year BOT project that runs concurrently with Tianmen Kaidi with project investment of RMB 29.2 million

This project is part of the 11th Five-year Plan introduced by the Wuhan City Government to address water shortages in the region and will involve the construction of three new water treatment plants, a 982 km piping system and enhancement of seven existing water treatment plants.

Wuhan Huang-Pi owns the monopoly rights to supply tap water to the 1.1 million residents in Huang-Pi District. Its operating capacity may be expanded to 250,000 tons/day, depending on market demand upon completion of the project.

Shanxi

Lvliang Xinya Water Services Co., Ltd. ("Lv Xinya")

50 year BOO contract with total project investment of RMB 256 million

Located in Lvliang City, Shanxi Province, the Lvliang Xinya project caters to a rise in demand for clean supply water in Shanxi province following the development of two major coal mining industrial zones – Feng Yang (汾阳三泉焦化工业园区) and Xiao Yi (孝义梧桐焦化工业园区) – and processing industries within the province.

The project will provide up to 20 million tonnes of potable water per year (or 55,000 tons/day) to the industrial zone with a long term capacity of 40 million tons per year. It will entail the construction of a 60 km main piping system, 4 reservoirs with a total capacity of 40,000 tons, a control and automated system, pump rooms and other related facilities.

Zhejiang

Taizhou Kaidi Waste Water Treatment Co., Ltd ("Taizhou Kaidi")

20 year BOT contract with total project investment of exceeding RMB 100 million

Taizhou Kaidi is ideally situated within the Zhejiang Pharmaceutical Park, Linhai City - a key centre for the production and manufacture of pharmaceutical products in the PRC. The BOT project will oversee the construction of an industrial wastewater treatment plant with a designed capacity of 50,000 tons/day to be constructed over 3 phases. The plant is currently operating at Phase 1 capacity of 12,500 tons/day with the potential to ramp-up to 50,000 tons/day within 3 to 5 years (i.e. Phase 2 & 3). This project showcases the Group's capabilities in treating higher grade waste water as required for use by pharmaceutical purposes and will further strengthen our credentials in securing future projects within this industry. The City Government has guaranteed a certain level of minimum off-take based on the design capacity throughout the concessionary period.

Board of Directors

Cai Yutian
Non-Executive Chairman

Mr Cai, our Non-Executive Chairman was appointed to the Board of the Company on 7 April 2010. Mr Cai is a member of the Nominating Committee.

Mr Cai has the in-depth knowledge and experience in the strategic management and operations of both private and state-owned enterprises. Mr Cai was the Chief Executive Officer at Zhong Hua Enterprises Co. in 1986 and progressed on to become the Deputy Director and the Director of the Shanghai Municipal Housing Administration Bureau, the Director of the Shanghai Municipal Housing and Land Administration Bureau and the Director of the Shanghai Municipal Housing, Land and Resources Administration Bureau during the period from 1987 to 2005.

Mr Cai is currently the Executive Director and the President of Shanghai Industrial Investment (Holdings) Co. Ltd. and the Executive Director, Vice-Chairman and Chief Executive Officer of the Hong Kong Stock Exchange listed Shanghai Industrial Holdings Limited since 2005. He holds a Masters Degree in World Economics from the East China Normal University.

Feng Jun
Executive Director

Mr Feng is our Executive Director and was appointed to the Board of the Company on 15 December 2009.

Mr Feng started his investment career more than twenty-three years ago when he was with Shanghai International Trust Company in 1987. Since then, he has taken on senior positions with major investment companies such as Shanghai Industrial Investment and Shangshi Management (Shanghai). Mr Feng's experience and extensive knowledge in the capital markets will be of high value to the Group in its future developments.

He has served as a board member of the following companies; Shanghai Industrial Investment, Tien Chu (Hong Kong), SIIC Investment (Shanghai), Shanghai SITICO International Consulting, and Shanghai SITICO Enterprise. Mr Feng holds a Masters Degree in Economics from the Wuhan University School of Management, Enterprise Management.

Liu Yujie
Executive Director

Ms Liu is our Executive Director and was appointed to the Board of the Company on 19 November 2009.

Ms Liu started her career in investment banking and progressed to specialise in corporate management in various industries such as petroleum chemicals, public utilities, infrastructural facilities, communication and multimedia. In 2003, she was the Executive Director and Deputy General Manager of Hong Kong Stock Exchange listed gas company where she was responsible for new project investment and financing. In 1993, as the Director and Deputy General Manager of Fotic Capital Ltd, Ms Liu oversaw the operations of the joint venture between AIA Capital and Sinochem.

Ms Liu is also the General Manager of Capital Operation Division of General Water of China. Since 2009, she has been responsible for the corporate strategy, finance and management such as Mergers and Acquisitions, Initial Public Offering and Asset Securitization. Currently, Ms Liu is also on the board of directors of six other environmental resource management companies. Ms Liu holds a Masters Degree in Business Administration from the University of International Business and Economic in Beijing China.

Zhou Jun
Non-Executive Director

Mr Zhou, our Non-Executive Director, was appointed to the Board of the Company on 7 April 2010. Mr Zhou is a member of the Remuneration Committee.

Mr Zhou began his career with Guotai Junan Securities Co. as their Project Manager from 1994 to 1996. He is responsible for the general management of SIIC Real Estate Holdings (Shanghai) Co. Ltd. where he was the Deputy General Manager from 1998 to 2000. He progressed to become the Managing Director of Shanghai Cyber Galaxy Investment Corporation Ltd. in 2000. After four years, he joined the Shanghai United Industrial Co. Ltd. as their Deputy General Manager and was responsible for investment and investor relations.

In 2004, Mr Zhou was appointed as the General Manager of the Strategic Investment Dept. and was subsequently promoted to become a Vice President of Shanghai Industrial Investment (Holdings) Company Limited. He is also an Executive Director and a Deputy CEO of Shanghai Industrial Holdings Limited. Mr Zhou holds a Masters Degree in Economics from the Fudan University.

Board of Directors continued

Zhang Chao

Non-Executive Director

Mr Zhang, our Non-Executive Director, was appointed to the Board of the Company on 7 April 2010.

Mr Zhang is also the Vice Chairman of General Water of China. Currently he sits on the board of CECIC Chongqing Industry, Hi – Tech Optoelectronics, Beijing DQY Argiculture Technology and Hui Neng, and was a Director at Liao Ning Guo Neng (Holdings).

Mr Zhang's expertise lies in the area of law and legal affairs. He started working in the Beijing Bureau of Justice as the Cadres Office's Deputy Director of the Clerks in 1994. Subsequently, he went on to become the Trainee Solicitor with Beijing King & Wood Law firm until 2003. From 2003 to 2006, he was employed at Beijing Guo Lian Law Firm as a Lawyer. Mr Zhang currently advises China Energy Conservation Investment Corporation as their General Counsel, Director of the Office of Legal Affairs and Commission for Discipline Inspection Committee. He holds a Master in Legal Studies from the Renmin University of China.

Zou Jiefu

Non-Executive Director

Mr Zou, our Non-Executive Director, was appointed to the Board of the Company on 7 April 2010.

Mr Zou has more than twenty-five years of experience in the operation and management of water resources development and utilization projects. Currently, he is a Chief Engineer and General Manager of Business Management Department of China Energy Conservation Investment Corporation; and a Chairman of CECIC Bluesky Investment Consulting & Management Corp.

He started out as the Assistant Engineer of the Planning Department with the Northeast Investigation Design and Research Institute in 1984 and gradually took on greater responsibilities in the Ministry of Water Resource as their Chief of Planning Department in the Songliao Water Resource Commission in 1994, and as Vice President of China Water Investment Group Corp in 1998.

In the past five years, he also served as the Board Chairman to energy companies like Beijing River Water Conservancy and Hydropower Technology Development in 2005 and Beijing Wah-fu Energy Investment from 2005 to 2007. Concurrently, Mr Zou is also the Director of the following major energy companies in People's Republic of China; General Water China and Tianjin National Energy Investment. He holds a Masters in Business Administration from the Beijing Institute of Technology.

Yeo Guat Kwang

Independent Director

Mr Yeo is our Independent Director and was appointed to the Board of the Company on 23 September 2009. Mr Yeo is Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees.

Mr Yeo has been a Member of Parliament since January 1997. He has been elected as the President of the Consumers Association of Singapore (CASE) in 2002. He is also the Alignment Director of NTUC and the Executive Secretary for the Amalgamated Union of Statutory Board Employees. In 2002, he attended the Executive Programme in Strategic Leadership Institute, University of California LA.

Mr Yeo also serves as a member of the Board of Directors of the Public Utilities Board, Financial Industry Disputes Resolution Centre Ltd, the Agri-Food & Veterinary Authority of Singapore and a few private and listed companies. He was awarded the People's Association Youth Movement Award in 1990 and 1992, and the People's Action Party Youth Award in 1993. He graduated with a Bachelor of Arts (2nd Upper Honours) from the National University of Singapore, and he also holds a Postgraduate-Diploma in Education (with Merit) from the National Institute of Education. Mr Yeo is married with 2 children.

Board of Directors continued

Tay Ah Kong, Bernard

Independent Director

Mr Tay, our Independent Director, was appointed to the Board of the Company on 7 April 2010. Mr Tay is Chairman of the Audit Committee and a member of the Nominating Committee.

Mr Tay has a wide range of experience, from having worked in public accounting firms in the United Kingdom and Singapore, the Inland Revenue Authority of Singapore and companies in commerce, industry and management consulting for a period over 30 years. He is currently the Non-Executive Chairman of Horwath First Trust — a Certified Public Accountants firm and Chairman of the Risk Management Committee of KW Capital Pte Ltd, an approved SGX Continuing Sponsor.

Mr Tay serves as the Senior Advisor to the Government of Huzhou City, Zhejiang Province of the People's Republic of China. Currently, he is also the Vice-President of the Singapore Productivity Association and a sub-committee member of the Singapore Institute of Directors. Mr Tay is a recipient of the Service to Education Award and Community Service Medal and was conferred the Pingat Bakti Masyarakat (Public Service Medal) by the President of Singapore. Mr Tay, a former member of the Resource Panel of the Government Parliamentary Committees for Home Affairs and Communications, had also sat on several committees under the Accounting and Corporate Regulatory Authority. Currently, he holds several fellowships in institutes ranging from chartered accountancy to taxation.

Tan Chong Huat

Independent Director

Mr Tan, our Independent Director, was appointed to the Board of the Company on 7 April 2010. Mr Tan is a Chairman of the Remuneration Committee and a member of the Audit Committee.

Mr Tan is the Managing Partner of KhattarWong, a firm of advocates and solicitors. He also heads its Corporate and Securities department. He graduated with a Degree and Master's degree in law from National University of Singapore and University of London respectively. He practices as an advocate and solicitor in several countries such as the Supreme Court of Singapore, England, Wales and New South Wales, Australia. He has extensive experience in corporate, banking and project finance law in Singapore and the region, and acted in numerous significant corporate transactions.

He has been named a leading practitioner in many reputable professional publications, including Asia Pacific Legal 500, Asia Law Leading Lawyers.

Mr Tan is an adjunct associate professor of the Law Faculty and the Business School at the National University of Singapore, and the Nanyang Business School, Nanyang Technological University. He was conferred a Visiting Professorship by the Beijing Normal University. Besides authoring two leading literature on PRC investment laws, he has co-authored several titles corporate governance. Mr Tan is also Chairman of corporate governance committees and director of several public listed companies with operations in Australia, South East Asia, Indochina, Hong Kong and PRC.

Ling Chung Yee, Roy

Independent Director

Mr Ling is our Independent Director and was appointed to the Board of the Company on 9 November 2009. Mr Ling is a member of Audit, Remuneration and Nominating Committees.

Mr Ling is currently an Independent Director on a listed SGX company, HG Metals Manufacturing Ltd. Prior to this, Mr Ling was a Vice President with JPMorgan's Asia real estate investment banking team based out of Singapore. He is responsible for the origination and execution of investment banking mandates for regional clients. Prior to working for JPMorgan, Mr Ling worked for Lehman Brothers, Goldman Sachs and Salomon Smith Barney, performing a broad range of corporate finance, equity research and real estate financings.

Mr Ling is a Chartered Financial Analyst and was formerly on the Board of Directors of the CFA Society of Japan and was also the Chairman of the Society's Public Awareness Committee. He also served on the PR & Events Committee of the Asian Public Real Estate Association. Mr Ling was honored as one of 20 Rising Stars in Real Estate by Institutional Investor in March 2008, and is also on the judging panels of the International Property Awards, Cityscape Asia Awards and the Singapore Property Awards.

Executive Officers

Huang Hanguang

President

(Wuhan Kaidi Water Services Co., Ltd.)

Mr Huang, our President of Wuhan Kaidi Water Services Co., Ltd. in 2003, has over 20 years of experience in the water treatment industry. From 1984 to 1989, Mr Huang was employed in the Ministry of Water Resources and Electric Power of the People's Republic of China as a specialist engineer in chemistry and environmental protection. He subsequently joined the China Electricity Council as a specialist engineer in chemistry and environmental protection from 1990 to 1992.

Mr Huang joined Wuhan Electric as Vice-Chairman in 1992. He stepped down from this position in October 2004. For the period between 1993 and 2002, Mr Huang was also appointed as director or general manager in several other companies in the power generation industry. From 2003 to 2009, he was appointed the Executive Director and Chief Executive Officer of Asia Water. Mr Huang graduated from Wuhan University with a Bachelor's degree in powerplant chemistry engineering in 1984.

Wang Peigang

Director

(Wuhan Kaidi Water Services Co., Ltd.)

Mr Wang started his engineering career in 1984 at the Wuhan Water Conservation Electric Power Institute where he progressed to become an Engineer in the Department of Energy. During the period of 1993 to 2004, Mr Wang took on managerial roles at several energy resource management companies such as Beijing Geely Energy Co., Ltd, Ertan Hydropower Development Co., Ltd, Huaibei Guoan Power Co., Ltd. and Tianjin International Trust and Investment Co., Ltd.

Mr Wang has also sat on the board of directors of Wuhan Kaidi Water Services Co., Ltd. and Asia Water. Currently, he is a Director at SDIC Xuan Cheng Electric Power Co., Ltd and Wuhan Kaidi Water Services Co., Ltd. At Wuhan Kaidi Water Services Co., Ltd., he is a Director of the Special Investment Unit where his responsibilities include overseeing the planning and business development, acquisitions and engineering procurement construction projects.

Mr Wang graduated from Wuhan University with a Bachelor in Technology and holds a Master's degree in Management Science from Renmin University of China

Chen Chuan

Director / General Manager

(Wuhan Kaidi Water Services Co., Ltd.)

Mr Chen joined Wuhan Kaidi Water Services Co., Ltd. as Chief Financial Officer in 2003 and was subsequently appointed as the General Manager in January 2008.

From 1990 to 1995, Mr Chen was employed in the Wuhan Electric Power Equipment Plant as an accountant and was subsequently promoted to the position of Head of Accounts Department. From 1995 to 2000, Mr Chen was employed in Dongfeng Peugeot Citroen Automobile Company Ltd as the Finance Department Manager. In 2000, he joined Wuhan Kaidi Electric Power as its Finance Department's Deputy Manager. From 2001 to 2003, Mr Chen was appointed as the Chief Accountant of Nanjing Central Power Engineering. Mr Chen graduated from Zhongnan University of Economics and Law with a Bachelor in Finance and Accounting in 1990.

Li Jingjun

Director

(Wuhan Kaidi Water Services Co., Ltd.)

Mr Li, our Director of Wuhan Kaidi Water Services Co., Ltd., was our Vice General Manager for Planning and Project Management and was appointed as the Director in January 2008. Mr Li is responsible for overseeing the operations of the Group. Mr Li was employed by Wuhan Blast Fans Factory from 1982 to 1993 as its Deputy Managing Director and Chief Engineer.

From 1993 to 1996, Mr Li joined Wuhan NEC as the Deputy General Manager. He was subsequently employed by Wuhan Gelin Tiandi Environment Protection Industry Group as its General Manager and was promoted to the position of Director from 2000. Mr Li graduated from Huazhong Science and Technology University with a Bachelor in Engineering in 1982.

Peng Xueshan

Deputy General Manager, Project Financing and Procurement

(Wuhan Kaidi Water Services Co., Ltd.)

Mr Peng joined Wuhan Kaidi Water Services Co., Ltd. in May 2004 as Head of the Operations Planning unit. He was appointed Secretary to the board of Wuhan Kaidi Water Services Co., Ltd. in 2006, and then promoted to his current position of Deputy General Manager, Project Financing and Procurement, in January 2008. Prior to joining Wuhan Kaidi Water Services Co., Ltd., Mr Peng was the Chief Financial Officer of the Wuhan Haitian Group from 2003 to 2004. Between 2001 to 2002, he was Deputy Chief Financial Officer of Futong Group, based in its headquarters in Shenzhen. Between 1992 to 2000, Mr Peng was Assistant to the General Manager of the Wuhan branch office of Beijing Zhongkexin Electronics Equipment Co., Ltd.

Executive Officers continued

Yang Bin

Deputy General Manager, Finance and Operations Planning
(Wuhan Kaidi Water Services Co., Ltd.)

Mr Yang joined Wuhan Kaidi Water Services Co., Ltd. in April 2006 as Head of the Operations Planning unit. He was subsequently promoted to Deputy General Manager, Finance and Operations Planning, in January 2008. Mr Yang began his career in 1993, where he was in charge of accounts at the Wuhan City Handicrafts Import and Export Co., Ltd. Between 1997 to 2000, he was Accounts Manager at CSG Holding Co., Ltd. Between 2000 to 2002, Mr Yang was a Director and Chief Accountant with Shanghai Unity Prima Laser Machinery Co., Ltd. Between 2002 to 2003, he was an Investment Manager with Wuhan Guoxing Investment Co., Ltd. Prior to joining Wuhan Kaidi Water Services Co., Ltd., he was Chief Financial Officer of Wuhan Pointrole Information Technology Co., Ltd between 2003 to 2006.

Ye Ding

Chief Engineer / Deputy General Manager, Technology, Research and Development
(Wuhan Kaidi Water Services Co., Ltd.)

Mr Ye joined Wuhan Kaidi Water Services Co., Ltd. in March 2003 as Deputy Chief Engineer. He was promoted to his current role in January 2008, assuming dual responsibilities as Chief Engineer and Deputy General Manager, overseeing technology, research and development matters. Prior to joining Wuhan Kaidi Water Services Co., Ltd., Mr Ye was a Senior Engineer with Wuhan Kaidi Electric Power Co., Ltd. for nearly 2 years. Between 1993 to 2001, Mr Ye was with the Central and Southern China Municipal Engineering Design & Research Institute, where he was last as Deputy Chief.

Jeffrey Kan Kai Hi

Financial Controller

Mr Kan joined Asia Water Technology Ltd. as its Financial Controller in January 2010. He has accumulated a decade's worth of financial experience since 2001, when he joined KPMG Singapore as a Senior Auditor. Between 2002 to 2006, he served in various finance positions within the Ghim Li group of companies, where he was last the Financial Controller.

He took up the role as the Regional Financial Controller of SGX-listed Breadtalk Group from 2006 to 2007. Mr Kan was then with Econat Fiber Limited as Chief Financial Officer, before joining us in 2010. Mr Kan has also held a number of directorship positions in apparel and textile companies such as GLIT Holdings and Polly Apparel.

Financial Contents

Corporate Governance Report

The Board is committed to maintaining a high standard of corporate governance and has put in place self-regulatory corporate practices to protect the interests of its shareholders and enhance long-term shareholders' value.

The Company has adopted the recommendations of the Code of Corporate Governance 2005 (the "Code"). The Company strives to subscribe to the principles and guidelines as set out in the Code where applicable, feasible and practical to the Group unless otherwise specified.

BOARD OF DIRECTORS

PRINCIPLE 1: BOARD'S CONDUCT OF ITS AFFAIRS

The Board is responsible for:

- approving the Group's key business strategies and financial objectives;
- overseeing the conduct of the Company's business to evaluate whether the business is being properly managed;
- establishing a framework for proper internal controls and risk management;
- the Group's compliance to laws, regulations, policies, directives, guidelines and internal code of conduct; and
- the satisfactory fulfilment of social responsibilities of the Group.

Matters which are specifically reserved to the Board for decision are those involving corporate plans and budgets, material acquisitions and disposals of assets, share issuances, dividends and other returns to shareholders. The Board also delegates certain of its functions to the Audit ("AC"), Nominating ("NC") and Remuneration ("RC") Committees. Each Committee has its own defined terms of reference and operating procedures.

The Board is scheduled to meet at least four times a year and as warranted by circumstances. The Company's Articles of Association allow a board meeting to be conducted by way of a telephone conference or by means of similar communication equipment whereby all persons participating in the meeting are able to hear each other.

The attendance of the Directors at the meetings of the Board and Board Committees held during the financial year ended 31 December 2009 ("FY 2009") are disclosed as follows:

NAME OF DIRECTOR	BOARD		AC		NC		RC	
	NUMBER HELD@	NUMBER ATTENDED	NUMBER HELD@	NUMBER ATTENDED	NUMBER HELD@	NUMBER ATTENDED	NUMBER HELD@	NUMBER ATTENDED
BOARD (OLD)								
Ng Fook Ai, Victor (i)	5	5	3	3	2	2	1	1
Huang Hanguang (ii)	5	5	–	–	2	2	–	–
Addyson Xue (iii)	5	3	–	–	–	–	1	1
Sha Guangwen (iv)	6	5	–	–	–	–	–	–
Simon Littlewood (v)	5	5	3	3	–	–	–	–
Tan Tew Han (vi)	4	4	2	2	1	1	1	1
BOARD (TRANSITIONAL)								
Yeo Guat Kwang (vii)	3	3	1	1	–	–	–	–
Kareti Venkataramana (viii)	3	3	–	–	–	–	–	–
Feng Jun (ix)	–	–	–	–	–	–	–	–
Liu Yujie (x)	–	–	–	–	–	–	–	–
Chong Hon Kuan, Ivan (xi)	3	2	1	1	–	–	–	–
Lai Hock Meng, Peter (xii)	2	2	–	–	–	–	–	–
Ling Chung Yee, Roy (xiii)	1	1	1	1	–	–	–	–

@ Number of meetings held during the period the Director was a member of the Board and/or relevant Board Committee.

Corporate Governance Report
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Notes:
(i) Ng Fook Ai Victor, Non-Executive Chairman, resigned on 11 August 2009.
(ii) Huang Hanguang, Chief Executive Officer (CEO) and Executive Director, stepped down on 23 September 2009.
(iii) Addyson Xue, Non-Executive Director, resigned on 11 August 2009.
(iv) Sha Guangwen, Non-Executive Director, resigned on 24 September 2009.
(v) Simon Littlewood, Independent Director, resigned on 11 August 2009.
(vi) Tan Tew Han, Independent Director, resigned on 5 August 2009.
(vii) Yeo Guat Kwang, Non-Executive Chairman, was appointed on 23 September 2009.
(viii) Kareti Venkataramana, Interim Executive Director, was appointed on 23 September 2009.
(ix) Feng Jun, Non-Executive Director, was appointed on 15 December 2009.
(x) Liu Yujie, Non-Executive Director, was appointed on 19 November 2009.
(xi) Chong Hon Kuan Ivan, Independent Director, was appointed on 23 September 2009.
(xii) Lai Hock Meng Peter, Independent Director, was appointed on 23 September 2009 and resigned on 15 October 2009.
(xiii) Ling Chung Yee Roy, Independent Director, was appointed on 9 November 2009.

PRINCIPLE 2: BOARD COMPOSITION AND BALANCE

The Board was re-constituted and as at date of this report, the Board comprised/comprises:

BOARD (OLD)	BOARD (TRANSITIONAL)	BOARD (CURRENT)
EXECUTIVE DIRECTOR:	**INTERIM EXECUTIVE DIRECTOR:**	**EXECUTIVE DIRECTORS:**
Huang Hanguang (CEO)	Kareti Venkataramana	Feng Jun
		Liu Yujie
NON-EXECUTIVE DIRECTORS:	**NON-EXECUTIVE DIRECTORS:**	**NON-EXECUTIVE DIRECTORS:**
Ng Fook Ai, Victor (Independent) – Chairman	Yeo Guat Kwang (Independent) – Chairman	Cai Yutian – Chairman
Addyson Xue	Feng Jun	Zhou Jun
Sha Guangwen	Liu Yujie	Zhang Chao
Simon Littlewood (Independent)	Chong Hon Kuan, Ivan (Independent)	Zou Jiefu
Tan Tew Han (Independent)	Ling Chung Yee, Roy (Independent)	Yeo Guat Kwang (Independent)
	Lai Hock Meng, Peter (Independent)	Tay Ah Kong, Bernard (Independent)
		Tan Chong Huat (Independent)
		Ling Chung Yee, Roy (Independent)

The Board has examined its size and is of the view that the current board size is appropriate, taking into account the nature and scope of the Group's operations. The Board consists of respected individuals from different backgrounds whose core competencies, qualifications, skills and experience are extensive and complementary. Profiles of the Directors are found on page 12 of this Annual Report.

The composition of the Board and independence of each Non-Executive Director is reviewed annually by the NC. The NC adopts the Code's definition of what constitutes an Independent Director.

Non-Executive Directors contribute to the Board process by monitoring and reviewing Management's performance against goals and objectives. Their views and opinions provide alternative perspectives to the Group's business. When challenging Management's proposals or decisions, they bring independent judgement on business activities and transactions involving conflicts of interest and other complexities.

Corporate Governance Report
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PRINCIPLE 3: ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The roles of the Chairman and CEO are separated.

Mr Cai Yutian is the Non-Executive Chairman as at the date of this report. The Chairman exercises control over the quality, quantity and timeliness of information flow between the Board and Management. The Chairman is also responsible for the effective working of the Board. The responsibilities of the Chairman include:

- leading and managing the business of the Board;
- preserving harmonious relations with the shareholders;
- ensuring the Group's compliance with the Code; and
- acting in the best interest of the Group and the shareholders.

The Company Secretary may be called to assist the Chairman in any of the above.

The CEO position was previously held by Mr Huang Hanguang, who stepped down on 23 September 2009. During the absence of the CEO, the transitional Board and the Executive Directors were responsible for overseeing the overall management and strategic development of the Group during their respective tenure.

BOARD COMMITTEES

Nominating Committee ("NC")

PRINCIPLE 4: BOARD MEMBERSHIP

PRINCIPLE 5: BOARD PERFORMANCE

The NC comprises at least 3 members, a majority of whom are Independent Directors:

COMMITTEE (OLD)	COMMITTEE (TRANSITIONAL)	COMMITTEE (CURRENT)
Tan Tew Han – Chairman	Yeo Guat Kwang – Chairman	Yeo Guat Kwang – Chairman
Huang Hanguang	Chong Hon Kuan, Ivan	Cai Yutian
Ng Fook Ai, Victor	Ling Chung Yee, Roy	Ling Chung Yee, Roy
		Tay Ah Kong, Bernard

During FY2009, the NC met twice. The NC was chaired by an Independent Director not associated with any substantial shareholder of the Company. The NC is regulated by a set of Terms of Reference and its role is to establish a formal and transparent process for:-

- nomination of Directors for re-election having regard to the Director's contribution and performance;
- determining annually the independence of Directors;
- deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director; and
- reviewing and making recommendations to the Board on all Board's appointments.

The NC had reviewed the independence of each Director in accordance with the Code's definition of independence and is satisfied that at least one-third of the Board comprises Independent Directors.

The Company's Articles of Association requires each Director to retire at least once every 3 years by rotation and all newly appointed Directors will have to retire at the next Annual General Meeting ("AGM") following their appointments. The retiring Directors are eligible to offer themselves for re-election.

Corporate Governance Report
— continued

The following Directors will be retiring at the forthcoming AGM :

- Cai Yutian
- Feng Jun
- Liu Yujie
- Zhou Jun
- Zhang Chao
- Zou Jiefu
- Yeo Guat Kwang
- Tay Ah Kong, Bernard
- Tan Chong Huat
- Ling Chung Yee, Roy

Ling Chung Yee, Roy has, however, indicated his intention not to seek re-election. Accordingly, the NC had recommended to the Board the nomination of the above-named Directors, except Ling Chung Yee, Roy, for re-election as Directors at the forthcoming AGM. The Board had accepted the recommendation of the NC.

Although the Independent Directors hold directorships in other companies which are not in the Group, the Board is of the view that such multiple board representations do not hinder them from carrying out their duties as Directors. These Directors would widen the experience of the Board and give it a broader perspective.

The NC has adopted a process for assessing the effectiveness of the Board as a whole. However, in view of the re-constitution of the Board during FY2009, no Board performance evaluation was carried out in respect of FY2009.

PRINCIPLE 6: ACCESS TO INFORMATION

In order to ensure that the Board is able to fulfil its responsibilities, Management provides the Board members with periodic management accounts and all relevant information. In addition, all relevant information on material events and transactions are circulated to Directors as and when they arise. Whenever necessary, senior management staff will be invited to attend the Board meeting and Board Committee meetings to answer queries and provide detailed insights into their areas of operations.

The Board, either individually or as a group, in the furtherance of their duties, has the right to seek independent professional advice, if necessary, at the Company's expense.

The Board members have separate and independent access to the Company Secretary and the Group's senior management staff. The Company Secretary attends Board meetings and Board Committee meetings. The Company Secretary assists the Board to ensure that the Board procedures and rules and regulations are complied with.

REMUNERATION MATTERS

PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

PRINCIPLE 9: DISCLOSURE ON REMUNERATION

The Remuneration Committee ("RC") comprises at least 3 members, a majority of whom are Independent Directors:

COMMITTEE (OLD)	COMMITTEE (TRANSITIONAL)	COMMITTEE (CURRENT)
Ng Fook Ai, Victor – Chairman	Chong Hon Kuan, Ivan – Chairman	Tan Chong Huat – Chairman
Addyson Xue	Ling Chung Yee, Roy	Ling Chung Yee, Roy
Tan Tew Han	Yeo Guat Kwang	Yeo Guat Kwang
		Zhou Jun

Corporate Governance Report
— continued

During FY2009, the RC met once. The RC reviews and recommends to the Board (i) the remuneration packages of all Directors, key executives, including those employees related to the Executive Directors and controlling shareholders of the Group (ii) Directors' fees for Independent Directors and Non- Executive Directors, which are subject to shareholders' approval at the AGM and (iii) all service contracts of Executive Directors.

The RC is regulated by a set of Terms of Reference and has access to independent professional advice, if necessary.

The RC's main duties are:-

- to review and recommend to the Board a framework of remuneration and to determine the specific remuneration packages and terms of employment for each of the Directors of the Group and key executives, including those employees related to the Executive Directors and controlling shareholders of the Group, if any;
- to recommend to the Board any long term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith; and
- to carry out its duties in the manner that it deemed expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time.

As part of its review, the RC shall ensure that:

- all aspects of remuneration, including Directors' fees, salaries, allowances, bonuses, options and benefits-in-kinds should be covered;
- the remuneration packages of Directors and key executives should be comparable to companies in similar industry and shall include a performance-related element coupled with appropriate and meaningful measures of assessing individual Directors' performances; and
- the remuneration packages of employees related to Directors and controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and levels of responsibilities.

No Director is involved in deciding his own remuneration.

The Interim Executive Director, Non-Executive Directors and Independent Directors do not have any service contracts. They are paid a basic fee each financial year and the Chairman of the Board and the AC are paid additional fees. The Directors' fees will be subject to approval by shareholders at the AGM of the Company. The RC had recommended to the Board an amount of S$205,720.55 as Directors' fees for the financial year ended 31 December 2009. The Board will table this recommendation at the forthcoming AGM for shareholders' approval. Executive Directors do not receive Directors' fees and are remunerated in accordance with their respective service contracts.

In FY2009, the remuneration of the Executive Director, Huang Hanguang, comprises a basic salary and a variable component. The Company has entered into service contract with the Executive Director for a period of 3 years commencing 1 January 2009 which would be automatically renewed annually. The service contract provides for termination by either party, upon giving not less than 6 months' notice in writing. During FY2009, the service contract with the Executive Director was terminated on 23 September 2009.

A breakdown, showing the level and mix of each individual Director's remuneration payable for FY2009 is as follows:

DIRECTORS' REMUNERATION

	REMUNERATION BAND S$	SALARY & FEES %	PERFORMANCE BASED BONUSES %	OTHER BENEFITS %	TOTAL REMUNERATION %
Executive Director					
Huang Hanguang	< 250,000	100	–	–	100
Non-Executive Directors					
Ng Fook Ai, Victor	< 250,000	100	–	–	100
Addyson Xue	< 250,000	100	–	–	100
Sha Guangwen	< 250,000	100	–	–	100
Simon Littlewood	< 250,000	100	–	–	100
Tan Tew Han	< 250,000	100	–	–	100
Yeo Guat Kwang	< 250,000	100	–	–	100

Corporate Governance Report
— continued

DIRECTORS' REMUNERATION (cont'd)

	REMUNERATION BAND S$	SALARY & FEES %	PERFORMANCE BASED BONUSES %	OTHER BENEFITS %	TOTAL REMUNERATION %
Kareti Venkataramana	< 250,000	100	–	–	100
Feng Jun	< 250,000	100	–	–	100
Liu Yujie	< 250,000	100	–	–	100
Chong Hon Kuan, Ivan	< 250,000	100	–	–	100
Lai Hock Meng, Peter	< 250,000	100	–	–	100
Ling Chung Yee, Roy	< 250,000	100	–	–	100

The RC also administers the Asia Water Employee Share Option Scheme ("Share Option Scheme").

In FY2009, no options have been granted.

Details of the Share Option Scheme are set out under Note 37 of the Financial Statements.

The overall wage policies for the employees are linked to performance of the Group as well as the individuals.

Disclosure of the top five executives' (who are not Directors) remuneration in bands of S$250,000 for FY2009 is as follows:-

NAME OF EXECUTIVE	REMUNERATION BAND S$	SALARY %	PERFORMANCE BASED BONUSES %	OTHER BENEFITS %	TOTAL REMUNERATION %
Ang Poh Seng (i)	< 250,000	100	–	–	100
Chen Chuan	< 250,000	100	–	–	100
Han Jianli	< 250,000	100	–	–	100
Li Jingjun	< 250,000	100	–	–	100
Pang Shi Kang (ii)	< 250,000	100	–	–	100

Notes:
(i) Ang Poh Seng resigned on 21 January 2010.
(ii) Pang Shi Kang resigned on 19 January 2010

For the financial year ended 31 December 2009, there were no employees of the Company who is related to a Director or CEO and whose remuneration exceeds S$150,000.

AUDIT COMMITTEE

PRINCIPLE 11: AUDIT COMMITTEE

PRINCIPLE 12: INTERNAL CONTROLS

PRINCIPLE 13: INTERNAL AUDIT

The Audit Committee ("AC") comprises the following Independent Directors:-

COMMITTEE (OLD)	COMMITTEE (TRANSITIONAL)	COMMITTEE (CURRENT)
Simon Littlewood – Chairman	Chong Hon Kuan, Ivan	Tay Ah Kong, Bernard – Chairman
Ng Fook Ai, Victor	Ling Chung Yee, Roy	Ling Chung Yee, Roy
Tan Tew Han	Yeo Guat Kwang	Yeo Guat Kwang
		Tan Chong Huat

Corporate Governance Report
— continued

During FY2009, the AC met four times. The AC is regulated by a set of Terms of Reference and performs the following functions:-

- reviews the Group's financial and operating results and accounting policies;
- reviews financial statements and consolidated financial statements of the Company and the Group before submission to the Board for adoption;
- reviews the external and internal audit plans and the results of the internal auditors' examination and evaluation of the Group's internal accounting control system through regular meetings with the internal auditors;
- reviews the co-operation given by the Group's officers to the internal auditors;
- nominates external auditors for re-appointment and reviews their independence;
- reviews interested person transactions, if any;
- reviews the 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 Company's financial performance;
- reviews internal audit findings and adequacy of the internal audit function; and
- responsible for the functioning of the Whistle - Blowing Policy.

The Board considers the AC as a whole to have adequate accounting or related financial management expertise and experience to discharge the AC's functions.

The AC reviews arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective is to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.

The external auditors have full access to the AC. The AC has full access to Management and the discretion to invite any Director or executive officer to attend the AC meetings. The AC has expressed power to commission investigations into any matters, which has or is likely to have material impact on the Group's operating results or financial results.

Annually, the AC meets the external auditors without the presence of Management. The AC has conducted a review of all non-audit services provided by the external auditors for FY2009 and is satisfied that provision of such services would not, in the AC's opinion, affect the independence of the external auditors. The AC had recommended the re-appointment of Ernst & Young LLP as the Company's external auditors at the forthcoming AGM.

The Company had outsourced its internal audit function to an independent accounting and auditing firm, Horwath First Trust Risk Advisory Pte Ltd ("Horwath First Trust"), Certified Public Accountants. The appointment of Horwath First Trust as internal auditors ceased in April 2009. The Company is currently in the process of identifying another accounting or auditing firm to perform the internal audit function.

COMMUNICATION WITH SHAREHOLDERS

PRINCIPLE 10: ACCOUNTABILITY

PRINCIPLE 14: COMMUNICATION WITH SHAREHOLDERS

PRINCIPLE 15: GREATER SHAREHOLDER PARTICIPATION

Management recognises the importance of providing the Board with a continuous flow of relevant and accurate information on a timely basis in order for it to effectively discharge its duties.

The Company recognises the need to communicate with shareholders on all material matters affecting the Group and does not practice selective disclosure. Price sensitive announcements, including quarterly and full-year results, are released through SGXNET and subsequently posted on the Company's website. All press releases are announced through SGXNET before they are published. The Company may also hold media meeting on significant events. All shareholders of the Company receive the Annual Report and notice of AGM which can also be accessed from the Company's website. At AGMs, shareholders are given the opportunity to voice their views and ask questions regarding the Group and its businesses. Separate resolutions on each distinct issue are proposed at general meetings for approval.

The Chairman of the AC, RC and NC (or in their absences, an alternate member), as well as the external auditors and legal advisors (if necessary) will be present at the forthcoming AGM to answer any queries by shareholders.

The Articles of Association of the Company only allow a member of the Company to appoint one or two proxies to attend and vote instead of the member.

DEALINGS IN SECURITIES

In compliance with the SGX-ST Listing Manual, the Directors and key officers of the Company and its subsidiaries have been informed not to deal in the Company's securities at all times whilst in possession of unpublished price sensitive information and during the periods commencing two weeks before the announcement of the Company's results for each of the first three quarters of its financial year, or one month before the announcement of the Company's full-year results, as the case may be, and ending on the date of the announcement of the relevant results.

MATERIAL CONTRACTS

There were no material contracts (including loans) of the Company or its subsidiaries involving the interests of the CEO, each Director or controlling shareholder subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

RISK MANAGEMENT

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as to take appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board.

WHISTLE-BLOWING POLICY

The Group has adopted an internal policy which allows the AC to receive reports from the whistle-blowers directly.

INTERESTED PERSON TRANSACTIONS

The Group has adopted an internal policy in respect of any transactions with interested persons within the definition of Chapter 9 of the Listing Manual of the SGX-ST Rules of Catalist and has set out procedures for review and approval of all interested person transactions. All interested person transactions are subject to review by the AC.

There was no interested person transaction during the financial year under review.

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

NON-SPONSOR FEE

For the financial year ended 31 December 2009, the Company paid S$20,000 to the Company's sponsor, SAC Capital Private Limited, for non-sponsorship related activities or services.

Directors' Report

The directors present their report to the members together with the audited consolidated financial statements of Asia Water Technology Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2009.

1. DIRECTORS

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

Cai Yutian	–	Non-Executive Chairman
Feng Jun	–	Executive Director
Liu Yujie	–	Executive Director
Zhou Jun	–	Non-Executive Director
Zhang Chao	–	Non-Executive Director
Zou Jiefu	–	Non-Executive Director
Yeo Guat Kwang	–	Independent Director
Tay Ah Kong, Bernard	–	Independent Director
Tan Chong Huat	–	Independent Director
Ling Chung Yee, Roy	–	Independent Director

In accordance with Article 97 of the Company's Articles of Association, all the directors who retire and, being eligible, may offer themselves for re-election. Mr Ling Chung Yee, Roy, has however, indicated his intention not to seek re-election.

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Except as described in paragraph 5 below, 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 or debentures of the Company or any other body corporate.

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The following director of the Company, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company as stated below:

	Direct interest			Deemed interest		
	At date of appointment	**At 31 December 2009**	**At 21 January 2010**	**At date of appointment**	**At 31 December 2009**	**At 21 January 2010**
The Company						
Ordinary shares						
Kareti Venkataramana[1]	350,000	350,000	350,000	42,506,000	42,506,000	–

[1] Mr Kareti Venkataramana stepped down as an Interim Executive Director on 7 April 2010.

Except as disclosed above, no other director who held office at the end of the financial year, had interests in any shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, date of appointment if later, or at the end of the financial year and on 21 January 2010.

4. DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company 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 the director is a member, or with a company in which the director has a substantial financial interest.

5. OPTIONS

On 24 January 2005, the shareholders approved a share option scheme, known as the Asia Water Share Option Scheme (the "ESOS"). The ESOS provides eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. The ESOS, which forms an integral and important component of a compensation plan, is designed to primarily reward and retain executive directors, non-executive directors and employees whose services are vital to the well-being and success of the Group. The ESOS is administered by the Remuneration Committee, comprising of at least three directors. The Remuneration Committee was re-constituted during financial year 2009. The Committee as at the date of this report comprises Tan Chong Huat, Ling Chung Yee, Roy, Yeo Guat Kwang and Zhou Jun.

On 14 August 2007, the Company granted options to directors, executives and employees of the Group to subscribe for 21,940,000 shares in the Company. These options are exercisable between the period from 14 August 2008 to 13 August 2012 if the employee remains in service for 1 year from the date of grant. There is no share option being granted during the financial year. 2,433,000 (2008: 1,097,000) share options have forfeited during the financial year. As at the date of this report, the number of share options outstanding and exercisable is 19,923,235 at an exercise price of S$0.09.

Details of the options to subscribe for ordinary shares of the Company granted to directors of the Company and participants who received 5% or more of the total number of options available pursuant to the ESOS are as follows:

Name of participants	Options granted during the financial year	Aggregate options granted since commencement of scheme to end of financial year	Aggregate options exercised since commencement of scheme to end of financial year	Aggregate options outstanding as at end of financial year
Others				
Huang Hanguang	–	1,392,000	–	1,392,000
Wang Yaoyu	–	1,364,000	–	1,364,000
Wang Peigang	–	1,342,000	–	1,342,000
Total	–	4,098,000	–	4,098,000

Mr. Huang Hanguang was terminated as the Chief Executive Officer and Executive Director of the Company on 23 September 2009. However, he remained as Director and legal representative of certain subsidiaries in the PRC. Mr Wang Yaoyu and Mr Wang Peigang resigned as Executive Directors of the Company with effect from 30 December 2008. Mr Wang Peigang is reappointed as a Director of a subsidiary in the PRC during the current financial year.

The exercise of the options held by resigned executive is subjected to the approval from the Remuneration Committee ("RC") at its absolute discretion in accordance with Rules of the Asia Water Share Option Scheme. On 27 February 2010, the RC disapproved the exercise of the options held by resigned executive.

5. OPTIONS (cont'd)

Since the commencement of the employee share option scheme till the end of the financial year:

- No options have been granted to the controlling shareholders of the Company and their associates;
- Apart from options granted to Huang Hanguang, Wang Yaoyu and Wang Peigang, no director or employee of the Company's subsidiaries has received 5% or more of the total options available under the ESOS;
- No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted;
- Apart from options granted to the three participants as disclosed above, 14,312,000 options have been granted to directors of the Company's subsidiaries and employees of the Group; and
- No options have been granted at a discount.

6. AUDIT COMMITTEE

The Audit Committee ("AC") carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50, including the following:

– Reviews the audit plans of the internal and external auditors of the Company, and reviews the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors;

– Reviews the quarterly, half yearly results announcement and annual financial statements and the auditors' report on the annual financial statements of the Company before their submission to the board of directors;

– Reviews effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;

– Meets with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;

– Reviews legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;

– Reviews the cost effectiveness and the independence and objectivity of the external auditors;

– Reviews the nature and extent of non-audit services provided by the external auditors;

– Recommends to the board of directors the external auditors to be nominated, approves the compensation of the external auditors, and reviews the scope and results of the audit;

– Reports actions and minutes of the AC to the board of directors with such recommendations as the AC considers appropriate; and

– Reviews interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited (SGX-ST)'s Listing Manual.

Directors' Report
— continued

6. AUDIT COMMITTEE (cont'd)

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The AC has also conducted a review of interested person transactions. There was no interested person transaction during the financial year under review.

The AC convened 4 meetings during the financial year with attendance as shown in the Corporate Governance Report. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Corporate Governance Report.

Directors' Report
— continued

7. AUDITORS

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors

Feng Jun
Director

Liu Yujie
Director

Singapore
9 April 2010

Statement by Directors

We, Feng Jun and Liu Yujie, being two of the directors of Asia Water Technology Ltd., do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, consolidated statement of comprehensive income, statements of changes in equity, and consolidated cash flow statement together with notes thereto 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 of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors

Feng Jun
Director

Liu Yujie
Director

Singapore
9 April 2010

Independent Auditor's Report

to the Members of Asia Water Technology Ltd. for the year ended 31 December 2009

We have audited the accompanying financial statements of Asia Water Technology Ltd. (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 34 to 116, which comprise the balance sheets of the Group and the Company as at 31 December 2009, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

Independent Auditor's Report

to the Members of Asia Water Technology Ltd. for the year ended
31 December 2009 — continued

OPINION

In our opinion,

(i) 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 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 and cash flows of the Group and changes in equity of the Group and of the Company for the year ended on that date; and

(ii) the accounting and other records required by the Act to be kept by the Company and by the subsidiary 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 2.1 to the financial statements. The Group incurred losses of RMB 180,510,000 and experienced net cash outflows from operating activities of RMB 76,005,000 during the financial year ended 31 December 2009. At that date, the Group and the Company are in net current liabilities position of RMB 316,081,000 and RMB 284,919,000 respectively.

These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as going concerns. As discussed more fully in Note 2.1 to the financial statements, the ability of the Group and the Company to continue as going concerns is dependent on the continuing financial support from the bankers and the Group's ability to generate sufficient cash flows from its operations.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to provide for further liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. No such adjustments have been made to these financial statements.

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore
9 April 2010

Consolidated Statement of Comprehensive Income

for the financial year ended 31 December 2009

(Amounts expressed in Renminbi)

	Note	Group 2009 RMB'000	Group 2008 RMB'000
Revenue	3	321,889	386,672
Cost of sales		(267,126)	(328,887)
Gross profit		54,763	57,785
Other income	4	8,401	7,699
Selling and distribution expenses		(11,403)	(12,351)
Administrative expenses		(79,703)	(44,412)
(Loss)/profit from operations	5	(27,942)	8,721
Financial income	7	23,224	15,343
Financial expenses	7	(146,465)	(65,628)
Other (expenses)/income	8	(27,331)	20,617
Share of profits of associate		9,977	6,132
Loss before tax		(168,537)	(14,815)
Tax expense	9	(11,973)	(3,118)
Loss for the year		(180,510)	(17,933)
Other comprehensive income:			
Foreign currency translation represents other comprehensive income for the year, net of tax		951	189
Total comprehensive loss for the year		(179,559)	(17,744)
Loss attributable to:			
Owners of the Company		(179,470)	(17,538)
Minority interests		(1,040)	(395)
		(180,510)	(17,933)
Total comprehensive loss attributable to:			
Owners of the Company		(178,519)	(17,349)
Minority interests		(1,040)	(395)
		(179,559)	(17,744)
Loss per share attributable to owners of the Company (RMB cents per share)			
Basic	10	(91.14)	(8.91)
Diluted	10	(91.14)	(8.91)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Balance Sheets

as at 31 December 2009

(Amounts expressed in Renminbi)

	Note	Group			Company	
		31.12.09 RMB'000	31.12.08 RMB'000 (Reclassified) (Note 50)	1.1.08 RMB'000 (Reclassified) (Note 50)	31.12.09 RMB'000	31.12.08 RMB'000
Non-current assets						
Property, plant and equipment	11	45,492	48,971	44,041	88	115
Intangible assets/land use rights	12	476,636	473,814	402,444	–	–
Financial receivables	13	287,613	266,605	122,177	–	–
Investment in subsidiaries	14	–	–	–	446,233	468,411
Investment in associate	15	41,923	42,789	47,700	40,456	40,557
Deferred tax assets	18	255	3,245	–	–	–
Goodwill on consolidation	17	13,592	24,216	36,416	–	–
Retention monies	19	6,118	8,166	3,064	–	–
		871,629	867,806	655,842	486,777	509,083
Current assets						
Inventories, at cost	20	8,353	9,610	6,329	–	–
Work-in-progress in excess of progress billings	21	94,944	55,911	83,450	–	–
Financial receivables	13	4,785	3,456	3,229	–	–
Trade receivables	19	64,831	111,972	179,274	–	1,548
Bills receivables	19	600	–	6,298	–	–
Other receivables	22	67,281	64,265	10,940	200	256
Other current assets	23	3,312	14,057	6,315	–	–
Prepayments	24	71,776	140,627	146,352	227	133
Due from subsidiaries (non-trade)	25	–	–	–	1,150	2,597
Due from associate (trade)	26	44,035	23,570	30,028	–	–
Due from associate (non-trade)	26	76,238	69,595	–	–	–
Available-for-sale financial asset	16	–	–	15,000	–	–
Bank deposits pledged	27	33,185	32,948	20,907	–	–
Cash and cash equivalents	27	81,554	120,991	259,124	1,776	437
		550,894	647,002	767,246	3,353	4,971
Current liabilities						
Trade payables	28	180,521	285,345	243,182	–	–
Other payables and accruals	29	202,773	125,014	130,889	6,092	8,020
Provision	29	300	720	275	–	–
Progress billings in excess of work-in-progress	21	19,197	38,996	57,645	–	–
Due to subsidiaries (non-trade)	30	–	–	–	49,587	21,756
Due to associate (non-trade)	26	–	5,000	–	–	–
Bills payable to banks (secured)	27	33,218	72,692	46,098	–	–
Interest-bearing loans and borrowings	32	422,493	247,795	316,914	232,593	54,833
Derivative financial instrument	31	–	7,307	45,279	–	7,307
Provision for income tax		8,473	6,408	6,920	–	–
		866,975	789,277	847,202	288,272	91,916
Net current liabilities		(316,081)	(142,275)	(79,956)	(284,919)	(86,945)

Balance Sheets

as at 31 December 2009 — continued

(Amounts expressed in Renminbi)

	Note	Group 31.12.09 RMB'000	Group 31.12.08 RMB'000 (Reclassified) (Note 50)	Group 1.1.08 RMB'000 (Reclassified) (Note 50)	Company 31.12.09 RMB'000	Company 31.12.08 RMB'000
Non-current liabilities						
Interest-bearing loans and borrowings	32	323,674	315,888	179,887	–	76,820
Deferred tax liabilities	18	5,738	4,148	655	1,356	1,847
		329,412	320,036	180,542	1,356	78,667
Net assets		226,136	405,495	395,344	200,502	343,471
Equity attributable to owners of the Company						
Share capital	33	204,503	204,503	204,442	204,503	204,503
Warrant reserve	33	1,178	1,178	1,187	1,178	1,178
Equity component of convertible bonds	32	17,461	17,461	17,461	17,461	17,461
Share option reserve	34	12,774	12,774	4,942	12,774	12,774
General reserve	35	33,183	31,216	26,288	–	–
Translation reserve		(4,397)	(5,348)	(5,537)	(20,405)	(19,646)
Accumulated (losses)/profit	36	(70,331)	111,106	143,561	(15,009)	127,201
		194,371	372,890	392,344	200,502	343,471
Minority interests		31,765	32,605	3,000	–	–
Total equity		226,136	405,495	395,344	200,502	343,471

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2009

Amounts expressed in Renminbi)

	Equity, total RMB'000	Equity attributable to owners of the Company, total RMB'000	Attributable to owners of the Company: Share capital RMB'000	Retained earnings / accumu-lated losses RMB'000	Other reserves, total RMB'000	Equity component of Series 1 Senior Bonds RMB'000	General reserves RMB'000	Warrant reserve RMB'000	Share option reserve RMB'000	Trans-lation reserve RMB'000	Minority interests RMB'000
Group											
2009											
Opening balance at 1 January 2009	405,495	372,890	204,503	111,106	57,281	17,461	31,216	1,178	12,774	(5,348)	32,605
Loss for the year	(180,510)	(179,470)	–	(179,470)	–	–	–	–	–	–	(1,040)
Other comprehensive income for the year	951	951	–	–	951	–	–	–	–	951	–
Total comprehensive (loss)/income for the year	(179,559)	(178,519)	–	(179,470)	951	–	–		–	951	(1,040)
Transfer to general reserve	–	–	–	(1,967)	1,967	–	1,967	–	–	–	–
Capital contributions from a minority shareholder in a subsidiary	200	–	–	–	–	–	–	–	–	–	200
Closing balance at 31 December 2009	226,136	194,371	204,503	(70,331)	60,199	17,461	33,183	1,178	12,774	(4,397)	31,765

Statements of Changes in Equity
for the financial year ended 31 December 2009 — **continued**

Amounts expressed in Renminbi)

	Equity, total RMB'000	Equity attributable to owners of the Company, total RMB'000	Share capital RMB'000	Retained earnings / accumu-lated losses RMB'000	Other reserves, total RMB'000	Equity component of Series 1 Senior Bonds RMB'000	General reserves RMB'000	Warrant reserve RMB'000	Share option reserve RMB'000	Trans-lation reserve RMB'000	Minority interests RMB'000
			Attributable to owners of the Company								
Group											
2008											
Opening balance at 1 January 2008	395,344	392,344	204,442	143,561	44,341	17,461	26,288	1,187	4,942	(5,537)	3,000
Loss for the year	(17,933)	(17,538)	–	(17,538)	–	–	–	–	–	–	(395)
Other comprehensive income for the year	189	189	–	–	189	–	–	–	–	189	–
Total comprehensive (loss)/income for the year	(17,744)	(17,349)	–	(17,538)	189	–	–	–	–	189	(395)
Grant of equity-settled share options to employees	7,832	7,832	–	–	7,832	–	–	–	7,832	–	–
Warrant conversion	52	52	61	–	(9)	–	–	(9)	–	–	–
Transfer to general reserve	–	–	–	(4,928)	4,928	–	4,928	–	–	–	–
Dividends on ordinary shares paid (Note 47)	(9,989)	(9,989)	–	(9,989)	–	–	–	–	–	–	–
Capital contributions from a minority shareholder in a subsidiary	30,000	–	–	–	–	–	–	–	–	–	30,000
Closing balance at 31 December 2008	405,495	372,890	204,503	111,106	57,281	17,461	31,216	1,178	12,774	(5,348)	32,605

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2009 — continued

(Amounts expressed in Renminbi)

	Attributable to owners of the Company							
	Equity, total RMB'000	Share capital RMB'000	Retained earnings/ accumulated losses RMB'000	Other reserves, total RMB'000	Equity component of Series 1 Senior Bonds RMB'000	Warrant reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000
Company								
2009								
Opening balance at 1 January 2009	343,471	204,503	127,201	11,767	17,461	1,178	12,774	(19,646)
Loss for the year	(142,210)	–	(142,210)	–	–	–	–	–
Other comprehensive loss for the year	(759)	–	–	(759)	–	–	–	(759)
Total comprehensive loss for the year	(142,969)	–	(142,210)	(759)	–	–	–	(759)
Closing balance at 31 December 2009	200,502	204,503	(15,009)	11,008	17,461	1,178	12,774	(20,405)
2008								
Opening balance at 1 January 2008	348,845	204,442	119,085	25,318	17,461	1,187	4,942	1,728
Profit for the year	18,105	–	18,105	–	–	–	–	–
Other comprehensive loss for the year	(21,374)	–	–	(21,374)	–	–	–	(21,374)
Total comprehensive (loss)/income for the year	(3,269)	–	18,105	(21,374)	–	–	–	(21,374)
Grant of equity-settled share options to employees	7,832	–	–	7,832	–	–	7,832	–
Warrant conversion	52	61	–	(9)	–	(9)	–	–
Dividends on ordinary shares paid (Note 47)	(9,989)	–	(9,989)	–	–	–	–	–
Closing balance at 31 December 2008	343,471	204,503	127,201	11,767	17,461	1,178	12,774	(19,646)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Cash Flow Statement

for the financial year ended 31 December 2009

(Amounts expressed in Renminbi)

	Group	
	2009 RMB'000	2008 RMB'000
Cash flows from operating activities		
Loss before tax	(168,537)	(14,815)
Adjustments:		
Allowance/(write-back) for doubtful receivables (trade)	25,082	(2,166)
Allowance/(write-back) for doubtful receivables (non-trade)	119	(26)
Amortisation of government grant	(90)	(105)
Amortisation of intangible assets	12,900	12,284
Depreciation of property, plant and equipment	4,316	3,838
Fair value gain on derivative financial instrument	(7,293)	(35,617)
Finance expenses	146,465	65,628
Finance income	(23,224)	(15,343)
(Gain)/loss on disposal of property, plant and equipment	(73)	273
Goodwill impairment	10,624	15,000
Intangible assets impairment	24,000	–
Inventories written off	466	–
Share of profit of associate	(9,977)	(6,132)
Share option expense	–	7,832
Unrealised profit arising from sale to/interest income from an associate	10,743	8,388
Translation difference	45	493
Operating cash flows before working capital changes	25,566	39,532
(Increase)/decrease in:		
Inventories	791	(3,281)
Work-in-progress, net	(58,832)	(1,446)
Trade receivables	24,107	64,366
Bills receivables	(600)	6,298
Other receivables, prepayments and other current assets	75,380	(51,713)
Financial receivables	(14,815)	(144,655)
Due from associate (trade)	(20,465)	6,458
Due from associate (non-trade)	(6,643)	(69,595)
Increase/(decrease) in:		
Trade payables	(104,824)	42,163
Other payables and accruals	78,292	(6,462)
Due to associate (non-trade)	(5,000)	5,000
Bills payable to banks	(39,474)	26,594
Cash used in operating activities	(46,517)	(86,741)
Government grant received	90	105
Interest income received	15,702	11,740
Interest expense paid	(40,312)	(57,080)
Income tax paid	(4,968)	(3,222)
Net cash used in operating activities	(76,005)	(135,198)

Consolidated Cash Flow Statement
for the financial year ended 31 December 2009 — continued

(Amounts expressed in Renminbi)

	Group	
	2009 RMB'000	2008 RMB'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,206)	(9,056)
Purchase of intangible assets/land use rights	(39,722)	(73,318)
Additional investment in a subsidiary	–	(2,800)
Proceeds from disposal of property, plant and equipment	1,443	10
Proceeds from disposal of other investment	–	15,000
Net cash used in investing activities	(40,485)	(70,164)
Cash flows from financing activities		
Proceeds from loans and borrowings	367,000	296,000
Repayment of loans and borrowings	(289,910)	(236,793)
Proceeds from warrants exercised	–	52
Increase in deposits pledged to banks	(237)	(12,041)
Dividends paid	–	(9,989)
Capital contribution from minority interest of a subsidiary	200	30,000
Net cash generated from financing activities	77,053	67,229
Net decrease in cash and cash equivalents	(39,437)	(138,133)
Cash and cash equivalents at beginning of year	120,991	259,124
Cash and cash equivalents at end of year	81,554	120,991

Notes to the Financial Statements

for the financial year ended 31 December 2009

1. CORPORATE INFORMATION

The Company is a public limited company, incorporated and domiciled in the Republic of Singapore and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST). As disclosed in Note 48 to the financial statements, the Group completed its restructuring exercise in February 2010. With effect from that date, the Group's penultimate and ultimate holding companies are Triumph Power Limited and S.I. Infrastructure Holdings Limited respectively.

The registered office and principal place of business of the Company is located at 36 Robinson Road, #14-06 City House, Singapore 068877. The principal place of business of the Group is at Building 1, The 2nd Phase of International Enterprise Centre, Special No. 1, The 2nd Guanshan Road, Wuhan East, Lake High-Tech Development Zone, Wuhan, People's Republic of China.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associate are as shown in Notes 14 and 15 to the financial statements respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Fundamental accounting concept

The Group incurred losses of RMB 180,510,000 (2008: RMB 17,933,000) and net cash outflows from operating activities of RMB 76,005,000 (2008: RMB 135,198,000) during the financial year ended 31 December 2009. At that date, the Group and the Company are in net current liabilities positions of RMB 316,081,000 (2008: RMB 142,275,000) and RMB 284,919,000 (2008: RMB 86,945,000) respectively.

As at 31 December 2009, the Group has various short term loans and borrowings of RMB 422,493,000(2008 : RMB 247,795,000) and bills payable of RMB 33,218,000 (2008: RMB 72,692,000). Included in these loans and borrowings is an amount of RMB 232,593,000 due to bondholders which has been settled subsequent to the year end as discussed more fully in Note 48 to the financial statements. As for the remaining loans and borrowings, these have various maturity dates within the financial year ending 31 December 2010. Management is currently in the process of obtaining new bank loans to fund the repayment. In addition, management also intends to seek the renewal of some short term loans amounting to RMB 40,000,000 and the bills payables of RMB 33,218,000 when they fall due.

The matters set out in the paragraphs above indicate the existence of a material uncertainty which may affect the validity of the going concern assumption on which the accompanying financial statements are prepared.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Fundamental accounting concept (cont'd)

The directors are of the view that the use of the going concern assumption is appropriate for the preparation of these financial statements as the directors believe that the Group will be able to continue to obtain financial support from the bankers and that it will be able to generate sufficient cash flows to fund its working capital needs.

If the support from the bankers is not forthcoming, or the Group is unable to generate sufficient cash flows from its operations, the Group and the Company may be unable to continue in operational existence for the foreseeable future. The Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Group and the Company may have to provide for further liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. No such adjustments have been made to the financial statements of the Group or the Company.

2.2 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies below.

The presentation currency of the financial statements is Renminbi ("RMB") as the Group's operations are based in the People's Republic of China. All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated. The functional currency of the Company is United States Dollars ("USD").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2009, the Group and the Company adopted the following standards mandatory for annual financial periods beginning on or after 1 January 2009.

- FRS 1 Presentation of Financial Statements (Revised)
- Amendments to FRS 18 Revenue (Effective on 23 June 2009)
- Amendments to FRS 23 Borrowing Costs
- Amendments to FRS 32 Financial Instruments: Presentation and FRS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to FRS 101 First-time Adoption of Financial Reporting Standards and FRS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 102 Share-based Payment – Vesting Conditions and Cancellations
- Amendments to FRS 107 Financial Instruments: Disclosures – Amendments relating to Reclassification of Financial Assets (Effective for annual periods beginning on or after 1 July 2008)
- Amendments to FRS 107 Financial Instruments: Disclosures – Amendments relating to Improving Disclosures About Financial Instruments
- FRS 108 Operating Segments
- Improvements to FRSs issued in 2008 (Effective on 1 July 2008)
- INT FRS 113 Customer Loyalty Programmes (Effective for annual periods beginning on or after 1 July 2008)
- INT FRS 116 Hedges of a Net Investment in a Foreign Operation (Effective for annual periods beginning on or after 1 October 2008)
- Amendments to INT FRS 109 Reassessment of Embedded Derivatives and FRS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives (Effective for periods ending or after 30 June 2009)
- INT FRS 118 Transfers of Assets from Customers (Effective on 1 July 2009)
- FRS 39 Amendments to Financial Instruments: Recognition and Measurement – Embedded Derivatives (Effective for periods ending on or after 30 June 2009)
- FRS 109 Amendments to Reassessments of Embedded Derivatives (Effective for periods ending on or after 30 June 2009)

Adoption of these standards did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including, in some cases, revisions to accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.3 *Changes in accounting policies* (cont'd)

The principal effects of these changes are as follows:

FRS 1 Presentation of Financial Statements – Revised presentation

The revised FRS 1 separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented in the statement of other comprehensive income. In addition, the Standard introduces the statement of comprehensive income which presents income and expense recognised in the period. This statement may be presented in one single statement, or two linked statements. The Group has elected to present this statement as one single statement.

Amendments to FRS 107 Financial Instruments: Disclosures

The amendments to FRS 107 require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures and liquidity risk disclosures are presented in Note 45 and Note 44 to the financial statements respectively.

FRS 108 Operating Segments

FRS 108 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. The Group determined that the reportable operating segments are the same as the business segments previously identified under FRS 14 Segment Reporting. It has no significant impact on the Group's financial performance or position. Additional disclosures about each of the segments are shown in Note 41, including revised comparative information.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to FRS 27 Consolidated and Separate Financial Statements	1 July 2009
Amendments to FRS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Item	1 July 2009
Revised FRS 103 Business Combinations	1 July 2009
Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations	1 July 2009
INT FRS 117 Distributions of Non-cash Assets to Owners	1 July 2009
Amendments to FRS 101 Additional Exemption for First time Adopters	1 January 2010
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Revised FRS 24 Related Party Disclosures	1 January 2011
Amendments to INT FRS 114 Prepayment of a minimum Funding Requirement	1 January 2011
INT FRS 117 Distributions of Non-cash Assets to Owners	1 July 2009
Improvements to FRSs issued in 2009:	
– Amendments to FRS 38 Intangible Assets	1 July 2009
– Amendments to FRS 102 Share-based Payment	1 July 2009
– Amendments to INT FRS 109 Reassessment of Embedded Derivatives	1 July 2009
– Amendments to INT FRS 116 Hedges of a Net Investment in a Foreign Operation	1 July 2009
– Amendments to FRS 1 Presentation of Financial Statements	1 January 2010
– Amendments to FRS 7 Statement of Cash Flows	1 January 2010
– Amendments to FRS 17 Leases	1 January 2010
– Amendments to FRS 36 Impairment of Assets	1 January 2010
– FRS 39 Financial Instruments: Recognition and Measurement	1 January 2010
– Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
– Amendments to FRS 108 Operating Segments	1 January 2010
– Amendments to FRS 102 Share-based Payment – Amendment relating to Group Cash-settled Share-based Payment Transactions	1 January 2010
– Amendments to FRS 32 Financial Instruments: Disclosure and Presentation – Amendment relating to Classification of Right Issues	1 February 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 *Standards issued but not yet effective* (cont'd)

Except for the revised FRS 103 and the amendments to FRS 27, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 103 and the amendments to FRS 27 are described below.

Revised FRS 103 Business Combinations and Amendments to FRS 27 Consolidated and Separate Financial Statements

The revised standards are effective for annual periods beginning on or after 1 July 2009. The revised FRS 103 introduces a number of changes in the accounting for business combinations occurring after 1 July 2009. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The Amendments to FRS 27 require that a change in the ownership interest of a subsidiary (without loss of control) be accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to FRS 7 Statement of Cash Flows, FRS 12 Income Taxes, FRS 21 The Effects of Changes in Foreign Exchange Rates, FRS 28 Investments in Associates and FRS 31 Interests in Joint Ventures. The changes from revised FRS 103 and Amendments to FRS 27 will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the Group does not intend to early adopt.

2.5 *Significant accounting judgements and estimates*

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(a) *Judgements made in applying accounting policies*

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

(i) Revenue recognition

Revenue recognition of the Group involves the application of judgement to the following:

(i) the determination of percentage of completion of construction contracts; and

(ii) the allocation of consideration received under service concession arrangements to the various components (construction revenue, operating income and financial income) by reference to their relative fair values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Significant accounting judgements and estimates (cont'd)

(a) Judgements made in applying accounting policies (cont'd)

The Group has recognised revenue amounting to RMB 148,605,000 (2008: RMB 161,101,000) and RMB 153,070,000 (2008: RMB 193,747,000) for construction contracts and service concession arrangements respectively during the financial year.

(ii) Impairment of loans and receivables

During the financial year, the Group made an allowance for impairment receivables amounting to RMB 28,257,000 (2008: RMB 4,172,000). Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, default or significant delay in payments are considered objective evidence of impairment. In determining this, management exercises judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect of technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes an assessment as to whether any impairment loss should be recorded. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables. The carrying amount of the Group's loans and receivables at the balance sheet date is disclosed in Note 39 to the financial statements.

(iii) Incomes taxes

The Group has exposure to income taxes in Singapore and PRC. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payables, deferred tax liabilities and deferred tax assets at 31 December 2009 was RMB 8,473,000 (2008: RMB 6,408,000), RMB 5,738,000 (2008: RMB 4,148,000) and RMB 255,000 (2008: RMB 3,245,000) respectively.

(iv) Fair value estimation on derivative financial instrument

Derivative financial instrument relates to fair value changes in embedded equity conversion option on Series 1 Junior Bonds and is stated at fair value through the statement of comprehensive income.

On 7 September 2009, the bondholders have demanded immediate repayment of the outstanding debts of Series 1 Senior Bond and Series 1 Junior Bonds (including all interest and all redemption premiums). On 4 December 2009, the Company entered into a Settlement Agreement with the bondholders to repay an aggregate sum of US$27.5 million in cash and US$2.0 million in the form of new convertible bonds.

With the finalisation of the Settlement Agreement, management is of the view that the bondholders' intention is to settle/recover the outstanding debts in cash and issuance of new convertible bonds. Accordingly, based on management's judgement, the fair value of the embedded equity conversion option on Series 1 Junior Bonds as at 31 December 2009 was assessed to be zero.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 *Significant accounting judgements and estimates* (cont'd)

(b) Key source of estimation uncertainty

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

(i) Construction contracts

The Group recognises contract revenue to the extent of contract costs incurred where it is probable those costs will be recoverable and based on the percentage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total revenue and estimated total contract cost, as well as the recoverability of the contract costs incurred. Total contract revenue may include an estimation of the variation works recoverable from the customers. In making the judgement, management relies on its past experience.

The stage of completion of each construction contract is assessed on a cumulative basis in each accounting year. Changes in estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract could impact the amount of revenue and expense recognised in the statement of comprehensive income in the year in which the change is made and in subsequent years. Such impact could potentially be significant.

The Group has recognised revenue amounting to RMB 148,605,000 (2008: RMB 161,101,000) for construction contracts during the financial year.

(ii) Service concession arrangements

Where the Group performs more than one service under the concession arrangements, the consideration for the services provided under the concession arrangements is allocated to the components by reference to their relative fair values. Construction revenue is recognised based on the percentage of completion method during the construction phase (see Note 2.5 (b)(i)).

Judgement is exercised in determining the fair values of the financial receivables as well as impairment of the financial receivables and intangible assets subsequent to initial recognition. Discount rates, estimates of future cash flows and other factors are used in the determination of the amortised cost of financial asset and corresponding financial income during the operation phase. The residual consideration is recognised as operating income. The assumptions used and estimates made can materially affect the fair value estimates. The carrying amount of the Group's financial receivables and intangible assets arising from service concession arrangements at the balance sheet date is disclosed in Note 13 and Note 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Significant accounting judgements and estimates (cont'd)

(b) Key source of estimation uncertainty (cont'd)

(iii) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the key assumptions applied in the impairment assessment of goodwill, are given in Note 17 to the financial statements.

(iv) Deferred tax assets

Deferred tax assets are recognised on provisions and differences in depreciation for tax purposes to the extent that it is probable that taxable profit and/or temporary differences will be available against which the deferred tax assets can be utilised. The Group has recognised deferred tax assets amounting to RMB 255,000 (2008: RMB 3,245,000) for the financial year ended 31 December 2009.

2.6 Functional and foreign currency

(a) Functional currency

The management has determined the currency of the primary economic environment in which the Company, the Singapore subsidiary and the PRC subsidiaries operate i.e. functional currency, to be USD, SGD and RMB respectively. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in the respective functional currencies of the Company and its subsidiaries.

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the statement of comprehensive income except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to consolidated statement of comprehensive income on disposal of the foreign operation.

Notes to the Financial Statements
for the financial year ended 31 December 2009 — **continued**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.6 Functional and foreign currency (cont'd)

(c) Foreign currency translation

For the purpose of the presentation of financial statements, assets and liabilities of the Company and the Singapore subsidiary are translated into RMB at the exchange rate ruling at balance sheet date while share capital and reserves are translated at the historical rate of exchange. Revenues and expenses are translated at the average exchange rates for the year, which approximate the exchange rates at the dates of transactions. The exchange differences arising on the translation are taken directly to other comprehensive income.

On disposal of the Singapore subsidiary, the cumulative amount recognised in other comprehensive income relating to the Singapore subsidiary is recognised in the statement of comprehensive income.

2.7 Subsidiaries and basis of consolidation

(a) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

(b) Basis of consolidation

The consolidated financial statements comprise of the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. Any excess of the cost of the business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the balance sheet. The goodwill is accounted for in accordance with the accounting policy for goodwill stated in Note 2.10(a). Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in the statement of comprehensive income on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.7 Subsidiaries and basis of consolidation (cont'd)

(b) Basis of consolidation (cont'd)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Consolidation of the subsidiaries in the PRC is based on the subsidiaries' financial statements prepared in accordance with FRS. Profits reflected in the financial statements prepared in accordance with FRS may differ from those reflected in the PRC statutory financial statements of the subsidiaries, prepared for PRC reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements.

(c) Transactions with minority interests

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separate from parent shareholders' equity. Transactions with minority interests are accounted for using the entity concept method, whereby, transactions with minority interests are accounted for as transactions with owners. On acquisition of minority interests, the difference between the consideration and book value of the share of the net assets acquired is recognised in goodwill. Gain or loss on disposal to minority interests is recognised in statement of comprehensive income.

2.8 Associate

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investment in associate is accounted for using the equity method. Under the equity method, the investment in associate is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the profit or loss of the associate is recognised in the statement of comprehensive income. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

Goodwill relating to an associate is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is deducted from the carrying amount of the investment and is recognised as income as part of the Group's share of results of the associate in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in the associate. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of comprehensive income.

Notes to the Financial Statements
for the financial year ended 31 December 2009 — **continued**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Associate (cont'd)

The management accounts of the associate, prepared in accordance with FRS for the financial year, are used by the Group in applying the equity method. Consistent accounting policies are applied for like transactions and events in similar circumstances.

In the Company's separate financial statements, investment in associate is accounted for at cost less impairment losses.

2.9 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation respectively. Likewise, when a merger inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statment of comprehensive income as incurred.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis to write off the cost of property, plant and equipment less estimated residual value over the estimated useful lives of the assets as follows:

		Years
Water treatment plants and equipment	–	10 – 20
Furniture and fittings	–	5
Office equipment	–	5
Motor vehicles	–	5
Electronic equipment	–	5
Leasehold buildings and improvement	–	20

Assets under construction included in property, plant and equipment are not depreciated as these assets are not available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful lives and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate, to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Intangible assets

(a) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the allocated goodwill, with the recoverable amount of the unit. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised in the statement of comprehensive income. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.6.

(b) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected patterns of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income through the 'Administrative expenses' line item.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Intangible assets (cont'd)

(b) Other intangible assets (cont'd)

(i) Concession rights

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge users of the public for usage of the service or concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. The fair value includes cost of construction of the infrastructure and capitalised borrowing costs. Subsequent to initial recognition, it is stated at fair value less accumulated amortisation and accumulated impairment losses. Concession rights are amortised in the statement of comprehensive income on a straight-line basis over the operation phase of the concession periods ranging from 25 years to 50 years.

(ii) Patent & licensing rights

Costs which relate to purchase of patent and licensing rights for stepped resin separation system, non-metal integrated air-liquid separation facility and wastewater treatment technology, are capitalised and amortised on a straight-line basis over 10 years. They are assessed for impairment whenever there is an indication that the patent and licensing rights may be impaired.

(iii) Computer software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised using the straight-line method over their estimated useful lives of 5 years.

(iv) Research Costs

Reseach costs are expensed as incurred.

2.11 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. They are amortised on a straight-line basis over the lease terms of 20 to 50 years.

2.12 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognised in the statement of comprehensive income through the 'Administrative expenses' line item.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.12 Impairment of non-financial assets (cont'd)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.13 Financial assets

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised in other comprehensive income is recognised in the statement of comprehensive income.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(a) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognised at fair values, plus directly attributable transaction costs. Subsequent to initial recognition, such assets are measured at amortised cost using the effective interest method, less impairment losses. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Group classifies the following financial assets as loans and receivables:

- cash and bank balances
- bills receivables
- financial receivables
- trade and other receivables, including retention monies, balances due from subsidiaries and associate

They are included in current assets, except those with maturities later than 12 months after the balance sheet date which are classified as non-current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.13 Financial assets (cont'd)

(b) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as not classified in any of the other categories of financial assets. After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised directly in the other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in the statement of comprehensive income. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment loss.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise unpledged bank deposits and cash and bank balances. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and short-term deposits carried in the balance sheets are classified and accounted for as loans and receivables. The accounting policy for this category of financial assets is stated in Note 2.13.

2.15 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

(a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the statement of comprehensive income.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying amount of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtors and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.15 Impairment of financial assets (cont'd)

(b) Assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on a financial asset carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals of impairment loss in respect of equity instruments are not recognised in the statement of comprehensive income. Reversals of impairment losses on debt instruments are recognised in the statement of comprehensive income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

2.16 Inventories

Inventories are valued at the lower of cost and net realisable value.

Inventories comprise materials and components which are accounted for using purchase costs on a specific identification basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying values of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.17 Work-in-progress

Work-in-progress is recorded at cost plus attributable profit, net of progress billings and allowance for foreseeable losses, and is presented in the balance sheet as a current asset under "work-in-progress in excess of progress billings" or as a current liability under "progress billings in excess of work-in-progress", as applicable.

Costs include all direct materials, labour costs and those indirect costs incurred in connection with the projects.

Provision for foreseeable losses on a contract is provided for in the year in which such losses are determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.18 Construction contracts

Contract revenue and contract costs (including variation orders) are recognised as revenue and expenses respectively, by reference to the stage of completion of the contract activity at the balance sheet date, when the outcome of a construction contract can be estimated reliably. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable and contract costs are recognised as expense in the period in which they are incurred. An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

The stage of completion is determined by reference to the proportion of contract costs incurred for work performed to date bear to the estimated total contract costs. Costs incurred during the financial year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contracts work-in-progress on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case such costs are recognised as an expense immediately.

Retention monies are recognised in the statement of comprehensive income as and when revenue is recognised for work done based on the stage of completion method.

2.19 Financial liabilities

Financial liabilities within the scope of FRS 39 are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, derivatives are measured at fair value. Other financial liabilities (except for financial guarantees) are measured at amortised cost using the effective interest method.

For financial liabilities other than derivatives, gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in fair value of derivatives are recognised in the statement of comprehensive income. Net gains or losses on derivatives include exchange differences.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.20 Interest-bearing loans and borrowings

(a) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

(b) Loans – Series 1 Senior Bonds with detachable warrants

The component of loans that exhibits characteristics of a liability is recognised as a liability on the balance sheet, net of transaction costs. On the drawdown of loans, the fair value of the liability component is determined using a market rate for an equivalent loan without detachable warrants. This amount is subsequently carried at the amortised cost using the effective interest method until extinguished on redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent periods. When the conversion option is exercised, its carrying amount will be transferred to share capital account. When the conversion option lapses, its carrying amount will be transferred to retained earnings.

Transaction costs are apportioned between the liability and equity components of the loans based on the allocation of proceeds to the liability and equity components when the instruments were first recognised.

(c) Convertible bonds – Series 1 Junior Bonds

The equity conversion option of convertible bonds exhibits characteristics of an embedded derivative and is separated from its liability component. On initial recognition, the embedded equity conversion option is measured at its fair value and presented as part of derivative financial instruments. The difference between total proceeds and the fair value of the equity conversion option is recognised as the liability component.

The equity conversion option is subsequently carried at its fair value with fair value changes recognised in the statement of comprehensive income. The liability component is carried at amortised cost until the liability is extinguished on conversion or redemption.

When an equity conversion option is exercised, the carrying amounts of the liability components and the equity conversion option are derecognised with a corresponding recognition of share capital.

2.21 Borrowings costs

Borrowing costs are capitalised as part of the cost of qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use.

Notes to the Financial Statements
for the financial year ended 31 December 2009 — **continued**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.22 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.23 Employee benefits

(a) Pensions and other post employment benefits

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

<u>Singapore</u>

The Company makes contributions to the Central Provident Fund ("CPF") Scheme in Singapore, a defined contribution pension scheme.

<u>PRC</u>

The subsidiaries in the PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Contributions to national pension schemes are recognised as an expense in the period in which the related services are performed.

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to the employees. The estimated liability for leave is recognised as a result of services rendered by employees up to the balance sheet date.

(c) Employee share option scheme

Employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in the statement of comprehensive income, with a corresponding increase in the share option reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to the statement of comprehensive income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.23 Employee benefits (cont'd)

(c) Employee share option scheme (cont'd)

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. The share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the share option reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares.

2.24 Operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.25 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(a) Construction contracts

The accounting policy for recognising construction contract revenue is stated in Note 2.18.

(b) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(c) Revenue from concession arrangements

In respect of revenue from the concession arrangements for water treatment plants, revenue from construction is recognised in accordance with Note 2.25 (a).

When the Group receives a payment during the operation phase of the Concession Period, it will apportion such payment between

(i) a repayment of the financial receivable, which will be used to reduce the carrying amount of the financial receivable on its balance sheet;

(ii) interest income, which will be recognised as finance income in its statement of comprehensive income; and

(iii) revenue from operating and maintaining the plants in its statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Revenue (cont'd)

(d) Interest income

Interest income is recognised using the effective interest method.

(e) Dividend income

Dividend income is recognised when the Group's or the Company's right to receive payment is established.

2.26 Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. Where the grant relates to an expense item, it is recognised in the statement of comprehensive income on a systematic basis over the periods in which the related costs, for which the grants are intended to compensate, are recognised as expenses. Grants related to income are presented in statement of comprehensive income through the 'Other Income' line item. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to the statement of comprehensive income over expected useful life of the relevant asset by equal annual instalments.

2.27 Income taxes

(a) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

The taxes are recognised in the statement of comprehensive income except to the extent that the tax relates to items recognised outside statement of comprehensive income, either in other comprehensive income or directly in equity.

(b) Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.27 Income taxes (cont'd)

(b) Deferred tax (cont'd)

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

– where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised outside statement of comprehensive income is recognised outside the statement of comprehensive income. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(c) Value added tax ("VAT") and Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

– where the VAT/GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

– receivables and payables that are stated with the amount of VAT/GST included.

The net amount of VAT/GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.28 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services. Information of these segments are reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of the segment performance. Additional disclosures on each of these segments are shown in Note 41, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.29 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.30 Treasury shares

When shares recognised as equity are reacquired, the amount of consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as a deduction from total equity. No gain or loss is recognised in statement of comprehensive income on the purchase, sale, issue or cancellation of treasury shares.

2.31 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group.

2.32 Service concession arrangements

The Group recognises revenue from the construction and upgrading of the infrastructure in accordance with its accounting policy for construction contracts set out in Note 2.18. Where the Group performs more than one service under the arrangement, consideration received or receivable are allocated to the components by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

The Group recognises the consideration received or receivable as a financial asset to the extent that it has an unconditional right to receive cash or another financial asset for the construction services. Financial assets are accounted for in accordance with the accounting policy set out in Note 2.13(a).

The Group recognises the consideration receivable as an intangible asset to the extent that it receives a right to charge users of the public service. Intangible assets are accounted for in accordance with the accounting policy set out in Note 2.10(b).

Subsequent costs and expenditures related to infrastructure and equipment arising from the Group's commitments to the concession contracts or that increase future revenue is recognised as additions to the intangible assets and are stated at cost. Capital expenditures necessary to support the Group's operation as a whole are recognised as property, plant and equipment and accounted for in accordance with the policy set out in Note 2.9. When the Group has contractual obligations that it must fulfill as a condition of its license to: a) maintain the infrastructure to a specified standard or, b) to restore the infrastructure when the infrastructure has deteriorated below a specified condition, it recognises and measures these contractual obligations in accordance with the accounting policy set out in Note 2.22. Repair and maintenance and other expenses that are routine in nature are expensed and recognised in the statement of comprehensive income as incurred.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

3. REVENUE

	Group	
	2009 **RMB'000**	**2008** **RMB'000**
Construction revenue	148,605	161,101
Sale of goods	1,733	11,661
Operating income	18,481	20,163
Service concession revenue (Note 49)	153,070	193,747
	321,889	386,672

4. OTHER INCOME

	Group	
	2009 **RMB'000**	**2008** **RMB'000**
Amortisation of government grant	90	105
Installation of water meters and repair and maintenance work	6,001	4,755
Tax incentive arising from re-investment of subsidiaries' dividend	–	1,164
Compensation from the relevant PRC authorities in respect of early completion of certain water treatment plants and environmental checks (2008: in respect of early completion of certain water treatment plants and damages caused by snow storm)	1,499	756
Other income	811	919
	8,401	7,699

Notes to the Financial Statements
for the financial year ended 31 December 2009 — continued

5. (LOSS)/PROFIT FROM OPERATIONS

This is determined after charging/(crediting) the following and the items in Note 4:

	Group	
	2009 RMB'000	2008 RMB'000
Amortisation of intangible assets	12,900	12,284
Non-audit fees		
- auditors of the Company	417	598
Directors' fees	1,116	990
Directors' remuneration		
- of the Company	1,134	6,454
- of the subsidiaries	4,192	6,358
Depreciation of property, plant and equipment	4,316	3,838
(Gain)/loss on disposal of property, plant and equipment	(73)	273
Foreign exchange loss/(gain), net	61	(5,604)
Operating lease expenses	1,520	1,017
Personnel expenses (Note 6) *	44,916	42,890
Allowance for doubtful receivables (trade)	28,132	4,142
Allowance for doubtful receivables (non-trade)	125	30
Write-back of allowance for doubtful receivables (trade)	(3,050)	(6,308)
Write-back of allowance for doubtful receivables (non-trade)	(6)	(56)
Warranty expenses	14	976
Research expenses	242	395
Inventories written off	466	–

* This includes amounts shown as directors' remuneration and remuneration of key management personnel in Note 38.

6. PERSONNEL EXPENSES

	Group	
	2009 RMB'000	2008 RMB'000
Wages, salaries and bonuses	35,906	30,089
Pension contribution	7,994	3,370
Share option expense	–	7,832
Other personnel expenses	1,016	1,599
	44,916	42,890

Share option expense arises from the grant of equity-settled share options to directors, executives and employees of the Group (Note 37).

Notes to the Financial Statements
for the financial year ended 31 December 2009 — continued

7. FINANCIAL INCOME/(EXPENSES)

	Group	
	2009 RMB'000	2008 RMB'000
Interest income		
- bank balances	1,345	1,942
- loan to associate	2,028	522
- finance income from service concession arrangements	19,585	12,879
- amortisation of retention monies	244	–
- others	22	–
	23,224	15,343
Interest expense		
- interest-bearing loans and borrowings	(57,619)	(65,547)
- amortisation of other receivables/retention monies	(1,081)	(40)
- unamortised cost and redemption premium of Series 1 Senior Bonds and Series 1 Junior Bonds	(87,699)	–
- others	(66)	(41)
	(146,465)	(65,628)

On 7 September 2009, the bondholders of Series 1 Senior Bonds and Series 1 Junior Bonds have demanded for immediate repayment of all principal sums that are outstanding (including all interest and redemption premium). Accordingly, the unamortised cost (over the remaining term of the bonds) and redemption premium are charged to the statement of comprehensive income as these sums have become due and payable as at 31 December 2009.

8. OTHER (EXPENSES)/INCOME

	Group	
	2009 RMB'000	2008 RMB'000
Fair value gain – derivative instrument	7,293	35,617
Impairment loss on goodwill on consolidation	(10,624)	(15,000)
Impairment loss on intangible assets	(24,000)	–
	(27,331)	20,617

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

9. TAX EXPENSE

	Group	
	2009 RMB'000	2008 RMB'000
Current tax		
- current year	7,074	5,936
- over provision in respect of prior year	(172)	(3,078)
Deferred tax		
- current year	2,653	1,948
- under/(over) provision in respect of prior year	2,418	(1,688)
Income tax expense recognised in the statement of comprehensive income	11,973	3,118

A reconciliation between tax expense and the product of loss before tax multiplied by the applicable tax rate for the years ended 31 December 2009 and 2008 is as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Loss before tax	(168,537)	(14,815)
Tax at the domestic rates applicable to profits of entities in the Group in the countries where the Group operates [1]	(28,395)	(7,418)
Adjustments:		
Tax effect of expenses not deductible for tax purposes	32,056	10,322
Income not subject to taxation	(11,192)	(1,814)
Benefits from previously unrecognised tax losses	(585)	-
Under/(Over) provision in respect of prior year	2,246	(4,766)
Deferred tax asset not recognised	17,848	6,989
Others	(5)	(195)
Income tax expense recognised in the statement of comprehensive income	11,973	3,118

[1] The reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

The corporate income tax rate applicable to the Company and Asia Water Investments Pte. Ltd. ("AWI") was reduced to 17% for the year of assessment 2010 onwards from 18% for the year of assessment of 2009.

Wuhan Kaidi Water Services Co., Ltd. ("Kaidi Water") has obtained approval as a High New Technology Enterprise under the new tax regime and is entitled to a reduced tax rate of 15% in respect of the financial year ended 31 December 2009 {2008 : 15%).

9. TAX EXPENSE (cont'd)

Wuhan Kaidi Water Project and Engineering Co., Ltd ("Wuhan Kaidi Engineering"), Wuhan Kaidi Water Technology Co., Ltd ("Wuhan Kaidi Technology") and Bengbu Xinya Water Services Co., Ltd ("Bengbu Xinya") enjoyed full exemption from taxation for the first two years and a 50% relief from the tax rate of 25% for the next three years thereafter. Wuhan Kaidi Engineering and Wuhan Kaidi Technology were in their first profitable year for the year ended 31 December 2007 with the applicable tax rate for the year ended 31 December 2009 at 12.5% (2008: 0%). Bengbu Xinya was in its first profitable year for the year ended 31 December 2006 with the tax rate at 12.5% for the year ended 31 December 2009 (2008: 12.5%)

Other PRC subsidiaries are subjected to tax rate of 25%.

Unrecognised tax losses

At the balance sheet date, the Group has tax losses of approximately RMB 121,812,000 (2008: RMB 60,388,000) that is available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

10. LOSS PER SHARE

Basic loss per share amounts are calculated by dividing the Group's loss for the year that is attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the Group's loss for the year that is attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.

The following table reflects the statement of comprehensive income and share data used in the computation of basic and diluted loss per share for the years ended 31 December:

	Group	
	2009	2008
Loss for the year attributable to owners of the Company used in computation of basic and diluted loss per share (RMB '000)	(179,470)	(17,538)
Weighted average number of ordinary shares for basic and diluted loss per share computation	196,918,959	196,908,709

16,143 warrants (2008: Nil warrant) of 2005 Warrants have been exercised since the end of the financial year ended 31 December 2009 to the date of the report.

The convertible bonds, warrants and share options have an anti-dilutive effect on the basic loss per share for the year and were not taken into account in the calculation of diluted loss per share. Accordingly, diluted loss per share is the same as basic loss per share.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

11. PROPERTY, PLANT AND EQUIPMENT

	Water treatment plants and equipment RMB'000	Furniture and fittings RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold buildings and improvement RMB'000	Construction in-progress RMB'000	Total RMB'000
Group								
Cost								
At 1.1.2007	3,905	911	3,343	3,454	154	1,687	7,171	20,625
Arising from acquisition of a subsidiary	–	–	134	451	–	–	–	585
Additions	–	26	2,960	1,490	84	25,324	664	30,548
Disposals	–	–	–	(48)	–	(830)	–	(878)
Reclassification	–	–	–	–	–	7,171	(7,171)	–
At 31.12.2007 and 1.1.2008	3,905	937	6,437	5,347	238	33,352	664	50,880
Additions	4,579	–	254	2,693	11	1,519	–	9,056
Disposals	–	(400)	–	(48)	(74)	–	–	(522)
Reclassification	664	–	–	–	–	–	(664)	–
At 31.12.2008 and 1.1.2009	9,148	537	6,691	7,992	175	34,871	–	59,414
Additions	467	–	553	1,123	–	63	–	2,206
Disposals	–	–	–	(1,319)	(14)	(1,184)	–	(2,517)
Exchange differences	–	–	–	–	(1)	–	–	(1)
At 31.12.2009	9,615	537	7,244	7,796	160	33,750	–	59,102

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Water treatment plants and equipment RMB'000	Furniture and fittings RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold buildings and improvement RMB'000	Construction in-progress RMB'000	Total RMB'000
Group (cont'd)								
Accumulated depreciation								
At 1.1.2007	308	559	2,034	1,424	67	63	–	4,455
Arising from acquisition of a subsidiary	–	–	38	184	–	–	–	222
Depreciation charge for the year	225	93	255	1,065	41	502	–	2,181
Disposals	–	–	–	(24)	–	–	–	(24)
Exchange differences	–	–	–	–	5	–	–	5
At 31.12.2007 and 1.1.2008	533	652	2,327	2,649	113	565	–	6,839
Depreciation charge for the year	371	39	624	1,180	38	1,586	–	3,838
Disposals	–	(182)	–	(13)	(44)	–	–	(239)
Exchange differences	–	3	–	–	2	–	–	5
At 31.12.2008 and 1.1.2009	904	512	2,951	3,816	109	2,151	–	10,443
Depreciation charge for the year	551	–	916	1,280	22	1,547	–	4,316
Disposals	–	–	–	(1,133)	(14)	–	–	(1,147)
Exchange differences	–	–	–	–	(2)	–	–	(2)
At 31.12.2009	1,455	512	3,867	3,963	115	3,698	–	13,610
Net carrying amount								
At 31.12.2009	8,160	25	3,377	3,833	45	30,052	–	45,492
At 31.12.2008 (re-classified)	8,244	25	3,740	4,176	66	32,720	–	48,971
At 31.12.2007 (re-classified)	3,372	285	4,110	2,698	125	32,787	664	44,041

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Furniture and fittings RMB'000	Electronic equipment RMB'000	Leasehold buildings and improvement RMB'000	Total RMB'000
Company				
Cost				
At 1.1.2008	301	182	–	483
Additions	–	9	98	107
Disposals	(301)	(84)	–	(385)
At 31.12.2008 and 1.1.2009	–	107	98	205
Disposals	–	(14)	–	(14)
Exchange differences	–	(1)	–	(1)
At 31.12.2009	–	92	98	190
Accumulated depreciation				
At 1.1.2008	116	106	–	222
Charge for the year	–	24	11	35
Disposals	(119)	(53)	–	(172)
Exchange differences	3	2	–	5
At 31.12.2008 and 1.1.2009	–	79	11	90
Charge for the year	–	8	20	28
Disposals	–	(14)	–	(14)
Exchange differences	–	(2)	–	(2)
At 31.12.2009	–	71	31	102
Net carrying amount				
At 31.12.2009	–	21	67	88
At 31.12.2008	–	28	87	115

Construction-in-progress of the Group comprises of costs incurred in the course of constructing a leasehold building and tap water plant.

Carrying amount of fully depreciated assets

The gross carrying amount of fully depreciated property, plant and equipment that is still in use amounted to RMB 4,944,000 (2008: RMB 2,922,000).

Assets pledged as security

The Group's leasehold building with a carrying amount of RMB 27,889,000 (2008: RMB 30,529,000) is mortgaged to secure the Group's bank loans (Note 32).

Notes to the Financial Statements
for the financial year ended 31 December 2009 — continued

12. INTANGIBLE ASSETS/LAND USE RIGHTS

	Concession rights RMB'000	Land use rights RMB'000	Patent & licensing rights RMB'000	Computer software RMB'000	Total RMB'000
Group					
Cost					
At 1.1.2007	187,727	5,313	33	–	193,073
Arising from acquisition of a subsidiary	–	–	2,409	–	2,409
Additions	207,149	6,200	2,227	–	215,576
At 31.12.2007 and 1.1.2008	394,876	11,513	4,669	–	411,058
Additions	71,114	12	112	2,080	73,318
Reclassification	10,336	–	–	–	10,336
At 31.12.2008 and 1.1.2009	476,326	11,525	4,781	2,080	494,712
Additions	39,218	230	–	274	39,722
At 31.12.2009	515,544	11,755	4,781	2,354	534,434
Accumulated amortisation and impairment					
At 1.1.2007	1,980	28	8	–	2,016
Arising from acquisition of a subsidiary	–	–	321	–	321
Amortisation for the year	5,632	461	184	–	6,277
At 31.12.2007 and 1.1.2008	7,612	489	513	–	8,614
Amortisation for the year	10,590	445	479	770	12,284
At 31.12.2008 and 1.1.2009	18,202	934	992	770	20,898
Amortisation for the year	11,620	372	478	430	12,900
Impairment	24,000	–	–	–	24,000
At 31.12.2009	53,822	1,306	1,470	1,200	57,798
Net carrying amount					
At 31.12.2009	461,722	10,449	3,311	1,154	476,636
At 31.12.2008 (reclassified)	458,124	10,591	3,789	1,310	473,814
At 31.12.2007 (reclassified)	387,264	11,024	4,156	–	402,444
Average remaining amortisation					
At 31.12.2009 (years)	20 – 46	16 – 47	6 – 8	3 - 4	
At 31.12.2008 (years)	21 – 47	17 – 48	7 – 9	4	
At 31.12.2007 (years)	22 – 48	18 – 49	8 – 10	–	

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

12. INTANGIBLE ASSETS/LAND USE RIGHTS (cont'd)

Reclassification

During the financial year ended 31 December 2008, the Group entered into a supplementary arrangement ("BOT agreement") with the Wuhan City municipal government to amend certain terms and conditions of the Build-Transfer (BT) project previously entered into in respect of construction of a water treatment plant. The effects of the amendments resulted in the reclassification of work-in-progress of RMB 10,336,000 to intangible asset in accordance with INT FRS 112.

Assets pledged as security

The Group's concession rights, land use rights and patent & licensing rights with carrying value of RMB 390,768,000 (2008: RMB 153,129,000) are mortgaged to secure the Group's bank loans (Note 32).

Capitalisation of borrowing costs

The Group's concession rights include borrowing costs arising from bank loans borrowed specifically for the construction of a plant. During the financial year, the borrowing costs capitalised as cost of concession rights amounted to RMB Nil (2008: RMB 2,253,000).

Impairment

During the financial year, the Group recognised an impairment loss of RMB 24,000,000 (2008: Nil) in respect of the carrying amount of intangible asset of one of its water plants in the PRC. Management has assessed that the government's policy to shut down the self-owned wells is not expected to materialise at a rate as previously anticipated. This has affected the rate at which consumers are switching to obtaining water from the subsidiary's water plant, thus affecting the revenue and profits forecast in respect of this water plant over its concession period and consequently, the recoverable amount of the intangible asset relating to this water plant.

The recoverable amount of the water plant has been determined based on value in use calculation using cash flow projection from financial budgets approved by management covering the remaining concession period of the water plant. The recoverable amount was determined by discounting the future cash flows to be generated from the plant and a pre-tax discount rate of 12.0% (2008: 13.0%). The plant is expected to achieve its full capacity utilisation rate from financial year ended 31 December 2025 (2008: financial year ended 31 December 2016). The discounted rate applied to the cash flow projection is derived from the borrowing rate plus a reasonable risk premium.

Management has considered and determined the factors applied in the financial budgeted for margins and average growth rates. The budgeted gross margins are based on past performance and its expectation of market developments for the location for which the water plant operates.

13. FINANCIAL RECEIVABLES

	Group	
	2009 RMB'000	2008 RMB'000
Current	4,785	3,456
Non-current	287,613	266,605
	292,398	270,061

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

13. FINANCIAL RECEIVABLES (cont'd)

The Group has concession arrangements with the various governing bodies or agencies of the government of the People's Republic of China (the "grantor") to operate wastewater treatment plants. Under the concession agreements, the Group will construct and operate the plants for Concession Periods of between 20 to 50 years and transfer the plants to the grantors at the end of the Concession Periods. Such concession arrangements fall within the scope of INT FRS 112, Service Concession Arrangements. Under INT FRS 112, the revenue for the construction services provided under the arrangements and the corresponding financial receivables and/or intangible assets arising are recognised based on percentage of completion method during the construction phase.

14. INVESTMENT IN SUBSIDIARIES

(a)	Company	
	2009 **RMB'000**	**2008** **RMB'000**
Unquoted equity shares at cost		
At beginning of year	468,411	273,632
Investment via cash	–	206,312
Investment via issuance of share options to employees of a subsidiary	–	5,346
	468,411	485,290
Impairment loss	(21,016)	–
	447,395	485,290
Currency alignment	(1,162)	(16,879)
At end of year	446,233	468,411

Impairment

During the financial year, the Company recognised an impairment loss of RMB 21.0 million in respect of the cost of investments in Wuhan Kaidi Management and Wuhan Kaidi Technology. This is to reflect the write down in the entire carrying value of the investments after taking into account their recoverable amounts. The impairment loss mainly arises from Group's expectations that the margins will be deteriorated in view of the current challenging market conditions and stiff competition.

The recoverable amounts of these investments have been determined based on value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The recoverable amounts were determined by discounting the future cash flows to be generated from the continuing operation of Wuhan Kaidi Management and Wuhan Kaidi Technology and a pre-tax discount rate of 12.0% (2008: 13.0%). The forecasted growth rate used to extrapolate cash flows beyond the five-year period is 10.0% (2008: 10.0%).

Management has considered and determined the factors applied in the financials budgeted for margins and average growth rates. The revenue projected takes into account management plans going forward. The budgeted gross margins are based on past performance and its expectation of market developments for the industries for which the subsidiaries are in.

The discounted rate applied to the cash flow projection is derived from the borrowing rate plus a reasonable risk premium.

Notes to the Financial Statements
for the financial year ended 31 December 2009 — continued

14. INVESTMENT IN SUBSIDIARIES (cont'd)

(b) Details of the subsidiaries as at 31 December are as follows:

Name of subsidiaries	Country of incorporation	Principal activities	Percentage of effective equity interest held by the Group 2009 %	2008 %
Held by the Company				
Wuhan Kaidi Water Services Co., Ltd. ("Kaidi Water") *	PRC	- Procurement of equipment - Installation and commissioning of water purification, industrial and municipal wastewater treatment systems - Design and implementation of automated control systems	100	100
Asia Water Investments Pte. Ltd. ("Asia Water Investments")	Singapore	- Investment holding	100	100
Wuhan Kaidi Water Management & Operation Co., Ltd ("Wuhan Kaidi Management") *	PRC	- Provision of consultancy and management services to water treatment projects	100[1]	100[1]
Wuhan Kaidi Water Project & Engineering Co., Ltd ("Wuhan Kaidi Engineering") *	PRC	- Designing, procuring, engineering, installing and commissioning of water treatment equipment and piping systems	100[1]	100[1]
Wuhan Kaidi Water Technology Co., Ltd ("Wuhan Kaidi Technology") *	PRC	- Treatment of municipal tap water and wastewater, industrial water and seawater - Designing, procuring, engineering, installing and commissioning of related automated systems	100[1]	100[1]
Held by a subsidiary				
Bengbu Xinya Water Services Co., Ltd ("Bengbu Xinya") *	PRC	- Treatment of raw water drawn from underground	100[2]	100[2]
Lvliang Xinya Water Services Co., Ltd. ("Lvliang Xinya") *	PRC	- Treatment and supply of water through piping network	100[3]	100[3]
Tianmen Kaidi Water Services Co., Ltd. ("Tianmen Kaidi) *	PRC	- Treatment and supply of tap water	100[4]	100[4]

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

14. INVESTMENT IN SUBSIDIARIES (cont'd)

Name of subsidiaries	Country of incorporation	Principal activities	Percentage of effective equity interest held by the Group 2009 %	2008 %
Held by a subsidiary (cont'd)				
Taizhou Kaidi Waste Water Treatment Co., Ltd. ("Taizhou Kaidi") *	PRC	- Wastewater treatment	100[2]	100[2]
Tianmen Kaidi Xinnong Water Services Co., Ltd. ("Tianmen Xinnong") *	PRC	- Treatment and supply of potable water	70[5]	70[5]
Wuhan Xincheng Waste Water Treatment Co., Ltd. ("Wuhan Xincheng") *	PRC	- Wastewater treatment	100[2]	100[2]
Wuhan Huang-Pi Kaidi Water Services Co., Ltd. ("Wuhan Huang-Pi") *	PRC	- Treatment and supply of potable water	100[2]	100[2]
Huangshi Kaidi Water Services Co., Ltd. ("Huangshi Kaidi") *	PRC	- Wastewater treatment	100[2]	100[2]
Wuhan Dongxihu Kaidi Wastewater Management Co., Ltd. ("Wuhan Dongxihu") *	PRC	- Construct and operate drainage, sewage pipeline, pumping stations and other related facilities	70[6]	70[6]
Huangshi Kaidi Chengtou Water Services Co., Ltd. ("Huangshi Chengtou") **	PRC	- Provision of management services to wastewater treatment projects	90[7]	-

* Audited by Wuhan Jing Du Certified Public Accountants Co., Ltd, Certified Public Accountants in the People's Republic of China.

** Audited by Huangshi Da Rui Certified Public Accountants Co., Ltd., Certified Public Accountants in the People's Republic of China.

1 The subsidiary is 75% held by the Company and 25% held by Kaidi Water.
2 The subsidiary is 80% held by Asia Water Investments and 20% held by Kaidi Water.
3 The subsidiary is 40% (2008 : 80%) held by Asia Water Investments and 60% (2008: 20%) held by Kaidi Water
4 The subsidiary is 100% held by Kaidi Water.
5 The subsidiary is 14% held by Kaidi Water and 56% held by Asia Water Investments.
6 The subsidiary is 70% held by Asia Water Investments.
7 The subsidiary is 90% held by Kaidi Water and 10% by Huangshi City Development Investment Co., Ltd.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

15. INVESTMENT IN ASSOCIATE

	Group		Company	
	2009 RMB'000	**2008 RMB'000**	**2009 RMB'000**	**2008 RMB'000**
Unquoted shares, at cost	43,000	43,000	43,000	43,000
Share of post-acquisition profits	21,974	11,997	–	–
Unrealised profit arising from sales	(17,204)	(7,991)	–	–
Unrealised profit arising from interest income	(3,304)	(1,774)	–	–
Exchange differences	(2,543)	(2,443)	(2,544)	(2,443)
	41,923	42,789	40,456	40,557

Details of the associate as at 31 December are as follows:

Name	**Country of incorporation**	**Principal activities**	**Effective equity interest held by the Group 2009 %**	**Effective equity interest held by the Group 2008 %**
Wuhan Hanxi Waste Water Treatment Co., Ltd. ("Wuhan Hanxi") *	PRC	– Wastewater treatment	43	43

* Audited by Wuhan Jing Du Certified Public Accountants Co., Ltd, Certified Public Accountants in the People's Republic of China

The summarised financial information of the associate is as follows:

	Group	
	2009 RMB'000	**2008 RMB'000**
Assets and liabilities:		
Current assets	62,587	61,764
Non-current assets	507,004	512,701
Total assets	569,591	574,465
Current liabilities	177,124	137,464
Non-current liabilities	241,252	308,989
Total liabilities	418,376	446,453
Results:		
Revenue	59,422	29,689
Profit for the year	23,203	14,260

16. AVAILABLE-FOR-SALE FINANCIAL ASSET

During the year ended 31 December 2008, the Company disposed its available-for-sale financial asset for RMB 15 million. This relates to 15% equity interest held in Linhuan Water Services Co., Ltd, an unquoted company incorporated in the PRC. Its principal activity is the treatment and supply of potable water.

17. GOODWILL ON CONSOLIDATION

	Group	
	2009 RMB'000	2008 RMB'000
Cost		
At beginning of the year		
Goodwill arising on acquisition of additional 9.6% interests in Wuhan Kaidi Water Services Co., Ltd. ("Kaidi Water")	36,358	36,358
Goodwill arising on acquisition of additional 20% interests in Taizhou Kaidi Waste Water Treatment Co., Ltd ("Taizhou Kaidi")	2,858	2,858
At end of the year	39,216	39,216
Accumulated impairment losses		
At beginning of the year	15,000	–
Impairment loss	10,624	15,000
At end of the year	25,624	15,000
Carrying value	13,592	24,216

Impairment testing of goodwill

<u>Kaidi Water</u>

The carrying amounts of goodwill of RMB 10,734,000 (2008: RMB 21,358,000) allocated to the two individual cash-generating units ("CGU") for impairment testing are as follows:

	Power Plant Purification segment		Municipal Project segment		Total	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Carrying value of goodwill	–	10,624	10,734	10,734	10,734	21,358

17. GOODWILL ON CONSOLIDATION (cont'd)

The recoverable amounts of the CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discounted rate applied to the cash flow projections and the forecasted growth rates used to extrapolated cash flows beyond the five-year period are as follows:

	Growth rates		Pre-tax discounted rates	
	2009	2008	2009	2008
	%	%	%	%
Power plant purification segment	10.0	10.0	12.0	13.0
Municipal project segment	8.0	8.0	12.0	13.0

Management has considered and determined the factors applied in the financial budgeted gross margins and average growth rates. The budgeted gross margins are based on past performances and its expectation of market developments for each segment.

The discounted rate applied to the cash flow projections is derived from the borrowing rate plus a reasonable risk premium.

<u>Taizhou Kaidi</u>

Goodwill of RMB 2,858,000 (2008: RMB 2,858,000) is allocated to Taizhou Kaidi which is also the cash-generating unit. Value in use was determined by discounting the future cash flows to be generated from the continuing use of Taizhou Kaidi wastewater treatment plant by Taizhou Kaidi for the service concession period of 20 years, and a discount rate of 12.0% (2008: 7.8%). The volume of the treated wastewater was assumed to be 50,000 cubic meter per day which was the minimum quantity guaranteed by the local municipal government in the PRC. Management believes that this forecast period is justifiable due to the long term nature of the Build-Operate-Transfer project.

Changes to the assumptions used by the management to determine the impairment required, particularly the discount rate, can significantly affect the results.

Impairment

An impairment loss of RMB 10,624,000 (2008: RMB 15,000,000) has been included in the consolidated statement of comprehensive income. The impairment loss mainly arises from the Group's expectations that the uptake of new power plant purification projects by the Group will slow down significantly and taking into account that margins have deteriorated significantly in the current financial year in view of the current challenging market conditions.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

18. DEFERRED TAX

Deferred income tax as at 31 December relates to the following:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Deferred tax liabilities:				
Differences in depreciation for tax purposes	4,261	2,275	–	–
Withholding tax on distributable profit of PRC subsidiaries	1,477	1,873	1,356	1,847
	5,738	4,148	1,356	1,847
Deferred tax assets:				
Other payable and accruals	255	2,633	–	–
Differences in depreciation for tax purposes	–	612	–	–
	255	3,245	–	–

Deferred income tax related to other comprehensive income

There is no deferred income tax related to other comprehensive income for the financial year ended 31 December 2009 (2008: Nil).

19. TRADE RECEIVABLES/RETENTION MONIES/BILLS RECEIVABLES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Trade receivables	70,203	81,815	–	–
Retention monies	36,168	48,663	–	1,548
	106,371	130,478	–	1,548
Less: allowance for doubtful receivables	(35,422)	(10,340)	–	–
	70,949	120,138	–	1,548
Retention monies – non-current	(6,118)	(8,166)	–	–
	64,831	111,972	–	1,548
Bills receivables	600	–	–	–

Trade receivables and bills receivables are non-interest bearing and are generally on 180 day terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Retention monies relate to the construction contracts. The non-current portion of retention sums are carried at amortised cost using a weighted average effective interest rate ranging between 5.10% and 5.31% (2008: 5.31%).

Included in trade receivables of the Group and the Company is an amount of RMB Nil (2008: RMB 1,548,000) which is denominated in USD.

19. TRADE RECEIVABLES/RETENTION MONIES/BILLS RECEIVABLES (cont'd)

Receivables that are past due but not impaired

The Group has trade receivables amounting to RMB 19,837,000 (2008: RMB 66,407,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Trade receivables past due:		
Less than 6 months	6,423	16,760
6 to 18 months	9,527	29,055
More than 18 months	3,887	20,592
	19,837	66,407

Receivables that are impaired

The Group's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Trade receivables – nominal amounts	35,422	11,791	–	–
Less: Allowance for impairment	(35,422)	(10,340)	–	–
	–	1,451	–	–
Movement in allowance accounts:				
At 1 January	10,340	12,748	–	2,556
Allowance for the year	28,132	4,142	–	–
Write-back	(3,050)	(6,308)	–	(2,428)
Written-off against provision	–	(114)	–	–
Exchange differences	–	(128)	–	(128)
At 31 December	35,422	10,340	–	–

Trade receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

20. INVENTORIES, AT COST

Inventories are stated at the lower of cost and net realisable value and comprise of materials and supplies held for construction.

	Group	
	2009 RMB'000	2008 RMB'000
Inventories, at cost	8,353	9,610

Consolidated statement of comprehensive income

Included in cost of sales is inventories written off of RMB 466,000 (2008: Nil).

There was no provision for impairment loss of inventories for the financial year ended 31 December 2009 and 2008.

21. WORK-IN-PROGRESS IN EXCESS OF PROGRESS BILLINGS/PROGRESS BILLINGS IN EXCESS OF WORK-IN-PROGRESS

	Group	
	2009 RMB'000	2008 RMB'000
Contract costs incurred to date	855,927	917,949
Recognised profit less recognised losses to date	144,537	161,169
	1,000,464	1,079,118
Less: Progress billings	(924,717)	(1,062,203)
	75,747	16,915
Presented as:		
Work-in-progress in excess of progress billings	94,944	55,911
Progress billings in excess of work-in-progress	(19,197)	(38,996)
	75,747	16,915
Retention monies on construction contracts	36,168	48,663
Classified as:		
Non-current	6,118	8,166
Current (included in trade receivables)	30,050	40,497
	36,168	48,663

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

22. OTHER RECEIVABLES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Other receivables [(a)]	65,150	63,175	–	50
Housing loans: [(b)]				
- employees	147	243	–	–
Deposits	2,149	893	200	206
	67,446	64,311	200	256
Less: allowance for doubtful debts	(165)	(46)	–	–
	67,281	64,265	200	256

(a) Included in other receivables is a sum of RMB 59,406,000 (2008: RMB 58,153,000) which has been advanced to certain contractors of a wastewater treatment plant of a subsidiary.

(b) These are unsecured, interest-bearing and have a repayment period of 3 years.

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Movements in allowance for doubtful receivables are as follows:				
At beginning of year	46	87	–	–
Allowance for the year	125	30	–	–
Write-back	(6)	(56)	–	–
Written off against provision	–	(15)	–	–
At end of year	165	46	–	–

23. OTHER CURRENT ASSETS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Advances: [(a)]				
- employees	3,312	14,057	–	–

(a) These advances are unsecured, interest-free and mainly relate to advances given for use in the ordinary conduct of the Group's business which as at 31 December, have not been incurred.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

24. PREPAYMENTS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Prepayments for property, plant and equipment/investment	108	1,950	–	–
Prepayments to suppliers	71,304	137,732	–	133
Prepayment for other taxes	27	902	–	–
Others	337	43	227	–
	71,776	140,627	227	133

25. DUE FROM SUBSIDIARIES (NON-TRADE)

	Company	
	2009 RMB'000	2008 RMB'000
Dividend receivable from subsidiary	–	1,416
Expenses paid on behalf of subsidiary	–	31
Tax refund received on behalf by subsidiary	1,150	1,150
	1,150	2,597

26. DUE FROM ASSOCIATE (TRADE)/(NON-TRADE) / DUE TO ASSOCIATE (NON-TRADE)

	Group	
	2009 RMB'000	2008 RMB'000
Non-trade		
Loan granted to associate	75,250	68,000
Loan interest due from associate	988	1,595
	76,238	69,595

The loans to associate are unsecured, bear interest ranging from 4.86% to 7.47% (2008 : 5.04% to 7.47%) and are repayable within the next 12 months.

The amount due to associate of RMB Nil (2008 : RMB 5,000,000) is unsecured, interest-free and is repayable on demand.

Trade

The amount due from associate is unsecured, interest-free and is repayable on demand.

27. CASH AND BANK BALANCES/BILLS PAYABLE TO BANKS (SECURED)

Cash and cash equivalents consist of unpledged bank deposits and cash and bank balances. Certain bank deposits are excluded from cash and cash equivalents because they may not be readily convertible to cash as they are fully pledged to banks for bankers' guarantees provided to customers for the performance of contracts and banking facilities (including bills payable) granted to a subsidiary.

Cash and cash equivalents included in the consolidated statement of cash flows comprise of the following balance sheet amounts:

	Company	
	2009 RMB'000	2008 RMB'000
Cash and bank balances	114,739	153,939
Less: Bank deposits pledged	(33,185)	(32,948)
Cash and cash equivalents	81,554	120,991

Cash and bank balances have an effective interest rate of 2.0% (2008: 1.0%) per annum for the financial year ended 31 December 2009.

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
- RMB	112,768	152,557	–	57
- United States Dollar	113	819	57	71
- Singapore Dollar	1,858	563	1,719	309
	114,739	153,939	1,776	437

Bills payable to banks are denominated in RMB, interest-free and secured by certain bank deposits placed with the issuing banks.

28. TRADE PAYABLES

Trade payables are non-interest bearing and are normally settled on 30-180 day terms.

Included in trade payables of the Group is an amount of RMB 642,000 and RMB Nil (2008: RMB 2,537,000 and RMB 214,000) denominated in USD and Euro dollars respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

29. OTHER PAYABLES AND ACCRUALS/PROVISIONS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Customer advances [a]	61,826	53,201	–	–
Other creditors	27,049	29,372	–	–
Accrued operating expenses	43,038	33,198	2,318	3,076
Accrued personnel expenses	9,639	9,243	3,774	4,944
Advances of project cost by PRC authorities [b]	61,221	–	–	–
	202,773	125,014	6,092	8,020
Provision for warranty (Note (a))	300	720	–	–
	203,073	125,734	6,092	8,020

[a] These relate to contracts in progress as at balance sheet date.

[b] Construction costs of certain water plants of the Group are borne by both the Group and the relevant PRC authorities. The advances relates to amount received from the PRC authorities in excess of construction costs incurred.

Other payables are non-interest bearing and normally settled on 30-90 day terms.

(a) Provision for warranty

The Group gives a one year warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision is recognised at the balance sheet date for expected warranty claims based on past experience of the level of repairs and returns.

Movements in provision for warranty are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
At beginning of year	720	275
Provision made during the year	580	976
Adjustment for over-provision	(566)	–
Utilised during the year	(434)	(531)
At end of year	300	720

29. OTHER PAYABLES AND ACCRUALS/PROVISIONS (cont'd)

(b) Government grant

	Group	
	2009 RMB'000	2008 RMB'000
Cost		
Opening balance at 1 January	8,505	8,400
Received during the year	90	105
Closing balance at 31 December	8,595	8,505
Accumulated amortisation		
Opening balance at 1 January	(8,505)	(8,400)
Amortisation during the year	(90)	(105)
Closing balance at 31 December	(8,595)	(8,505)
Net carrying value	–	–

Government grant relates to grant received in relation to the research and development activities undertaken by the Group, which focused on both the developing and application of a patent for an in-house wastewater treatment technology using the biochemical approach.

(c) Balances denominated in foreign currencies

As at 31 December 2009, the following amounts denominated in foreign currencies are included in other payables and accruals:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
- United States Dollar	–	3,337	–	3,337
- Singapore Dollar	6,165	4,727	6,092	4,727
	6,165	8,064	6,092	8,064

30. DUE TO SUBSIDIARIES (NON-TRADE)

These amounts are unsecured, interest-free and are repayable on demand.

The amounts due to subsidiaries (non-trade) are denominated in the following currencies:

	Company	
	2009 RMB'000	2008 RMB'000
- RMB	14,456	4,808
- United States Dollar	32,664	16,713
- Singapore Dollar	2,467	235
	49,587	21,756

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

31. DERIVATIVE FINANCIAL INSTRUMENT

This relates to fair value changes in embedded equity conversion option on Series 1 Junior Bonds and is stated at fair value through the statement of comprehensive income.

32. INTEREST-BEARING LOANS AND BORROWINGS

	Maturity	Group		Company	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Current:					
Short-term RMB bank loan [1]	2009	–	10,000	–	–
Short-term RMB bank loan [2]	2009	–	30,000	–	–
Short-term RMB bank loan [3]	2009	–	30,000	–	–
Short-term RMB bank loan [4]	2009	–	29,000	–	–
Short-term RMB bank loan [5]	2009	–	30,000	–	–
Short-term RMB bank loan [6]	2009	–	20,000	–	–
Current portion of USD 30 million bond [7] (Note A)	2010	232,593	54,833	232,593	54,833
Current portion of long-term RMB loan from government [8]	2021	2,000	2,000	–	–
Current portion of long-term RMB bank loan [9]	2013	14,000	14,000	–	–
Current portion of long-term RMB bank loan [10]	2012	2,092	1,962	–	–
Current portion of long-term RMB bank loan [11]	2015	6,000	6,000	–	–
Current portion of long-term RMB bank loan [12]	2011	20,000	20,000	–	–
Current portion of long-term RMB bank loan [13]	2015	26,333	–	–	–
Short-term RMB bank loan [14]	2010	40,000	–	–	–
Short-term RMB bank loan [15]	2010	475	–	–	–
Short-term RMB bank loan [16]	2010	70,000	–	–	–
Short-term RMB bank loan [17]	2010	9,000	–	–	–
		422,493	247,795	232,593	54,833
Non-current:					
USD 30 million bond [7] (Note A)	2013	–	76,820	–	76,820
Long-term RMB loan from government [8]	2021	15,000	15,000	–	–
Long-term RMB bank loan [9]	2013	18,000	26,000	–	–
Long-term RMB bank loan [10]	2012	3,330	5,418	–	–
Long-term RMB bank loan [11]	2015	47,000	53,000	–	–
Long-term RMB bank loan [12]	2011	21,650	41,650	–	–
Long-term RMB bank loan [13]	2015	120,694	–	–	–
Long-term RMB bank loan [18]	2018	98,000	98,000	–	–
		323,674	315,888	–	76,820

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

32. INTEREST-BEARING LOANS AND BORROWINGS (cont'd)

Notes

[1] This loan bears interest at 8.22% per annum and has been fully repaid as at 31 December 2009.

[2] This loan bears interest at 6.66% per annum and has been fully repaid as at 31 December 2009.

[3] This loan is guaranteed by an associated company, bears variable rate interest and has been fully repaid as at 31 December 2009.

[4] This loan is pledged by fixed deposit, bears variable rate interest and has been fully repaid as at 31 December 2009.

[5] This loan bears interest at 6.66% per annum and has been fully repaid as at 31 December 2009.

[6] This loan is guaranteed by an associated company, bears variable rate interest and has been fully repaid as at 31 December 2009.

[7] The USD 30 million bond issuance comprises (i) USD 15 million Senior bonds with 11,400,480 detachable and freely transferable warrants, bears interest at 3% above 6 month LIBOR per annum, (ii) USD 15 million Junior bonds with convertible rights, bear interest at 6% per annum. See Note A for further details.

[8] This loan is granted by the government in relation to the construction of a tapwater plant and pipeline; it is unsecured and bears variable rate interest and is repayable in annual instalments of RMB 2 million commencing from 2010.

[9] The loan is guaranteed by a subsidiary company and a third party company, and a pledge on subsidiary company's patent and licensing rights, bears variable rate interest and is repayable by 27 September 2013.

[10] This loan is secured by a pledge on a subsidiary company's leasehold building and bears variable rate interest and is repayable by 18 June 2012.

[11] This loan is guaranteed by a subsidiary company, bears variable rate interest, and is repayable in annual instalments commencing from 31 December 2009.

[12] This loan is secured by a pledge on the subsidiary company's concession rights, bears variable rate interest and is repayable in annual instalments commencing from 18 December 2007.

[13] This loan is guaranteed by a subsidiary company and secured by a pledge on the subsidiary company's concession rights, bears variable rate interest and is repayable in monthly instalments commencing from 17 August 2009.

[14] This loan is guaranteed by associated company, bears interest at 5.31% per annum and is repayable by 26 June 2010.

[15] This loan bears interest at 5.31% per annum and is repayable by 17 July 2010.

[16] This loan is provided by a third party through a PRC bank in the form of entrusted loan. It bears interest at 7.00% per annum and is repayable by 30 July 2010.

[17] This loan is secured by a pledge on a subsidiary company's asset, bears interest at 5.84% per annum and is repayable by 8 December 2010.

[18] This loan is guaranteed by a subsidiary company and is secured by a pledge on the subsidiary's concession rights during the construction period, 30% of this loan will be guaranteed by the subsidiary during the operation period. It bears variable rate interest and is repayable in annual instalments commencing from 3 December 2011.

32. INTEREST-BEARING LOANS AND BORROWINGS (cont'd)

Note A:

(i) Series 1 Senior Bonds

On 13 December 2007, the Company issued Series 1 Senior Bonds with 11,400,480 detachable warrants due on 12 December 2013. The warrants, valid for 6 years from date of issue (13 December 2007), will be exercisable, in full or in part, at any time after the issuance date at a strike price of S$0.513. The bonds carry interest at a rate of 6-month LIBOR ("London Interbank Offered Rate") plus a margin of 3% per annum, which is payable half-yearly in arrears on June and December. The effective interest rate of the bonds ranges from 4.23% to 5.44% (2008 : 5.44% to 7.96%) per annum (inclusive of 3% margin).

The Series 1 Junior Bonds is secured as follows :

(a) First charge over the Company's shares in Wuhan Hanxi;
(b) First charge over the Company's shares in Kaidi Water;
(c) First charge over the Company's shares in Bengbu Xinya;
(d) First charge over the Company's shares of any existing/future offshore subsidiaries,
(e) Corporate governance provided by Kaidi Water; and
(f) First charge over the Offshore Escrow Accounts.

The Series 1 Senior Bonds recognised in the balance sheet are analysed as follows:

	Group and Company	
	2009 RMB'000	2008 RMB'000
Liability component at beginning of financial year	70,698	75,641
Interest expense	14,358	14,067
Principal, premium and interest repayment	(9,530)	(14,193)
Accretion of unamortised cost and redemption premium	21,932	–
Exchange differences	(219)	(4,817)
Liability component at end of financial year	97,239	70,698

(ii) Series 1 Junior Bonds

On 13 December 2007, the Company issued 6% convertible bonds at a nominal value of US$15,000,000 due on 12 December 2013. The bonds will be redeemed on 12 December 2013 at their nominal value or can be converted into shares of the Company (the "conversion option") at the holder's option at a conversion price of S$0.77 ("Initial Conversion Price"). In addition, the Initial Conversion Price may also be "reset" downwards, if the 30-day Volume-Weighted Average Price ("VWAP") (the "Reset Reference Price") immediately prior to (i) the date falling on the first anniversary of the date of issue of such Junior Bonds; and (ii) (subsequent to the first anniversary) the date falling on the last day of each quarterly interval thereafter up to the maturity, redemption or total conversion of the Junior Bonds (each a "Reset Date"), is less than the Initial Conversion Price in effect on the Reset Date (taking into account any adjustments in the occurrence of certain events as described above or this "reset" condition which may have occurred prior to the Reset Date), the Initial Conversion Price shall be adjusted on the Reset Date so that the Reset Reference Price will become the adjusted Initial Conversion Price with effect from the Reset Date. Any such adjustment to the Conversion Price shall be limited such that the adjusted Conversion Price in no event shall be less than 70% of the Initial Conversion Price.

The Series 1 Junior Bonds is subordinated and secured by way of second ranking to the security package granted to Series 1 Senior Bonds bondholders and first charge over the Convertible Bonds Offshore Escrow Accounts.

32. INTEREST-BEARING LOANS AND BORROWINGS (cont'd)

The bonds carry interest at a rate of 6% per annum, which is payable half-yearly in June and December.

The convertible bonds recognised in the balance sheet are analysed as follows:

	Group and Company	
	2009 RMB'000	2008 RMB'000
Liability component at beginning of financial year	60,955	55,273
Interest expense	13,574	15,514
Interest repayment	(4,673)	(6,272)
Accretion of unamortised cost and redemption premium	65,767	–
Exchange differences	(269)	(3,560)
Liability component at end of financial year	135,354	60,955
Represented by:		
Current		
Series 1 Senior Bonds	97,239	54,833
Series 1 Junior Bonds	135,354	–
	232,593	54,833
Non-current		
Series 1 Senior Bonds	–	15,865
Series 1 Junior Bonds	–	60,955
	–	76,820
Total	232,593	131,653

On 31 December 2008, the bonds subscribers have put in place a revised set of financial covenants ("conditional letter of waiver") for the quarters ended 31 March 2009, 30 June 2009, 30 September 2009 and 31 December 2009. The subscribers are contractually entitled to full and immediate repayment of these convertible bonds in the event of a breach of the covenants set out in this conditional letter of waiver during the financial year ended 31 December 2009.

Pursuant to the revised covenants, the Group was required to repay certain principal amounts together with accrued interest on certain dates. In respect of such repayments, the second redemption amounting to US$2.0 million was due on 31 March 2009 (the "Second Redemption Payment"). The Group was not able to make the repayment when due and it obtained an extension of time from the bondholders until 5 June 2009 for repayment of this amount, pending the conclusion of an agreement for new injection of funds into the Group by potential investors.

The Group was again not able to make the Second Redemption Payment on 5 June 2009. On 25 June 2009, the Group initiated its proposed restructuring plan by entering into Subscription Agreement, Settlement Agreement and Litebay Subscription Agreement with Triumph Power Limited, the bondholders and Litebay Pte Ltd. respectively. On 7 September 2009, the bondholders rejected the Group's application to extend the repayment date and terminated the Settlement Agreement and demanded immediate payment of all principal sum outstanding, all interest and redemption premium amounting to an aggregate of US$34,018,000 (or RMB 232,593,000).

32. INTEREST-BEARING LOANS AND BORROWINGS (cont'd)

On 4 December 2009, the Company entered into a Settlement Agreement with the bondholders to repay an aggregate sum of US$27.5 million in cash to bondholders after completion of the proposed restructuring exercise (Note 48) and repay Lucky Six Limited (one of the bondholders) US$2.0 million in the form of new convertible bonds in full settlement of the aggregate outstanding amount (including redemption premium).

Based on the 4 December 2009 Settlement Agreement, the bondholders have agreed to waive the redemption premium of US$4.5 million on completion of the proposed restructuring exercise and payment being made to the bondholders. The completion took place only on 18 February 2010 upon approval by shareholders at an extraordinary general meeting. The condition for de-recognition of the liability relating to the redemption premium is not met as at 31 December 2009, hence, the waiver is not adjusted in the current year financial statements.

33. SHARE CAPITAL/WARRANT RESERVE

(a) *Share capital*

	Group and Company			
	2009	2008	2009	2008
	Number of shares '000		Amount US$'000	
Issued and fully paid:				
At beginning of year				
- 196,918,959 (2008: 196,860,959) ordinary shares	196,919	196,861	28,189	28,181
- Exercise of Nil (2008: 58,000) warrants at S$0.18 each	–	58	–	7
- Transfer from warrant reserve	–	–	–	1
At end of year				
- 196,918,959 (2008: 196,918,959) ordinary shares	196,919	196,919	28,189	28,189
- RMB'000 equivalent			204,503	204,503

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

The Company has an employee share option plan under which options to subscribe for the Company's ordinary shares have been granted to employees of the Group (Note 37).

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

33. SHARE CAPITAL / WARRANT RESERVE (cont'd)

(b) Warrant reserve

	Group and Company			
	2009	2008	2009	2008
	Number of warrants '000		Amount RMB '000	
At beginning of year	9,146	9,204	1,178	1,187
Exercised during the year	–	(58)	–	(9)
At end of year	9,146	9,146	1,178	1,178

9,000 warrants (2008: Nil warrants) have been exercised since the end of the financial year ended 31 December 2009 to the date of the report.

34. SHARE OPTION RESERVE

Share option reserve represents the equity-settled share options granted to employees (Note 37). The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduced by the expiry or exercise of the share options.

	Group and Company	
	2009 RMB'000	2008 RMB'000
At 1 January	12,774	4,942
Grant of equity-settled share options	–	7,832
At 31 December	12,774	12,774

35. GENERAL RESERVE

In accordance with the relevant laws and regulations of the PRC, companies in the PRC are required to set aside a general reserve fund by way of appropriation from their statutory net profit reported in the PRC statutory financial statements at a rate of 10% for each year. Subject to approval from the PRC authorities, the fund may be used to offset accumulated losses or increase the registered capital of the subsidiary. The appropriation is required until the statutory reserve reaches 50% of the subsidiary's registered capital. This statutory reserve is not available for dividend distribution to the shareholders.

36. ACCUMULATED (LOSSES)/PROFITS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
	(70,331)	111,106	(15,009)	127,201
Retained by:				
- the Company	(15,009)	127,201		
- subsidiaries	(77,297)	(28,092)		
- associate	21,975	11,997		
	(70,331)	111,106		

37. EMPLOYEE BENEFITS – ASIA WATER SHARE OPTION SCHEME

Under the Asia Water Share Option Scheme (the "ESOS"), share options are granted to directors, executives and employees of the Group. The exercise price of the option is computed based on the average of the last dealt prices for the Company's shares on the Singapore Exchange ("SESDAQ") on 13 August 2007, 10 August 2007, 8 August 2007, 7 August 2007 and 6 August 2007 (Note: 9 August 2007 is a public holiday in Singapore). The options shall be vested and exercisable after the first anniversary of the date of grant (14 August 2007). They may be exercisable for the period from 14 August 2008 to 13 August 2012. There are no cash settlement alternatives.

<u>Movement of share options during the financial year</u>

During the financial years ended 31 December 2008 and 2009, no share options were exercised, granted or expired. During the financial year ended 31 December 2009, 2,433,000 (2008: 1,097,000) share options were forfeited. The number of share options outstanding and exercisable as at 31 December 2009 amounted to 18,410,000 (2008: 20,843,000).

The exercise prices for options outstanding and forfeited as at year end of the year are S$0.665 and S$0.665 (2008: S$0.665 and S$0.665) respectively. The weighted average remaining contractual life for the options outstanding is 2.6 years (2008: 3.6 years).

Fair value of share options

The fair value of services rendered in return for share options granted are measured by reference to the fair value of share options granted under the ESOS. The estimate of the fair value of the services received is measured based on a black-scholes model, taking into account the terms and conditions upon which the share options were granted. The following table states the significant inputs to the model used.

		14.8.2007 grant
Expected volatility	(%)	48.0
Risk-free interest rate	(%)	2.6
Expected life of options	(years)	2
Exercise price	(S$)	0.665
Share price at date of grant	(S$)	0.57

The fair value of options granted charged to the statement of comprehensive income during the financial year was RMB Nil (2008: RMB 7,832,000). The expected volatility reflects the assumptions that the historical volatility of companies in the similar industry is indicative of future trends, which may not necessarily be the actual outcome.

All options have vested as at 31 December 2009.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

38. RELATED PARTY TRANSACTIONS

An entity or individual is considered a related party of the Group for the purpose of the financial statements if: (i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or (ii) it is subject to common control or common significant influence.

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

	Group	
	2009 RMB'000	2008 RMB'000
Income		
Sales to associate	25,420	22,214
Interest income from associate	35,557	921
Compensation of key management personnel		
Wages, salaries and bonus	(8,890)	(10,675)
CPF and other defined contributions	(436)	(481)
Share option expense	–	(4,873)
Comprise amounts paid to:		
- Directors of the Company – remuneration	(1,134)	(6,454)
- Directors of subsidiaries – remuneration	(4,192)	(6,358)
- Directors' fees	(1,116)	(990)
- Key executives' remuneration	(2,884)	(2,227)
	(9,326)	(16,029)

During the financial year, the Company had the following significant related party transactions:

	Company	
	2009 RMB'000	2008 RMB'000
Income		
Dividend income from subsidiaries	–	28,465
Sale of goods to a subsidiary	–	298

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

39. LOANS AND RECEIVABLES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Non-current				
Financial receivables	287,613	266,605	–	–
Retention monies	6,118	8,166	–	–
Current				
Financial receivables	4,785	3,456	–	–
Trade receivables	64,831	111,972	–	1,548
Bills receivables	600	–	–	–
Other receivables	67,281	64,265	200	256
Due from subsidiaries (non-trade)	–	–	1,150	2,597
Due from associate (trade)	44,035	23,570	–	–
Due from associate (non-trade)	76,238	69,595	–	–
Cash and bank balances	114,739	153,939	1,776	437
Total loans and receivables	666,240	701,568	3,126	4,838

40. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Current				
Trade payables	180,521	285,345	–	–
Other payables and accruals	202,773	125,014	6,092	8,020
Due to subsidiaries (non-trade)	–	–	49,587	21,756
Due to associate (non-trade)	–	5,000	–	–
Bills payable to banks (secured)	33,218	72,692	–	–
Interest-bearing loans and borrowings	422,493	247,795	232,593	54,833
Non-current				
Interest-bearing loans and borrowings	323,674	315,888	–	76,820
Total financial liabilities carried at amortised cost	1,162,679	1,051,734	288,272	161,429

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

41. SEGMENT INFORMATION

For management purposes, the Group is organised into business segments based on their products and services provided to customers. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's operating businesses are organised into three business segments, namely Water purification treatment, Wastewater treatment and Others.

Water purification treatment: Design, assembly, installation, and commissioning of water purification treatment systems; technology development of such water purification systems; and treatment of raw water drawn from underground and treatment and supply of tap water.

Wastewater treatment: Supply and installation of equipment to be used in industrial and municipal wastewater treatment systems; and treatment of industrial wastewater and sewage.

Others: Trading of water treatment equipment and miscellaneous peripheral contracts which includes coal conveying control system and chemical cleaning. These miscellaneous projects typically comprise of peripheral sub-projects awarded to the Group in addition to the main water treatment projects in power plants.

Allocation basis and transfer pricing

Segment revenue/ expenses/ assets/ liabilities

Revenue and cost of sales are directly attributable to the segments. Operating expenses/income are allocated to the segments on a reasonable basis.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise of corporate assets and liabilities.

Transfer prices between operating segments are at terms agreed between the parties.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

41. SEGMENT INFORMATION (cont'd)

Business segments

2009	Water purification treatment RMB'000	Waste-water treatment RMB'000	Others RMB'000	Total RMB'000
Revenue	221,329	82,960	17,600	321,889
Segment result	(7,913)	(9,225)	2,769	(14,369)
Unallocated expenses, net				(13,573)
Financial income				23,224
Financial expenses				(146,465)
Other expenses				(27,331)
Share of profits of associate				9,977
Tax expense				(11,973)
Loss for the year				(180,510)
Segment depreciation and amortisation	14,686	1,939	564	17,189
Unallocated depreciation and amortisation				27
Total depreciation and amortisation				17,216
Segment non-cash expenses	13,651	10,763	4,309	28,723
Segment non-cash income	1,380	1,261	505	3,146
Segment assets	845,509	469,921	62,707	1,378,137
Investment in associate				41,923
Unallocated assets				2,463
Total assets				1,422,523
Segment liabilities	572,640	350,505	33,103	956,248
Unallocated liabilities				240,139
Total liabilities				1,196,387
Capital expenditure	41,113	680	135	41,928

Notes to the Financial Statements
for the financial year ended 31 December 2009 — **continued**

41. SEGMENT INFORMATION (cont'd)

Business segments (cont'd)

2008	Water purification treatment RMB'000	Waste-water treatment RMB'000	Others RMB'000	Total RMB'000
Revenue	290,976	67,167	28,529	386,672
Segment result	(42)	(3,988)	19,247	15,217
Unallocated expenses, net				(6,496)
Financial income				15,343
Financial expenses				(65,628)
Other income				20,617
Share of profits of associate				6,132
Tax expense				(3,118)
Loss for the year				(17,933)
Segment depreciation and amortisation	12,979	2,694	389	16,062
Unallocated depreciation and amortisation				60
Total depreciation and amortisation				16,122
Segment non-cash expenses	3,092	891	362	4,345
Unallocated non-cash expenses				180
Total non-cash expenses				4,525
Segment non-cash income	2,567	1,021	414	4,002
Unallocated non-cash income				7,549
Total non-cash income				11,551
Segment assets	897,821	543,149	27,569	1,468,539
Investment in associate				42,789
Unallocated assets				3,480
Total assets				1,514,808
Segment liabilities	526,043	386,001	48,372	960,416
Unallocated liabilities				148,897
Total liabilities				1,109,313
Capital expenditure	79,166	2,716	385	82,267
Unallocated capital expenditure				107
Total capital expenditure				82,374

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

41. SEGMENT INFORMATION (cont'd)

Business segments (cont'd)

Non-cash expenses consist of allowance for doubtful receivables, inventories written off and property, plant and equipment written off. Non-cash income consist of write-back of allowance for doubtful receivables and amortisation of government grant. These are presented in the respective notes to the financial statements.

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
PRC	321,889	386,672	815,771	797,441
Singapore	–	–	88	115

Non-current assets information presented above consist of property, plant and equipment, intangible assets/land use rights, financial receivables and retention monies as presented in the consolidated balance sheet.

Information about major customers

Revenue from 2 major customers amounted to RMB 32,494,000 (2008: RMB 1,741,000) and RMB 48,360,000 (2008: RMB 3,142,000) arising from installation of water purification system and municipal wastewater treatment system respectively.

42. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for as at the balance sheet date but not recognised in the financial statements is as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Purchase of motor vehicle	–	179

42. COMMITMENTS (cont'd)

(b) Operating lease commitments – as lessee

As at 31 December, the Group has operating lease agreements for the rental of office premises and staff accommodation. These non-cancellable leases have remaining non-cancellable lease terms of between 2-24 months. Most leases contain renewable options.

Minimum lease payments recognised as an expense in the statement of comprehensive income for the financial year ended 31 December 2009 amounted to RMB 1,520,000 (2008: RMB 1,017,000).

Future minimum lease payments under non-cancellable leases are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Within 1 year	728	776
Within 2 to 5 years	–	775
	728	1,551

Lease arrangements do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

43. CONTINGENT LIABILITIES

Legal case – Wuhan Hanxi Waste Water Treatment Co., Ltd.

On 21 September 2009, Zhongying Changjiang International Investment and Gurantee Co., Ltd("Zhongying") took court action in the PRC to claim for guarantor's fees and other incidental fees of approximately RMB 5,360,000 that are owning by Wuhan Hanxi Waste Water Treatment Co., Ltd. ("Wuhan Hanxi"), an associate in which the Company holds 43% shareholding. Zhongying is the guarantor for a loan drawdown of RMB 300,000,000 by the associate during financial year ended 31 December 2006. Pursuant to the aforesaid court action, Zhongying had applied to the PRC court to freeze a bank deposit of RMB 6,000,000 belonging to Wuhan Hanxi pending the parties reaching an amicable settlement.

On 5 April 2010, the Company announced that the relevant PRC court has ruled in favour of Zhongying's claim and held that Wuhan Hanxi should within 10 days after the effective date of judgement, pay the guarantor's fees and other incidental fees of RMB 5,360,000 and a court fee of RMB 49,000 to Zhongying. The Group's share of Zhongying's claim amounted to RMB 2,326,000 and this was taken into account in the share of associate's results for the financial year ended 31 December 2009. The Company is seeking legal advice on the aforesaid judgement to consider an appeal.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, bills payable, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables, and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk (both fair value and cash flow), liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from their interest-bearing loans and borrowings. Surplus funds are placed with reputable banks.

The Group's policy is to obtain the most favourable rates available to manage interest cost using a mix of fixed and floating rate debts. The Group's internal guideline is to keep 20% to 50% (2008: 20% to 50%) of its loans and borrowings at fixed rates of interest.

The following tables set out the carrying amount, by maturity, of the Group's and the Company's financial instruments, that are exposed to interest rate risk:

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 4 years RMB'000	4 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
2009							
Group							
Fixed rate							
Interest-bearing loans and borrowings	254,830	–	–	–	–	–	254,830
Floating rate							
Cash assets	114,739	–	–	–	–	–	114,739
Interest-bearing loans and borrowings	167,663	72,171	53,475	53,333	51,334	93,361	491,337

Notes to the Financial Statements
for the financial year ended 31 December 2009 — continued

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Interest rate risk (cont'd)

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 4 years RMB'000	4 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
2009 (cont'd)							
Company							
Fixed rate							
Interest-bearing loans and borrowings	135,355	–	–	–	–	–	135,355
Floating rate							
Cash assets	1,776	–	–	–	–	–	1,776
Interest-bearing loans and borrowings	97,238	–	–	–	–	–	97,238
2008							
Group							
Fixed rate							
Interest-bearing loans and borrowings	70,000	–	41,125	19,830	–	–	130,955
Floating rate							
Cash assets	153,939	–	–	–	–	–	153,939
Interest-bearing loans and borrowings	177,795	53,945	45,850	27,138	26,000	102,000	432,728

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Interest rate risk (cont'd)

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 4 years RMB'000	4 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
2008 (cont'd)							
Company							
Fixed rate							
Interest-bearing loans and borrowings	–	–	41,125	19,830	–	–	60,955
Floating rate							
Cash assets	437	–	–	–	–	–	437
Interest-bearing loans and borrowings	54,833	15,865	–	–	–	–	70,698

Interest on financial instruments subject to floating interest rates is contractually repriced regularly. Interest on financial instruments at fixed rates is fixed until the maturity of the instruments. The other financial instruments of the Group and the Company that are not included in the above tables are not subject to interest rate risks.

Sensitivity analysis for interest rate risk

At the balance sheet date, a change of 10 (2008: 10) basis points in interest rate with all other variables held constant, would have the following results: the Group's loss (2008: loss) net of tax would have been RMB 4,868,000 (2008: RMB 1,901,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings, higher/lower interest income from floating rate loans to related parties. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's internal liquidity risk management guideline is that not more than 80% (2008: 80%) of loans and borrowings (including overdrafts and convertible notes) should mature in the next one year period, and that to maintain sufficient liquid financial assets and stand-by credit facilities with three different banks. At the balance sheet date, approximately 57% (2008: 44%) of the Group's loans and borrowings (Note 32) will mature in less than one year based on the carrying amount reflected in the financial statements. 100% (2008: 42%) of the Company's loans and borrowings will mature in less than one year at the balance sheet date.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — continued

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Liquidity risk (cont'd)

As discussed in Note 32 to the financial statements, the Group was not able to make the Second Redemption Payment of US$2.0 million on 5 June 2009. On 7 September 2009, the bondholders rejected the Group's application to extend the repayment date and terminated the Settlement Agreement dated 25 June 2009. It demanded immediate payment of all principal sum, interest and redemption premium amounting to an aggregate of US$34,018,000 (or RMB 232,593,000). Accordingly, the amount payable of RMB 232,593,000 is classified as current liabilities at the balance sheet date. On 18 February 2010, as settlement of the liabilities under the Series 1 Senior Bonds and Series 1 Junior Bonds, the Group has repaid the bondholders an aggregate sum of US$27.5 million in cash and issued new convertible bonds of US$2.0 million in settlement of amount owning to Lucky Six Limited.

The Group requires the continuing support from its bankers in order to meet its obligations as and when they fall due.

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the balance sheet date based on contractual undiscounted payments.

	2009				2008			
	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group								
Financial assets								
Trade and other receivables	102,062	–	–	102,062	135,740	–	–	135,740
Cash and cash equivalents	114,739	–	–	114,739	153,939	–	–	153,939
Retention monies	30,050	6,578	–	36,628	40,497	8,869	–	49,366
Financial receivables	39,787	160,528	623,251	823,566	39,787	160,528	646,366	846,681
Bills receivables	600	–	–	600	–	–	–	–
	287,238	167,106	623,251	1,077,595	369,963	169,397	646,366	1,185,726
Financial liabilities								
Trade and other payables	383,294	–	–	383,294	410,359	–	–	410,359
Bills payable to banks	33,218	–	–	33,218	72,692	–	–	72,692
Interest-bearing loans and borrowings	452,864	285,892	105,276	844,032	293,989	379,306	120,749	794,044
	869,376	285,892	105,276	1,260,544	777,040	379,306	120,749	1,277,095
Company								
Financial assets								
Trade and other receivables	200	–	–	200	1,804	–	–	1,598
Cash and cash equivalents	1,776	–	–	1,776	437	–	–	437
Due from subsidiaries (non-trade)	1,150	–	–	1,150	2,597	–	–	2,597
	3,126	–	–	3,126	4,838	–	–	4,838

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Liquidity risk (cont'd)

	2009				2008			
	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Company (cont'd)								
Financial liabilities								
Trade and other payables	6,092	–	–	6,092	8,020	–	–	8,020
Interest-bearing loans and borrowings	232,593	–	–	232,593	69,498	189,290	–	258,788
Due to subsidiaries (non-trade)	49,587	–	–	49,587	21,756	–	–	21,756
	288,272	–	–	288,272	99,274	189,290	–	288,564

Foreign currency risk

The Group has minimal transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily SGD and USD. The Group does not have any sales (2008: Nil) denominated in foreign currencies whilst only 3% (2008: 6%) of costs are denominated in foreign currencies. Similarly, the Group's trade receivable and trade payable balances at the balance sheet date have limited foreign currency exposures and bulk of the sales and purchases are denominated in the respective functional currencies of the Group entities which are mainly RMB.

The Group and the Company also hold minimal cash and cash equivalents denominated in foreign currencies for working capital purposes.

Currently, the Group has not entered into any hedge due to the limited transactional foreign currency exposure.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations in People's Republic of China ("PRC"). The Group's net investments in PRC are not hedged as currency positions in RMB are considered to be long-term in nature.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the SGD and USD against the RMB, with all other variables held constant, of the Group's loss net of tax:

	Group Loss net of tax	
	2009 RMB'000	2008 RMB'000
USD		
– strengthened 10% (2008: 10%)	23,312	13,516
– weakened 10% (2008: 10%)	(23,312)	(13,516)
SGD		
– strengthened 10% (2008: 10%)	431	416
– weakened 10% (2008: 10%)	(431)	(416)

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables (including retention monies and due from associate). For other financial assets (including investment securities, cash and cash equivalents and derivatives), the Group and the Company minimise credit risk by dealing with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. For transactions that do not occur in the country of the relevant operating unit, the Group will perform a more stringent credit verification procedures before offering credit terms to the overseas customers.

Exposure to credit risk

At the balance sheet date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

As at 31 December 2009, there was no significant concentration of credit risk. There is approximately 23.9% (2008: 31.3%) of the Group's trade and other receivable balance due from 4 major customers who are located in PRC.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group.

Financial assets that are either past due or impaired

Information regarding the financial asset that are either past due or impaired is disclosed in Note 19 to the financial statements.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

A. Financial instruments whose carrying amounts approximate fair value

This relates to fair value changes in embedded equity conversion option on Series 1 Junior Bonds and is stated at fair value with changes in fair value being charged to the statement of comprehensive income.

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significant of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1– Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As at 31 December 2009, the derivative financial instrument (Note 31) is classified under Level 2 and the fair value of the derivative financial instrument is nil.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

Determination of fair value of derivative financial instrument

On 7 September 2009, the bondholders demanded immediate repayment of the outstanding debts of Series 1 Senior Bonds and Series 1 Junior Bonds (including all interest and all redemption premiums). On 4 December 2009, the Company entered into a Settlement Agreement with the bondholders to repay an aggregate sum of US$27.5 million in cash and US$2.0 million in the form of new convertible bonds.

Based on the terms of the Settlement Agreement, management is of the view that the bondholders' intention is to settle/recover the outstanding debts in cash and issuance of new convertible bonds, thereby extinguishing the existing liabilities under the Bonds. Accordingly, management estimated that the fair value of the embedded equity conversion option on Series 1 Junior Bonds as at 31 December 2009 to be zero.

During financial year ended 31 December 2008, the embedded equity conversion option was valued using the Monte Carlo valuation technique. The parameters and assumptions used include underlying common stock price at the valuation date, risk-free rate, expected volatility, term of the bond, expected dividend yield and corporate yield volatility that are supported by observable market prices or data.

B. *Fair Value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value*

Management has determined that the carrying amounts of cash and short term deposits, current trade and other receivables, current trade and other payables, balances due from/to subsidiary/associate and loans and borrowings, based on their notional amounts, reasonably approximate their fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the balance sheet date.

46. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2009 and 31 December 2008.

As disclosed in Note 35, the subsidiaries of the Group are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the subsidiaries for the financial years ended 31 December 2009 and 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Currently, the Group's internal guideline is to keep the gearing ratio between 40% and 80%. The Group includes within net debt, loans and borrowings, bill payables less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company less the abovementioned restricted statutory reserve fund.

The Group plans to meet its short term obligations as and when they fall due through rollover of certain existing short-term bank loan facilities of RMB 73,218,000 and obtaining long-term project financing and acceleration of receivables collection.

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for the financial year ended 31 December 2009 — **continued**

46. CAPITAL MANAGEMENT (cont'd)

However, as the Group continues to invest in subsidiaries with concessionary arrangements with governing bodies and agencies of the government of the People's Republic of China ("PRC") (collectively "the grantors") to construct and/or operate water treatment and/or purification facilities with concession periods of between 20 to 30 years, it is possible that the level of gearing may increase beyond the Group's internal guideline. This is because project loans drawn down by the subsidiaries will be consolidated into the Group's balance sheet. These project loans, however, are mainly secured by the water treatment and purification facilities and/or the concessionary agreements awarded, and are typically non-recourse to the Group in nature.

	Group	
	2009 **RMB'000**	**2008** **RMB'000**
Interest-bearing loans and borrowings	746,167	563,683
Bills payable to banks	33,218	72,692
Less: Cash and cash equivalents	(81,554)	(120,991)
Net debt	679,831	515,384
Equity attributable to the equity holders of the Company	194,371	372,890
Less: Statutory reserve fund	(33,183)	(31,216)
Total capital	161,188	341,674
Capital and net debt	859,019	857,058
Gearing ratio (Net debt / capital and net debt)	81%	60%

47. DIVIDEND

	Group and Company	
	2009 **RMB'000**	**2008** **RMB'000**
Declared and paid during the year:		
– Final tax-exempt one-tier dividend of S$Nil (2008: S$0.010) per ordinary share	–	9,989

48. EVENTS AFTER THE BALANCE SHEET DATE

(a) Proposed investment, proposed restructuring of obligation under the Bond Subscription Agreement ("BSA")

As discussed more fully in Note 32 to the financial statements, on 7 September 2009, the bondholders rejected the Group's application to extend the repayment date and requested the termination of the Settlement Agreement and demanding immediate payment of all principal sums that are outstanding, all interest and all redemption premiums.

The Group, however, is unable to make full repayment as demanded. Receivers have been appointed by bondholders over the Group's charged assets. Trading of the Company's shares was suspended since 8 September 2009.

On 25 June 2009, the Company initiated its proposed restructuring plan by entering into Subscription Agreement, Settlement Agreement and Litebay Subscription Agreement with Triumph Power Limited ("Triumph"), bondholders and Litebay Pte. Ltd. ("Litebay").

On 29 July 2009 and 23 September 2009, extraordinary general meetings ("EGM") were convened as requisitioned by EGN Nominees Pte. Ltd. (holding 21.59% of the total issued share capital of the Company). During the EGM on 23 September 2009, the shareholders approved the cessation of the proposed restructuring.

On 30 October 2009, the Receivers entered into a conditional transaction agreement to sell the charged assets to Triumph. In the circumstances, the board decided to negotiate with the Receivers in order to pursue an improved deal with the original offeror party (being Triumph). As a result of these negotiations, on 4 December 2009, the Company entered into Settlement Agreement with bondholders and Supplemental Agreements with Triumph and Litebay.

In accordance with the Settlement Agreement dated 4 December 2009, the Company is to repay an aggregate sum of US$27.5 million in cash to bondholders and repay Lucky Six Limited US$2.0 million in the form of new convertible bonds ("Repayment Bonds") as payment of the aggregate outstanding amount and the outstanding redemption premium. The Repayment Bonds are convertible into shares of the Company at conversion price of S$0.045 per share.

Under the Supplemental Agreements with Triumph and Litebay, Triumph and Litebay shall subscribe for not less than 1,663,991,562 new shares and up to 1,860,910,521 new shares, and 196,918,959 new shares respectively at an issue price of S$0.02 each. In addition, Triumph also shall subscribe up to 98,459,479 excess right shares under the Rights Issue ("Proposed Rights Issue") and US$4.5 million convertible bonds ("Bonds 2010").

The Proposed Rights Issue is proposed to be made on a non-renounceable basis for the issuance of up to 112,237,604 new ordinary shares of the Company at issue price of S$0.02 per Rights Share. The Rights Shares will, upon allotment and issuance, rank *pari passu* in all respects with existing Shares of the Company, save that the Rights Shares will not be entitled to any dividends, rights, and allotments or other distributions, the record date for which falls before the date of issue of the Rights Shares.

In addition, the Company also proposed bonus issue up to 224,475,208 free warrants ("2010 Warrants") with 112,237,604 warrants carrying the right to subscribe for one new share at an exercise price of S$0.02 per share and the remaining 112,237,604 warrants carrying the right to subscribe for one new share at an exercise price of S$0.045.

On 12 February 2010, the Company announced that the Escrow Agent has received the subscription consideration of US$13.0 million from Triumph, with the completion of share subscription. The Receivers have been discharged with resumption of trading of shares of the Company.

On 18 February 2010, the Company announced that it has completed the Triumph subscription and issuance of Bonds 2010 to Triumph of S$39.7 million, Litebay subscription of S$5.9 million, and the issuance of Repayment Bonds of US$2.0 million to Lucky Six Limited and repaid an aggregate sum of US$27.5 million to the bondholders in accordance to the Settlement Agreement. The net proceeds after repayment to the bondholders will be used for working capital purposes.

Notes to the Financial Statements
for the financial year ended 31 December 2009 — **continued**

48. EVENTS AFTER THE BALANCE SHEET DATE (cont'd)

(b) 2010 Warrants issue

On 19 February 2010, the Company has completed two tranches of 2010 Warrants issue of 98,357,272 warrants for each tranche at an exercise price of S$0.02 and S$0.045 respectively. 28,151,710 of 2010 Warrants have been exercised since the end of the financial year ended 31 December 2009 to the date of the report.

Adjustment to exercise price and number of 2005 Warrants and ESOS options

Pursuant to the proposed new Share Issue to Triumph and Litebay, as well as the Rights Issue, the Company made adjustment to the exercise price and number of 2005 Warrants and ESOS options as follows:

	Exercise price at 31.12.09 S$	Adjusted exercise price S$	Number of warrants/ options as at 31.12.09	Adjusted number of warrants/ options
2005 Warrants	0.180	0.025	9,146,249	13,053,363
ESOS options	0.665	0.090	18,410,000	26,300,505

16,143 of 2005 Warrants (2008: Nil warrants) have been exercised since the end of the financial year ended 31 December 2009 to the date of the report.

On 27 February 2010, the Remuneration Committee disapproved the exercise of the options held by resigned executives. Accordingly, the number of share options outstanding and exercisable as at the date of this report is 19,923,235.

(c) Rights Issue

On 10 March 2010, the Company has completed the Rights Issue through the issuance of 98,463,979 shares at S$0.02 for each Rights Share with total gross proceeds of S$1,969,000. The proceeds will be used for working capital purposes.

If the weighted average number of ordinary shares used in the computation of basic and diluted loss per share is adjusted to reflect the bonus element inherent in the Rights Issue, the impact on the financial statements will be as follows:

	Group	
	2009	2008
	Number of Shares	
Weighted average number of ordinary shares used in the computation of basic and diluted loss per share, after adjustment for bonus element in rights issue	253,183,723	253,170,544
	RMB cents	RMB cents
Basic and diluted loss per share	(70.89)	(6.93)

(d) Conversion of Repayment Bonds issued to Lucky Six Limited

On 17 March 2010, Repayment Bonds of US$200,000 was converted into 6,140,000 shares at an exercise price of S$0.045 each.

48. EVENTS AFTER THE BALANCE SHEET DATE (cont'd)

(e) De-registration of a subsidiary

Huangshi Chengtou Water Services Co., Ltd. ("Huangshi Chengtou"), a subsidiary in which the Group holds 90% shareholding, was de-registered with effect from 11 January 2010.

49. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into several service concession arrangements with certain governing bodies and agencies of the government of the People's Republic of China ("PRC") to construct and operate wastewater treatment plants, piping system and supply of tap water.

	Construction revenue	Group Operating income of wastewater treatment/ tap water plants	Total service concession revenue
	RMB '000	RMB '000	RMB '000
For financial year ended 31 December 2009	99,519	53,551	153,070
For financial year ended 31 December 2008	163,491	30,256	193,747

The revenue recognised in relation to construction represents the fair value of the construction services provided in constructing the wastewater treatment/tap water plants.

The details of service concession arrangements are as follows:

Name of subsidiaries	Plant type	Type and period of concession	Design capacity
Wuhan Xincheng	- wastewater treatment plant	- BOT, 20 years commencing March 2004	120,000 tons/day
Tianmen Kaidi	- tap water plant and piping network	- TOT, 25 years commencing October 2004	200,000 tons/day
Tianmen Xinnong	- piping network	- BOT, 25 years commencing October 2004	130,000 residents
Lv Liang Xinya	- potable water plant, piping system, reservoirs, control and automated system, pump rooms and other related facilities	- BOO, 50 years commencing November 2007	55,000 tons/day
Taizhou Kaidi	- wastewater treatment plant	- BOT, 20 years commencing December 2005	50,000 tons/day
Huangshi Kaidi	- wastewater treatment plant	- BOT, 27 years commencing May 2008	125,000 tons/day
Wuhan Huang-Pi	- wastewater treatment plant, piping system	- BOT, 30 years commencing May 2008	250,000 tons/day

The subsidiaries are required to hand back these respective plants/stations/piping network and other related facilities under the BOT arrangements to the respective local municipal government body/agency at the end of the respective concession periods without any consideration.

Notes to the Financial Statements

for the financial year ended 31 December 2009 — **continued**

49. SERVICE CONCESSION ARRANGEMENTS (cont'd)

Subject to the approval of the local municipal government, the various concession arrangements allow for tariff adjustment based on the increases in key operating costs, overall adjustment of water tariff rates in the region where the plants operate, and the government policies regarding the management of water resources.

Under the respective concession arrangements entered into by the subsidiaries of the Group, there is express obligation for the subsidiaries to continue to maintain the plants over the concession period to ensure the condition of the infrastructure when it is handed back at the end of the service concession period. The obligation is recognised and measured at the best estimate of the expenditure that would be required at every balance sheet date.

50. COMPARATIVES

Comparatives in the financial statements have been reclassified from the previous year to conform with current year's presentation as shown below:

	Note	Group			
		As previously stated	**As reclassified**	**As previously stated**	**As reclassified**
		2008 RMB'000	2008 RMB'000	2007 RMB'000	2007 RMB'000
Balance Sheets					
Non-current assets					
Property, plant and equipment	A	51,115	48,971	46,294	44,041
Intangible assets/land use rights	A,B,C	525,635	473,814	400,191	402,444
Financial receivables	B	217,840	266,605	122,177	122,177
Current assets					
Other receivables	C	59,065	64,265	10,940	10,940

	Note	Group	
		As previously stated	**As reclassified**
		2008 RMB'000	**2008** RMB'000
Statement of Comprehensive Income			
Administrative expenses	D	(43,686)	(44,412)
Financial expenses	D	(66,354)	(65,628)

50. COMPARATIVES (cont'd)

A. Property, plant and equipment and Intangibles

Land use right on leasehold building of a subsidiary of RMB 2,144,000 has been reclassified from property, plant and equipment to intangibles for the year ended 31 December 2008 (2007: RMB 2,253,000).

B. Intangible assets and Financial receivables

A subsidiary acquired an existing wastewater treatment plant for upgrade to increase its capacity. The plant should be accounted for as financial receivables under INT FRS 112, Service Concession Arrangements but was incorrectly classified as intangible assets. The plant is still undergoing upgrade during the year. Accordingly, comparative of RMB 48,765,000 has been reclassified from intangible assets to financial receivables for the year ended 31 December 2008 (2007: Nil).

C. Intangible assets and Other receivables

Advances to certain contractors of a wastewater treatment plant of a subsidiary of RMB 5,200,000 have been reclassified from intangible assets to other receivables for the year ended 31 December 2008 (2007: Nil).

D. Administrative expenses and Financial expenses

Bank charges and foreign exchange gain/loss included in financial expenses have been reclassified to administrative expenses to conform to current year's presentation.

51. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 9 April 2010.

Statistics of Shareholdings

as at 19 March 2010

NUMBER OF SHARES : 2,166,640,459
CLASS OF SHARES : ORDINARY SHARE
VOTING RIGHTS : ONE VOTE PER SHARE

TREASURY SHARES

The Company does not hold any treasury shares.

STATISTICS OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	19	1.75	1,344	0.00
1,000 - 10,000	375	34.47	1,730,500	0.08
10,001 - 1,000,000	665	61.12	58,893,916	2.72
1,000,001 and above	29	2.66	2,106,014,699	97.20
TOTAL :	1,088	100.00	2,166,640,459	100.00

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1.	Triumph Power Limited	1,663,991,562	76.80
2.	Litebay Pte. Ltd.	196,918,959	9.09
3.	DBS Nominees Pte Ltd	56,268,503	2.60
4.	Regal Capital Finance Limited	33,156,000	1.53
5.	DBS Vickers Securities (S) Pte Ltd	28,963,000	1.34
6.	HSBC (Singapore) Nominees Pte Ltd	22,827,825	1.05
7.	Phillip Securities Pte Ltd	21,369,040	0.99
8.	Ever Clinch Pte Ltd	11,027,097	0.51
9.	Viking Offshore and Marine Limited	9,461,000	0.44
10.	Maxgain Pte Ltd	6,632,310	0.31
11.	Lucky Six Limited	6,140,000	0.28
12.	Citibank Nominees Singapore Pte Ltd	5,700,878	0.26
13.	Huang Hanguang	5,648,300	0.26
14.	Kim Eng Securities Pte. Ltd.	4,845,025	0.22
15.	Yeo Boon Leong	4,247,000	0.20
16.	OCBC Securities Private Ltd	3,317,000	0.15
17.	Lee Chee Wee	3,000,000	0.14
18.	UOB Kay Hian Pte Ltd	2,898,500	0.13
19.	Tay Lee Chye Lester (Zheng Licai Lester)	2,700,000	0.12
20.	BWT Aktiengesellschaft	2,489,200	0.11
TOTAL :		2,091,601,199	96.53

Statistics of Shareholdings

as at 19 March 2010 — continued

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Triumph Power Limited	1,663,991,562	76.80	–	–
S.I. Infrastructure Holdings Limited (i)	–	–	1,663,991,562	76.80
Shanghai Industrial Holdings Limited (ii)	–	–	1,663,991,562	76.80
Litebay Pte. Ltd.	196,918,959	9.09	–	–
Chedington Limited (iii)	–	–	196,918,959	9.09
Ye Qin (iv)	–	–	196,918,959	9.09

Notes:

(i) S.I. Infrastructure Holdings Limited ("SI") is deemed to be interested in the shares held by Triumph Power Limited ("Triumph") in the Company as SI owns 100% issued and paid-up share capital of Triumph.

(ii) Shanghai Industrial Holdings Limited ("SIHL") is deemed to be interested in the shares held by Triumph in the Company as SIHL owns 100% issued and paid-up share capital of SI which in turn owns 100% issued and paid-up share capital of Triumph.

(iii) Chedington Limited ("CL") is deemed to be interested in the shares held by Litebay Pte. Ltd. ("Litebay") in the Company as CL owns 100% issued and paid-up share capital of Litebay.

(iv) Ye Qin is deemed to be interested in the shares held by Litebay in the Company as Ye Qin owns 100% issued and paid-up share capital of CL which in turn owns 100% issued and paid-up share capital of Litebay.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

14.1% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Catalist Rule 723 of the Listing Manual of the SGX-ST.

Statistics of Warrantholdings (W101118)

as at 19 March 2010

NUMBER OF WARRANTS : 94,159,272
EXPIRY DATE : 18 NOVEMBER 2010
EXERCISE PRICE : S$0.02

DISTRIBUTION OF WARRANTHOLDINGS

Size of Warrantholdings	No. of Warrantholders	%	No. of Warrants	%
1 - 999	143	16.44	26,147	0.03
1,000 - 10,000	499	57.35	2,259,997	2.40
10,001 - 1,000,000	214	24.60	12,593,617	13.37
1,000,001 and above	14	1.61	79,279,511	84.20
TOTAL :	870	100.00	94,159,272	100.00

TWENTY LARGEST WARRANTHOLDERS

No.	Name	No. of Warrants	%
1.	DBS Nominees Pte Ltd	21,007,296	22.31
2.	Regal Capital Finance Limited	11,052,000	11.74
3.	Tan See Tee	10,000,000	10.62
4.	Ng Siew Ban (Huang Xiuwan)	8,000,000	8.50
5.	HSBC (Singapore) Nominees Pte Ltd	7,924,830	8.42
6.	Viking Offshore and Marine Limited	4,750,000	5.04
7.	Ever Clinch Pte Ltd	3,675,699	3.90
8.	Citibank Nominees Singapore Pte Ltd	3,443,772	3.66
9.	Maxgain Pte Ltd	2,210,770	2.35
10.	Phillip Securities Pte Ltd	1,846,430	1.96
11.	Bhagwan s/o Ramchand	1,756,000	1.86
12.	BWT Aktiengesellschaft	1,244,600	1.32
13.	Huang Hanguang	1,216,100	1.29
14.	Kim Eng Securities Pte. Ltd.	1,152,014	1.22
15.	OCBC Securities Private Ltd	798,024	0.85
16.	Kun Kay Hong	674,500	0.72
17.	UOB Kay Hian Pte Ltd	650,000	0.69
18.	Ian Malcolm Gallantree	450,000	0.48
19.	United Overseas Bank Nominees Pte Ltd	307,000	0.33
20.	Wang Tianhua	270,500	0.29
TOTAL :		82,429,535	87.55

Statistics of Warrantholdings (W101220)

as at 19 March 2010

NUMBER OF WARRANTS : 13,053,364
EXPIRY DATE : 20 DECEMBER 2010
EXERCISE PRICE : S$0.025

DISTRIBUTION OF WARRANTHOLDINGS

Size of Warrantholdings	No. of Warrantholders	%	No. of Warrants	%
1 - 999	24	17.78	5,409	0.04
1,000 - 10,000	73	54.07	227,466	1.74
10,001 - 1,000,000	36	26.67	5,160,301	39.53
1,000,001 and above	2	1.48	7,660,188	58.69
TOTAL :	135	100.00	13,053,364	100.00

TWENTY LARGEST WARRANTHOLDERS

No.	Name	No. of Warrants	%
1.	Regal Capital Finance Limited	6,204,374	47.53
2.	Zheng Xuecheng	1,455,814	11.15
3.	BWT Aktiengesellschaft	889,017	6.81
4.	Huang Hanguang	868,660	6.65
5.	Kun Kay Hong	694,299	5.32
6.	Wang Yaoyu	530,867	4.07
7.	DBS Nominees Pte Ltd	319,947	2.45
8.	Ian Malcolm Gallantree	303,577	2.33
9.	Merrill Lynch (Singapore) Pte Ltd	277,505	2.13
10.	Citibank Nominees Singapore Pte Ltd	197,860	1.52
11.	How Kiang Yong	144,288	1.11
12.	Phillip Securities Pte Ltd	99,002	0.76
13.	Chew Kuan	88,573	0.68
14.	HSBC (Singapore) Nominees Pte Ltd	87,857	0.67
15.	Teo Lai Wah Timothy	71,430	0.55
16.	OCBC Securities Private Ltd	65,715	0.50
17.	Chan Cheow Ho	42,858	0.33
18.	DBS Vickers Securities (S) Pte Ltd	35,715	0.27
19.	Mercantile Enterprises Pte Ltd	35,715	0.27
20.	Singapore Ann Kway Holdings Ltd	35,715	0.27
	TOTAL :	12,448,788	95.37

Statistics of Warrantholdings (W110818)

as at 19 March 2010

NUMBER OF WARRANTS : 98,357,272
EXPIRY DATE : 18 AUGUST 2011
EXERCISE PRICE : S$0.045

DISTRIBUTION OF WARRANTHOLDINGS

Size of Warrantholdings	No. of Warrantholders	%	No. of Warrants	%
1 - 999	142	16.08	25,642	0.03
1,000 - 10,000	508	57.53	2,305,672	2.34
10,001 - 1,000,000	220	24.92	12,778,097	12.99
1,000,001 and above	13	1.47	83,247,861	84.64
TOTAL :	883	100.00	98,357,272	100.00

TWENTY LARGEST WARRANTHOLDERS

No.	Name	No. of Warrants	%
1.	DBS Nominees Pte Ltd	21,020,796	21.37
2.	Phillip Securities Pte Ltd	12,749,280	12.96
3.	Regal Capital Finance Limited	11,052,000	11.24
4.	Lye Koon Moy	11,000,000	11.18
5.	HSBC (Singapore) Nominees Pte Ltd	7,947,330	8.08
6.	Viking Offshore and Marine Limited	4,750,000	4.83
7.	Ever Clinch Pte Ltd	3,675,699	3.74
8.	Citibank Nominees Singapore Pte Ltd	3,473,272	3.53
9.	Maxgain Pte Ltd	2,210,770	2.25
10.	Bhagwan s/o Ramchand	1,756,000	1.79
11.	BWT Aktiengesellschaft	1,244,600	1.27
12.	Huang Hanguang	1,216,100	1.24
13.	Kim Eng Securities Pte. Ltd.	1,152,014	1.17
14.	OCBC Securities Private Ltd	760,024	0.77
15.	UOB Kay Hian Pte Ltd	722,000	0.73
16.	Kun Kay Hong	674,500	0.69
17.	Cheng Wa Sing	475,000	0.48
18.	Ian Malcolm Gallantree	450,000	0.46
19.	United Overseas Bank Nominees Pte Ltd	312,000	0.32
20.	Wang Tianhua	270,500	0.28
TOTAL :		86,911,885	88.38

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of ASIA WATER TECHNOLOGY LTD. ("the Company") will be held at NTUC Centre, No. 1 Marina Boulevard, Room 701, Level 7, Singapore 018989, on Thursday, 29 April 2010 at 10 am for the following purposes:

AS ORDINARY BUSINESS

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

2. (a) To re-elect the following Directors retiring pursuant to Article 97 of the Company's Articles of Association:

Mr Cai Yutian **(Resolution 2)**
Mr Feng Jun **(Resolution 3)**
Ms Liu Yujie **(Resolution 4)**
Mr Zhou Jun **(Resolution 5)**
Mr Zhang Chao **(Resolution 6)**
Mr Zou Jiefu **(Resolution 7)**
Mr Yeo Guat Kwang **(Resolution 8**)
Mr Tay Ah Kong, Bernard **(Resolution 9)**
Mr Tan Chong Huat **(Resolution 10)**

Mr Yeo Guat Kwang will, upon re-election as a Director of the Company, remain a member of the Audit Committee and will be considered independent for the purposes of Rule 704(7) of the Singapore Exchange Securities Trading Limited Listing Manual Section B: Rules of Catalist ("Catalist Rules").

Mr Tay Ah Kong, Bernard will, upon re-election as a Director of the Company, remain as Chairman of the Audit Committee and will be considered independent for the purposes of Rule 704(7) of the Catalist Rules.

Mr Tan Chong Huat will, upon re-election as a Director of the Company, remain a member of the Audit Committee and will be considered independent for the purposes of Rule 704(7) of the Catalist Rules.

(b) To note the retirement of Mr Ling Chung Yee, Roy, a Director retiring pursuant to Article 97 of the Company's Articles of Association.

Mr Ling Chung Yee, Roy will, upon retirement, cease as a member of the Audit, Nominating and Remuneration Committees.
[See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$205,720.55 for the year ended 31 December 2009 (2008: S$190,000). **(Resolution 11)**

4. To re-appoint Ernst & Young LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 12)**

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

AS SPECIAL BUSINESS

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

Notice of Annual General Meeting
— continued

6. **Authority to allot and issue Shares**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual Section B: Rules of Catalist ("Catalist Rules"), authority be given to the Directors of the Company to issue shares ("Shares") whether by way of rights, bonus or otherwise, and/or make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and to such persons as the Directors may, in their absolute discretion, deem fit provided that:

(a) the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed one hundred percent (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, of which the aggregate number of Shares and convertible securities to be issued other than on a pro-rata basis to all shareholders of the Company shall not exceed fifty percent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company;

(b) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) of the Company as at the date of the passing of this Resolution, after adjusting for:

(i) new shares arising from the conversion or exercise of convertible securities;

(ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this Resolution is passed; and

(iii) any subsequent bonus issue, consolidation or subdivision of Shares;

(c) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the Catalist Rules for the time being in force (in each case, unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act, Cap. 50 and otherwise, the Articles of Association of the Company; and

(d) unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.
[See Explanatory Note (ii)] **(Resolution 13)**

7. **Authority to allot and issue shares under the Asia Water Share Option Scheme**

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors be authorised and empowered to allot and issue shares in the capital of the Company to all the holders of options granted by the Company, whether granted during the subsistence of this authority or otherwise, under the Asia Water Share Option Scheme (the "Scheme") upon the exercise of such options and in accordance with the terms and conditions of the Scheme, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen percent (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.
[See Explanatory Note (iii)] **(Resolution 14)**

By Order of the Board

Tong Siew Khim
Company Secretary
Singapore, 14 April 2010

Notice of Annual General Meeting
— continued

EXPLANATORY NOTES:

(i) Mr Ling Chung Yee, Roy had informed the Company that he would not be seeking re-election at this Annual General Meeting. Accordingly, he would retire as a Director of the Company at the close of the Annual General Meeting pursuant to Article 97 of the Company's Articles of Association.

(ii) The Ordinary Resolution 13 proposed in item 6 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue Shares and convertible securities in the Company up to an amount not more than one hundred percent (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to fifty percent (50%) may be issued other than on a pro rata basis.

(iii) The Ordinary Resolution 14 proposed in item 7 above, if passed, will empower the Directors of the Company, to allot and issue shares in the Company of up to a number not exceeding in total fifteen percent (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If the appointor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the registered office of the Company at 36 Robinson Road, #14-06, City House, Singapore 068877, not less than forty-eight (48) hours before the time appointed for holding the Meeting.

Proxy Form

— Please see notes overleaf before completing this form

ASIA WATER TECHNOLOGY LTD.
(Incorporated in Singapore)
(Company Registration No: 200210042R)

IMPORTANT:

1. For investors who have used their CPF monies to buy ASIA WATER TECHNOLOGY LTD.'s shares, this Annual 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 vote should contact their CPF Approved Nominees.

I/We, ____________________

of ____________________

being a member/members of ASIA WATER TECHNOLOGY 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 *him/her, 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 on Thursday, 29 April 2010 at 10 am 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 Cai Yutian as a Director		
3	Re-election of Mr Feng Jun as a Director		
4	Re-election of Ms Liu Yujie as a Director		
5	Re-election of Mr Zhou Jun as a Director		
6	Re-election of Mr Zhang Chao as a Director		
7	Re-election of Mr Zou Jiefu as a Director		
8	Re-election of Mr Yeo Guat Kwang as a Director		
9	Re-election of Mr Tay Ah Kong, Bernard, as a Director		
10	Re-election of Mr Tan Chong Huat as a Director		
11	Approval of Directors' fees		
12	Re-appointment of Ernst & Young LLP as Auditors		
13	Authority to allot and issue new shares		
14	Authority to allot and issue shares under the Asia Water Share Option Scheme		

Dated this ________ day of ______________ 2010

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

____

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

**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. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 36 Robinson Road, #14-06, City House, Singapore 068877, not less than forty-eight (48) hours before the time appointed for the Meeting.

5. 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.

6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

GENERAL:

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

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