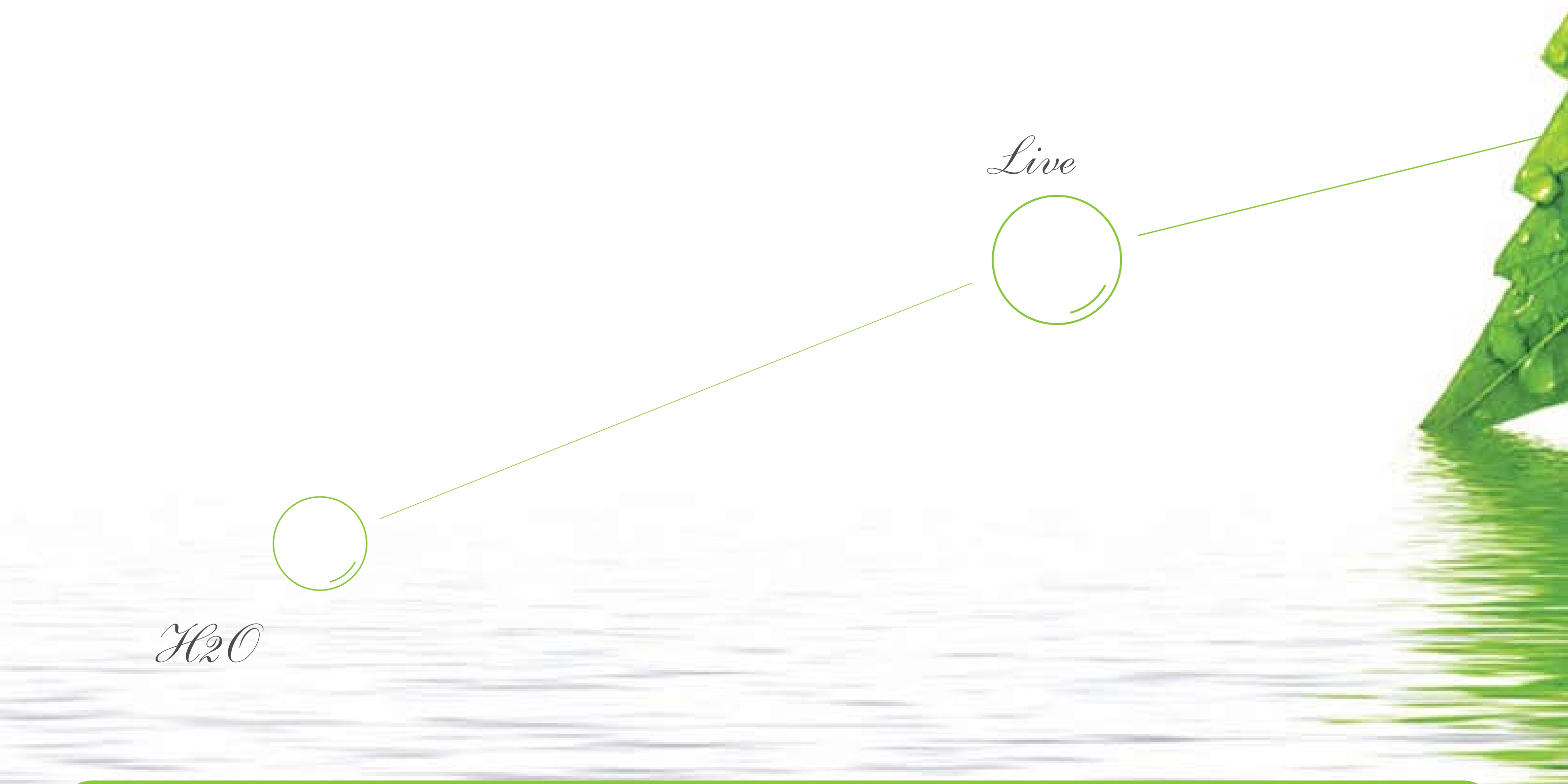
上海实业环境控股有限公司
SIIC ENVIRONMENT HOLDINGS LTD.

Annual Report 2012

Position for Growth

Environmental Protection



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Corporate Mission

We envisage ourselves becoming a leading force in the environmental protection industry in the People's Republic of China ("PRC"), backed by a strong parentage, 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 resources.

Successful Transfer to Main Board on 30 November 2012


SIIC
Presented To
SINGAPORE EXCHANGE
SIIC ENVIRONMENT HOLDINGS LTD
30 November 2012


SGX
SINGAPORE EXCHANGE

Corporate Profile

Listed on SGX-ST Catalist in 2005 and subsequently transferred to the SGX-ST Mainboard in November 2012, SIIC Environment Holdings Ltd. ("SIIC Environment") (formerly known as Asia Water Technology Ltd.), a top-tier player in the Chinese water sector, is committed to enlarging its market share in this field and the environmental-related industry.

SIIC Environment, being a water treatment and management specialist as well as an active investor in environmental related infrastructure assets, has developed integrated engineering solutions including designing, procurement, installation, commissioning and management for water purification, water supply and waste water treatment systems and facilities and currently hold a sizable portfolio of Build-Operate-Transfer ("BOT"), Transfer-Operate-Transfer ("TOT"), Build-Own-Operate ("BOO") and Operation and Management ("O&M") projects in twelve provinces, namely Hubei, Shandong, Hunan, Zhejiang, Shanxi, Henan, Liaoning, Jiangsu, Yunnan, Fujian, Guangdong and Guangxi.

Leveraging on the scalability of its technologies, SIIC Environment has expanded its competencies to include related sectors in the water and environmental protection industries such as seawater desalination and waste-to-power, thereby strengthening its position in the PRC environmental protection industry.

Backed by its proven track record, technical expertise, investment capability and a firm commitment to quality, environmental protection and the preservation of the world's precious resources, SIIC Environment is well-poised to ride on the waves of progress in the PRC's environmental protection industry.

Chairman's Statement

Dear Valued Shareholders,

I am pleased to report our results for the financial year ended 31 December 2012 ("FY2012").

FY2012 has been a year of significance for SIIC Environment Holdings Ltd. ("SIIC Environment" or the "Company", together with its subsidiaries, collectively the "Group") as the Group continued to focus on its growth strategy to march boldly but cautiously forwards.

Mr. Zhou Jun
Executive Chairman

During FY2012, the Group has experienced significant improvements in many aspects as it expanded the scale of operation and project footprint across the PRC while at the same time, strengthening its core financials and capabilities. From the financials perspective, the Group's revenue surged by RMB285.0 million or 54.9%, from RMB519.5 million in FY2011 to RMB804.5 million in FY2012. Gross profit also increased by RMB89.2 million or approximately 47.3%, from RMB188.2 million in FY2011 to RMB277.4 million in FY2012. Overall, the Group achieved profit after tax and profit after tax attributable to owners of the Company of RMB177.2 million and RMB130.5 million in FY2012 as compared to RMB136.2 million and RMB110.1 million recorded in FY2011, representing an increase of 30.2% and 18.5% respectively.

The Group's total equity has also strengthened by RMB501.7 million, from RMB1,297.4 million in FY2011 to RMB1,799.1 million as at 31 December 2012. As a result of the above, net assets per share also enhanced from RMB20.88 cents as at 31 December 2011 to RMB25.96 cents as at 31 December 2012.

During FY2012, the Group has further enhanced its asset base and project portfolio through the acquisition of 69.378% of Nanfang Water Co., Ltd. (together with its subsidiaries, collectively the "Nanfang Group"). After the acquisition of Nanfang Group, the Group's daily design water treatment capacity has increased significantly to reach more than 3 million tons, with expanded coverage across twelve provinces in the PRC, namely Hubei, Shandong, Hunan, Zhejiang, Shanxi, Henan, Liaoning, Jiangsu, Yunnan, Fujian, Guangdong and Guangxi.

Towards the end of FY2012, the Company has successfully transferred its listing from the Catalist to the Mainboard of the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 30 November 2012, and as a result, executed a good closure for FY2012 and laid a stronger foundation for the years ahead.

Business and Operations Overview

During FY2012 and to date, the Group continued to focus on its business expansion and acquisition strategy. Several milestones were accomplished during the year, including:-

Firstly, the Group commenced and successfully completed the acquisition of proposed acquisition of Rise Wealth Investments Ltd. and hence, acquired an effective equity stake of 69.378% of Nanfang Group for a maximum aggregate consideration of RMB409.3 million. Nanfang Group is engaged principally in the business of environmental protection, including waste water treatment, tap water treatment, reclaimed water treatment, project investment, operation and management of water treatment facilities. As Nanfang Group is engaged in broadly similar business as the Group's, with sizeable assets, this acquisition is a strategic addition and complementary to the Group's existing business and operational capabilities that further expanded the Group's current business operations including expansion in the Group's geographical coverage and daily treatment capacity, thereby enhancing shareholders' value.

Next, in January 2013, the Group has also completed the additional equity injection of RMB100 million into its 75.5% owned subsidiary, United Environment Co., Ltd. to fund its general working capital, funding and future business expansion requirements. Tranche 3 Completion in connection with the acquisition of Lap Yin International Limited was also completed in February 2013.

In addition, during the period, the Group was awarded several concessionary agreements and key contracts, such as:-

- **BOT concessionary projects in Dalian City**
  The Group's 70% owned subsidiary company, Dalian Xinya Hengji Environmental Co., Ltd. (大连新亚恒基环境有限公司) has successfully entered into a BOT concessionary agreement with a total investment value of approximately RMB155 million with the Dalian City municipal government to undertake the construction and operation of three waste water treatment plants (collectively, the "Projects") in Puwan New Area, Dalian City, Liaoning Province, the PRC for a period of 30 years, including the construction phase. The total short-term capacity for the three plants is estimated to be approximately 50,000 tons / day while the long-term capacity is projected to be up to 580,000 tons / day.

- **TOT concessionary project in Wuchuan City**
  The Group has successfully entered into a TOT concessionary agreement with the Wuchuan City municipal government to undertake the operation and maintenance of a waste water treatment plant in Wuchuan City, Guangdong Province, the PRC, with a design capacity of 40,000 tons for a period of 25 years, and a minimum off-take guarantee from the Wuchuan City municipal government. The investment amount contributable by the Group in connection with the investment is RMB75.1 million.

- **EPC contract for a desalination project in Guangdong Province**
  The Group has been awarded an engineering, procurement and construction ("EPC") contract to a desalination system project in Guangdong Province, the PRC. This EPC contract entails the design, construction, procurement, installation, testing, commissioning, trial running and transfer of the seawater desalination system. The total value of the EPC contract is approximately RMB80 million and the EPC contract is expected to be completed in middle of 2014.

Shareholder Communications and Corporate Transparency

In the corporate governance and compliance space, the Group continued to work on enhancing our corporate transparency and disclosure practices and is committed to continuingly improve ourselves as a responsible corporate citizen.

Successful transfer to the Mainboard of the SGX-ST in November 2012

The Company is also pleased to inform our shareholders that it has successfully transferred its listing from the Catalist to the Mainboard of the SGX-ST on 30 November 2012. The transfer to the Mainboard of the SGX-ST is a significant and strategic milestone for the Group that has witnessed positive reaction from the market.

On 30 November 2012, the first day of trading on the SGX-ST Mainboard, shares of the Company opened positively at S$0.072, up 4% from the closing of S$0.069 on the preceding day. On the same day, share price closed strongly to a 52-week high of S$0.077, up 12% from previous day's closing price on a relatively high volume of 2 million shares, and have reached an intra-day of S$0.082.

In connection with the transfer, the Group believes that the higher stature will facilitate the Group to ride on Singapore's status as an important global financial centre and a global hydro-hub which gathers regional successful water firms with their own unique strengths in technology and other know-how to tap opportunities on both finance or business fronts.

Update on Utilisation of Rights Issue Proceeds

In March 2011, the Company completed a Rights Issue exercise of 1,217,789,975 Rights Shares that raised net proceeds of approximately S$72.8 million. As at 31 December 2012, unutilised Rights Issue proceeds amounted to approximately S$8.0 million. The key utilisation of the net proceeds is summarised as follow and the Company will continue to update our shareholders as and when the net proceeds is being materially disbursed.

	S$'million	Remarks
Net proceeds raised from Rights Issue in March 2011	**72.8**	
Less utilisation:		
- Payment of Tranche 1 Consideration in connection with the Proposed Acquisition of Lap Yin International Limited	(15.8)	Please refer to announcement made on 20 July 2011 via SGXNet.
- Payment of Transfer Consideration in connection with the transfer of Wuhan Huang-Pi equity interest	(27.4)	Please refer to announcement made on 16 November 2011 via SGXNet.
- Payment for the initial capital injection into Dalian Xinya Hengji Environmental Co., Ltd.	(0.4)	Please refer to announcement made on 6 March 2012 via SGXNet.
- Payment for Cash Consideration I in connection with the Proposed Acquisition of Rise Wealth Investments Ltd	(14.0)	Please refer to announcement made on 18 June 2012 via SGXNet.
- Payment for additional capital injection into Dalian Xinya Hengji Environmental Co., Ltd..	(2.8)	Please refer to announcement made on 10 August 2012 via SGXNet.
- General working capital uses**	(4.4)	
Balance of net proceeds raised from Rights Issue as at 31 December 2012	**8.0**	
***Breakdown of general working capital uses:*		
- Payments for procurement of equipment	(1.6)	
- Payments for various professional services	(0.7)	
- Payments of interest expenses	(2.1)	
Total	**(4.4)**	

Looking Ahead

Driven by the PRC Government's intensive nationwide policies and initiatives, the PRC environmental protection industry will continue to be the key growth driver for the Group moving ahead. The strong policy support as evidenced from the recent 12th Five-Year Plan to focus on environmental protection related sectors is envisioned to continually present opportunities and growth potential in the water related sector as well as the solid waste treatment related arena.

China is one of the world's largest fresh water consumers and the PRC Government has ear-marked RMB427 billion in its 12th Five-Year Plan to the water sector, compared to RMB332 billion spent in 2005-2010. This plan has been reaffirmed by the recent National People's Congress meeting held in November 2012. Other incentives such as the price reform mechanism for water supply reflects the country's scarcity in resources, meets treatment costs and promotes conservation and recycling.

In FY2010, Hong Kong-listed, China state-owned conglomerate, Shanghai Industrial Holdings Limited acquired the Company in 2010 against the backdrop of significant potential in the water business and this parenthood has provided us strong support for our business development and expansion plan.

Since FY2010 to date, the Group has successfully built a sizeable asset base and reaffirmed its top-tier position through active acquisitions and organic growth. While mindful of the existing uncertainties in the macro financial and economic environment, the Group is certainly well positioned to ride on the tide of progress in tandem with the PRC environmental protection industry evolution by leveraging on its internal capabilities and core competencies.

Moving steadily forward and with the objective of enhancing shareholders' value, the Group will strive to further reinforce its position as a top-tier player in the PRC environmental protection industry by enhancing its assets portfolio and expanding its scale of operation, geographical coverage and recurring income base arising from the Group's concessionary rights projects, through leveraging on its strong parentage, local presence, investment in new projects, mergers and acquisitions and efficient use of capital. With the recent addition of Nanfang Group to the Group's sound portfolio of assets, the Group's daily design treatment capacity has exceeded 3 million tons, strengthening its recurring income base.

In Appreciation

On behalf of the Board of Directors (the "Board"), I wish to extend our heartfelt appreciation to our valued shareholders for their continued trust and faith in us which has been instrumental in getting us to where we are today.

Special appreciation goes to my fellow Board members for their commitments and contributions in steering the Group forward. I would also like to convey my sincere gratitude to our dedicated management team and staff for their hard work and achievement over the past years.

During the year, we also saw the departure of Messrs Ernst & Young LLP as our auditors. Accordingly, Messrs Deloitte & Touche LLP has been appointed as auditors of the Company. We wish to express our deep appreciation to Messrs Ernst & Young LLP for the past services rendered and at the same time, extend a warm welcome to Messrs Deloitte & Touche LLP as we look forward to the continued support from Messrs Deloitte & Touche LLP.

Finally, I would like to convey my sincere appreciation to all our stakeholders - our customers, suppliers, banks, agencies and business partners for their continued trust and support.

Mr. Zhou Jun
Executive Chairman

Financial Review

Key Financial Data For the Year Ended 31 December

Results (RMB'000)	2012	2011	Change %
Revenue	**804,479**	519,464	54.9
Gross Profit	**277,351**	188,233	47.3
Profit from continuing operations	**161,484**	95,276	69.5
Profit before tax from continuing operations	**204,882**	150,206	36.4
Profit for the year	**177,245**	136,172	30.2
Profit attributable to owners of the Company			
- Total	**130,516**	110,130	18.5
- Continuing operations	**130,516**	109,300	19.4
Earnings per share (basic) (RMB cents)[*]			
- Total	**2.58**	3.21	(19.6)
- Continuing operations	**2.58**	3.18	(18.9)

[*] Computed based on weighted average number of ordinary shares outstanding for the respective financial year ended

Financial Position (RMB'000)	2012	2011	Change %
Total assets	**4,894,328**	3,420,674	43.1
Net assets (Total equity)	**1,799,100**	1,297,408	38.7
Equity attributable to owners of the Company	**1,312,635**	1,044,220	25.7
Net assets per share [a] (RMB cents)	**25.96**	20.88	24.3
Market capitalisation [b]	**2,054,622**	1,225,168	67.7
Number of shares (excluding treasury shares) (shares)	**5,055,665,517**	5,000,687,517	1.1
Return on equity [c]	**9.9%**	10.5%	

(a) Equity attributable to owners of the Company divided by the outstanding number of ordinary shares (excluding treasury shares)

(b) Closing share price of the last trading day of the year times outstanding number of shares (excluding treasury shares), translated at S$1:RMB5.08 (2011: S$1:RMB4.90)

(c) Profit for the year/Total equity

Financial Review

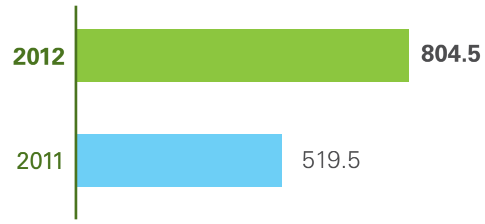
Financial Highlights

RMB804.5 MILLION

REVENUE

Increased 54.9% from FY2011's RMB519.5 million

(In RMB million)



RMB177.2 MILLION

PROFIT FOR THE YEAR

Increased 30.2% from FY2011's RMB136.2 million

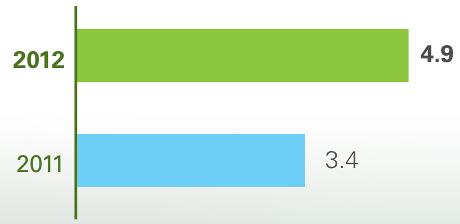
(In RMB million)

RMB4.9 BILLION

TOTAL ASSETS

Increased 43.1% from FY2011's RMB3.4 billion

(In RMB billion)

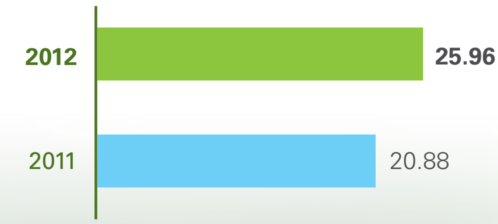


25.96 CENTS

NET ASSET VALUE PER SHARE

Increased 24.3% from FY2011's RMB20.88 cents

(In RMB cents)



Overall:

The Group recorded a surge in revenue from RMB519.5 million in FY2011 to RMB804.5 million in FY2012, representing an increase of 54.9%. Gross profit ("GP") has also recorded a significant increase of RMB89.2 million, from RMB188.2 million in FY2011 to RMB277.4 million in FY2012. Accordingly, the Group realised a considerable increase in profit for the year from RMB136.2 million in FY2011 to RMB177.2 million in FY2012, representing an increase of 30.2%, notwithstanding that a one-off negative goodwill and fair value gain on revaluation of cost of investment in connection with the acquisition of an additional 37% in Wuhan Hanxi Waste Water Treatment Co., Ltd. ("Wuhan Hanxi") totalling RMB50.6 million was being recorded in FY2011. There was no such one-off income being recorded in FY2012. Likewise, profit for the year attributable to owners of the Company has increased by 18.5%, from RMB110.1 million in FY2011 to RMB130.5 million in FY2012.

Profit:

The Group recorded an increase in GP of RMB89.2 million or approximately 47.3%, from RMB188.2 million in FY2011 to RMB277.4 million in FY2012. The Group's gross profit margin ("GPM") has remained relatively unchanged at 34.5% in FY2012 (FY2011: 36.2%). The Group's profit from continuing operations improved considerably from RMB95.3 million in FY2011 to RMB161.5 million in FY2012. Consequently, the Group's profit before tax improved considerably from RMB150.2 million in FY2011 to RMB204.9 million in FY2012.

This was due mainly to the following:-

(i) GP of RMB277.4 million (FY2011: RMB188.2 million) and financial income from service concession arrangements of RMB120.7 million (FY2011: RMB38.9 million) recorded in FY2012;

(ii) foreign exchange gain of RMB10.7 million (FY2011: RMB0.8 million) recognised in FY2012; and

(iii) write-back of allowance for doubtful receivables of RMB26.0 million (FY2011: RMB11.2 million) recognised in FY2012.

The increase was partially offset by (1) higher finance expenses of RMB102.9 million (FY2011: RMB66.5 million) and administrative expenses of RMB113.1 million (FY2011: RMB90.4 million) in FY2012 due mainly to (i) full year contribution from the United Environment business unit and Wuhan Hanxi; (ii) contribution from the newly acquired Nanfang Group; and (iii) interest expenses arising from the amount due to S.I. Infrastructure Holdings Limited and SIHL Finance Limited; (2) negative goodwill resulting from the acquisition of an additional 37% equity interest and fair value gain on revaluation of the original 43% cost of investment in Wuhan Hanxi recognised in FY2011 (there was no such one-off income being recognised in FY2012).

Equity:

The Group's total equity as at 31 December 2012 amounted to RMB1,799.1 million, strengthened from RMB1,297.4 million as at 31 December 2011. The increase was due mainly to (i) an increase in non-controlling interests and capital reserve amounting to RMB209.1 million and RMB126.8 million respectively arising from the acquisition of Rise Wealth; (ii) increase of RMB16.2 million in the share capital of the Group following the conversion of Bonds 2012A; and (iii) total comprehensive income of RMB182.2 million recorded for the year ended 31 December 2012.

Cash Flow:

During the financial year ended 31 December 2012, the followings were being recorded:-

(1) healthy net cash generated from the Group's operating activities amounted to RMB260.4 million, as compared to net cash generated in operating activities of RMB26.0 million during the financial year ended 31 December 2011, due mainly to the higher profit before tax recorded in FY2012;

(2) net cash used in investing activities by the Group amounted to RMB215.5 million due mainly to net cash outflow of RMB174.8 million on the acquisition of Rise Wealth and purchases of property, plant and equipment and intangibles/ land use rights, net of amount on credit terms of RMB103.3 million, partially offset by proceeds from grants of RMB12.1 million; and

(3) a net cash outflow from financing activities of RMB13.1 million due mainly to (i) repayment of bank and other borrowings which amounted to RMB661.6 million; and (ii) interest expense paid of RMB97.2 million, partially offset by the drawdown of new bank and other borrowings which amounted to RMB742.1 million.

As at 31 December 2012, the Group's cash and cash equivalents stood at RMB488.5 million (31 December 2011: RMB458.5 million).

Projects Overview

(as at 31 December 2012)

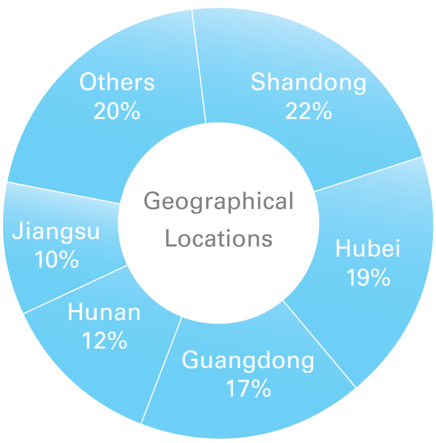
Strong regional root in Hubei, Shandong and Guangdong provinces as well as presence in most of the high growth regions

Summary of Geographical Coverage and Number of Projects

12 PROVINCES	41 PROJECTS

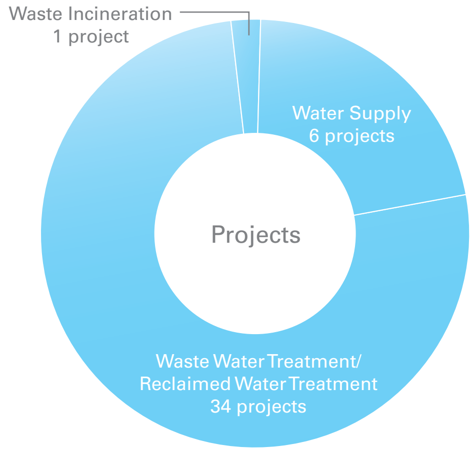
Geographical Footings

Increased coverage in 4 new provinces in PRC



Number of Projects

Increased by 51.9% from 27 projects in FY2011



Projects Overview

No.	Province	Project Name	Project Type	Daily Designed Capacity (tons)	SIIC Env's Effective Interests	Project Progress
1	Fujian	Anxi County, Longmen Town Waste Water Treatment ("Anxi Longmen")	Waste Water Treatment	50,000	69.4%	Construction of Phase 1 project is closed to completion and is estimated to commence operation in year 2013.
2	Guangdong	Dongguan City Waste Water Treatment ("Dongguan Water Treatment")	Waste Water Treatment	100,000	75.5%	The project is in operation.
3	Guangdong	Huizhou City Meihu Water Treatment Center 1st and 2nd stage ("Huizhou Meihu Waste Water")	Waste Water Treatment	200,000	69.4%	The project is in operation.
4	Guangdong	Longgang Yibao Shenzhen City Waste Water Treatment ("Longgang Yibao")	Waste Water Treatment	280,000	69.4%	All 4 plants are in operation; Phase 2 project of one of the plant is under construction and is expected to be in operation in year 2013.
5	Guangdong	Shenzhen City Henggang Recycling Water ("Henggang Reclaimed Water")	Reclaimed Water Treatment (O&M)	50,000	69.4%	Phase 1 project is in operation. Construction of Phase 2 project has yet to commence.
6	Guangdong	Shenzhen City, Banxuegang Waste Water Treatment ("Banxuegang Waste Water")	Waste Water Treatment (O&M)	40,000	69.4%	The project is in operation.
7	Guangdong	Shenzhen City Guanlan Waste Water ("Guanlan Waste Water")	Waste Water Treatment (O&M)	260,000	45.1%	Phase 1 project is in operation. Construction of Phase 2 project has yet to commence.
8	Guangdong	Zhanjiang Wuchuan Waste Water ("Wuchuan Waste Water")	Waste Water Treatment	40,000	69.4%	The project is in operation.
9	Guangxi	Beiliu City Waste Water Treatment ("Beiliu Water")	Waste Water Treatment	40,000	75.5%	The project is in operation.
10	Hubei	Huangshi Kaidi Water Services ("Huangshi Kaidi")	Waste Water Treatment	125,000	100.0%	The project is in operation.
11	Hubei	Tianmen Kaidi Water Services ("Tianmen Kaidi")	Water Supply	150,000	100.0%	The project is in operation.
12	Hubei	Tianmen Kaidi Xinnong Water Services ("Tianmen Xinnong")	Water Supply	Not Applicable	70.0%	The project is in operation.
13	Hubei	Wuhan Hanxi Waste Water Treatment ("Wuhan Hanxi")	Waste Water Treatment	400,000	80.0%	The project is in operation.
14	Hubei	Wuhan Huang-Pi Kaidi Water Services ("Huang-Pi Kaidi")	Water Supply	150,000	100.0%	The project is in operation.
15	Hubei	Wuhan Kaidi Xinchuan Waste Water Treatment ("Kaidi Xinchuan")	Waste Water Treatment	30,000	100.0%	The project is in operation.
16	Hubei	Wuhan Kaidi Xinlong Waste Water Treatment ("Kaidi Xinlong")	Waste Water Treatment	22,500	100.0%	The project is in operation.
17	Hubei	Wuhan Xincheng Waste Water Treatment ("Wuhan Xincheng")	Waste Water Treatment	60,000	100.0%	The project is in operation.
18	Henan	Luohe City Dong Cheng Waste Water Treatment ("Luohe Water")	Waste Water Treatment	20,000	75.5%	The project is in operation.
19	Hunan	Chenzhou City, Linwu County Waste Water Treatment ("Linwu Waste Water")	Waste Water Treatment	10,000	13.9%	The project is in operation.
20	Hunan	Chenzhou City Waste Water Treatment ("Chenzhou Waste Water")	Waste Water Treatment	120,000	69.4%	The project is in operation.
21	Hunan	Taojiang County Tao Hua Jiang Waste Water Treatment ("Taojiang Water")	Waste Water Treatment	20,000	75.5%	The project is in operation.
22	Hunan	Yiyang City Gaoxin District Waste Water Treatment ("Yiyang Shangshi")	Waste Water Treatment	30,000	75.5%	The project is in operation.
23	Hunan	Yiyang City Waste Water Treatment ("Yiyang Water")	Waste Water Treatment	40,000	75.5%	The project is in operation.
24	Jiangsu	Jiangsu Province, Jingjiang City, Xingang District Waste Water Treatment ("Jingjiang Xingang")	Waste Water Treatment	80,000	48.6%	The project is in operation.
25	Jiangsu	Shuyang County Waste Water ("Shuyang Waste Water")	Waste Water Treatment	60,000	69.4%	Phase 1 project is in operation. Construction of Phase 2 project has yet to commence.
26	Jiangsu	Taixing City Huangqiao Waste Water Treatment ("Huangqiao Waste Water")	Waste Water Treatment	50,000	48.6%	Phase 1 project is in operation. Construction of Phase 2 project has yet to commence.
27	Jiangsu	Jiangsu Yancheng Environment Protection Industry Park Waste Water Treatment ("Yancheng Waste Water")	Waste Water Treatment	30,000	48.6%	Construction of the project is estimated to commence in 2013.
28	Liaoning	Dalian Puwan New District Waste Water ("Dalian Waste Water")	Waste Water Treatment	50,000	70.0%	The project is under construction.
29	Shandong	Dezhou City Waste Water Treatment ("Dezhou Water")	Waste Water Treatment	100,000	75.5%	The project is in operation.
30	Shandong	Weifang City Chengxi Waste Water Treatment ("Chengxi Water")	Waste Water Treatment	40,000	75.5%	The project is in operation.
31	Shandong	Weifang City High Technology Industrial Development District Waste Water Treatment 1st Stage ("Weifang Waste Water")	Waste Water Treatment	50,000	75.5%	The project is in operation.
32	Shandong	Weifang City Hanting District Water Supply ("Weifang Hanting")	Water Supply	60,000	26.2%	The project is in operation.
33	Shandong	Weifang City Reclaimed Water ("Weifang Reclaimed Waste Water")	Reclaimed Water Treatment	35,000	75.5%	The project is in operation.
34	Shandong	Weifang City Waste Water Treatment ("United Environment Waste Water")	Waste Water Treatment	100,000	75.5%	The project is in operation.
35	Shandong	Weifang City Tap Water Supply ("Weifang Tap Water")	Water Supply	320,000	51.3%	The project is in operation.
36	Shandong	Zaozhuang City Shanting District Waste Water Treatment ("Zaozhuang Shanting")	Waste Water Treatment	20,000	75.5%	Phase 1 project is in operation. Construction of Phase 2 project has yet to commence.
37	Shandong	Zaozhuang City Yicheng District Water Waste Water Treatment ("Zaozhuang Water")	Waste Water Treatment	40,000	75.5%	The project is in operation.
38	Shanxi	Lv Liang Xinya Water Services ("Lv Liang Xinya")	Water Supply	55,000	100.0%	The project is in operation.
39	Yunnan	Kunming Economy Development Zone, Nijiaying Water Treatment ("Kunming Nijiaying")	Sewage / Reclaimed Water Treatment (O&M)	70,000	36.1%	Waste water treatment project is in operation. Construction for reclaimed water treatment project has yet to commence.
40	Zhejiang	Taizhou Kaidi Waste Water Treatment ("Taizhou Kaidi")	Waste Water Treatment	12,500	100.0%	The project is in operation.
		Subtotal		3,410,000		
41	Zhejiang	Wenling Waste Incineration Power Generation ("Wenling Hanyang")	Waste Incineration	1,100	50%	Phase 1 project is in operation, Phase 2 project is estimated to commence construction in 2013.

Projects Overview

Fujian

Anxi Nanfang Water Co., Ltd.

("Anxi Longmen")

30-year BOT project Δ

Located at Anxi County, Fujian Province, Anxi Longmen is a 30-year waste water treatment BOT project, with a long term design capacity of 50,000 tons/day. Phase 1 project has a design capacity of 12,500 tons/day which is estimated to start operation in year 2013.

The project serves a population of approximately 195,000 residents. Anxi Longmen is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Guangdong

Dongguan City Da Lang Shui Kou Xin Bao Water Treatment Co., Ltd.

("Dongguan Waste Treatment")

25-year BOT Waste project Δ

Located at South of Song San Lake, Dalang Town, Dongguan City, Guangdong Province, Dongguan Waste Treatment is a 25-year waste water treatment BOT project, with a design capacity of 100,000 tons/day. It started operation in year 2009.

The project covers an area of approximately 53 km^2 with a population of approximately 350,000 residents. Dongguan Waste Treatment is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Huizhou City Nanfang Water Co., Ltd.

("Huizhou Meihu Waste Water")

25-year TOT + BOT project Δ

Located at Huizhou City, Guangdong Province, Huizhou Meihu Waste Water undertakes a 25-years TOT and BOT project, with a design capacity of 200,000 tons/day. It started operation in year 2005.

The project serves a population of approximately 200,000 residents. Huizhou Meihu Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Project investment size

Δ below RMB200 million

□ between RMB200 million to RMB400 million

◊ exceeding RMB400 million

Shenzhen City Nanfang Water Co., Ltd.
Longgang Yibao Shenzhen City Waste Water Treatment

("Longgang Yibao")

22-year O&M + BOT project ∆

Located at Shenzhen City, Guangdong Province, Longgang Yibao is 22-year waste water treatment O&M and BOT project, with a total design capacity of 280,000 tons/day.

The project currently consists of four plants (Pinghu, Egongling, Henggang and Pudixia). Pinghu Phase 1 is a O&M project with a design capacity of 25,000 tons/day. It could extend to a design capacity of 80,000 tons/day after Phase 2 construction is completed. Pinghu Phase 2 is expected to be in operation in year 2013. The remaining three plants (namely Egongling , Henggang and Pudixia), with a design capacity of 50,000 tons/day, 100,000 tons/day and 50,000 tons/day, have all started operation in year 2011.

The project serves a population of approximately 2,410,000 residents. Except for Pinghu Phase 1, Longgang Yibao is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary year.

Shenzhen City Henggang Recycling Water

("Henggang Reclaimed Water")

8-year O&M project

Located at Shenzhen City, Guangdong Province, Henggang Reclaimed Water is a 8-year O&M project, with a design capacity of 50,000 tons/day. It started operation in year 2011.

The project serves a population of approximately 310,000 residents. Henggang Reclaimed Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the O&M period.

Shenzhen City, Longgang District Banxuegang Waste Water Treatment

("Banxuegang Waste Water")

1-year O&M project (renewable)

Located at Shenzhen City, Guangdong Province, Banxuegang Waste Water undertakes a 1-year O&M project, with a design capacity of 40,000 tons/day. It started operation in year 2012.

The project serves a population of approximately 140,000 residents. Banxuegang Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the O&M period.

Shenzhen City Guan Lan Nanfang Water Co., Ltd.
("Guanlan Waste Water")
8-year O&M project

Located at Shenzhen City, Guangdong Province, Guanlan Waste Water is a 8-year O&M project, with a design capacity of 260,000 tons/day. It started operation in year 2012.

The project serves a population of approximately 1,000,000 residents. Guanlan Waste Water guaranteed a certain minimum level of off-take based on the design capacity throughout the O & M period.

Zhanjiang City Nanfang Water Co., Ltd.
("Wuchuan Waste Water")
25-year TOT project ∆

Located at Zhanjiang Wuchuan City, Guangdong Province, Wuchuan Waste Water is a 25-year waste water treatment TOT project, with a design capacity of 40,000 tons/day. It started operation in year 2013.

The project serves a population of approximately 100,000 residents. Wuchuan Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Guangxi

Beiliu City Lianhe Runtong Water Treatment Co., Ltd.
("Beiliu Water")
25-year BOT project ∆

Located in Beiliu City, Guangxi Province, Beiliu Water is a 25-year waste water treatment BOT project, with a design capacity of 40,000 tons/day. It started operation in year 2009.

The project covers an area of 20 km^2 with a population of approximately 180,000 residents. Beiliu Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Hubei

Huangshi Kaidi Water Services Co., Ltd.

("Huangshi Kaidi")

27-year BOT project ∆

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 waste water treatment facility in Huangshi City with a current design capacity of 125,000 tons/day and to manage the existing waste water treatment facility for a period of 27-year, catering to the needs of more than 1 million residents. Huangshi Kaidi is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Tianmen Kaidi Water Services Co., Ltd.

("Tianmen Kaidi")

25-year BOT + TOT contract ∆

Operating two plants within Tianmen City, with design capacity of 150,000 tons/day. Tianmen Kaidi is currently the sole provider of tap water to a population of over 250,000 residents in Tianmen City Central and Yue Kou Town, Hubei Province.

Tianmen Kaidi Xinnong Water Services Co., Ltd.

("Tianmen Xinnong")

23-year BOT project that runs concurrently with Tianmen Kaidi ∆

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 56,000 residents living around Tianmen City Central and Yue Kou Town, who are facing dire water shortages. With an estimated population of 56,000 residents spread over 40 villages in the area, this project will further expand Tianmen Kaidi's tap water supply coverage to increase utilisation of Tianmen Kaidi's facilities while bringing greater social and economic benefits to the locals.

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

25-year BOT project ◊

Located in Wuhan City, Hubei Province, Wuhan Hanxi is currently the largest waste water treatment facility in Wuhan City with a long term design capacity of 800,000 tons/day to be constructed over two phases. It is currently running at 400,000 tons/day and may be built up to 800,000 tons/day under the Phase 2 construction.

The project serves a population of approximately 580,000 residents. Wuhan Hanxi is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Wuhan Huang-Pi Kaidi Water Services Co., Ltd.

("Huang-Pi Kaidi")

30-year BOT contract ◊

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 one Wuhu water plant, ten pumping stations and a 982 km piping system and enhancement of three existing water plants.

Huang-Pi Kaidi is a 30-year BOT water supply project to supply tap water to 700,000 residents in the Southern part of Huang-Pi District with an area of 1,000 km^2. Its current design capacity is 150,000 tons/day and may be expanded to 230,000 tons/day, depending on market demand.

Wuhan Kaidi Xinchuan Waste Water Treatment Co., Ltd.

("Kaidi Xinchuan")

30-year BOT project ∆

Located in Huang-Pi Qianchuan District, Wuhan City, Hubei Province, Kaidi Xinchuan is a 30-year waste water treatment BOT project, with a design capacity of 30,000 tons/day.

Huang-Pi Qianchuan District has a land area of approximately 14 km^2 with resident population of approximately 150,000. Kaidi Xinchuan is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Wuhan Kaidi Xinlong Waste Water Treatment Co., Ltd.
("Kaidi Xinlong")
30-year BOT project ∆

Located in Huang-Pi Panlong Economic Development Zone, Wuhan City, Hubei Province, Kaidi Xinlong is a 30-year waste water treatment BOT project, with a design capacity of 45,000 tons/day. The phase 1 project, with a design capacity of 22,500 tons/day started operation in year 2010. Phase 2 project has yet to commence.

Huang-Pi Panlong Economic Development Zone has a land area of approximately 20 km^2 with resident population of approximately 100,000. Kaidi Xinlong is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Wuhan Xincheng Waste Water Treatment Co., Ltd.
("Wuhan Xincheng")
20-year BOT contract ∆

Located within the 36 km^2 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 (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. Wuhan Xincheng is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Henan

Luohe Ge Wei Te Water Treatment Co., Ltd.
("Luohe Water")
30-year BOT project ∆

Located at Zhao Ling Town, Zhao Ling District, Luohe City, Henan Province, Luohe Water is a 30-year waste water treatment BOT project, with a design capacity of 20,000 tons/day for phase 1. It started operation in year 2010.

The project covers an area of 4.5 km^2 and serves a population of approximately 38,000 residents. Luohe Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Hunan

Linwu County Nanfang Water Co., Ltd.

("Linwu Waste Water")

21-year BOT project Δ

Located at Linwu County, Chenzhou City, Hunan Province, Linwu Waste Water is a 21-year waste water treatment BOT project, with a design capacity of 10,000 tons/day. It started operation in year 2010.

The project serves a population of approximately 70,000 residents. Linwu Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Chenzhou Nanfang Waste Water Treatment Co., Ltd.

("Chenzhou Waste Water")

25-year BOT project Δ

Located at Chenzhou City, Hunan Province, Chenzhou Waste Water is a 25-year waste water treatment BOT project, with a design capacity of 120,000 tons/day. It started operation in year 2005.

The project services a population of approximately 600,000 residents. Chenzhou Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Taojiang Lianhe Runtong Water Treatment Co., Ltd.

("Taojiang Water")

30-year BOT project Δ

Located at Taogushan Village, Taohuajiang Town, Taojiang County, Hunan Province, Taojiang Waste Water is a 30-year waste water treatment BOT project, with a design capacity of 20,000 tons/day at phase 1. It started operation in year 2010.

The project covers an area of 16.5 km^2 with a population of approximately 150,000 residents. Taojiang Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Yiyang Shangshi Lianhe Eastern New District Water Treatment Co., Ltd.

("Yiyang Shangshi")

25-year BOT project ∆

Located at east part of High Technology Industrial Development District at Yiyang City, Hunan Province, Yiyang Shangshi is a 25-year waste water treatment BOT project, with a design capacity of 30,000 tons/day at phase 1. It started operation in year 2012.

The project covers the eastern part of Gaoxin District area of approximately 14 km^2 with a population of approximately 120,000 residents. Yiyang Shangshi is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Yiyang Lianhe Runtong Water Treatment Co., Ltd.

("Yiyang Water")

30-year BOT project ∆

Located at Chang Chun Industrial Park, Yiyang City, Hunan Province, Yiyang Water is a 30-year waste water treatment BOT project, with a design capacity of 40,000 tons/day. It started operation in year 2010.

The project covers an area of 10 km^2 with a population of approximately 120,000 residents. Yiyang Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Jiangsu

Jingjiang City Xingang Waste Water Treatment Co., Ltd.

("Jingjiang Xingang")

33-year BOT project ∆

Located at Jingjiang Xingang industrial area, Jiangsu Province, Jingjiang Xingang is a 33-year waste water treatment BOT project, with a design capacity of 80,000 tons/day. It started operation in year 2010.

The project serves a population of approximately 65,000 residents. Jingjiang Xingang is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary project.

Shuyang Nanfang Co., Ltd.
("Shuyang Waste Water")
30-year BOT + TOT project ∆

Located at Shuyang County, Suqian City, Jiangsu Province, Shuyang Waste Water is a 30-year waste water treatment BOT and TOT project, with a design capacity of 60,000 tons/day. It started operation in year 2012.

The project serves a population of approximately 230,000 residents. Shuyang Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Jiangsu Nanfang Water Co., Ltd.
("Huangqiao Waste Water")
30-year BOT project ∆

Located at Taixing City, Jiangsu Province, Huangqiao Waste Water is a 30-year waste water treatment BOT project, with a design capacity of 50,000 tons/day. It started operation in year 2012.

The project serves a population of approximately 160,000 residents. Huangqiao Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Yancheng Nanfang Water Co., Ltd.
("Yancheng Waste Water")
30-year BOT project ∆

Located at Yancheng Environmental Protection Industrial area, Jiangsu Province, Yancheng Waste Water is a 30-year waste water treatment BOT project, with a design capacity of 30,000 tons/day. The project will be built over two phases.

The project serves a population of approximately 80,000 residents. Yancheng Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

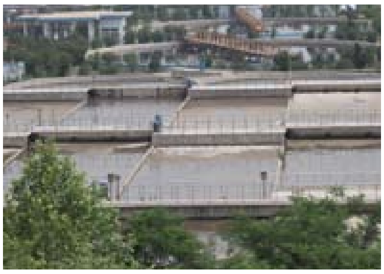
Liaoning

Dalian Xinya Hengji Environmental Co., Ltd.
("Dalian Waste Water")
30-year BOT project ∆

Located at Dalian Puwan New District, Liaoning Province, Dalian Waste Water is a 30-year waste water treatment BOT project, with a design capacity of 50,000 tons/day. It is estimated to start operation in year 2013.

The project serves a population of approximately 400,000 residents. Dalian Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Shandong



Dezhou City Lianhe Runtong Water Treatment Co., Ltd.
("Dezhou Water")
20-year TOT project ∆

Located within the 15 km^2 area of Decheng District, Dezhou City, Shandong Province, Dezhou Water is a 20-year waste water treatment TOT project, with a design capacity of 100,000 tons/day. It started operation in year 2006.

The project serves to a population of approximately 300,000 residents. Dezhou Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Weifang Lianhe Runtong Chengxi Waste Water Treatment Co., Ltd.
("Chengxi Water")
30-year BOT project ∆

Located at Economic Development District, Weifang City, Shandong province, Chengxi Water is a 30-year waste water treatment BOT project, with a design capacity of 40,000 tons/day for phase 1. It started operation in year 2011.

The project covers Chengxi area of approximately 26.4 km^2 with a population of approximately 200,000 residents. Chengxi Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Weifang City Lianhe Runtong Waste Water Treatment Co., Ltd.

("Weifang Waste Water")

20-year BOT project ∆

Located at High Technology Industrial Development District, Weifang City, Shandong Province, Weifang Waste Water is a 20-year waste water treatment BOT project, with a design capacity of 50,000 tons/day. It started operation in year 2007.

The project covers an area of 31.5 km^2 with a population of 250,000 approximately residents. Weifang Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Weifang City Hanting Lianhe Runtong Water Treatment Co., Ltd.

("Weifang Hanting")

Water Supply project ∆

Located at Hanting District, Weifang City, Shandong Province, Weifang Hanting's principal activity is to provide tap water to the urban area with a design capacity of 60,000 tons/day.

The project provides tap water to more than 500 enterprises, 300 villages in the Hanting District with a population of approximately 350,000 residents.

United Environment Co., Ltd.
Weifang City Waste Water Treatment Plant

("United Environment Waste Water")

20-year TOT project ∆

Located at Kui Wen District, Weifang City, Shandong Province, Weifang Waste Water is a 20-year waste water treatment TOT project, with a design capacity of 100,000 tons/day. It started operation in year 2004.

The project covers to Kui Wen District and partial of Gao Xin District of approximately 60 km^2 with a population of approximately 600,000 residents. Weifang Waste Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Weifang City Waste Water Treatment Plant

("Weifang Reclaimed Waste Water")

Reclaimed Water Project Δ

Located at Kui Wen District, Weifang City, Shandong Province, Weifang Reclaimed Waste Water started operation in year 2009 with phase 1 design capacity of 35,000 tons/day. The project provides service mainly to Hua Dian Weifang Power Generation Co., Ltd and is part of Weifang Waste Water project.

Weifang City Tap Water Co., Ltd.

("Weifang Tap Water")

25-year BOT project ◊

Located at Gao Xing District, Weifang City, Shandong Province, Weifang Tap Water undertakes a 25-year concessionary project and is the sole tap water provider to the centre area of Weifang City with a design capacity of 320,000 tons/day.

The project covers an area of approximately 180 km^2 with a population of approximately 1,050,000 residents.

Zaozhuang Shanting Lianhe Runtong Waste Water Treatment Co., Ltd.

("Zaozhuang Shanting")

25-year TOT project Δ

Located at Shanting District, Zaozhuang City, Shandong Province, Zaozhuang Shanting is a 25-year waste water treatment TOT project, with a design capacity of 20,000 tons/day. It started operation in year 2012. Currently it runs at 10,000 tons/day at phase 1 and could be expanded by another 10,000 tons/day under phase 2 construction.

The project covers a population of approximately 45,000 residents. Zaozhuang Shanting is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

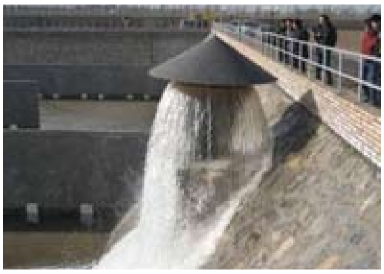
Zaozhuang Lianhe Runtong Water Treatment Co., Ltd.
("Zaozhuang Water")
30-year TOT + BOT project Δ

Located at Yicheng District, Zaozhuang City, Shandong Province, Zaozhuang Water is a 30-year waste water treatment TOT and BOT project, with a designed capacity of 40,000 tons/day. It started operation in year 2010.

The project covers an area approximately 12 km^2 with population of approximately 120,000 residents. Zaozhuang Water is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Shanxi

Lv Liang Xinya Water Services Co., Ltd.
("Lv Liang Xinya")
50-year BOO project □



Located in Lv Liang City, Shanxi Province, the Lv Liang Xinya is a 50-year BOO water supply projects, with a current design capacity of 55,000 tons/day. It started operation in year 2007.

Yunnan

Kunming Nanfang Water Co., Ltd.
("Kunming Nijiaying")
25-year O&M project

Located at Kunming Economic & Technological Development Zone, Kunming City, Yunnan Province, Kunming Nijiaying is a 25-year O&M project, with a design capacity of 70,000 tons/day.

The project serves a population of approximately 170,000 residents. Kunming Nijiaying guaranteed a certain minimum level of off-take based on the design capacity throughout the O&M period.

Zhejiang

Taizhou Kaidi Waste Water Treatment Co., Ltd.

("Taizhou Kaidi")

20-year BOT project ∆

Located at Zhejiang Pharmaceutical Park, Linhai City, Zhejiang Province, Taizhou Kaidi is a 20-year waste water treatment BOT project, with a long term design capacity of 50,000 tons/day. The plant is currently operating at Phase 1 capacity of 12,500 tons/day. 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 project serves a population of approximately 200,000 residents. Taizhou Kaidi is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

Wenling Hanyang Resources Power Co., Ltd.

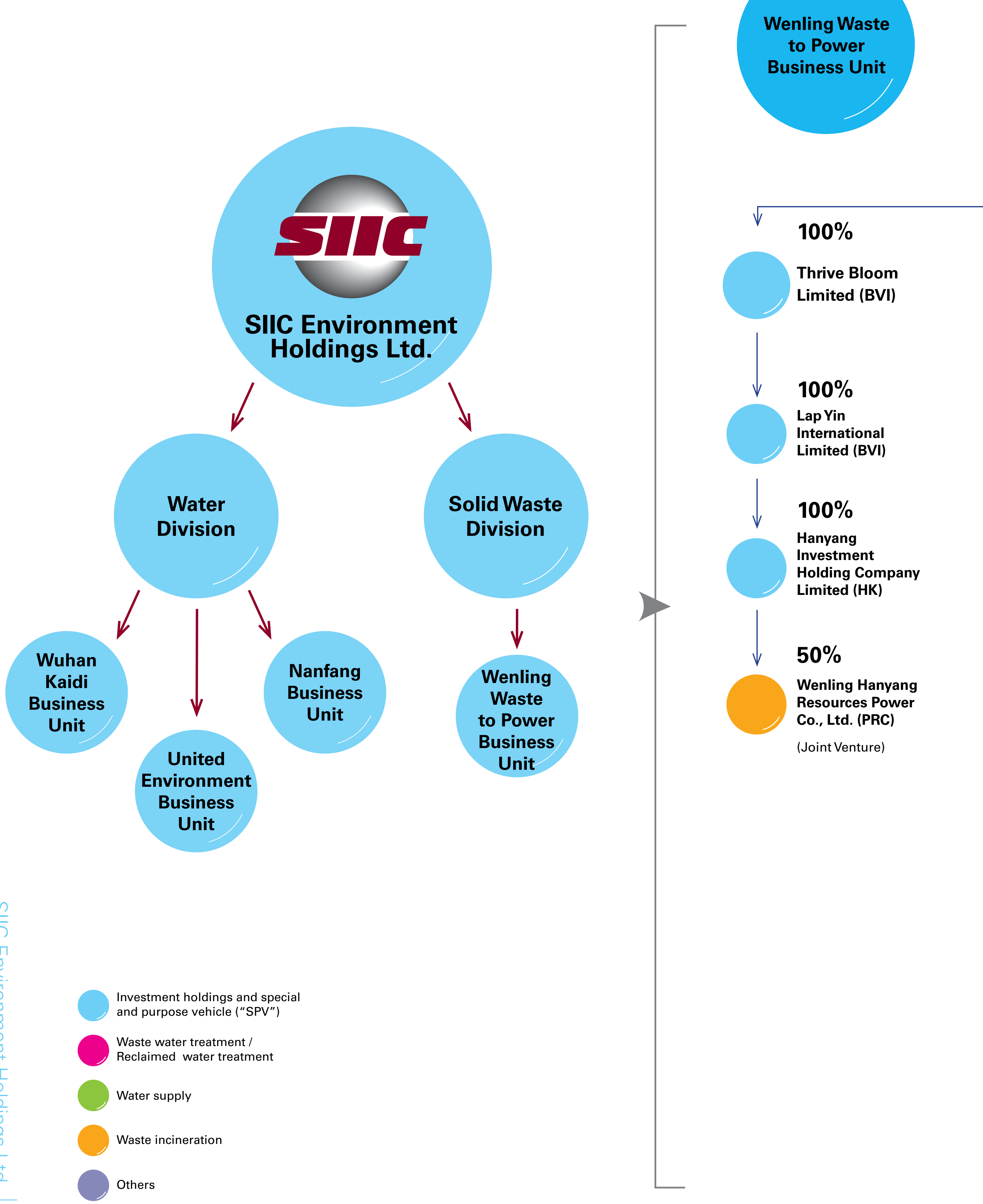
("Wenling Hanyang")

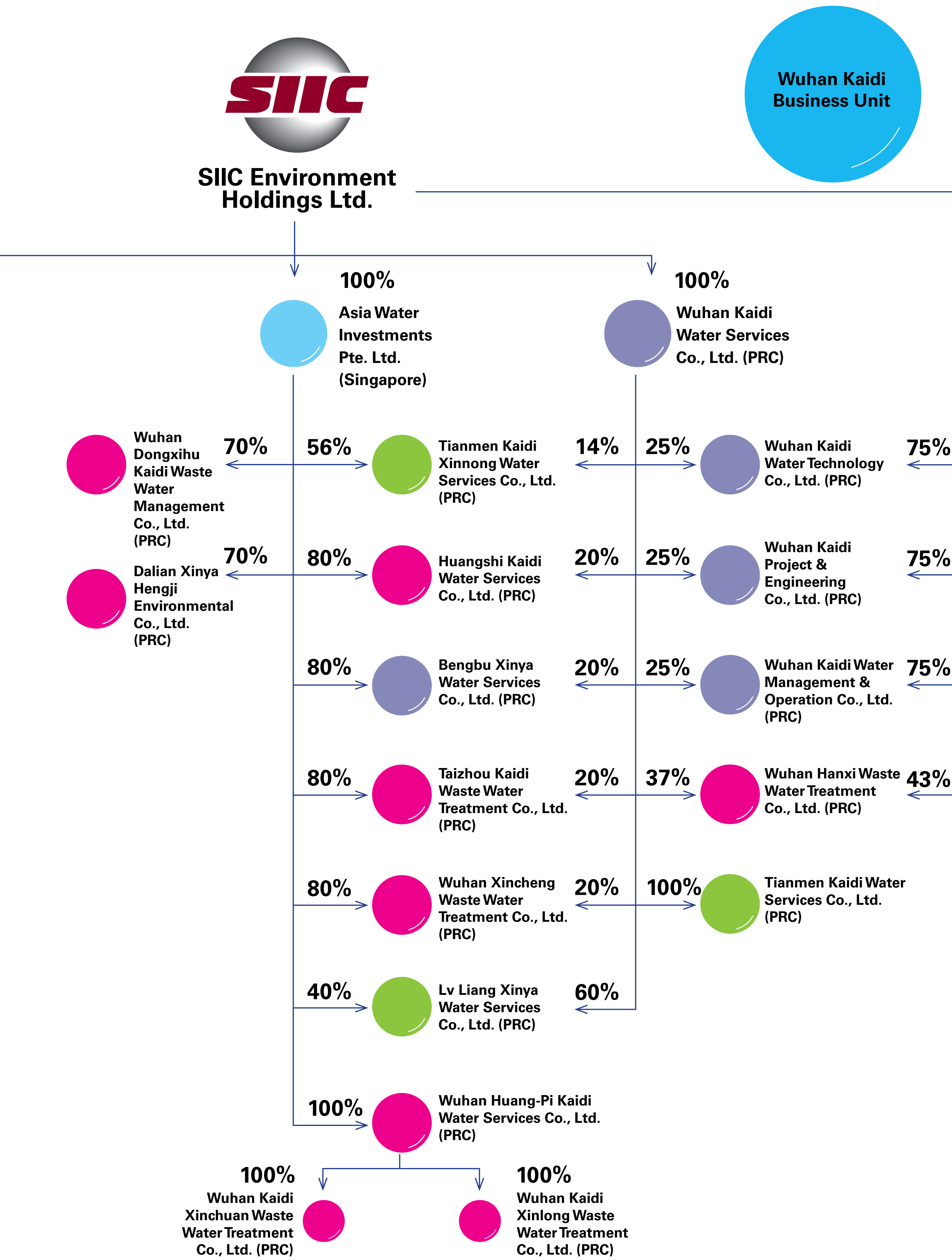
25-year BOT project □

Located at Pengxia Village, Chengnan Town, Wenling City, Zhejiang Province, Wenling Hanyang is a 25-year waste incineration BOT project, with a design capacity of 1,100 tons/day of waste processing to be constructed over 2 phases. It is currently running at 700 tons/day and can generate up to 15MW of electricity per year. It can be expanded by 400 tons/day under the phase 2 construction and can generate up to 9MW of electricity per year.

This project covers an area of approximately 926 km^2 in Wenling City with a population of approximately 1.2 million residents. Wenling Hanyang is guaranteed a certain minimum level of off-take based on the design capacity throughout the concessionary period.

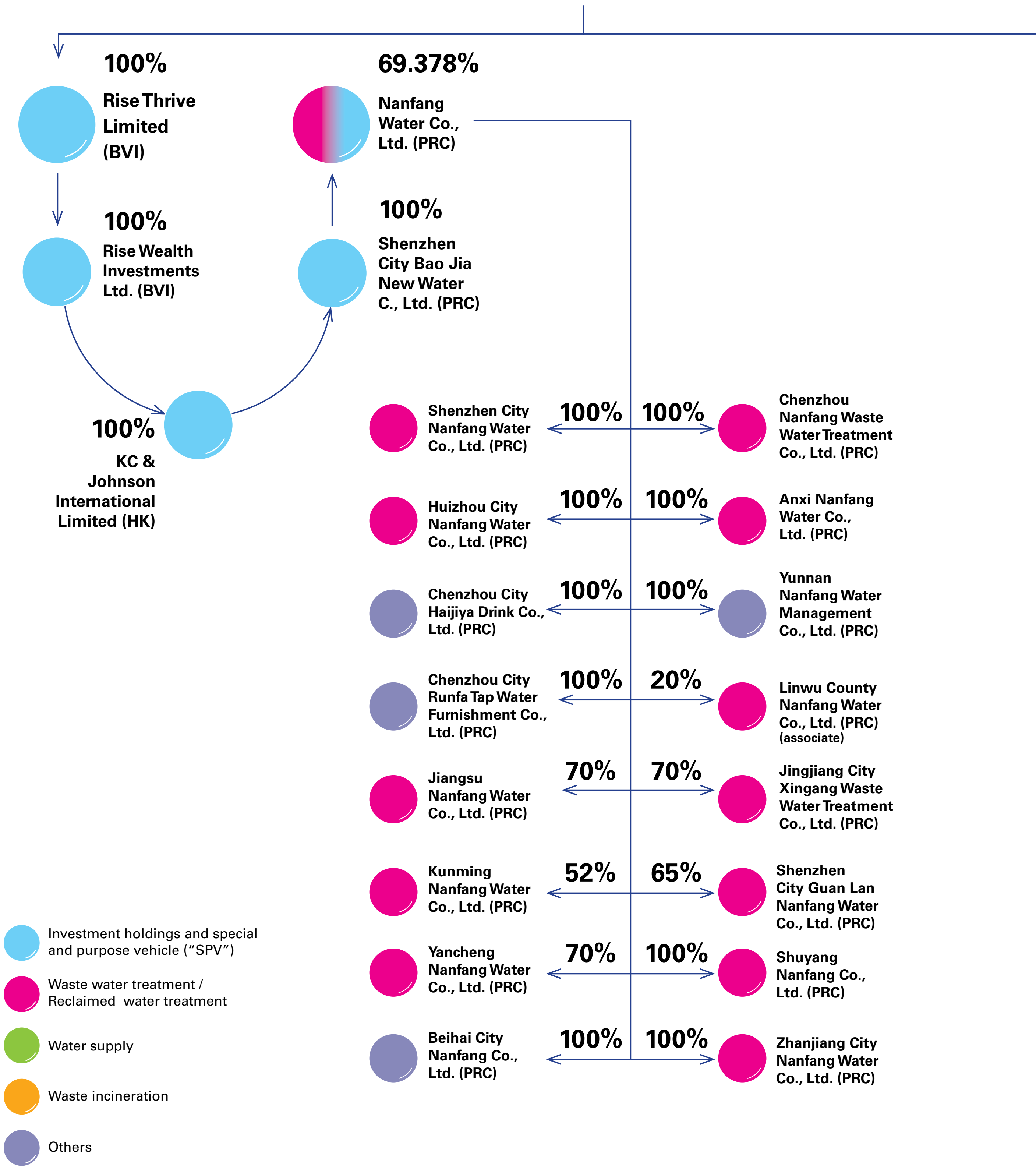
Group Structure
(as at 31 December 2012)

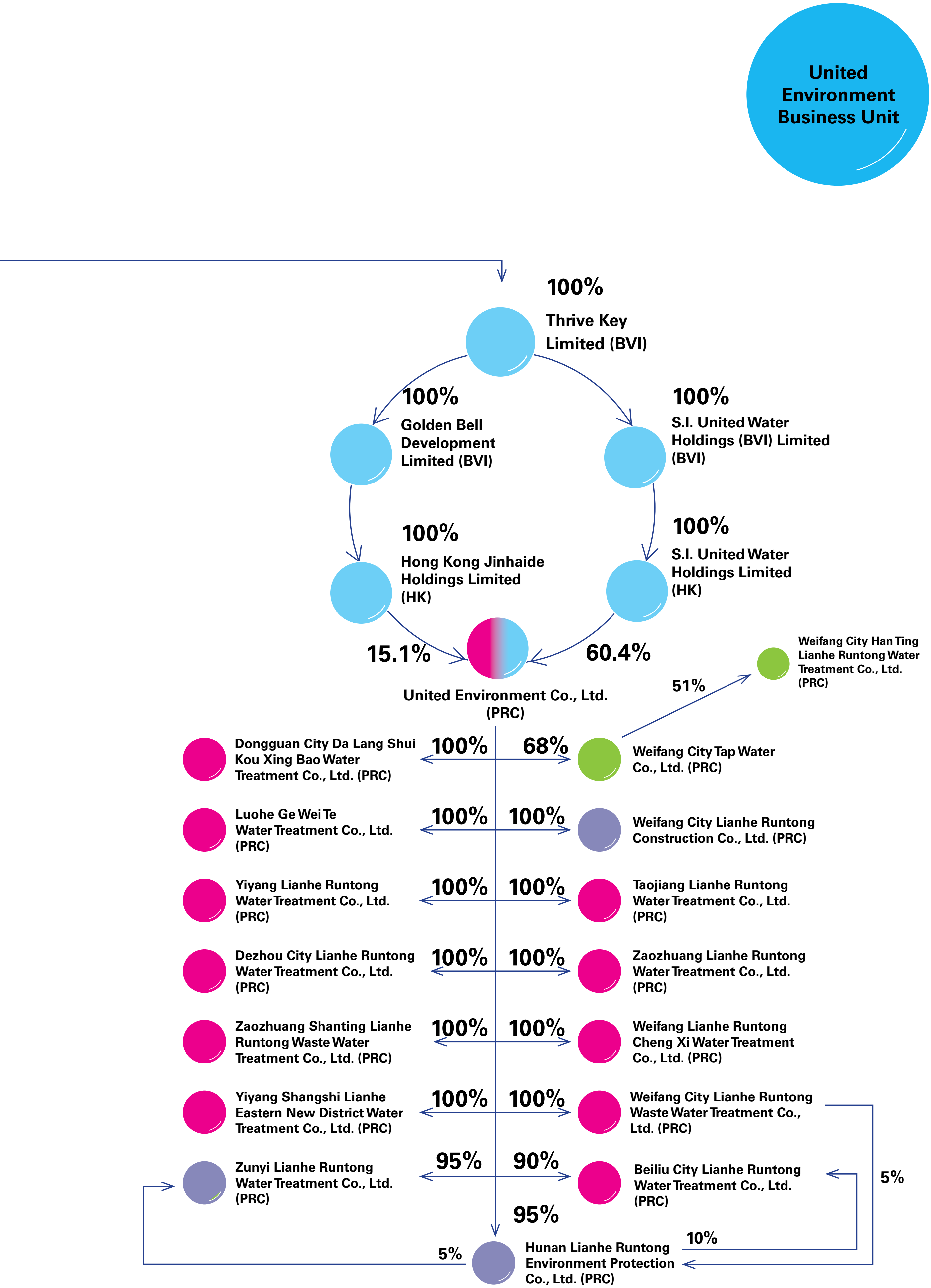



SIIC
SIIC Environment Holdings Ltd.
Wuhan Kaidi Business Unit
100%
Asia Water Investments Pte. Ltd. (Singapore)
100%
Wuhan Kaidi Water Services Co., Ltd. (PRC)
70%
Wuhan Dongxihu Kaidi Waste Water Management Co., Ltd. (PRC)
56%
Tianmen Kaidi Xinnong Water Services Co., Ltd. (PRC)
14%
25%
Wuhan Kaidi Water Technology Co., Ltd. (PRC)
75%
70%
Dalian Xinya Hengji Environmental Co., Ltd. (PRC)
80%
Huangshi Kaidi Water Services Co., Ltd. (PRC)
20%
25%
Wuhan Kaidi Project & Engineering Co., Ltd. (PRC)
75%
80%
Bengbu Xinya Water Services Co., Ltd. (PRC)
20%
25%
Wuhan Kaidi Water Management & Operation Co., Ltd. (PRC)
75%
80%
Taizhou Kaidi Waste Water Treatment Co., Ltd. (PRC)
20%
37%
Wuhan Hanxi Waste Water Treatment Co., Ltd. (PRC)
43%
80%
Wuhan Xincheng Waste Water Treatment Co., Ltd. (PRC)
20%
100%
Tianmen Kaidi Water Services Co., Ltd. (PRC)
40%
Lv Liang Xinya Water Services Co., Ltd. (PRC)
60%
100%
Wuhan Huang-Pi Kaidi Water Services Co., Ltd. (PRC)
100%
Wuhan Kaidi Xinchuan Waste Water Treatment Co., Ltd. (PRC)
100%
Wuhan Kaidi Xinlong Waste Water Treatment Co., Ltd. (PRC)

Nanfang Business Unit

SIIC Environment Holdings Ltd.





United Environment Business Unit
100%
Thrive Key Limited (BVI)
100%
Golden Bell Development Limited (BVI)
100%
S.I. United Water Holdings (BVI) Limited (BVI)
100%
Hong Kong Jinhaide Holdings Limited (HK)
100%
S.I. United Water Holdings Limited (HK)
15.1%
60.4%
United Environment Co., Ltd. (PRC)
51%
Weifang City Han Ting Lianhe Runtong Water Treatment Co., Ltd. (PRC)
100%
Dongguan City Da Lang Shui Kou Xing Bao Water Treatment Co., Ltd. (PRC)
68%
Weifang City Tap Water Co., Ltd. (PRC)
100%
Luohe Ge Wei Te Water Treatment Co., Ltd. (PRC)
100%
Weifang City Lianhe Runtong Construction Co., Ltd. (PRC)
100%
Yiyang Lianhe Runtong Water Treatment Co., Ltd. (PRC)
100%
Taojiang Lianhe Runtong Water Treatment Co., Ltd. (PRC)
100%
Dezhou City Lianhe Runtong Water Treatment Co., Ltd. (PRC)
100%
Zaozhuang Lianhe Runtong Water Treatment Co., Ltd. (PRC)
100%
Zaozhuang Shanting Lianhe Runtong Waste Water Treatment Co., Ltd. (PRC)
100%
Weifang Lianhe Runtong Cheng Xi Water Treatment Co., Ltd. (PRC)
100%
Yiyang Shangshi Lianhe Eastern New District Water Treatment Co., Ltd. (PRC)
100%
Weifang City Lianhe Runtong Waste Water Treatment Co., Ltd. (PRC)
95%
Zunyi Lianhe Runtong Water Treatment Co., Ltd. (PRC)
90%
Beiliu City Lianhe Runtong Water Treatment Co., Ltd. (PRC)
5%
95%
10%
5%
Hunan Lianhe Runtong Environment Protection Co., Ltd. (PRC)

Board of Directors

MR. ZHOU JUN

MR. FENG JUN

MS. LIU YUJIE

MR. ZHOU JUN
Executive Chairman

Mr. Zhou was first appointed to the Board of Directors on 7 April 2010 and was last re-elected on 27 April 2012. Mr. Zhou has been re-designated from Non-Executive Director to Executive Deputy Chairman on 5 March 2012. Mr. Zhou was re-designated from Executive Deputy Chairman to Executive Chairman on 4 May 2012 and remained as a member of the Remuneration Committee.

Mr. Zhou has nearly 20 years of experience in financial investment, mergers and acquisitions,real estate and general management. Mr. Zhou is the Vice President of Shanghai Industrial Investment (Holdings) Co. Ltd (SIIC Group) and the Executive Director and Deputy Chief Executive Officer of Shanghai Industrial Holdings Limited (HK: 0363). He is also the Chairman of SIIC Infrastructure Holdings and Shanghai Hu-Ning Expressway (Shanghai Section) Co. Ltd., Shanghai Luqiao Development Co. Ltd., and Shanghai ShenYu Development Co. Ltd., Executive Director of Shanghai Industrial Urban Development Group Limited (HK: 0563), Director of Shanghai Urban Development (Holdings) Co. Ltd., General Water of China Co. Ltd. Currently, Mr. Zhou is the Chairman of SIIC Management Co. Ltd and Shanghai Galaxy Investment Co. Ltd. He worked for Guotai Securities Co. Ltd (now known as Guotai Junan Securities Co.) before joining Shanghai Industrial Investment (Holdings) Co. Ltd. in April 1996.

Mr. Zhou holds a Bachelor Degree from Nanjing University. He also holds a Masters Degree in Economics (International Finance) from Fudan University.

MR. FENG JUN
Executive Director

Mr. Feng was first appointed to the Board of Directors on 15 December 2009 and was last re-elected on 27 April 2011.

Mr. Feng started his investment career more than 26 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 SITICO Investment Co. Ltd. and SIIC Investment (Shanghai) Co., Ltd. Mr. Feng's experience and extensive knowledge in the capital markets will be of high value to the Group in its future developments. Mr. Feng has served as a board member of Shanghai SIIC Investment Co. Ltd., Tien Chu (Hong Kong) Co. Ltd., SIIC Investment (Shanghai) Co. Ltd., Shanghai SITICO International Consulting Co. Ltd., and Shanghai SITICO Enterprise Co. Ltd.

Mr. Feng holds a Masters Degree in Economics from the Wuhan University School of Management, Enterprise Management.

MS. LIU YUJIE
Executive Director

Ms. Liu was first appointed to the Board of Directors on 19 November 2009 and was last re-elected on 27 April 2011.

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 a gas company listed on the Hong Kong Stock Exchange, where she was responsible for new project investment and financing. In 1993, as the Director and Deputy General Manager, Ms. Liu oversaw the operations of the joint venture between AIA Capital and Sinochem. Ms. Liu was the General Manager of General Water of China Technology Co., Ltd. Since 2009, she was the Chief Capital Operation Officer of General Water of China Co. Ltd., responsible for corporate strategy, finance and management such as mergers and acquisitions, initial public offerings and asset securitisation.

Ms. Liu is also a board member of several environmental resource management companies. Ms. Liu holds a Masters Degree in Business Administration from the University of International Business and Economic in Beijing, PRC.

MR. YANG CHANGMIN

MR. ZHANG CHAO

MR. ZOU JIEFU

MR. YANG CHANGMIN
Executive Director

Mr. Yang was first appointed to the Board of Directors on 17 February 2012 and was last elected on 27 April 2012.

Mr. Yang was the General Manager of Shenzhen Longgang Baolong Industrial Co. and the Chairman and General Manager of Shenzhen Longgang Guotong Industrial Co., Ltd. Mr. Yang was the founder of United Environment Water Co. Ltd. in the year 2003 and had been the Chairman and General Manager for many years. He has over 20 years of experience in the operation and management of water and environmental protection investment as well as project and administrative management.

Mr. Yang graduated from Tongji University with a Bachelor Degree in Environmental Engineering and the Economic and Management College of Qinghua University with a Masters Degree in EMBA.

MR. ZHANG CHAO
Non-Executive Director

Mr. Zhang was first appointed to the Board of Directors on 7 April 2010 and was last re-elected on 27 April 2012.

Mr. Zhang started his career as the clerk in the Cadres Office of the Beijing Bureau of Justice. He was a Trainee Solicitor with Beijing King & Wood Law firm from years 2000 to 2001, he practiced as a lawyer in Beijing Guo Lian Law Firm. Mr. Zhang joined CECEP at July 2001 and is the General Legal Counsel of CECEP as well as the Chairman of CECEP Industry Development Co., Ltd..

Mr. Zhang is the Chairman of CECEP (Suzhou) Environmental Protection S & T Industry Co., Ltd. and Suzhou National Environmental Protection Hi-Tech Industry Development Co., Ltd.. Mr. Zhang is also a Director of Suzhou Industry Park Co., Ltd..

Mr. Zhang holds a Masters Degree in Legal Studies from the Renmin University of China.

MR. ZOU JIEFU
Non-Executive Director

Mr. Zou was first appointed to the Board of Directors on 7 April 2010 and was last re-elected on 29 April 2010.

Mr. Zou has more than 25 years of experience in the operation and management of water resources development and utilisation projects. Currently, Mr. Zou is the Chief Technical Officer and Press Spokesman of China Energy Conservation and Environmental Protection Group (CECEP).

Mr. Zou is the vice chairman of General Water of China Co. Ltd.. He is the Chairman of CECEP Central China Industry Development Co., Ltd. and Hi-Tech Optoelectronics Co., Ltd. Mr. Zou is also a Director of CECEP Environmental Protection Investment Development (Jiangxi) Co., Ltd. and China-UK Low Carbon Enterprise Co. Ltd..

Mr. Zou started his career as the Assistant Engineer of the Planning Department with the Northeast Investigation Design and Research Institute in 1984. In 1989, he transferred to the Songliao Water Resource Commission and finally was the Chief of Planning Department. He was the Vice President of China Water Investment Group Corp in 1998. From years 2003 to 2005, he was the General Manager of Beijing River Water Conservancy and of Hydropower Technology Development Co. Ltd.. From years 2005 to 2008, he was the Chairman of Beijing Wah-fu Energy Investment Co. Ltd..

Mr. Zou holds a Masters Degree in Business Administration from the Beijing Institute of Technology.

Board of Directors

MR. YEO GUAT KWANG

MR. TAY AH KONG BERNARD

MR. YEO GUAT KWANG
Lead Independent Director

Mr. Yeo was first appointed to the Board of Directors on 23 September 2009 and was last re-elected on 27 April 2011. Mr. Yeo is the Lead Independent Director, a member of the Nominating Committee, Audit Committee and Remuneration Committee.

Mr. Yeo has been a Member of Parliament since January 1997. He is the Alignment Director of NTUC and the Executive Secretary for the Amalgamated Union of Statutory Board Employees. Mr. Yeo serves as a member of the Board of Directors of the Agri-Food & Veterinary Authority of Singapore and member of the Singapore Standards Council and Workplace Safety and Health Council.

MR. TAY AH KONG BERNARD
Independent Director

Mr. Tay was first appointed to the Board of Directors on 7 April 2010 and was last re-elected on 27 April 2012. Mr. Tay is the Chairman of the Audit Committee and is a member of the Nominating Committee and Remuneration Committee.

Mr. Tay is currently the Non-Executive Chairman of Crowe Horwath First Trust LLP, which is a Certified Public Accountants firm and Chairman of the Risk Committee of RHT Capital Pte Ltd (RHT). RHT is an approved SGX (Catalist) Continuing Sponsor's Company. Mr. Tay is an Independent Director of several public companies listed on the SGX Mainboard and Catalist, including a dual-listed company on SEHK Mainboard.

He is the President of the Automobile Association of Singapore and Chairman of Singapore Road Safety Council. Mr. Tay is also the Vice- President of the Singapore Productivity Association and a Member of Ministry of Home Affairs - Community Involvement Steering Committee. He was appointed Senior Advisor to the Government of Huzhou City, Zhejiang Province of the People's Republic of China.

He is a recipient of the Service to Education Award and Community Service Medal and was conferred the Bingat Bakti Masyarakat (Public Service Star) and Pingat Bakti Masyarakat (Public Service Medal) by the President of Republic of Singapore. In addition, he was a Member of the Resource Panel of the Government Parliamentary Committees for Home Affairs and Communications. He had also sat on several committees under the Accounting and Corporate Regulatory Authority which includes the Complaints and Disciplinary Panel - Public Accountants Oversight Committee, Standing Law Review Focus Group and Directors' Duties Study Team. He was also a Member of the Singapore Corporate Awards Judging Panel for the Best Annual Report Award.

Mr. Tay is a Fellow of the Association of Chartered Certified Accountants (U.K.), the Institute of Certified Public Accountants of Singapore, the Taxation Institute of Australia and the Singapore Institute of Directors. He is also a Chartered Accountant of Malaysia.

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.

MR. TAN CHONG HUAT

MR. TAN GIM SOO

MR. TAN CHONG HUAT
Independent Director

Mr. Tan was first appointed to the Board of Directors on 7 April 2010 and was last re-elected on 29 April 2010. Mr. Tan is the Chairman of the Remuneration Committee and is a member of the Audit Committee.

Mr. Tan is the Managing Partner and one of the founding members of RHT Law Taylor Wessing LLP ("Firm"). He is currently the Head of the Firm's Corporate and Securities Practice. He also serves as a member of the International Management Board of Taylor Wessing.

Mr. Tan 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, with a recent recognition by IFLR1000 as a "Leading Lawyer" and by Legal 500 Asia Pacific as a "Leading Individual" for Corporate and Mergers & Acquisitions.

Mr. Tan is an adjunct associate professor of the Law Faculty, National University of Singapore ("NUS") since AY2007 and NUS Business School for AY2008-2009. He was also an Adjunct Associate Professor at Nanyang Technological University, Nanyang Business School for AY2008-2012. Besides authoring two leading literature on PRC Investment laws, he has co-authored a title on Corporate Governance of Listed Companies in Singapore and is a co-editor for a new title on Corporate Governance: *The Good, The Bad, and The Ugly.*

A Fellow with the Singapore Institute of Directors, Mr. Tan sits on the boards as an independent director of Ascendas Hospitality Fund Management Pte Ltd, Ascendas Hospitality Trust Management Pte Ltd, and as a Non-Executive Chairman of Ramba Energy Limited.

The Financial Planning Association of Singapore has also recently conferred on Mr. Tan an honorary membership.

Mr. Tan was recently a council member of Corporate Governance Council of the Monetary Authority of Singapore and is also presently a council member of the Football Association of Singapore and the Singapore Road Safety Council.

MR. TAN GIM SOO
Independent Director

Mr. Tan was first appointed to the Board of Directors on 14 March 2011 and was last re-elected on 27 April 2011. Mr. Tan is the Chairman of the Nominating Committee and is a member of the Audit Committee.

Mr. Tan has more than 40 years of experience in accounting, auditing and taxation work, and is the Senior Partner of G.S. Tan & Co., a public accounting firm which he set up in year 1976. Prior to setting up his practice, he was an Executive Director of a group of trading companies between years 1974 and 1976.

He is also an Independent Director of several public companies listed on the SGX-ST. Mr. Tan has served on various committees including the Practice Review Committee of Institute of Certified Public Accountants of Singapore, Advisory Committee of Nanyang Technological University's School of Accountancy & Business (now known as Nanyang Business School) and the Asset Realisation Committee formed by the Ministry of Law to advise the Insolvency & Public Trustee's Office.

Mr. Tan is a Fellow of the Institute of Chartered Accountants in England and Wales, Fellow of the Institute of Certified Public Accountants of Singapore, and a member of the Singapore Institute of Directors.

Executive Officers

MR. TAN KIM HAN RAYMOND
Chief Financial Officer cum Company Secretary

Mr. Tan joined the Company as its Chief Financial Officer and Company Secretary in April 2011.

Immediately prior to joining us, Mr. Tan was the Chief Financial Officer of Hecheng Technology Holdings Pte Ltd. Mr. Tan started his career with Deloitte & Touche (Singapore) in year 2003 and moved on to join Tyco International Asia Inc. (Corporate Audit) in year 2005. From November 2006 to April 2009, he was with the Company with his last position held as the Financial Controller. Mr. Tan was also the Group Financial Controller of Digital Technologies Corporation from April 2009 to September 2009.

Mr. Tan graduated from Nanyang Technological University with a Bachelor of Accountancy (2nd Upper Honours) in year 2003. Mr. Tan is a Certified Public Accountant and a non-practising member of the Institute of Certified Public Accountant of Singapore. He is also a Certified Internal Auditor and a member of the Institute of Internal Auditors.

MR. HUANG HANGUANG
General Manager

Mr. Huang joined the Company as its General Manager in July 2010. He was responsible for the Group's businesses and operations in Wuhan, PRC. He sits on the Boards of the various subsidiaries of the Company. He is also the Managing Director of Wuhan Kaidi Water Services Co., Ltd..

Mr. Huang has more than 20 years of experience in the water treatment industry. From year 1984 to 1989, Mr. Huang was employed by the Ministry of Water Resources and Electric Power of the PRC as a specialist engineer in chemistry and environmental protection. From year 1990 to 1992, he joined the China Electricity Council as a specialist engineer in chemistry and environmental protection. He joined Wuhan Kaidi Electric Power Co., Ltd. as Vice-Chairman in year 1992 and he stepped down from this position in October 2004. For the period between year 1993 and 2002, Mr. Huang was also appointed as Director or General Manager of several other companies in the power generation industry. For the period from year 2003 to 2009, he was the Executive Director and Chief Executive Officer of the Company.

Mr. Huang holds a Bachelor Degree in powerplant chemistry engineering from Wuhan University.

MR. WANG PEIGANG
Deputy General Manager

Mr. Wang joined the Company as its Deputy General Manager in July 2010. He assists the Company's General Manager in managing the Group's businesses and operations in Wuhan, PRC. He sits on the Boards of the various subsidiaries of the Company.

Mr. Wang started his career at the Department of Energy of the Ministry of Water Resources and Electric Power of the PRC. During the period from year 1993 to early year 2007, he 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., Tianjin SDIC Jinneng Electric Power Co., Ltd and SDIC Xuancheng Electric Power Co., Ltd. He was the Executive Director, President and Director for the reorganization of the Company from year 2007 to 2009.

Mr. Wang holds a Bachelor Degree in Technology from Wuhan University and a Master Degree in Management Science from Renmin University of China. He also holds a Senior Engineer Certification.

MR. WU BIN
Assistant to Chief Executive Officer & General Manager (Solid Waste Division)

Mr. Wu joined the Company as Assistant to Chief Executive Officer & General Manager (Solid Waste Division) in January 2013.

Mr. Wu started his career in year 1994 at China Shenzhen Construction Group and was appointed as a Civil Engineer and Project Manager. He joined China Shenzhen Special Zone Security Company as the Operation Manager in the Integrated Department in year 1997. He was the Deputy General Manager for Te Zheng Estate Management Company Limited which was under Shenzhen Special Zone Security Company. Mr. Wu entered into environmental protection industry in 2001 and was involved in setting up Shenzhen Hanyang Investment Holdings Ltd. and was appointed Assistant to President and Deputy President. He also co-founded Wenling Hanyang Resources Power Co., Ltd in 2006 and he was appointed as the Director and General Manager.

Mr. Wu holds a Bachelor Degree in Engineering from Nanjing Dongnan University and holds a Master Degree in MBA from Guang Hua Economic and Management College of Peking University.

Corporate Governance Report

Good corporate governance ensures that the interests of shareholders are protected and enhances corporate performance and accountability.

SIIC Environment Holdings Ltd. (formerly known as Asia Water Technology Ltd.) (the "Company") and its subsidiaries (collectively the "Group") are committed to set corporate governance practices in place which are in line with the recommendations of the Code of Corporate Governance 2005 (the "Code") to provide the structure through which the objectives of protection of shareholders' interest and enhancement of long term shareholders' value are met. The Board has also considered certain corporate practices with reference to the revised Code of Corporate Governance 2012 issued on 2 May 2012 which is effective from financial year commencing on or after 1 November 2012.

This report sets out the Group's main corporate governance practices that were in place throughout the financial year or which will be implemented and where appropriate, we have provided explanations for deviation from the Code.

(A) BOARD MATTERS

Board's Conduct of its Affairs

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

The Board oversees the business and corporate affairs of the Group. The principal duties of the Board include the following:

- Protecting and enhancing long-term value and return to its shareholders;
- Providing leadership and guidance on corporate strategy, business directions, risk management policy and implementation of corporate objectives;
- Establishing, reviewing and approving the annual budget, corporate policies, strategies and objectives for the Group;
- Ensuring the effectiveness and integrity of Management;
- Monitoring the Management's achievement of these goals;
- Conducting periodic reviews of the Group's financial performance, internal controls and reporting compliance;
- Approving nominations to the Board and appointment of key executives;
- Ensuring the Group's compliance with all relevant and applicable laws and regulations; and
- Assuming responsibility for the corporate governance of the Group.

All Directors must objectively take decisions in the interests of the Company.

To assist the Board in the execution of its responsibilities, the Board is supported by three committees, namely the Audit Committee ("AC"), the Nominating Committee ("NC") and the Remuneration Committee ("RC"). These Committees operate within clearly defined terms of reference and they play an important role in ensuring good corporate governance in the Company and within the Group. These terms of reference are reviewed on a regular basis to ensure their continued relevance.

Corporate Governance Report

Formal Board meetings are held at least four times a year to approve the quarterly and full year results announcements and to oversee the business affairs of the Group. The schedule of all the Board Committees meetings for the calendar year is usually given to all the Directors well in advance. The Board is free to seek clarification and information from Management on all matters within their purview. Ad-hoc meetings are convened at such other times as may be necessary to address any specific significant matters that may arise. Important matters concerning the Group are also put to the Board for its decision by way of written resolutions. Meetings via telephone or video conference are permitted by the Company's Articles of Association.

The following table sets out the number of Board and Board Committees meetings held during the financial year ended 31 December 2012 ("FY2012") and the attendance of each Director at these meetings:

Name of Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Cai Yutian[1]	5	1	5	1*	1	1	–	–
Zhou Jun	5	4	5	4*	–	–	1	1
Feng Jun	5	5	5	5*	–	–	1	1*
Liu Yujie	5	5	5	5*	–	–	1	1*
Yang Changmin[2]	5	5	5	5*	–	–	–	–
Zhang Chao	5	2	5	2*	–	–	–	–
Zou Jiefu	5	5	5	3*	–	–	–	–
Yeo Guat Kwang	5	3	5	3	1	1	1	1
Tay Ah Kong Bernard	5	5	5	5	1	1	1	1*
Tan Chong Huat	5	5	5	5	1	1*	1	1
Tan Gim Soo	5	5	5	5	1	1*	1	1*

(1) Resigned on 4 May 2012.

(2) Appointed on 17 February 2012.

* By invitation

The Group had adopted a set of internal guidelines setting forth financial authorisation and approval limits for investments, acquisitions and disposals. Transactions falling outside the ordinary course of business and where the value of a transaction exceeds these limits have to be approved by the Board.

The Directors are also updated regularly with changes to the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Rules, risk management, corporate governance, insider trading and the key changes in the relevant regulatory requirements and financial reporting standards and the relevant laws and regulations to facilitate effective discharge of their fiduciary duties as Board or Board Committees members.

Corporate Governance Report

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority ("ACRA") which are relevant to the Directors are circulated to the Board. The Company Secretary informed the Directors of upcoming conferences and seminars relevant to their roles as Directors of the Company. Annually, the external auditors update the AC and the Board on the new and revised financial reporting standards that are applicable to the Company or the Group.

Appropriate briefing and orientation will be arranged for newly appointed Directors to familiarise them with the Group's business operations, strategic directions, Directors' duties and responsibilities and the corporate governance practices. They will also be given opportunities to visit the Group's operational facilities and meet the Management so as to gain a better understanding of the Group's business.

The Directors are encouraged to attend seminars and receive training to improve themselves in the discharge of Directors' duties and responsibilities. Changes to regulations and accounting standards are monitored closely by the Management. To keep pace with such regulatory changes, the Company provides opportunities for ongoing education and training on Board processes and best practices as well as updates on changes in legislation and financial reporting standards, regulations and guidelines from the SGX-ST Listing Rules that affect the Company and/or the Directors in discharging their duties.

Newly appointed Directors receive appropriate training, if required. The Group provides background information about its history, mission and values to its Directors. In addition, the Management regularly updates and familiarises the Directors on the business activities of the Company during Board meetings.

Board Composition and Guidance

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

Presently, the Board comprises four Executive Directors, two Non-Executive Directors and four Independent Directors:-

Name of Directors	Board	Audit Committee	Nominating Committee	Remuneration Committee
Zhou Jun	Executive Chairman	–	–	Member
Feng Jun	Executive Director	–	–	–
Liu Yujie	Executive Director	–	–	–
Yang Changmin	Executive Director	–	–	–
Zhang Chao	Non-Executive Director	–	–	–
Zou Jiefu	Non-Executive Director	–	–	–
Yeo Guat Kwang	Lead Independent Director	Member	Member	Member
Tay Ah Kong Bernard	Independent Director	Chairman	Member	Member
Tan Chong Huat	Independent Director	Member	–	Chairman
Tan Gim Soo	Independent Director	Member	Chairman	–

Independent Directors

The NC considers an "independent" Director as one who has no relationship with the Company, its related corporations or its officers that could interfere or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company.

The NC has reviewed the independence of each Independent Director and is of the view that these Directors are independent.

As disclosed in Note 45 of the accompanying financial statements, the total amount of fees paid to professional firms for legal work and corporate secretarial work where Mr. Tan Chong Huat holds and/or has held senior managerial position exceeded S$200,000.

Notwithstanding the above, our Board with the concurrence of the NC, is of the view that Mr. Tan Chong Huat is independent as he has shown that he has strong independent judgement in his deliberations in our interests notwithstanding the provision of services by the professional firms. Furthermore, the Board is of the view that he has exhibited professionalism and exercised a high standard of duty and care as required by his profession and that Mr. Tan's participation on the Board will benefit the Group given his expertise and standing in his profession.

Mr. Tan Chong Huat was not and will not be directly involved in the provision of such legal services or corporate secretarial services by such firms. He abstains from any voting on any resolution where it relates to the appointment of such firms. Furthermore, for as long as Mr. Tan is our Director, the Company will use market rates as benchmarks in respect of the provision of legal services and corporate secretarial services to the Group.

Non-Executive Directors and Independent Directors exercise no Management functions in the Group. Although all the Directors have equal responsibility for the performance of the Group, the role of the Non-Executive Directors and Independent Directors is particularly important in ensuring that the strategies proposed by Management are fully discussed and rigorously examined and take into account the long-term interests of not only the shareholders, but also of the employees, customers, suppliers and the communities in which the Group conducts its business and reviewing the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance. The NC considers its Non-Executive Directors and Independent Directors to be of sufficient calibre and size and their views to be of sufficient weight such that no individual or small group of individuals dominates the Board's decision-making process.

The Board comprises Directors who as a whole, have core competencies and diversity of experience to enable them to lead and control the Group effectively. Such competencies and experiences include industry knowledge, strategic planning, business and general management, legal and finance.

The NC has reviewed the size and composition of the Board. It is satisfied that after taking into account the scope and nature of operations of the Group in the year under review, the current Board size is appropriate and effective.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company - the working of the Board and the executives responsibility of the company's business - which will ensure a balance of power and authority, such that no one individual represent a considerable concentration of power.

Mr. Zhou Jun, the Company's Executive Deputy Chairman, was re-designated as the Executive Chairman on 4 May 2012. He ensures effective and comprehensive Board discussion on matters brought to the Board including strategic issues as well as business planning and provides executive leadership and supervision to the Executive Directors and the Senior Management team of the Company and the Group.

The responsibilities of the Executive Chairman include:

(1) Scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations;

(2) Ensuring that Directors receive accurate, timely and clear information, and ensuring effective communication with shareholders;

(3) Ensuring the Group's compliance with the Code; and

(4) Acting in the best interest of the Group and of the shareholders.

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

Currently, the Chief Executive Officer ("CEO") position is vacant and the Board is sourcing for suitable candidates to fill this position. During this period, the Board and the Executive Directors are responsible for overseeing the overall management and strategic development of the Group.

Board Membership

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

The NC comprises the following members:

Nominating Committee
Mr. Tan Gim Soo (Chairman)
Mr. Yeo Guat Kwang
Mr. Tay Ah Kong Bernard

Mr. Tan Gim Soo was appointed as a member of NC on 5 March 2012. He was re-designated as Chairman of the NC on 29 March 2012.

The NC's role is to establish a formal and transparent process for:

(1) Reviewing and making recommendations to the Board on all candidates nominated for appointment to the Board of the Company and of its subsidiaries;

(2) Reviewing and recommending to the Board on an annual basis, the Board structure, size and composition, taking into account, the balance between Executive Directors, Non-Executive Directors and Independent Directors to ensure that the Board as a whole possesses the right blend of relevant experiences and core competencies to effectively manage the Company;

(3) Procuring that at least one-third of the Board shall comprise Independent Directors;

(4) Identifying and making recommendations to the Board as to which Directors are to retire by rotation and to put forward for re-election at each Annual General Meeting ("AGM") of the Company, having regard to the Directors' contribution and performance, including the Independent Directors;

(5) Determining whether a Director is independent; and

(6) Proposing a set of objective performance criteria to the Board for approval and implementation, to evaluate the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

The NC is responsible for identifying and recommending new Directors to the Board, after considering the necessary and desirable competencies. In selecting potential new Directors, the NC will seek to identify the competencies required to enable the Board to fulfill its responsibilities. The NC may engage consultants to undertake research on, or assess, candidates applying for new positions on the Board, or to engage such other independent experts, as it considers necessary to carry out its duties and responsibilities. Recommendations for new Directors are put to the Board for its consideration.

New Directors are appointed by way of a Board resolution following which they are subject to re-election at the next AGM.

The Company's Articles of Association requires one-third of the Board (except for the Managing Director) to retire by rotation at every AGM. Directors who retire are eligible to offer themselves for re-election.

Each member of the NC shall abstain from voting on any resolutions in respect to his re-nomination as a Director.

The NC has recommended to the Board that Mr. Zou Jiefu, Mr. Tan Chong Huat and Ms. Liu Yujie, be nominated for re-election at the forthcoming AGM. The Board had accepted the recommendations and the retiring Directors will be offering themselves for re-election.

For the financial year under review, the NC is of the view that the Independent Directors of the Company are independent (as defined in the Code) and are able to exercise judgment on the corporate affairs of the Group independent of the Management.

Despite some of the Directors having other Board representations, the NC is satisfied that these Directors are able to and have adequately carried out their duties as Directors of the Company.

The key information regarding Directors such as academic and professional qualifications, Board Committees served, directorships or chairmanships both present and past held over the preceding three years in other listed companies and other major appointments, whether the appointment is executive or non-executive are set out in pages 54 to 58 of the Annual Report.

Board Performance

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

The NC has established a formal process for assessing the effectiveness of the Board as a whole. During the financial year under review, Directors were requested to complete evaluation forms to assess the overall effectiveness of the Board. The results of the evaluation exercise were considered by the NC which then makes recommendations to the Board aimed at helping the Board to discharge its duties more effectively. The appraisal process focused on evaluation of factors such as the size and composition of the Board, the Board's access to information, the Board's processes and accountability, communication with Senior Management and the Directors' standard of conduct.

Although the Directors are not evaluated individually, the factors taken into consideration with regards to the re-nomination of Directors for FY2012 are based on their attendance and contributions made at the Board and Board Committees meetings.

The Board and the NC have endeavored to ensure that Directors appointed to the Board possess the relevant experience, knowledge and expertise critical to the Group's business.

Access to Information

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

To enable the Board to fulfill its responsibility, the Management strives to provide Board members with adequate and timely information for Board and Board Committees meetings on an on-going basis. Board and Board Committees papers are prepared for each meeting and are disseminated to the members before the meetings. Board and Board Committees papers include financial, business and corporate matters of the Group so as to enable the Directors to be properly briefed on matters to be considered at the Board and Board Committees meetings. Directors are given separate and independent access to the Group's Management and Company Secretary to address any enquiries.

The Company Secretary or his representative administers, attends and prepares minutes of Board and Board Committees meetings, and assists the Chairman of the Board and/or the AC, NC and RC in ensuring that proper procedures at such meetings are followed and reviewed so that the Board and the Board Committees function effectively. Directors may seek professional advice in furtherance of their duties and the costs will be borne by the Company. The appointment and removal of the Company Secretary is subject to the approval of the Board.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

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

The RC comprises the following members:

Remuneration Committee
Mr. Tan Chong Huat (Chairman)
Mr. Zhou Jun
Mr. Yeo Guat Kwang
Mr. Tay Ah Kong Bernard

Mr. Tay Ah Kong Bernard was appointed as a member of the RC on 5 March 2012. Mr. Zhou Jun, being the Executive Chairman of the Company, shall remain as a member of the RC. The RC would comprise three Independent Directors besides Mr. Zhou Jun. Although the Code provides that the Board should set up the RC comprising entirely of Non-Executive Directors, the majority of whom, including the Chairman should be independent. The Board upon the recommendation of the RC, is satisfied with the independence of the RC notwithstanding the retention of Mr. Zhou Jun as a member of the RC. The Board is of the view that Mr. Zhou Jun would be able to contribute substantively to the function of the RC in particular, in determining the remuneration packages of the Senior Management of the Group, in view of his extensive knowledge and experience in the operation of the Group. Hence, the retention of Mr. Zhou Jun as a member of the RC would be beneficial to the Company as a whole.

The key duties of the RC, *inter alia*, are:

(1) To review and submit its recommendations for endorsement by the Board, a framework of remuneration and the specific remuneration packages and terms of employment (where applicable) for each Director (including CEO) and key executives;

(2) To review and approve annually the total remuneration of the Directors and key executives; and

(3) To review and submit its recommendations for endorsement by 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.

No Director will be involved in determining his own remuneration.

The RC has full authority to engage any external professional advice on matters relating to remuneration as and when the need arises. The expense of such services shall be borne by the Company.

Level and Mix of Remuneration

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

The RC will take into account the industry norms, the Group's performance as well as the contribution and performance of each Director when determining remuneration packages.

The Independent Directors and Non-Executive Directors receive Directors' fees in accordance with their contributions, taking into account factors such as effort and time spent, responsibilities of the Directors and the need to pay competitive fees to attract, retain and motivate the Directors. The Independent Directors and Non-Executive Directors shall not be over-compensated to the extent that their independence may be compromised.

The remuneration for the Executive Directors and certain key executives comprise a fixed and variable component. The variable component is performance related and is linked to the Group's performance as well as the performance of each individual Executive Director and key executive.

Disclosure on Remuneration

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

(a) The details of the remuneration of Directors of the Company disclosed in bands for services rendered during the financial year ended 31 December 2012 are as follows:

Remuneration Band	Number of Directors
S$500,000 and above	–
S$250,000 to below S$500,000	–
Below S$250,000	10

(b) Details of the remuneration of the Company's Directors and of the Group's top key executives for the financial year ended 31 December 2012 are as follows:

Remuneration Band and Name of Directors	Salary (%)	Bonus (%)	Fees (%)	Benefits (%)	Total (%)
Below S$250,000					
Zhou Jun	–	–	–	–	–
Feng Jun	100	–	–	–	100
Liu Yujie	100	–	–	–	100
Yang Changmin	100	–	–	–	100
Zhang Chao	–	–	100	–	100
Zou Jiefu	–	–	100	–	100
Yeo Guat Kwang	–	–	100	–	100
Tay Ah Kong Bernard	–	–	100	–	100
Tan Chong Huat	–	–	100	–	100
Tan Gim Soo	–	–	100	–	100

Remuneration Band and Name of Top Key Executives	Salary (%)	Bonus (%)	Fees (%)	Benefits (%)	Total (%)
Below S$250,000					
Tan Kim Han Raymond	96	–	–	4	100
Huang Hanguang	80	20	–	–	100
Wang Peigang	81	19	–	–	100
Wu Bin	100	–	–	–	100

(c) Details of share options granted to key executives are as follows:

	Number of share options to subscribe for the Company's Ordinary Shares at S$0.09 each	
	At date of grant	As at 31 December 2012
Pursuant to options granted on 14 August 2007:		
Huang Hanguang	1,988,611*	–
Wang Peigang	1,917,181*	–

* Includes additional options which were issued pursuant to adjustments made in FY2010, in accordance with the terms of the Asia Water Share Option Scheme.

Summarised details of the Asia Water Share Option Scheme are included in paragraph 5 of the Directors' Report.

(d) There were no employees who are related to the CEO or a Director whose remuneration exceeds S$150,000 in the Group's employment during the financial year under review.

In view of confidentiality of remuneration matters, the Board is of the opinion that it is in the best interests of the Group not to disclose the exact remuneration of Executive Officers in Annual Report.

(C) ACCOUNTABILITY AND AUDIT

Accountability

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

Accountability to our shareholders is demonstrated through the presentation of our quarterly and annual financial statements, results announcements and all announcements on the Group's business and operations.

The Management provides the Board with appropriately detailed Management accounts of the Company's performance, position and prospects on a quarterly basis and when deemed appropriate by particular circumstances.

In line with the SGX-ST Listing Rules, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements. For the financial year under review, the Executive Directors and the Chief Financial Officer have provided assurance to the Board on the integrity of the Group's financial statements.

The Management maintains regular contact and communication with the Board by various means including the preparation and circulation to all Board members of quarterly and full year financial statements of the Group. This allows the Board to monitor the Group's performance and position as well as the Management's achievements of the goals and objectives determined and set by the Board.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that the management maintains a sound system of internal controls to safeguard the shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board is responsible for the overall internal control framework, but acknowledges that no cost-effective internal control system will preclude all errors and irregularities. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The internal controls in place will address the financial, operational and compliance risks and the objectives of these controls are to provide reasonable assurance that there are no material financial misstatements or material loss, there are maintenance of proper accounting records, financial information are reliable and assets are safeguarded.

As the Group does not have a risk management committee, the Board and Management assume the responsibility of the risk management function. Management reviews regularly the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Management reviews significant policies and procedures and highlights significant matters to the Board and the AC.

During the year under review, in addition to the work carried out by external auditors and internal auditors, the Board also engaged PricewaterhouseCoopers LLP to document the framework that enables Management to address the financial, operational and compliance risks of the key business units. The process involved the identification of major risks through workshops conducted for the Group's major business units, whereby the business units' key risks of financial, operational and compliance nature, as well as the countermeasures in place or required to mitigate these risks were summarized for review by the Board. The documentation provided an overview of the Group's key risks, how they are managed, and the key personnel responsible for each identified risk type and the various assurance mechanisms in place. The Company has taken steps to address and implement the recommendations identified during the workshops.

To ensure that internal controls are adequate and effective, the AC is assisted by various independent professional service providers. The assistance of the internal auditors enabled the AC to carry out assessments of the effectiveness of key internal controls during the year. Any material non-compliance or weaknesses in internal controls or recommendations from the internal auditors and external auditors to further improve the internal controls were reported to the AC. The AC will also follow up on the actions taken by the Management on the recommendations made by the internal auditors and external auditors. Based on the reports submitted by the internal and external auditors received by the AC and the Board, nothing material has come to the attention of the AC and the Board to cause the AC and the Board to believe that the internal controls are not satisfactory for the type and size of business conducted.

The Directors have received and considered the representation letters from the Executive Directors, Chief Financial Officer and Management of the business units in relation to the financial information for the year. Material associates and joint ventures which the Company does not control are not dealt with for the purposes of this statement.

Based on the internal controls established and maintained by the Group, work performed by the internal auditors and external auditors, and reviews performed by Management and the documentation on the Group's key risks referred to above, the Board with the concurrence of the AC, is of the opinion that the Group's internal controls are adequate in addressing the financial, operational and compliance risks of the Group as at 31 December 2012.

Audit Committee

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC comprises the following members:

Audit Committee
Mr. Tay Ah Kong Bernard (Chairman)
Mr. Yeo Guat Kwang
Mr. Tan Chong Huat
Mr. Tan Gim Soo

The Company has adopted and has complied with the principles of corporate governance under the Code in relation to the roles and responsibilities of the AC.

In line with the SGX-ST Listing Rules, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements. For the financial year under review, the Executive Directors and the Chief Financial Officer have provided assurance to the Board on the integrity of the Group's financial statements.

The Management provides the Board with a continual flow of relevant information on a timely basis in order that it may effectively discharge its duties. The Management understands its role to provide all members of the Board with a balanced and understandable assessment of the Group's performance, position and prospects.

The Board is of the view that the members of the AC are appropriately qualified, having the necessary accounting or related financial management expertise to discharge their responsibilities.

The AC, which has written terms of reference, performs the following delegated functions:

(1) To review with the external auditors:-

(a) the audit plan, including the nature and scope of the audit before the audit commences;

(b) their audit report;

(c) their management letters and the Management's response; and

(2) To discuss with the external auditors any problems or concerns arising from their agreed-upon procedures, interim and final audits, and any other matters which the external auditors may wish to discuss;

(3) To ensure co-ordination where more than one audit firm is involved;

(4) To assess the adequacy and effectiveness of the internal control (including financial, operational, compliance, information technology controls and risk management) systems established by Management to identify, assess, manage, and disclose financial and non-financial risks;

(5) To monitor the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors annually and give recommendations to the Board and the Company in general meeting regarding the appointment, re-appointment or removal of the external auditors;

(6) To review and ensure that the assurance has been received from the Executive Directors (or equivalent) and the Chief Financial Officer (or equivalent) in relation to the interim/final unaudited financial statement;

(7) To review the internal audit programme and ensure co-ordination between the internal auditors and external auditors and the Management;

(8) To review the quarterly, half-yearly and full year financial statements of the Company and of the Group, including announcements relating thereto, to shareholders and the SGX-ST, and thereafter to submit them to the Board for approval;

(9) To review interested person transactions (as defined in Chapter 9 of the Listing Manual of the SGX-ST) and report its findings to the Board;

(10) To undertake such other reviews and projects as may be requested by the Board or as the Committees may consider appropriate; and

(11) To undertake such other functions and duties as may be required by law or by the Listing Manual of the SGX-ST, as amended from time to time.

Apart from the duties listed above, the AC is given the task of commissioning investigations into matters where there is suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Company's operating results or financial position, and to review its findings.

In July 2010, SGX-ST and ACRA had launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the external auditors. Accordingly, the AC had evaluated the performance of the external auditors based on the key indicators of audit quality set out in the said Guidance.

The Group has implemented a fraud and whistle blowing policy whereby accessible channels are provided for employees to raise concerns about possible improprieties in matters of financial reporting or other matters which they become aware and to ensure that:

(i) independent investigations are carried out in an appropriate and timely manner;

(ii) appropriate action is taken to correct the weakness in internal controls and policies which allowed the perpetration of fraud and/or misconduct and to prevent a recurrence; and

(iii) administrative, disciplinary, civil and/or criminal actions that are initiated following the completion of investigations are appropriate, balance and fair, while providing reassurance that employees will be protected from reprisals or victimisation for fraud and whistle blowing in good faith and without malice.

As of to-date, there were no reports received through the fraud and whistle blowing mechanism.

The AC has full access to and co-operation of the Management, and has full discretion to invite any Director or Executive Officer to attend its meetings. It also has reasonable resources to enable it to discharge its functions.

The AC will meet with the external auditors and internal auditors without the presence of Management, as and when necessary, to review the adequacy of audit arrangement, with emphasis on the scope and quality of their audit, the independence, objectivity and observations of the external auditors and internal auditors. Annually, the AC meets with the external auditors without the presence of the Management and conducts a review of all non-audit services provided by the external auditors and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. Fees paid or payable by the Company to the external auditors for non-audit services and audit services for the financial year ended 31 December 2012 amounted to S$79,000 and S$650,000 respectively.

The AC has recommended to the Board that Deloitte & Touche LLP be nominated for the re-appointment as external auditors of the Company at the forthcoming AGM. The Company has complied with Rules 712 and 715 of the Listing Manual of the SGX-ST in relation to the engagement of its auditors.

Internal Audit

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

The Company outsources its internal audit functions to Messrs PricewaterhouseCoopers LLP ("Internal Auditor"). The Internal Auditor reviews the effectiveness of key internal controls, including financial, operational and compliance controls, and risk management on an on-going basis. Procedures are in place for the Internal Auditor to report independently their findings and recommendations to the AC for review. Management will update the AC on the status of the remedial action plans.

The AC would annually review the adequacy and effectiveness of the internal audit function of the Company.

(D) COMMUNICATION WITH SHAREHOLDERS

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

The Company believes in high standards of transparent corporate disclosure. In line with the continuous obligations of the Company under the Listing Manual of the SGX-ST and the Companies Act, Chapter 50, the Board's policy is that all shareholders should equally and on a timely basis be informed of all major developments that impact the Group. Where there is inadvertent disclosure made to a selected Group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is made through:-

- Annual Report that are prepared and sent to all shareholders. The Board ensures that the Annual Report includes all relevant information about the Company and the Group, including future developments and other disclosures required by the Singapore Companies Act and Singapore Financial Reporting Standards;
- Quarterly announcements containing a summary of the financial information and affairs of the Group for that period;
- Notices of explanatory memoranda for AGMs and Extraordinary General Meetings ("EGMs"). The notice of AGM and EGM are also advertised in a national newspaper;

The Company's website at www.siicenv.com at which our shareholders can access financial information, corporate announcements, press releases, Annual Reports and profile of the Group.

The Company does not practice selective disclosure. Price-sensitive information is first publicly released through SGXNet, either before the Company meets with any investors or analysts. All shareholders of the Company will receive the Annual Report with an accompanying notice of AGM by post. The notice of AGM is also published in the newspaper within the mandatory period, the AGM of which is to be held within four months after the close of the financial year.

GREATER SHAREHOLDER PARTICIPATION

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

The shareholders are encouraged to attend the Company's general meetings to ensure a high level of accountability and to stay informed of the Group's strategies and growth plans. Notice of the AGM is dispatched to shareholders, together with explanatory notes or a circular on items of special businesses (if necessary), at least 14 clear calendar days before the meeting. The Board welcomes questions from shareholders who wish to raise issues, either informally or formally before or during the AGM. The Chairman of the AC, NC and RC are normally present and available to address questions relating to the work of their respective Board Committees at general meetings. Furthermore, the external auditors are present to assist the Board in addressing any relevant queries raised by the shareholders.

If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the general meeting through proxy forms sent in advance.

Each item of special business included in the notice of the general meetings will be accompanied by explanation of the effects of a proposed resolution. Separate resolutions are proposed for each substantially separate issue at general meetings.

(E) DEALINGS IN COMPANY'S SECURITIES

In compliance with Rule 1207(19) of the Listing Manual of the SGX-ST, the Company had adopted a Code of Best Practices to provide guidance to its officers on securities transactions by the Company and its officers.

The Company and its officers are not allowed to deal in the Company's shares during the period commencing two weeks before the announcement of the Company's financial results for each of the first three quarters of its financial year, and one month before the announcement of the Company's full-year financial results, and ending on the date of the announcement of the relevant results.

Directors and executives are also expected to observe insider-trading laws at all times even when dealing with securities within the permitted trading period or when they are in possession of unpublished price-sensitive information and they are not to deal in the Company's securities on short-term considerations.

(F) INTERESTED PERSON TRANSACTIONS

The Company has established a procedure for recording and reporting interested person transactions ("IPTs"). All IPTs are subject to review by the AC to ensure that they were conducted on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders.

There were no IPTs between the Group and any of its interested persons (namely, Directors, executive officers or controlling shareholders of the Group or the associates of such Directors, executive officers or controlling shareholders) subsisting for the financial year ended 31 December 2011 and 2012, save for the following:

Interested Person	Nature of Transaction	The Group	
		2012	2011
		RMB'000	RMB'000
Transactions			
S.I. Infrastructure Holdings Limited	Interest expense paid/payable (Note 1)	9,496	115
SIHL Finance Limited	Interest expense paid/payable	3,457	–
Balances			
S.I. Infrastructure Holdings Limited	Cash purchase consideration in connection with the acquisition of the entire issued and paid-up share capital of S.I. United Water Holdings (BVI) Limited (Note 1)	217,440	217,440
SIHL Finance Limited	Principal loan balances	297,480	–

Note 1: IPT approved by way of EGM held on 28 December 2011. In addition, 1,203,043,453 ordinary shares of the Company was issued on 28 December 2011 as part of the purchase consideration.

(G) RISK MANAGEMENT

The Company 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 Company reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board. The significant risk management policies are disclosed in the audited financial statements of this annual report.

(H) MATERIAL CONTRACTS

Except as disclosed in Note 45 of the accompanying financial statements, and the total amount of fees paid to the affiliates of Mr. Tan Chong Huat namely, RHTLaw Taylor Wessing LLP ("RHTLaw") and RHT Corporate Advisory Pte. Ltd. ("RHT Corporate Advisory") for legal work and corporate secretarial work done respectively for the financial year ended 31 December 2012, there were no material contracts entered into by the Company or its subsidiaries during the financial year ended 31 December 2012, or still subsisting as at 31 December 2012, which involved the interests of any Director or controlling shareholders of the Company.

(I) NON-CONFLICT OF INTERESTS

Mr. Tay Ah Kong Bernard, AC Chairman of the Company, has declared to the Directors that he chairs the risk committee of RHT Capital Pte. Ltd. ("RHT Capital") from 26 August 2011. Mr. Tay is appointed as the independent Chairman and member of the risk committee of RHT Capital which, *inter-alia*, oversees and advises on all risk, independence and conflict of interest aspects of RHT Capital's activities. Mr. Tay is not a shareholder or a Director of RHT Capital. The NC with the concurrence of the Board is of the view that there is no conflict of interest arising from his aforesaid roles. He abstains from any voting on any resolution where it relates to the appointment of RHTLaw or RHT Corporate Advisory which are related to RHT Capital.

(J) UTILISATION OF PROCEEDS

The Company has progressively announced via SGXNet on the utilisation of the net proceeds raised from the rights issue amounting to approximately S$72.8 million in March 2011 (the "Net Proceeds"). The balance of the Net Proceeds as at 31 December 2012 is approximately S$8.0 million. The Company will continue to provide periodic updates through SGXNet as and when the Net Proceeds is being materially disbursed.

PARTICULARS OF DIRECTORS PURSUANT TO THE CODE OF CORPORATE GOVERNANCE

Name of Director	Academic/ Professional Qualifications	Board Appointment Executive/ Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Date of Last Re-election	Directorships in Other Listed Companies and Other Major Appointments	Past Directorships in Other Listed Companies and Other Major Appointments Over the Preceding 3 Years
Mr. Cai Yutian	Masters Degree in World Economics from the East China Normal University	Non-Executive Chairman	Board Member and Member of Nominating Committee	7 April 2010 (Resigned on 4 May 2012)	29 April 2010	Nil	• Shanghai Industrial Holdings Limited • Shanghai Industrial Urban Development Group Limited
Mr. Zhou Jun	Masters Degree in Economics (International Finance) from the Fudan University	Executive Chairman	Chairman of the Board and Member of Remuneration Committee	7 April 2010	27 April 2012	• Shanghai Industrial Holdings Limited • Shanghai Industrial Urban Development Group Limited	Nil
Mr. Feng Jun	Masters Degree in Economics from the Wuhan University School of Management, Enterprise Management	Executive Director	Board Member	15 December 2009	27 April 2011	Nil	• Shanghai Industrial Investment Co., Ltd. • Tien Chu (Hong Kong) Co. Ltd.

Name of Director	Academic/ Professional Qualifications	Board Appointment Executive/ Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Date of Last Re-election	Directorships in Other Listed Companies and Other Major Appointments	Past Directorships in Other Listed Companies and Other Major Appointments Over the Preceding 3 Years
Ms. Liu Yujie	Masters Degree in Business Administration from the University of International Business and Economics in Beijing, PRC	Executive Director	Board Member	19 November 2009	27 April 2011	Nil	Nil
Mr. Yang Changmin	Masters Degree in Executive MBA from Tsinghua University School of Economics and Management	Executive Director	Board Member	17 February 2012	27 April 2012	Nil	Nil
Mr. Zhang Chao	Masters in Legal Studies from the Renmin University of China	Non-Executive Director	Board Member	7 April 2010	27 April 2012	Nil	• Liao Ning Guo Neng (Holdings) Group Co., Ltd
Mr. Zou Jiefu	Masters in Business Administration from the Beijing Institute of Technology	Non-Executive Director	Board Member	7 April 2010	29 April 2010	Nil	Nil

Corporate Governance Report

Name of Director	Academic/ Professional Qualifications	Board Appointment Executive/ Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Date of Last Re-election	Directorships in Other Listed Companies and Other Major Appointments	Past Directorships in Other Listed Companies and Other Major Appointments Over the Preceding 3 Years
Mr. Yeo Guat Kwang	Bachelor of Arts (2nd Upper Honours) from the National University of Singapore and Postgraduate Diploma in Education (with Merit) from the National Institute of Education	Lead Independent Director	Board Member, Member of Nominating Committee, Member of Audit Committee and Member of Remuneration Committee	23 September 2009	27 April 2011	• Koyo International Limited • Neo Group Ltd	• Advance SCT Ltd • Japan Foods Holding Ltd • United Envirotech Limited • HLH Group Ltd
Mr. Tay Ah Kong Bernard	Fellow of the Association of the Chartered Certified Accountants (U.K.), the Taxation Institute of Australia and the Singapore Institute of Directors. He is also a Chartered Accountant of Malaysia and a Fellow of the Institute of Certified Public Accountants of Singapore	Independent Director	Board Member, Chairman of Audit Committee and Member of Nominating Committee and Remuneration Committee	7 April 2010	27 April 2012	• China Hongxing Sports Limited • China Yongsheng Limited • Hengxin Technology Ltd • Ramba Energy Limited • Oakwell Engineering Limited	• Juken Technology Limited (delisted on 3 December 2012)

Name of Director	Academic/ Professional Qualifications	Board Appointment Executive/ Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Date of Last Re-election	Directorships in Other Listed Companies and Other Major Appointments	Past Directorships in Other Listed Companies and Other Major Appointments Over the Preceding 3 Years
Mr. Tan Chong Huat	Bachelor of Law Degree from the National University of Singapore and Master of Law Degree from the University of London. He is an Advocate and Solicitor in Singapore, a solicitor in England and Wales, and a solicitor in the Supreme Court of New South Wales, Australia, a Notary Public and a Commissioner for Oaths. Fellow of the Singapore Institute of Arbitrators and the Chartered Institute of Arbitrators and an accredited arbitrator with the China International Economic and Trade Arbitration Commission.	Independent Director	Board Member, Chairman of Remuneration Committee, and Member of Audit Committee	7 April 2010	29 April 2010	• Ramba Energy Limited	• Artivision Technologies Limited • Sinwa Limited • Superior Fastening Technology Limited • Chasen Holdings Ltd • Asia Environment Holdings Ltd • Swing Media Technology Group Limited • Swissco Holdings Limited • P99 Holdings Limited (formerly known as China Fashion Holdings Limited) • Luye Pharma Group Limited

Corporate Governance Report

Name of Director	Academic/ Professional Qualifications	Board Appointment Executive/ Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Date of Last Re-election	Directorships in Other Listed Companies and Other Major Appointments	Past Directorships in Other Listed Companies and Other Major Appointments Over the Preceding 3 Years
Mr. Tan Gim Soo	Fellow of the Institute of Chartered Accountants in England and Wales, Fellow of the Institute of Certified Public Accountants of Singapore and a member of Singapore Institute of Directors	Independent Director	Board Member, Chairman of Nominating Committee and Member of Audit Committee	14 March 2011	27 April 2011	• China Yongsheng Limited • Enviro-Hub Holdings Ltd • P99 Holdings Limited (formerly known as China Fashion Holdings Limited)	• Juken Technology Limited (delisted on 3 December 2012)

The details on shareholdings of the Directors are disclosed on pages 59 to 60 of the Annual Report under Directors' Interest in Ordinary Shares, Share Options and Debentures section of the Directors' Report.

The Directors present their report together with the audited consolidated financial statements of SIIC Environment Holdings Ltd. (formerly known as Asia Water Technology Ltd.) (the "Company") and its subsidiaries (the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2012.

1. Directors

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

Zhou Jun	–	Executive Chairman	
Feng Jun	–	Executive Director	
Liu Yujie	–	Executive Director	
Yang Changmin	–	Executive Director	(Appointed on 17 February 2012)
Zhang Chao	–	Non-Executive Director	
Zou Jiefu	–	Non-Executive Director	
Yeo Guat Kwang	–	Independent Director (Lead)	
Tay Ah Kong Bernard	–	Independent Director	
Tan Chong Huat	–	Independent Director	
Tan Gim Soo	–	Independent Director	

In accordance with Articles 91 and 97 of the Company's Articles of Association, all the Directors who retire and, being eligible, may offer themselves for re-election.

2 Arrangements to Enable Directors to Acquire Benefits by Means of the Acquisition of Shares and Debentures

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose objects are 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, except for the options mentioned in section 3 of the Directors' Report.

3. Directors' Interests in Ordinary Shares, Share Options and Debentures

The following Directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Cap. 50 (the "Act"), except as follows:

	Direct interest		Deemed interest	
Name of Directors and companies in which interests are held	**At beginning of year or date of appointment, if later**	**At end of year**	**At beginning of year or date of appointment, if later**	**At end of year**
SIIC Environment Holdings Ltd.				
Ordinary shares				
Liu Yujie	–	–	750,000	750,000
Yang Changmin	–	165,418,474	–	–

3. **Directors' Interests in Ordinary Shares, Share Options and Debentures (cont'd)**

Name of Directors and companies in which interests are held	Direct interest: At beginning of year or date of appointment, if later	Direct interest: At end of year	Deemed interest: At beginning of year or date of appointment, if later	Deemed interest: At end of year
Shanghai Industrial Holdings Limited				
Ordinary shares				
Zhou Jun	195,000	195,000	–	–
Options to subscribe for ordinary shares				
Zhou Jun	1,350,000	1,350,000	–	–
Shanghai Industrial Urban Development Group Limited				
Options to subscribe for ordinary shares				
Zhou Jun	7,000,000	7,000,000	–	–

There were no changes in any of the above-mentioned interests between the end of the financial year and 21 January 2013.

4. **Directors' Receipt and Entitlement to Contractual Benefits**

Since the beginning of the financial year, no Director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Act by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which the Director has a substantial financial interest, except as disclosed in the financial statements. Certain Directors received remuneration from related corporations in their capacity as Directors and/or executives of those related corporations. Significant transactions with the Directors and corporations/persons related to Directors are disclosed in Notes to the financial statements.

5. **Equity Compensation Plans of the Company**

The Company has in place, the Asia Water Share Option Scheme 2012 ("ESOS 2012") and Asia Water Share Award Scheme ("ESAS").

At the date of this report, the Remuneration Committee ("RC") which administers the ESOS 2012 and ESAS comprises the following Directors:

(i) Tan Chong Huat – Chairman
(ii) Zhou Jun
(iii) Yeo Guat Kwang
(iv) Tay Ah Kong Bernard

5. Equity Compensation Plans of the Company (cont'd)

(i) Asia Water Share Option Scheme ("ESOS")

On 24 January 2005, the shareholders approved a share option scheme, known as the Asia Water Share Option Scheme ("ESOS"). 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 with an exercise price of $0.665. 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. The options were fully vested during the financial year ended 31 December 2008.

Pursuant to adjustments made in accordance with the terms of the ESOS, the aggregate number of outstanding shares under options has been adjusted from 18,410,000 to 26,300,505 as at 1 January 2010 and the exercise price has been adjusted from $0.665 to $0.090.

There is no share option being granted during the current financial year (2011: nil). No options have been exercised for the financial year ended 31 December 2012. 761,442 (2011: 2,318,616) share options have been forfeited during the current financial year. On 13 August 2012, 16,276,025 share options have expired. As at 31 December 2012, there were no share options outstanding (2011: 17,037,467).

Details of the options to subscribe for ordinary shares of the Company granted to 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/ cancelled/ forfeited/ expired since commencement of scheme to end of financial year	Aggregate options outstanding as at end of financial year
Employees				
Huang Hanguang	–	1,988,611	(1,988,611)	–
Wang Peigang	–	1,917,181	(1,917,181)	–
Chen Chuan	–	1,471,458	(1,471,458)	–
Li Jingjun	–	1,181,452	(1,181,452)	–
Shao Yanfeng	–	1,030,020	(1,030,020)	–
Wang Buoguo	–	934,304	(934,304)	–
Wang Gang	–	911,446	(911,446)	–
Gao Jinshan	–	910,018	(910,018)	–
Total	–	10,344,490	(10,344,490)	–

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;
- No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted; and
- No options have been granted at a discount.

5. **Equity Compensation Plans of the Company (cont'd)**

(ii) ***Asia Water Share Option Scheme 2012 ("ESOS 2012") and Asia Water Share Award Scheme ("ESAS")***

Both the ESOS 2012 and ESAS are approved by the shareholders of the Company on 27 April 2012. The ESOS 2012 is a share incentive scheme. The ESOS 2012 is proposed on the basis that it is important to retain and to give recognition to the Group full time employees, Group Executive Directors and employees of the ultimate holding company and the holding company of the Company and their subsidiaries ("Parent Group"), and to give recognition to Group Non-Executive Directors and Parent Group Non-Executive Directors who have contributed to the success and development of the Company and/or the Group. The ESOS 2012 will give such persons an opportunity to have a real and personal direct interest in the Company and to align the interests of such persons with those of the shareholders of the Company.

The ESAS is a performance incentive scheme which will form an integral part of the Group's incentive compensation program. The purpose of the ESAS is to provide an opportunity for Group employees, Parent Group employees and Directors of the Group and Parent Group, who have met performance targets to be remunerated not just through cash bonuses but also by an equity stake in the Company. The ESAS is also extended to the Group Non-Executive Directors and Parent Group Non-Executive Directors.

The ESOS 2012 and ESAS shall continue in force at the discretion of the RC, subject to a maximum period of ten years commencing 27 April 2012.

As at 31 December 2012, there were no options granted under the ESOS 2012 or ESAS Awards granted the ESAS plan since the date of approval by the shareholders.

6. **Audit Committee**

The Audit Committee of the Company, consisting all independent Non-Executive Directors, is chaired by Mr. Tay Ah Kong Bernard, and includes Mr. Yeo Guat Kwang, Mr. Tan Chong Huat, and Mr. Tan Gim Soo. The Audit Committee has held five meetings during the financial year ended 31 December 2012 and has performed the following delegated functions:

(1) To review with the external auditors:-

(a) the audit plan, including the nature and scope of the audit before the audit commences;

(b) their audit report;

(c) their management letters and the Management's response; and

(2) To discuss with the external auditors any problems or concerns arising from their agreed-upon procedures, interim and final audits, and any other matters which the external auditors may wish to discuss;

(3) To ensure co-ordination where more than one audit firm is involved;

6. Audit Committee (cont'd)

(4) To assess the adequacy and effectiveness of the internal control (including financial, operational, compliance, information technology controls and risk management) systems established by Management to identify, assess, manage, and disclose financial and non-financial risks;

(5) To monitor the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors annually and give recommendations to the Board and the Company in general meeting regarding the appointment, re-appointment or removal of the external auditors;

(6) To review and ensure that the assurance has been received from the Executive Directors (or equivalent) and the Chief Financial Officer (or equivalent) in relation to the interim/financial unaudited financial statements;

(7) To review the internal audit programme and ensure co-ordination between the internal auditors and external auditors and the Management;

(8) To review the quarterly, half-yearly and full year financial statements of the Company and of the Group, including announcements relating thereto, to shareholders and the Singapore Exchange Securities Trading Limited (the "SGX-ST"), and thereafter to submit them to the Board for approval;

(9) To review interested person transactions (as defined in Chapter 9 of the Listing Manual of the SGX-ST) and report its findings to the Board;

(10) To undertake such other reviews and projects as may be requested by the Board or as the Committees may consider appropriate; and

(11) To undertake such other functions and duties as may be required by law or by the Listing Manual of the SGX-ST, as amended from time to time.

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

The Audit Committee has recommended to the Directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the Company at the forthcoming Annual General Meeting of the Company.

7. **Auditors**

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

On Behalf of the Board of Directors:

....

ZHOU JUN
Executive Chairman

....

LIU YUJIE
Director

Singapore
28 March 2013

Statement of Directors

In the opinion of the Directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 68 to 167 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 2012, and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date; and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On Behalf of the Board of Directors:

……………………………………………

ZHOU JUN
Executive Chairman

……………………………………………

LIU YUJIE
Director

Singapore
28 March 2013

Independent Auditors' Report

To the members of SIIC Environment Holdings Ltd.
(Formerly known as Asia Water Technology Ltd.)

Report on the Financial Statements

We have audited the accompanying financial statements of SIIC Environment Holdings Ltd. (formerly known as Asia Water Technology Ltd.) (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 68 to 167.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, (the "Act") and Singapore Financial Reporting Standards, and for 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 accounts and balance sheets and to maintain accountability of assets.

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 about 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 of the financial statements that give a true and fair view 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.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Other Matters

The consolidated financial statements of the Company and its subsidiaries which comprise the statements of financial position of the Group and of the Company as at 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and statement of changes in equity of the Company for the financial year ended 31 December 2011, were audited by another firm of auditor who expressed an unmodified opinion on those financial statements in their report dated 29 March 2012.

Report on Other Legal and Regulatory Requirements

In our opinion, 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.

Deloitte & Touche LLP
Public Accountants and
Certified Public Accountants
Singapore

28 March 2013

Consolidated Income Statement
For the financial year ended 31 December 2012

	Note	Group 2012 RMB'000	Group 2011 RMB'000 (Reclassed)
Continuing operations			
Revenue	4	804,479	519,464
Cost of sales		(527,128)	(331,231)
Gross profit		277,351	188,233
Other operating income	5	15,162	14,705
Selling and distribution costs		(17,911)	(17,233)
Administrative and other expenses		(113,118)	(90,429)
Profit from continuing operations	6	161,484	95,276
Finance income	8	124,423	43,324
Finance expenses	8	(102,878)	(66,466)
Other income	9	12,721	36,392
Other expenses	9	(6,678)	(8,583)
Negative goodwill	41	–	15,117
Fair value gain on revaluation of cost of investment in an associate	41	–	35,510
Share of results of jointly controlled entity	18	15,633	4,598
Share of results of associate	19	177	(4,962)
Profit before tax from continuing operations		204,882	150,206
Income tax expense	10	(27,637)	(14,864)
Profit from continuing operations, net of tax		177,245	135,342
Profit from discontinued operations, net of tax	11	–	830
Profit for the year		177,245	136,172
Attributable to:			
Owners of the Company			
Profit from continuing operations, net of tax		130,516	109,300
Profit from discontinued operations, net of tax		–	830
Profit for the year attributable to owners of the Company		130,516	110,130
Non-controlling interests			
Profit from continuing operations, net of tax		46,729	26,042
Profit for the year attributable to non-controlling interests		46,729	26,042
Profit for the year		177,245	136,172
Earnings per share from continuing operations attributable to owners of the Company (RMB cents per share)			
Basic and diluted	12	2.58	3.18
Earnings per share from continuing and discontinued operations (RMB cents per share)			
Basic and diluted	12	2.58	3.21

See accompanying notes to financial statements.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2012

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
		(Reclassed)
Profit for the year	177,245	136,172
Other comprehensive income:		
Exchange differences arising from translation, net of tax	4,970	25,883
Total comprehensive income for the year	182,215	162,055
Attributable to:		
Owners of the Company	135,486	136,013
Non-controlling interests	46,729	26,042
Total comprehensive income for the year	182,215	162,055

See accompanying notes to financial statements.

Statements of Financial Position

As at 31 December 2012

	Note	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000 (Restated)
Non-current assets					
Property, plant and equipment	13	107,430	109,624	619	784
Investment properties	14	4,598	5,038	–	–
Intangible assets	15	896,603	831,387	–	–
Land use rights	15	15,310	19,429	–	–
Receivables under service concession arrangements – non-current portion	16	2,475,026	1,364,293	–	–
Investment in subsidiaries	17	–	–	474,037	456,053
Interest in jointly controlled entity	18	115,990	110,438	–	–
Interest in associate	19	2,082	–	–	–
Available-for-sale financial instruments	20	5,394	3,000	–	–
Deferred tax assets	21	24,669	3,259	–	–
Goodwill on consolidation	22	20,284	20,284	–	–
Retention monies	23	705	4,967	–	–
Total non-current assets		3,668,091	2,471,719	474,656	456,837
Current assets					
Inventories	24	16,284	16,749	–	–
Amounts due from customers for contract work	25	82,083	31,068	–	–
Receivables under service concession arrangements – current portion	16	57,449	37,135	–	–
Trade receivables	23	318,375	229,719	9,023	10,403
Bills receivables	23	8,885	10,518	–	–
Other receivables	26	113,876	43,837	290	621
Prepayments	27	101,769	61,233	95	726
Amounts due from subsidiaries	28	–	–	615,194	507,270
Amounts due from jointly controlled entity	29	10,450	117	–	–
Amounts due from associate	29	74	–	–	–
Pledged bank deposits	30	28,454	60,127	–	16,860
Cash and cash equivalents	30	488,538	458,452	40,911	137,858
Total current assets		1,226,237	948,955	665,513	673,738

See accompanying notes to financial statements.

Statements of Financial Position

As at 31 December 2012

	Note	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000 (Restated)
Current liabilities					
Trade payables	31	247,562	168,552	–	–
Bills payable to banks	31	16,598	38,798	–	412
Other payables and accruals	32	358,806	328,855	8,008	10,154
Provision	33	604	560	–	–
Amounts due to customers for contract work	25	57,992	51,965	–	–
Amounts due to subsidiaries	28	–	–	15,509	14,625
Bank and other borrowings	34	653,559	648,837	–	9,443
Derivative financial instrument	35	–	3,534	–	3,534
Tax payable		23,547	15,368	–	–
Total current liabilities		1,358,668	1,256,469	23,517	38,168
Net current (liabilities)/assets		(132,431)	(307,514)	641,996	635,570
Non-current liabilities					
Bank and other borrowings	34	1,515,007	795,318	–	–
Deferred tax liabilities	21	161,342	48,479	1,324	1,276
Other non-current liabilities	36	60,211	23,000	–	–
		1,736,560	866,797	1,324	1,276
Net assets		1,799,100	1,297,408	1,115,328	1,091,131
Equity attributable to owners of the Company					
Share capital	37	1,153,129	1,136,949	1,153,129	1,136,949
Treasury shares	38	(96)	–	(96)	–
Retained earnings/(Accumulated losses)		189,877	53,569	(80,029)	(57,993)
Other reserves	39	(30,275)	(146,298)	42,324	12,175
		1,312,635	1,044,220	1,115,328	1,091,131
Non-controlling interests		486,465	253,188	–	–
Total equity		1,799,100	1,297,408	1,115,328	1,091,131

See accompanying notes to financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital RMB'000	Treasury shares RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Other reserves total RMB'000	Capital reserve RMB'000	General reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Premium paid on acquisition of non-controlling interests RMB'000	Merger reserve RMB'000	Equity attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Group													
2012													
Opening balance at 1 January 2012	1,136,949	–	53,569	(146,298)	–	42,693	25,883	11,988	(26,547)	(200,315)	1,044,220	253,188	1,297,408
Profit for the year	–	–	130,516	–	–	–	–	–	–	–	130,516	46,729	177,245
Other comprehensive income													
Exchange differences arising on translation, net of tax	–	–	–	4,970	–	–	4,970	–	–	–	4,970	–	4,970
Other comprehensive income for the year, net of tax	–	–	–	4,970	–	–	4,970	–	–	–	4,970	–	4,970
Total comprehensive income for the year	–	–	130,516	4,970	–	–	4,970	–	–	–	135,486	46,729	182,215
Contributions by and distributions to owners													
Conversion of bonds	16,180	–	–	–	–	–	–	–	–	–	16,180	–	16,180
Expiry of unexercised employee share options	–	–	11,988	(11,988)	–	–	–	(11,988)	–	–	–	–	–
Purchase of treasury shares	–	(96)	–	–	–	–	–	–	–	–	(96)	–	(96)
Transfer to general reserve	–	–	(6,196)	6,196	–	6,196	–	–	–	–	–	–	–
Total contributions by and distributions to owners	16,180	(96)	5,792	(5,792)	–	6,196	–	(11,988)	–	–	16,084	–	16,084

See accompanying notes to financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital RMB'000	Treasury shares RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Other reserves total RMB'000	Capital reserve RMB'000	General reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Premium paid on acquisition of non-controlling interests RMB'000	Merger reserve RMB'000	Equity attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Group													
2012													
<u>Changes in ownership interests in subsidiaries</u>													
Acquisition of subsidiary (Note 41)	–	–	–	116,845	126,786	–	(9,941)	–	–	–	116,845	209,099	325,944
Incorporation of subsidiary	–	–	–	–	–	–	–	–	–	–	–	6,900	6,900
Capital reduction of subsidiary	–	–	–	–	–	–	–	–	–	–	–	(27,000)	(27,000)
Total changes in ownership interests in subsidiaries	–	–	–	116,845	126,786	–	(9,941)	–	–	–	116,845	188,999	305,844
<u>Others</u>													
Dividends paid to previous shareholders	–	–	–	–	–	–	–	–	–	–	–	(2,451)	(2,451)
Total others	–	–	–	–	–	–	–	–	–	–	–	(2,451)	(2,451)
Closing balance at 31 December 2012	1,153,129	(96)	189,877	(30,275)	126,786	48,889	20,912	–	(26,547)	(200,315)	1,312,635	486,465	1,799,100

See accompanying notes to financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2012

	Attributable to owners of the Company										
	Share capital RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Other reserves, total RMB'000	General reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Premium paid on acquisition of non-controlling interests RMB'000	Merger reserve RMB'000	Equity attributable to owners of the Company, total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Group											
2011											
Opening balance at 1 January 2011	415,455	(62,585)	52,095	39,368	–	12,727	–	–	404,965	29,358	434,323
Profit for the year	–	110,130	–	–	–	–	–	–	110,130	26,042	136,172
Other comprehensive income											
Exchange differences arising on translation, net of tax	–	–	25,883	–	25,883	–	–	–	25,883	–	25,883
Other comprehensive income for the year, net of tax	–	–	25,883	–	25,883	–	–	–	25,883	–	25,883
Total comprehensive income for the year	–	110,130	25,883	–	25,883	–	–	–	136,013	26,042	162,055
Contributions by and distributions to owners											
Shares issued for acquisition of subsidiaries	321,235	–	–	–	–	–	–	–	321,235	–	321,235
Shares issued for settlement of debts	1,679	–	–	–	–	–	–	–	1,679	–	1,679
Rights Issue	378,396	–	–	–	–	–	–	–	378,396	–	378,396
Conversion of bonds	53,322	–	–	–	–	–	–	–	53,322	–	53,322
Warrants conversion	24,232	–	–	–	–	–	–	–	24,232	–	24,232
Effect of change in functional currency during the year	(57,370)	17,352	(739)	–	–	(739)	–	–	(40,757)	–	(40,757)
Transfer to general reserve	–	(3,325)	3,325	3,325	–	–	–	–	–	–	–
Total contributions by and distributions to owners	721,494	14,027	2,586	3,325	–	(739)	–	–	738,107	–	738,107

See accompanying notes to financial statements.

	Attributable to owners of the Company										
	Share capital RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Other reserves, total RMB'000	General reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Premium paid on acquisition of non-controlling interests RMB'000	Merger reserve RMB'000	Equity attributable to owners of the Company, total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Group (cont'd)											
2011											
Changes in ownership interests in subsidiaries											
Acquisition of subsidiary under common control (Note 41)	–	–	(200,315)	–	–	–	–	(200,315)	(200,315)	–	(200,315)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	263,611	263,611
Acquisition of non-controlling interests without a change in control	–	–	(26,547)	–	–	–	(26,547)	–	(26,547)	(61,863)	(88,410)
Total changes in ownership interests in subsidiaries	–	–	(226,862)	–	–	–	(26,547)	(200,315)	(226,862)	201,748	(25,114)
Others											
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(3,960)	(3,960)
Dividends paid to previous shareholders	–	(8,003)	–	–	–	–	–	–	(8,003)	–	(8,003)
Total others	–	(8,003)	–	–	–	–	–	–	(8,003)	(3,960)	(11,963)
Closing balance at 31 December 2011	1,136,949	53,569	(146,298)	42,693	25,883	11,988	(26,547)	(200,315)	1,044,220	253,188	1,297,408

See accompanying notes to financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2012

	Attributable to owners of the Company						
	Share capital RMB'000	Treasury shares RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Other reserves, total RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Total equity RMB'000
Company							
2012							
Opening balance at 1 January 2012 (as restated)	1,136,949	–	(57,993)	12,175	187	11,988	1,091,131
Loss for the year	–	–	(34,024)	–	–	–	(34,024)
Other comprehensive income							
Exchange differences arising on translation, net of tax	–	–	–	42,137	42,137	–	42,137
Other comprehensive income for the year, net of tax	–	–	–	42,137	42,137	–	42,137
Total comprehensive income for the year	–	–	(34,024)	42,137	42,137	–	8,113
Contributions by and distributions to owners							
Conversion of bonds	16,180	–	–	–	–	–	16,180
Expiry of unexercised employee share options	–	–	11,988	(11,988)	–	(11,988)	–
Purchase of treasury shares	–	(96)	–	–	–	–	(96)
Total contributions by and distributions to owners	16,180	(96)	11,988	(11,988)	–	(11,988)	16,084
Closing balance at 31 December 2012	1,153,129	(96)	(80,029)	42,324	42,324	–	1,115,328

See accompanying notes to financial statements.

	Attributable to owners of the Company					
	Share capital RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Other reserves, total RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Total equity RMB'000
Company						
2011						
Opening balance at 1 January 2011	415,455	(49,405)	12,727	–	12,727	378,777
Loss for the year (as previously stated)	–	(3,822)	–	–	–	(3,822)
Effect of retrospective restatement upon completion of fair value measurement and accounting for acquisition of subsidiary (Note 50)	–	(21,123)	–	–	–	(21,123)
Loss for the year (as restated)	–	(24,945)	–	–	–	(24,945)
Other comprehensive income						
Exchange differences arising on translation, net of tax	–	–	187	187	–	187
Other comprehensive income for the year, net of tax	–	–	187	187	–	187
Total comprehensive loss for the year	–	(24,945)	187	187	–	(24,758)
Contributions by and distributions to owners						
Shares issued for acquisition of subsidiaries	321,235	–	–	–	–	321,235
Shares issued for settlement of debts	1,679	–	–	–	–	1,679
Rights issue	378,396	–	–	–	–	378,396
Conversion of bonds	53,322	–	–	–	–	53,322
Warrants conversion	24,232	–	–	–	–	24,232
Effect of change in functional currency during the year	(57,370)	16,357	(739)	–	(739)	(41,752)
Total contributions by and distributions to owners	721,494	16,357	(739)	–	(739)	737,112
Closing balance at 31 December 2011 (as restated)	1,136,949	(57,993)	12,175	187	11,988	1,091,131

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2012

	Group	
	2012 RMB'000	2011 RMB'000 (Reclassed)
Cash flows from operating activities:		
Profit before tax from continuing operations	204,882	150,206
Profit before tax from discontinued operations (Note 11)	–	830
Profit before tax, total	204,882	151,036
Adjustments:		
Reversal of allowance for doubtful receivables, net (trade)	(22,389)	(11,028)
Reversal of allowance for doubtful receivables, net (non-trade)	(3,613)	(188)
Bad debts written off (trade)	1,250	–
Bad debts written off (non-trade)	69	–
Reversal of allowance for inventories	–	(141)
Reversal of provision for foreseeable loss	(553)	–
Depreciation of property, plant and equipment	11,829	8,558
Amortisation of intangible assets	38,236	29,901
Amortisation of land use rights	583	708
Depreciation of investment properties	190	150
(Gain)/loss on disposal of property, plant and equipment	(1,259)	42
Loss on disposal of intangible assets	1,008	615
(Gain)/loss on disposal of land use rights	(128)	338
Gain on disposal of investment property	(1,495)	–
Provision/(reversal) of warranty expenses, net	618	(123)
Property, plant and equipment written off	683	–
Impairment loss on intangible assets	–	6,794
Finance expenses	102,878	66,466
Finance income	(124,423)	(43,324)
Fair value loss/(gain) on derivative financial instrument	2,975	(7,732)
Gain on disposal of subsidiary	–	(830)
Negative goodwill	–	(15,117)
Fair value gain on revaluation of cost of investment in an associate	–	(35,510)
Share of results of jointly controlled entity	(15,633)	(4,598)
Share of results of associate	(177)	4,962
Foreign exchange gain	(7,145)	(210)
Operating cash flows before working capital changes	188,386	150,769
(Increase)/decrease in:		
Inventories	580	9,836
Amounts due from/to customers for contract work, net	(30,503)	11,371
Trade receivables	(18,927)	63,895
Bills receivable	1,632	(769)
Other receivables and prepayments	110,831	7,487
Receivables under service concession arrangements	48,452	24,714
Amounts due from associate	–	69,335
Amounts due from jointly controlled entity	(10,878)	–
Increase/(decrease) in:		
Trade payables	36,854	(15,900)
Other payables, accruals and provision	(29,269)	(265,763)
Bills payable to banks	(22,195)	(14,840)

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2012

	Group	
	2012 RMB'000	2011 RMB'000 (Reclassed)
Cash generated from operating activities	274,963	40,135
Interest received	2,764	3,413
Income tax paid	(17,339)	(17,533)
Net cash generated from operating activities	260,388	26,015
Cash flows from investing activities:		
Purchase of property, plant and equipment	(6,371)	(3,496)
Purchase of intangible assets/land use rights, net of amount on credit terms	(96,972)	(71,665)
Proceeds from grants	12,128	141,108
Decrease in prepayment for intangibles assets	32,495	–
Proceeds from disposal of property, plant and equipment	4,229	280
Proceeds from disposal of land use rights	895	–
Proceeds from disposal of investment property	1,849	–
Net cash inflow on disposal of a subsidiary (Note 11)	–	1,448
Net cash (outflow)/inflow on acquisition of subsidiaries	(174,772)	59,307
Dividend declared by jointly controlled entity	11,000	–
Net cash (used in)/generated from investing activities	(215,519)	126,982
Cash flows from financing activities:		
Proceeds from bank and other borrowings	742,097	284,000
Repayment of bank and other borrowings	(661,579)	(428,904)
Proceeds from rights issue	–	378,396
Proceeds from warrants exercised	–	13,522
Purchase of treasury shares	(96)	–
Settlement of dividend payables due to former shareholder	(7,887)	–
Interest paid	(97,196)	(61,881)
Contribution from non-controlling interests upon incorporation of a subsidiary	6,900	–
Return of capital to non-controlling interests upon capital reduction of a subsidiary	(27,000)	–
Decrease/(Increase) in pledged bank deposits	31,673	(42,217)
Net cash (used in)/generated from financing activities	(13,088)	142,916
Net increase in cash and cash equivalents	31,781	295,913
Cash and cash equivalents at beginning of year	458,452	178,243
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1,695)	(15,704)
Cash and cash equivalents at end of year	488,538	458,452

See accompanying notes to financial statements.

Notes to the Financial Statements

Year ended 31 December 2012

1. GENERAL

SIIC Environment Holdings Ltd. (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 (the "SGX-ST"). With effect from 28 November 2012, the name of the Company has changed from Asia Water Technology Ltd. to SIIC Environment Holdings Ltd.. In November 2012, the listing of the Company has transferred to the Mainboard of SGX-ST. The Group's immediate and ultimate holding companies are S.I. Infrastructure Holdings Limited ("SII") incorporated in British Virgin Islands ("BVI"), and Shanghai Industrial Investment (Holdings) Co., Ltd. ("SIIC") incorporated in Hong Kong respectively. The registered office and principal place of business of the Company is located at One Temasek Avenue, #37-03 Millenia Tower, Singapore 039192. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

The principal activity of the Company is that of investment holding. The principal activities of its principal subsidiaries, jointly controlled entity and associate are set out in Notes 17, 18 and 19 to the financial statements respectively.

The presentation currency of the financial statements is Renminbi ("RMB") as the Group's operations are substantially based in the People's Republic of China ("PRC").

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 28 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting

The financial statements have been prepared in accordance with the historical cost basis except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS").

2.2 Adoption of new and revised standards

On 1 January 2012, the Group adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are effective from that date and are relevant to its operations. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Adoption of new and revised standards (cont'd)

Amendments to FRS 1	*Presentation of Items of Other Comprehensive Income*[1]
FRS 113	*Fair Value Measurements*[2]
Amendments to FRS 107	*Disclosures - Transfers of Financial Assets*[2]
FRS 27 (Revised)	*Separate Financial Statements*[3]
FRS 28 (Revised)	*Investments in Associates and Joint Ventures*[3]
FRS 110	*Consolidated Financial Statements*[3]
FRS 111	*Joint Arrangements*[3]
FRS 112	*Disclosure of Interests in Other Entities*[3]
Amendments to FRS 32	*Offsetting Financial Assets and Financial Liabilities*[3]
Annual Improvements to FRS 2012[3]	

1 Effective for annual periods beginning on or after 1 July 2012

2 Effective for annual periods beginning on or after 1 January 2013

3 Effective for annual periods beginning on or after 1 January 2014

Management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption except for the following:

Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*

The amendment on Other Comprehensive Income ("OCI") presentation will require the Group to present in separate groupings, OCI items that might be recycled i.e., reclassified to profit or loss (e.g., those arising from cash flow hedging, foreign currency translation) and those items that would not be recycled (e.g. revaluation gains on property, plant and equipment under the revaluation model). The tax effects recognised for the OCI items would also be captured in the respective grouping, although there is a choice to present OCI items before tax or net of tax.

Changes arising from these amendments to FRS 1 will take effect from financial years beginning on or after 1 July 2012, with full retrospective application. The Group is currently evaluating the impact of the initial adoption of the standard.

FRS 110 *Consolidated Financial Statements* and FRS 27 (Revised) – *Separate Financial Statements*

FRS 110 replaces the control assessment criteria and consolidation requirements currently in FRS 27 and INT FRS 12 *Consolidation – Special Purpose Entities*.

FRS 110 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. It also provides more extensive application guidance on assessing control based on voting rights or other contractual rights. Under FRS 110, control assessment will be based on whether an investor has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the returns. FRS 27 remains as a standard applicable only to separate financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Adoption of new and revised standards (cont'd)

FRS 110 will take effect from financial years beginning on or after 1 January 2014, with retrospective application subject to transitional provisions.

When the Group adopts FRS 110, entities it currently consolidates may not qualify for consolidation, and entities it currently does not consolidate may qualify for consolidation. The Group does not expect FRS 110 to have a significant impact on its existing investments in the period of initial adoption.

<u>FRS 111 *Joint Arrangements* and FRS 28 *Investments in Associates and Joint Ventures*</u>

FRS 111 supersedes FRS 31 *Interests in Joint Ventures* and INT FRS 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*.

FRS 111 classifies a joint arrangement as either a joint operation or a joint venture based on the parties' rights and obligations under the arrangement. The existence of a separate legal vehicle is no longer the key factor. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

The joint venture should use the equity method under the revised FRS 28 *Investments in Associates and Joint Ventures* to account for a joint venture. The option to use proportionate consolidation method has been removed. For joint operations, the Group directly recognises its rights to the assets, liabilities, revenue and expenses of the investee in accordance with applicable FRSs.

FRS 111 will take effect from financial years beginning on or after 1 January 2014, with retrospective application subject to transitional provisions.

When the Group adopts FRS 111, a jointly controlled entity may be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement. For arrangements that are joint ventures and were previously proportionately consolidated as jointly controlled entities, the Group will have to adopt equity accounting.

The application of FRS 111 may change the classification of the Group's investment in joint venture, which is classified as a jointly controlled entity under FRS 31 and has been accounted for using equity method.

<u>FRS 112 *Disclosure of Interests in Other Entities*</u>

FRS 112 requires an entity to provide more extensive disclosures regarding the nature of and risks associated with its interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

FRS 112 will take effect from financial years beginning on or after 1 January 2014, and the Group is currently estimating extent of additional disclosures needed. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in year 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Adoption of new and revised standards (cont'd)

FRS 113 *Fair Value Measurement*

FRS 113 is a single new standard that applies to both financial and non-financial items. It replaces the guidance on fair value measurement and related disclosures in other standards, with the exception of measurement dealt with under FRS 102 *Share-based Payment*, FRS 17 *Leases*, net realisable value in FRS 2 *Inventories* and value-in-use in FRS 36 *Impairment of Assets*.

FRS 113 provides a common fair value definition and hierarchy applicable to the fair value measurement of assets, liabilities, and an entity's own equity instruments within its scope, but does not change the requirements in other Standards regarding which items should be measured or disclosed at fair value.

The disclosure requirements in FRS 113 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under FRS 107 *Financial Instruments: Disclosures* will be extended by FRS 113 to cover all assets and liabilities within its scope.

FRS 113 will be effective prospectively from annual periods beginning on or after 1 January 2013. Comparative information is not required for periods before initial application.

Management anticipates that the application of FRS 113 may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

2.3 Basis of consolidation

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

The results of subsidiaries (except those accounted for as business combination involving entities under common control) acquired or disposed of during the year are included in consolidated income statement from the effective date of acquisition, and up to the effective date of disposal, as appropriate.

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

All intra-Group balances, income and expenses are eliminated in full on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Basis of consolidation (cont'd)

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured (at date of original business combination) either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another FRS. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income and expenses is attributed to owners of the Company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

2.4 Business combinations

(a) Business combinations for entities under common control

Business combinations involving entities or businesses under common control are excluded from FRS 103 *Business Combinations*, and are accounted for in the following manner:

- recording of assets and liabilities at previous carrying values; and
- recognition of the difference between purchase consideration and net assets transferred as an adjustment to equity via merger reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Business combinations (cont'd)

(b) Business combinations for entities not under common control

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*, or FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquired entity prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 *Income Taxes* and FRS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in FRS 102 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Business combinations (cont'd)

(b) Business combinations for entities not under common control (cont'd)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year from acquisition date.

The accounting policy for initial measurement of non-controlling interests is described above.

2.5 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as "negative goodwill" in profit or loss on the acquisition date.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating unit ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the combination. CGU to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU *pro-rata* on the basis of the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

2.6 Investment in subsidiaries

Investment in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Interest in jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of jointly controlled entity is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in jointly controlled entity is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entity. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a Group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 Interest in associate

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

The results and assets and liabilities of associate is incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under FRS 105 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to manage and operate the infrastructure for public service. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Financial instruments" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets" below.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below.

Contractual obligations to restore the infrastructure to a specified level of serviceability

When the Group has contractual obligations that it must fulfil as a condition of its licence for operating concessions under the Intangible Asset Model, that is (a) to maintain the infrastructure to a specified level of serviceability and/or (b) to restore the infrastructure to a specified condition before they are handed over to the grantor at the end of the service concession arrangement, these contractual obligations to maintain or restore the infrastructure are recognised and measured in accordance with the policy set out for "Provisions" below.

Repair and maintenance and other expenses that are routine in nature are expensed and recognised in profit or loss as incurred.

2.10 Construction contracts

Where the outcome of a construction contract including construction or upgrade services of the infrastructure under a service concession arrangement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Construction contracts (cont'd)

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

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

2.11 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods (including water supplied under service concession arrangements) is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The following specific recognition criteria must also be met before revenue is recognised:

(a) ***Construction revenue***

Income from construction contracts is recognised as set out in the accounting policy for "Construction contracts" above.

(b) ***Revenue from service concession arrangements***

Revenue recognised will be apportioned among:

(i) interest income, which will be recognised as financial income in profit or loss; and

(ii) revenue from operating and maintaining the plants recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Revenue recognition (cont'd)

(c) ***Service Income***

Service income including that from operating service provided under service concession arrangements is recognised when services are provided.

Revenue from consultancy work and others is accounted for on a straight-line basis over the service period as services are rendered.

Revenue from the installation of water meters is recognised to the extent of the expenses recognised that are recoverable.

(d) ***Financial income***

Financial income from service concession arrangement is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Financial income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(e) ***Others***

Rental income arising from operating leases on investment properties and equipments are accounted for on a straight-line basis over the lease terms.

Handling fees arise from commission on collection of water revenue on behalf of government and is recognised to the extent that service is rendered.

2.12 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including properties under construction for such purpose. Investment properties include offices. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent expenditures (including refurbishment and decoration) incurred for investment properties are capitalised as part of the carrying amount of the investment properties.

The Group has adopted the cost model which is to measure investment properties at cost less accumulated depreciation and any accumulated impairment losses. Investment property has a useful live of 30 years. Depreciation is computed on a straight-line basis over the estimated useful life. The carrying values of investment properties are reviewed for impairment when event or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at the end of each reporting period, and adjusted prospectively, if appropriate.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. 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 major 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 profit or loss 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 their estimated useful lives. Assets under construction included in property, plant and equipment are not depreciated as these assets are not available for use.

The estimated useful lives of the assets are as follows:

Plants and machinery	–	10 – 25 years
Furniture, fittings and equipment	–	5 – 8 years
Motor vehicles	–	5 – 10 years
Leasehold buildings and improvement	–	5 – 35 years

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

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

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Leasing

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The Group as lessee

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

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

2.15 Foreign currencies

The Group's consolidated financial statements are presented in RMB as the Group's operations are substantially based in the PRC. The functional currency of the Company is S$. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) ***Transactions and balances***

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency translated using the exchange rates as at the dates of the initial transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.15 Foreign currencies (cont'd)

(a) ***Transactions and balances (cont'd)***

Exchange differences arising on the settlement of monetary items, or on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated under "translation reserve" in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

(b) ***Consolidated financial statements***

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of "translation reserve".

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges such investments, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of "translation reserve".

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.16 Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.17 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants for the purchase of assets are taken to the grants received in advance in the first instance. They are deducted against the carrying amount of the assets upon utilisation of the grants for the purchase of assets which are capitalised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

2.18 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.18 Taxation (cont'd)

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, and interests in jointly controlled entity and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity, respectively, Where they arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.19 Intangible assets (except for Goodwill)

Intangible assets acquired *separately excluding operating concessions*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each financial year end, with the effects of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of "Impairment losses on non-financial assets" below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research and development activities (where no internally-generated intangible asset can be recognised) is recognised as an expense in the period in which it is incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Intangible assets (except for Goodwill) (cont'd)

Operating Concessions

Operating concessions represent the rights to operate water treatment plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Operating concessions are amortised on a straight-line basis over the operation phase of the concession periods ranging from 7 years to 30 years.

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 waste water treatment technology, are capitalised and amortised on a straight-line basis over 8 to 10 years.

Computer software

These costs are amortised using the straight-line method over their estimated useful lives of 3 to 10 years.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of "Impairment losses on non-financial assets" below).

2.20 Land use rights

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

2.21 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and conditions are accounted for using the weighted average cost 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 represents the estimated selling price for the inventories, less all estimated costs of completion and the estimated costs necessary to make the sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.22 Cash and cash equivalents in the statement of cash flows

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

2.23 Financial instruments

(a) Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest is immaterial. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

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

(i) cash and cash equivalents, including pledged bank deposits

(ii) bills receivables

(iii) receivables under service concession arrangements

(iv) trade and other receivables, including retention monies

(v) balances due from subsidiaries, jointly controlled entity and associate

They are included in current assets, except those with maturities later than 12 months after the end of the reporting date which are classified as non-current assets (such as non-current retention monies and receivables under service concession arrangements).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.23 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss ("FVTPL"). Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

(b) Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group classifies the following financial liabilities as financial liabilities at fair value through profit or loss:

(i) Derivative portions of both Bonds 2012 and Bonds 2012A;

(ii) Fair value of free warrants issued in conjunction with Bonds 2012 and Bonds 2012A; and

(iii) Interest rate swap.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.23 Financial instruments (cont'd)

(b) Financial liabilities (cont'd)

Other financial liabilities

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

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

Financial guarantee contract liabilities are measured at their fair value and, if not designated as a FVTPL, subsequently at the higher of the amount of obligation under the contract recognised as a provision in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation in accordance with FRS 18 *Revenue.*

(c) Derecognition

The Group derecognises a financial asset when the Group's 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 had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises a financial liability when the Group's obligation under the liability is discharged or cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.24 Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

A derivative is presented as a non-currrent asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities. Further details of derivative financial instruments are disclosed in Note 35 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.25 Convertible bonds – Bonds 2012 and Bonds 2012A

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 instrument. 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 profit or loss. 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 amount of the liability component and the equity conversion option are derecognised with a corresponding recognition of share capital.

2.26 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.

2.27 Treasury shares

When shares are reacquired by the Company, 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. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

Where the treasury shares are cancelled, a reduction by the total amount of the purchase price paid by the Company for the treasury shares cancelled will be made to the "share capital" or "retained earnings" of the Company where the treasury shares, depending if the treasury shares are purchase out of "capital" or "profits" respectively.

When treasury shares are subsequently sold or reissued pursuant to equity compensation plans, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs, is recognised in the capital reserve.

2.28 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.28 Provisions (cont'd)

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

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

2.29 Employee benefits

Defined contribution plans

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

In particular, Singapore companies make contributions to the Central Provident Fund in Singapore, a defined contribution pension scheme. Contributions to pension schemes are recognised as an expense in the period in which the related service is performed.

Certain of the Group's subsidiary companies outside Singapore make contributions to their respective countries' pension schemes. Such contributions are recognised as an expense in the period in which the related service is performed.

Benefits to ex-employees

The benefits are payable to certain categories of ex-employees up till their retirement age or death as provided for in the financial statements based on the requirement under the PRC regulations. The obligation is calculated using the staff entitlements at point of termination and is discounted to its present value.

Equity-settled share-based payment transactions

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 which takes into account market conditions and non-vesting conditions.

This cost is recognised in profit or loss, with a corresponding increase in the employee 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 profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.29 Employee benefits (cont'd)

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. In the case where the option does not vest as the result of a failure to meet a non-vesting condition that is within the control of the Group or the employee, it is accounted for as a cancellation. In such case, the amount of the compensation cost that otherwise would be recognised over the remainder of the vesting period is recognised immediately in profit or loss upon cancellation. 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.

2.30 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 or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated.

Any impairment losses of continuing operations are recognised in profit or loss through the "Other expenses" line item.

For assets excluding goodwill, 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. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. 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. The increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.31 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss. With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

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

(i) <u>Critical judgement in applying the Group's accounting policies</u>

Judgement made by management in the application of FRSs that has a significant effect on the financial statements and in arriving at estimates with a significant risk of material adjustment in the next financial year is discussed below.

(a) <u>Determination of functional currency of the entities in the Group</u>

FRS 21 The effects of Changes in Foreign Exchange Rates requires the Company and the entities in the Group to determine its functional currency to prepares the financial statements. When determining its functional currency, the Company and the entities in the Group consider the primary economic environment in which it operates i.e. the one in which it primarily generates and expends cash. The Company and the entities in the Group may also consider the funding sources. Management applied its judgement and determined that the functional currency of the Company and subsidiaries incorporated in Singapore is Singapore dollars.

(ii) <u>Key sources of estimation uncertainty</u>

(a) <u>Construction contracts</u>

The Group recognises contract revenue by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction contract can be estimated reliably. 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 assumptions are 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 these estimates, management has relied on past experience and knowledge of project engineers.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

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

(a) Construction contracts (cont'd)

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 profit or loss in the year in which the change is made and in subsequent years. Such impact could potentially be significant.

The carrying amounts of assets and liabilities arising from construction contracts at the end of each reporting period are disclosed in Note 25 to the financial statements.

The Group has recognised revenue amounting to RMB205,711,000 (2011: RMB156,804,000) from continuing operations for construction contracts.

(b) 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.

Estimation is exercised in determining the fair values of the receivables under service concession arrangements as well as impairment of the receivables under service concession arrangements 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 finance income.

The assumptions used and estimates made can materially affect the fair value estimates. The carrying amount of the Group's intangible assets and receivables arising from service concession arrangements at the end of the reporting period is disclosed in Note 15 and Note 16 to the financial statements respectively.

During the financial year, the Group has also recognised operating revenue from service concession arrangements amounting to RMB467,040,000 (2011: RMB281,347,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

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

(c) Provision for major overhauls

Pursuant to the service concession agreements, the Group has contractual obligations to maintain the waste water and water treatment plants to a specified level of serviceability and/or to restore the plants to a specified condition before they are handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the waste water and water treatment plants, except for any upgrade element, are recognised and measured in accordance with FRS 37 *Provision, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

As explained in Note 15, during the financial year ended 31 December 2012, the Group provided for provision for major overhauls of RMB7,026,000 (2011: RMB Nil). No provision has been utilised during the financial year.

(d) Provision for foreseeable loss

Foreseeable loss is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. An assessment is made at the end of each reporting period whether any major contracts are deemed onerous and provisions are made accordingly. Provisions for foreseeable loss represent the estimated losses arising from the difference between the committed contract sum and estimated cost of sales for the unfulfilled performance of services committed. As at 31 December 2012, the provision for foreseeable loss amounted to RMB721,000 (2011: RMB1,274,000).

(e) Impairment of loans and receivables

During the financial year, the Group has written back allowance for doubtful receivables (net of allowance during the year) amounting to RMB26,002,000 (2011: Net write-back of RMB11,216,000).

The Group assesses at the end of each reporting period whether there is objective evidence of impairment. To determine whether there is objective evidence of impairment, the Group considers factors such as probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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 loans and receivables.

The carrying amount of the Group's loan and receivables at the end of each reporting period is disclosed in Notes 23, 26, 28 and 29 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

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

(f) Impairment of non-financial assets

The Group assesses whether there is any indicator of impairment for all non-financial assets at each reporting date. Goodwill and intangibles are 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.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the asset or cash generating unit for 5 years or for the remaining concession period, whichever applicable, and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details of the key assumptions applied in the impairment assessment of goodwill, are given in Note 22 to the financial statements.

(g) Deferred tax

The Group reviews the carrying amount of deferred tax at the end of each reporting period. Deferred tax is recognised to the extent that it is probable that the temporary differences can be utilised or there is future taxable profit available against which the temporary differences can be utilised. This involves judgement regarding the future performance and tax laws. The carrying amounts of the deferred tax assets and liabilities are disclosed in Note 21.

(h) Income tax

The Group is subject to income taxes in Singapore and PRC. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax provision in the period in which such determination is made. The carrying amount of the Group's income tax payable at 31 December 2012 is RMB23,547,000 (2011: RMB15,368,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

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

(i) Purchase price allocation

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities (including contingent liabilities) assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities (including contingent liabilities) is recorded as goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The determination of the identifiable assets and liabilities (including contingent liabilities) fair value is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the consideration transferred for business combination. Where the contingent consideration meets the definition of a derivative and thus financial liability, it is subsequently remeasured to fair value at each reporting date.

As part of the purchase price allocation for its acquisition of Rise Wealth Investment Ltd. ("Rise Wealth"), the Group identified an element of contingent consideration. The carrying amount of the contingent consideration on business combination at the end of the reporting period is disclosed in Note 39 and 41 to the financial statements.

The determination of the contingent consideration at fair value is estimated at the completion date using a Black-Scholes pricing model. The key assumptions take into consideration (i) historical dividends; (ii) share price fluctuation covariance of the Company; (iii) the probability of meeting certain profit targets. The dividend yield and probability of achieving profit targets are based on historical data and is not necessarily indicative of the actual outcome. The expected volatility reflects the assumption that the historical volatility over a period similar to the valuation date and the expected award date is indicative of future trends, which may not necessary be the actual outcome.

4. REVENUE

	Group	
	2012	2011
	RMB'000	RMB'000
Construction revenue from:		
- Power Plant Engineering, Procurement and Commissioning ("EPC")	66,729	72,685
- Municipal EPC	138,982	84,119
Operating and maintenance income from:		
- Water Purification Treatment	160,558	141,146
- Waste Water Treatment	306,482	140,201
Service income from:		
- Water Purification Treatment	45,147	21,813
- Waste Water Treatment	20,708	4,000
Consultancy work and others	65,873	55,500
	804,479	519,464

5. OTHER OPERATING INCOME

	Group	
	2012	2011
	RMB'000	RMB'000
Installation of water meters	11,565	12,571
Rental income	1,343	775
Handling fees	1,279	1,122
Other income	975	237
	15,162	14,705

6. PROFIT FROM CONTINUING OPERATIONS

This is determined after charging/(crediting) the following items:

	Note	Group 2012 RMB'000	Group 2011 RMB'000
Property, plant and equipment written off		683	–
(Gain)/ Loss on disposal of land use rights		(128)	338
Loss on disposal of intangible assets		1,008	615
Gain on disposal of investment property		(1,495)	–
Reversal of provision for foreseeable loss		(771)	–
Reversal of allowance for inventories		–	(141)
Allowance for doubtful receivables (trade)	23	761	1,031
Reversal of allowance for doubtful receivables (trade)	23	(23,150)	(12,059)
Allowance for doubtful receivables (non-trade)	26	52	694
Reversal of allowance for doubtful receivables (non-trade)	26	(3,665)	(882)
Bad debts written off (trade)		1,250	–
Bad debts written off (non-trade)		69	–
Provision/(reversal) of warranty expenses, net	33	618	(123)
Operating lease expenses		9,782	1,276
Depreciation of property, plant and equipment	13	11,829	8,558
Depreciation of investment properties	14	190	150
Amortisation of intangible assets	15	38,236	29,901
Amortisation of land use rights	15	583	708
(Gain)Loss on disposal of property, plant and equipment		(1,259)	42
Foreign exchange gain, net		(10,702)	(755)
Research expenses		9,119	7,564
Cost of inventories recognised as expense		148,905	92,231
Transaction costs incurred in acquisition of subsidiaries	41	4,004	3,863
Audit fees:			
- paid to auditors of the Company		3,261	3,137
- paid to other auditors		1,200	2,193
Total audit fees		4,461	5,330
Non-audit fees:			
- paid to auditors of the Company		396	1,088
- paid to other auditors		680	–
Total non-audit fees (*)		1,076	1,088

(*) Total non-audit fees include assurance services. The amount excludes fees of RMB1,220,000 paid to other auditors which has been included under "transaction costs incurred in acquisition of subsidiaries"

7. PERSONNEL EXPENSES

	Group	
	2012	2011
	RMB'000	RMB'000
Wages, salaries and bonuses	103,473	78,898
CPF and other defined contribution	29,151	9,008
Other personnel expenses	10,305	5,330
	142,929	93,236

This includes amounts shown as directors' remuneration and remuneration of key management personnel in Note 45.

8. FINANCE INCOME/(EXPENSES)

	Group	
	2012	2011
	RMB'000	RMB'000
Finance income		
- Interest income from bank balances	2,409	3,006
- Interest income from loan to associate	–	51
- Financial income from service concession arrangements	120,716	38,912
- Financial income from amortisation of retention monies	454	999
- Others	844	356
	124,423	43,324
Finance expenses		
- Interest expense on interest-bearing loans and borrowings[(a)]	(99,698)	(60,106)
- Financial expense on amortisation of bonds	(1,434)	(3,380)
- Financial expense on amortisation of retention monies	(461)	(1,615)
- Financial expense on amortisation of benefits to ex-employees	(1,279)	(992)
- Others	(6)	(373)
	(102,878)	(66,466)

(a) Included in the interest expense on interest-bearing loans and borrowings is an amount of RMB9,496,000 (2011: RMB115,000) and RMB3,457,000 (2011: RMB Nil) relating to the loans due to SII and SIHL Finance Limited ("SIHLFL") (Note 45). Both SII and SIHLFL are wholly owned subsidiaries of the Company's intermediate holding company, Shanghai Industrial Holdings Limited ("SIHL").

9. OTHER INCOME/(EXPENSES)

	Group 2012 RMB'000	Group 2011 RMB'000
Other income		
Compensation income	1,245	23,359
Fair value gain on derivative instrument	–	7,732
Government subsidies	10,931	2,490
Other income	545	2,811
	12,721	36,392
Other expenses		
Early redemption loss of derivative instrument	–	(1,009)
Fair value loss on derivative instrument	(2,975)	–
Impairment loss on intangible assets (Note 15)	–	(6,794)
Late charges	(3,421)	(353)
Other expenses	(282)	(427)
	(6,678)	(8,583)

10. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the respective year ended 31 December 2012 and 2011 are:

	Group 2012 RMB'000	Group 2011 RMB'000
Consolidated income statement		
Continuing operations		
Current		
- Current income taxation	26,753	19,016
- Overprovision in respect of prior years	(6,140)	(3,358)
Deferred		
- Origination and reversal of temporary differences	15,038	(165)
- Overprovision in respect of prior years	(8,014)	(629)
Income tax expense recognised in profit or loss	27,637	14,864

The corporate income tax applicable to the Singapore companies of the Group was 17% (2011: 17%).

10. INCOME TAX EXPENSE (CONT'D)

Major components of income tax expense (cont'd)

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax ("EIT") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", certain subsidiaries are entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year. Certain subsidiaries, engaging in public infrastructure projects, are entitled to full exemption from EIT for the first three years and a 50% reduction in EIT for the next three years from the first year of generating operating income. In addition, two of the subsidiaries have obtained the High New Technology Status and is entitled a reduced tax rate of 15%.

Reconciliation of income tax expense and accounting profit

The income tax expense for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Profit before tax from continuing operations	204,882	150,206
Tax at the domestic rates applicable to in the countries where the Group operates [a]	42,353	26,860
Adjustments:		
Non-deductible expenses	6,502	4,469
Income not subject to tax	(5,515)	(15,937)
Benefits from previously unrecognised tax losses	(1,120)	(1,820)
Overprovision in respect of prior years	(14,154)	(3,987)
Share of results of associate and jointly controlled entity	(3,908)	(620)
Deferred tax asset not recognised	6,837	5,231
Utilisation of previously unrecognised deferred tax assets	(11,751)	–
Deferred tax recognised in current year arising from temporary differences associated with undistributed earnings of subsidiaries	7,426	–
Tax charge on dividend withholding tax	543	–
Others	424	668
Income tax expense recognised in the consolidated income statement	27,637	14,864

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

11. DISCONTINUED OPERATIONS

Pursuant to a share transfer arrangement entered into with Wuhan Gelin Tiandi Environment Group Co., Ltd. on 29 December 2010, the Group disposed of its 100% shareholdings in Wuhan Caidian Huancheng Waste Water Treatment Co,. Ltd. ("Wuhan Caidian") for a consideration of RMB21,103,000 in year of 2011. Gain on disposal and net investing cash inflows from discontinued operations of RMB830,000 and RMB1,448,000 were recognised for the financial year ended 31 December 2011 respectively.

12. EARNINGS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted earning per share ("EPS") attributable to owners of the Company is based on the following data:

	2012 RMB'000	2011 RMB'000
Earnings:		
Earnings for the purpose of basic and diluted EPS (Profit for the year attributable to owners of the Company)	130,516	110,130

	No. of shares '000	No. of shares '000
Number of shares:		
Weighted average number of ordinary shares for EPS computation:		
- Basic	5,050,186	3,435,400
- Diluted	5,051,370	3,435,400

The convertible bonds and share options were not included in the calculation of diluted EPS because they are anti-dilutive for the financial year ended 31 December 2011.

For continuing operations

The calculation of the basic and diluted EPS for continuing operations attributable to owners of the Company is based on the following data:

	2012 RMB'000	2011 RMB'000
Earnings figures are calculated as follows:		
Profit for the year attributable to owners of the Company	130,516	110,130
Less: Gain on disposal from discontinued operations (Note 11)	–	(830)
Earnings for the purpose of basic and diluted EPS for continuing operations	130,516	109,300

The denominators used are the same as those detailed above for both basic and diluted EPS.

For discontinued operations

Basic and diluted EPS for the discontinued operations for the year ended 31 December 2011 was RMB0.02 cents per share, calculated based on gain on disposal from discontinued operations of RMB830,000 and the denominators detailed above for basic and diluted earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Plants and Machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Leasehold buildings and improvement RMB'000	Construction in-progress RMB'000	Total RMB'000
Group						
Cost						
At 1 January 2011	767	5,963	8,252	33,535	–	48,517
Additions	743	1,088	1,448	217	–	3,496
Disposals	–	(59)	(1,110)	–	–	(1,169)
Acquisition of a subsidiary (Note 41)	33,334	1,245	5,939	30,538	–	71,056
Assets previously held for sale	9,758	133	–	942	–	10,833
Exchange differences	–	(7)	–	(56)	–	(63)
At 31 December 2011	44,602	8,363	14,529	65,176	–	132,670
Additions	740	981	2,478	53	2,117	6,369
Disposals	(9,934)	(421)	(1,811)	(902)	–	(13,068)
Acquisition of a subsidiary (Note 41)	2,328	1,545	7,434	751	–	12,058
Reclassification	16,410	(83)	(163)	(15,884)	(280)	–
Exchange differences	–	5	–	34	–	39
At 31 December 2012	54,146	10,390	22,467	49,228	1,837	138,068

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Plants and Machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Leasehold buildings and improvement RMB'000	Construction in-progress RMB'000	Total RMB'000
Group						
Accumulated depreciation						
At 1 January 2011	148	3,249	4,668	5,061	–	13,126
Depreciation charge for the year	2,789	1,151	2,044	2,574	–	8,558
Disposals	–	(59)	(788)	–	–	(847)
Assets previously held for sale	1,957	35	–	232	–	2,224
Exchange differences	–	(4)	–	(11)	–	(15)
At 31 December 2011	4,894	4,372	5,924	7,856	–	23,046
Depreciation charge for the year	3,856	1,551	3,471	2,951	–	11,829
Disposals	(2,690)	(239)	(1,024)	(297)	–	(4,250)
Reclassification	(84)	46	38	–	–	–
Exchange differences	–	2	–	11	–	13
At 31 December 2012	5,976	5,732	8,409	10,521	–	30,638
Carrying amount						
At 31 December 2012	48,170	4,658	14,058	38,707	1,837	107,430
At 31 December 2011	39,708	3,991	8,605	57,320	–	109,624

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Company		
	Furniture, fittings and equipment RMB'000	Leasehold building and improvement RMB'000	Total RMB'000
Cost			
At 1 January 2011	126	963	1,089
Additions	53	–	53
Disposals	(47)	–	(47)
Exchange difference	(8)	(56)	(64)
At 31 December 2011	124	907	1,031
Additions	20	–	20
Exchange difference	5	34	39
At 31 December 2012	149	941	1,090
Accumulated depreciation			
At 1 January 2011	81	16	97
Depreciation charge for the year	19	193	212
Disposals	(47)	–	(47)
Exchange difference	(4)	(11)	(15)
At 31 December 2011	49	198	247
Depreciation charge for the year	27	186	213
Exchange difference	2	9	11
At 31 December 2012	78	393	471
Carrying amount			
At 31 December 2012	71	548	619
At 31 December 2011	75	709	784

Construction-in-progress of the Group comprises costs incurred in the course of constructing a waste water treatment plant as at 31 December 2012.

The relevant assets pledged by the Group is disclosed in Note 44 to the financial statements.

14. INVESTMENT PROPERTIES

	Group	
	2012 RMB'000	2011 RMB'000
Cost		
At 1 January	5,188	–
Disposal	(260)	–
Acquisition of subsidiary (Note 41)	–	5,188
At 31 December	4,928	5,188
Accumulated depreciation		
At 1 January	(150)	–
Depreciation charge for the year	(190)	(150)
Disposal	10	–
At 31 December	(330)	(150)
Carrying amount		
At 31 December	4,598	5,038

The Group has no restriction on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancement.

The property rental income earned by the Group from its investment properties, situated in the PRC, amounted to RMB550,000 (2011 : RMB556,000) with negligible direct operating expenses. During the year ended 31 December 2012, the Group disposed of an investment property, for cash proceeds of RMB1,849,000.

The latest independent valuation was conducted in year ended 31 December 2011. The valuation was based on comparable market transactions that consider the sales of similar properties that have been transacted in the open market. The fair value of the investment property as at 31 December 2011 was more than RMB7,000,000. Management has assessed the fair value of the investment property based on latest transacted property prices in similar location and noted that the fair value of more than RMB7,000,000 as at 31 December 2012 was reasonable.

15. INTANGIBLE ASSETS/ LAND USE RIGHTS

	Group				
	Operating concessions RMB'000	Patent & licensing rights RMB'000	Computer software RMB'000	Total intangible assets RMB'000	Land use rights RMB'000
Cost					
At 1 January 2011	537,223	4,781	2,444	544,448	10,735
Additions	70,503	–	1,162	71,665	–
Government grant utilised	(25,075)	–	–	(25,075)	–
Disposals	(693)	–	–	(693)	(445)
Acquisition of a subsidiary (Note 41)	347,467	–	130	347,597	11,105
At 31 December 2011	929,425	4,781	3,736	937,942	21,395
Additions	113,875	–	1,256	115,131	140
Government grant utilised	(131,041)	–	–	(131,041)	–
Disposals	(15,502)	–	(273)	(15,775)	(897)
Acquisition of a subsidiary (Note 41)	124,715	–	22	124,737	–
Transfers	4,131	–	–	4,131	(4,131)
At 31 December 2012	1,025,603	4,781	4,741	1,035,125	16,507
Accumulated amortisation					
At 1 January 2011	42,310	1,948	1,680	45,938	1,365
Amortisation for the year	29,105	478	318	29,901	708
Disposals	(78)	–	–	(78)	(107)
At 31 December 2011	71,337	2,426	1,998	75,761	1,966
Amortisation for the year	36,810	773	653	38,236	583
Disposals	(472)	–	(54)	(526)	(301)
Transfer	1,051	–	–	1,051	(1,051)
At 31 December 2012	108,726	3,199	2,597	114,522	1,197
Accumulated impairment loss					
At 1 January 2011	24,000	–	–	24,000	–
Impairment loss (Note 9)	6,794	–	–	6,794	–
At 31 December 2011	30,794	–	–	30,794	–
Reversal of impairment loss upon disposal	(6,794)	–	–	(6,794)	–
At 31 December 2012	24,000	–	–	24,000	–
Carrying amount					
At 31 December 2012	892,877	1,582	2,144	896,603	15,310
At 31 December 2011	827,294	2,355	1,738	831,387	19,429
Average remaining useful lives (years)					
At 31 December 2012	7 - 44	3 - 4	1 - 10		41 - 48
At 31 December 2011	18 - 45	3 - 6	1 - 10		13 - 49

The relevant assets pledged by the Group are disclosed in Note 44 to the financial statements.

15. INTANGIBLE ASSETS/ LAND USE RIGHTS (CONT'D)

Operating concessions

Operating concessions represent the rights to charge users of the public service for the water purification contracts. Such operating concession rights fall within the scope of INT FRS 112 *Service Concession Arrangements*. The operating concessions are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on straight-line basis over the respective periods of the operating concessions granted to the Group. Details of these operating concessions are set out in Note 16.

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Amount to be amortised:		
- Not later than one year	43,589	33,766
- Later than one year but not later than five years	174,357	135,065
- Later than five years	674,931	658,463
	892,877	827,294

Provision for major overhauls

Pursuant to the service concession agreements, the Group has contractual obligations to maintain the waste water and water treatment plants to a specified level of serviceability and/or to restore the plants to a specified condition before they are handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the waste water and water treatment plants, except for any upgrade element, are recognised and measured in accordance with FRS37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

During the financial year ended 31 December 2012, the Group provided for provision for major overhauls of RMB7,026,000 (2011: RMB Nil) (Note 36). No provision has been utilised during the financial year.

Land use rights

The Group has land use rights over state-owned land in the PRC where the subsidiaries' operations reside. The land use rights are not transferable.

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Amount to be amortised:		
- Not later than one year	430	780
- Later than one year but not later than five years	1,719	3,120
- Later than five years	13,161	15,529
	15,310	19,429

15. INTANGIBLE ASSETS/ LAND USE RIGHTS (CONT'D)

Capitalisation of borrowing costs

No borrowing costs (2011: RMB128,000) were capitalised as cost of operating concessions.

Amortisation expense

The amortisation of intangible assets and land use rights relating to operating concessions is included in the "Cost of sales", the remaining is included in "Selling and distribution expenses" and "Administrative expenses" line item in the consolidated income statement.

Impairment testing

Management assessed for indicators of impairment annually and is of the view that there is no further impairment on any intangible assets during the financial year ended 31 December 2012.

Impairment loss recognised in 2011

During the financial year ended 31 December 2011, the Group recognised an impairment loss of RMB6,794,000 in respect of the carrying amount of intangible asset of one of its water plants in the PRC. The impairment arose from the government's instruction for relocation in year 2012. The water plant was disposed during the financial year ended 31 December 2012.

16. SERVICE CONCESSION ARRANGEMENTS

The Group through its subsidiaries engages in the businesses of waste water treatment and water supply in the PRC (the "operator") and has entered into a number of service concession arrangements with certain governmental authorities or their agencies in the PRC on a Build-Operate-Transfer ("BOT") or a Transfer-Operate-Transfer ("TOT") basis in respect of its businesses. These service concession arrangements generally involve the Group as an operator to (i) construct waste water and water treatment plants for those arrangements on a BOT basis; (ii) pay a specific amount for those arrangements on a TOT basis; (iii) operate and maintain the waste water and water treatment plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 30 years (the "service concession periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through pricing mechanism. The plants will be transferred to the respective grantors at the end of the service concession periods.

The Group is generally entitled to operate all the property, plant and equipment of the waste water and water treatment plants, however, the relevant governmental authorities as grantors control and regulate the scope of services the Group is to provide to the waste water and water treatment plants, and retain the beneficial entitlement to any residual interest in the waste water and water treatment plants at the end of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authorities or their agencies in the PRC that set out, *inter alia*, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the waste water and water treatment plants to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes.

16. SERVICE CONCESSION ARRANGEMENTS (CONT'D)

At 31 December 2012, the Group's subsidiaries had 28 (2011: 18) service concession arrangements on waste water treatment and 4 (2011: 4) service concession arrangement on water treatment and distribution. A summary of the major terms of the principal service concession arrangements with a design capacity exceeding 50,000 tons/day is set out below:

Name of subsidiary as operator	Project Name	Location in PRC	Name of grantor	Type of service concession arrangement	Daily design capacity (tons/day)	Service concession period
Wuhan Hanxi Waste Water Treatment Co., Ltd.	湖北武汉汉西污水处理项目	Dongxihu, Hubei Province	武汉市人民政府	BOT (Financial assets)	400,000	25 years from 2004 to 2029
Weifang City Tap Water Co., Ltd.	山东潍坊市自来水项目	Weifang, Shandong Province	潍坊市人民政府	BOT (Intangible assets)	320,000	25 years from 2007 to 2031
Shenzhen City Nanfang Water Co., Ltd.	深圳市福永等十座污水处理厂BOT特许经营项目龙岗一包项目	Shenzhen, Guangdong province	深圳市水务局	BOT (Financial assets)	280,000	22 years from 2009 to 2031
Huizhou City Nanfang Water Co., Ltd.	惠州市梅湖水质净化中心一期、二期工程TOT & BOT特许经营项/ 惠州市梅湖水质净化中心一二期深度处理工程项目	Huizhou, Guangdong province	惠州市环保局	BOT and TOT (Financial assets)	200,000	25 years from 2005 to 2030
Wuhan Huang-Pi Kaidi Water Services Co., Ltd.	湖北武汉黄陂供水项目	Huang-Pi, Hubei Province	武汉市黄陂区政府	BOT (Intangible assets)	150,000	30 years from 2008 to 2038
Tianmen Kaidi Water Services Co., Ltd.	湖北天门供水项目	Tianmen, Hubei Province	天门市建设委员会	BOT and TOT (Intangible assets)	150,000	25 years from 2005 to 2030
Huangshi Kaidi Water Services Co., Ltd.	湖北黄石污水处理项目	Huangshi, Hubei Province	黄石市市政公用局	BOT (Financial assets)	125,000	27 years from 2008 to 2035
Chenzhou Nanfang Waste Water Treatment Co., Ltd.	郴州市污水处理项目	Chenzhou, Hunan province	郴州市城市管理局	BOT (Financial assets)	120,000	25 years from 2003 to 2027
Dongguan City Da Lang Shui Kou Xing Bao Water Treatment Co., Ltd.	广东东莞市大朗污水处理厂BOT项目	Dongguan, Guangdong	东莞市大朗镇人民政府	BOT (Financial assets)	100,000	25 years from 2009 to 2034

16. Service Concession Arrangements (cont'd)

Name of subsidiary as operator	Project Name	Location in PRC	Name of grantor	Type of service concession arrangement	Daily design capacity (tons/day)	Service concession period
Dezhou City Lianhe Runtong Water Treatment Co., Ltd.	山东德州市污水处理厂TOT项目	Dezhou, Shandong Province	德州市人民政府	TOT (Financial assets)	100,000	20 years from 2006 to 2026
United Environment Co., Ltd.	山东潍坊市污水处理厂TOT项目	Weifang, Shandong Province	潍坊市人民政府	TOT (Financial assets)	100,000	20 years from 2004 to 2024
Jingjiang City Xingang Waste Water Treatment Co., Ltd.	江苏省靖江市新港园区污水处理特许经营权授予以及污水处理厂（BOT）项目	Jingjiang, Jiangsu Province	江苏省靖江市人民政府	BOT (Financial assets)	80,000	33 years from 2009 to 2042
Wuhan Xincheng Waste Water Treatment Co., Ltd.	湖北武汉新城污水处理项目	Wuhan, Hubei Province	武汉经济技术开发区管委会	BOT (Financial assets)	60,000	20 years from 2004 to 2024
Shuyang Nanfang Co., Ltd.	江苏沭阳县城南污水处理厂项目	Suqian, Jiangsu Province	沭阳县人民政府	BOT and TOT (Financial assets)	60,000	30 years from 2012 to 2042

Receivables under service concession arrangements

As explained in the accounting policy for "Service concession arrangements" set out in Note 2, consideration given by the grantor for a service concession arrangement is accounted for as an intangible asset (operating concessions) or a financial asset (receivable under service concession arrangement) or a combination of both, as appropriate. The intangible asset component is detailed in Note 15, and the financial asset component is as follows:

	Group 2012 RMB'000	Group 2011 RMB'000
Receivables under service concession arrangements	2,532,475	1,401,428
Less: current portion classified as current assets	(57,449)	(37,135)
Non-current	2,475,026	1,364,293

During the current financial year, the Group recognised financial income of RMB120,716,000 (2011: RMB38,912,000) as finance income (Note 8) and construction income of RMB107,247,000 (2011: RMB51,177,000) as revenue from service concession arrangements. The effective interest applied ranges from 5.76% to 7.83% (2011: 5.76% to 7.83%) per annum.

The relevant assets pledged by the Group are disclosed in Note 44 to the financial statements.

17. INVESTMENT IN SUBSIDIARIES

	Company 2012 RMB'000	Company 2011 RMB'000 (Restated) (Note 50)
Unquoted equity shares, at cost	525,698	525,698
Less: Impairment loss	(21,016)	(21,016)
	504,682	504,682
Exchange differences	(30,645)	(48,629)
	474,037	456,053

In prior years, the Company recognised an impairment loss of RMB21,016,000 in respect of the cost of investment in Wuhan Kaidi Management and Wuhan Kaidi Technology which mainly arose from Group's expectations that the margins would be deteriorated in view of the challenging market conditions and stiff competition. Management assessed for indicators of impairment annually and is of view that there is no further impairment loss is required and no impairment loss should be written-back for the year ended 31 December 2012 and 2011.

Particulars of the Company's significant subsidiaries as at 31 December are as follows:

Name of subsidiaries	Country of registration and operation	Principal activities	Percentage of effective equity interest and voting power held by the Group 2012 %	2011 %
Chenzhou Nanfang Waste Water Treatment Co., Ltd. ("Chenzhou Nanfang") [(a)]	PRC	- Waste water treatment	69.378[1]	–
Dongguan City Da Lang Shui Kou Xing Bao Water Treatment Co., Ltd. ("Dongguan Water Treatment") [(a)]	PRC	- Waste water treatment	75.5[2]	75.5[2]
Huizhou City Nanfang Water Co., Ltd. ("Huizhou Nanfang") [(a)]	PRC	- Waste water treatment	69.378[1]	–
Nanfang Water Co., Ltd. ("Nanfang Water") [(a)]	PRC	- Investment holdings - Waste water treatment	69.378[3]	–
United Environment Co., Ltd. ("United Environment") [(a)]	PRC	- Investment holding - Waste water treatment - Reclaimed water treatment	75.5[4]	75.5[4]
Shenzhen City Nanfang Water Co., Ltd. ("Shenzhen Nanfang") [(a)]	PRC	- Waste water treatment	69.378[1]	–

17. INVESTMENT IN SUBSIDIARIES (CONT'D)

Name of subsidiaries	Country of registration and operation	Principal activities	Percentage of effective equity interest and voting power held by the Group 2012 %	2011 %
Weifang City Lianhe Runtong Waste Water Treatment Co., Ltd. ("Weifang Waste Water") [(a)]	PRC	- Waste water treatment	75.5[2]	75.5[2]
Weifang City Tap Water Co., Ltd. ("Weifang Tap Water") [(a)]	PRC	- Treatment and supply of tap water	51.3[5]	51.3[5]
Wuhan Hanxi Waste Water Treatment Co., Ltd. ("Wuhan Hanxi") [(b)]	PRC	- Waste water treatment	80[6]	80[6]
Wuhan Huang-Pi Kaidi Water Services Co., Ltd. ("Wuhan Huang-Pi") [(a)]	PRC	- Treatment and supply of potable water	100[7]	100[7]
Wuhan Kaidi Water Services Co., Ltd. ("Kaidi Water") [(a)]	PRC	- Procurement of equipment - Installation and commissioning of water purification, industrial and municipal waste water treatment systems; and - Design and implementation of automated control systems	100	100

(a) Audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP for consolidation purposes for the year ended 31 December 2012.

With the exception of Kaidi Water which is directly held by the Company, all the above subsidiaries are indirectly held by the Company or jointly by the Company and its subsidiary.

1 100% held by Nanfang Water.

2 100% held by United Environment.

3 69.378% held by Shenzhen City Bao Jia New Water Co., Ltd., a wholly owned subsidiary of the Group.

4 60.4% held by S.I. United Water Holdings Limited ("SIHK") and 15.1% held by Hong Kong Jinhaide Holdings Limited ("JHDHK"). Both SIHK and JHDHK are wholly owned subsidiary of the Group.

5 68% held by United Environment.

6 43% held by the Company and 37% held by Kaidi Water.

7 100% held by Asia Water Investments Pte. Ltd., a wholly owned subsidiary of the Company.

18. INTEREST IN JOINTLY CONTROLLED ENTITY

	Group 2012 RMB'000	Group 2011 RMB'000
Investment in unquoted shares, at cost	105,840	105,840
Share of post-acquisition reserves, net of dividend received	10,150	4,598
Carrying amount of interest in joint controlled entity	115,990	110,438

Details of the jointly controlled entity as at 31 December are as follows:

Name	Country of registration and operation	Principal activities	Effective equity interest and voting power held by the Group 2012 %	2011 %
Held through subsidiary:				
Wenling Hanyang Resources Power Co., Ltd ("Wenling Hanyang") [(a)]	PRC	Waste incineration power generation	50	50

[(a)] Audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP for consolidation purposes for the year ended 31 December 2012.

The aggregate amounts of each current assets, non-current assets, current liabilities, income and expenses related to the Group's interest in the jointly controlled entity are as follows:

	Group 2012 RMB'000	Group 2011 RMB'000
Assets and liabilities:		
Total assets	418,847	403,949
Total liabilities	(186,867)	(183,073)
Net assets	231,980	220,876
Group's share of jointly controlled entity's net assets	115,990	110,438
Income and expenses:		
Income	71,931	30,825
Expenses	(40,665)	(21,629)
Share of results recognised in profit or loss	15,633	4,598

19. INTEREST IN ASSOCIATE

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Unquoted shares, at cost	1,905	–	–	–
Share of post-acquisition profits	177	–	–	–
	2,082	–	–	–

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

Name	Country of registration and operation	Principal activities	Effective equity interest and voting power held by the Group	
			2012	2011
			%	%
Held through subsidiary:				
Linwu County Nanfang Water Co., Ltd. ("Linwu Nanfang") [(a)]	PRC	Waste water treatment	20	–

(a) Audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP for consolidation purposes for the year ended 31 December 2012.

During the financial year ended 31 December 2011, the Group completed the acquisition of an additional 37% equity interest in Wuhan Hanxi. Upon the acquisition, Wuhan Hanxi became a subsidiary of the Group (Note 17). The summarised financial information of the associate pertained to share of Wuhan Hanxi's results prior to the step up acquisition.

The summarised financial information of the associate, not adjusted for the proportion of ownership interest held by the Group, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Assets and liabilities:		
Total assets	17,691	–
Total liabilities	(7,281)	–
Net assets	(10,410)	–
Group's share of associate's net assets	2,082	–
Income and expenses:		
Revenue	1,089	75,227
Profit/(Loss) for the year	883	(11,539)
Share of results recognised in profit or loss	177	(4,962)

20. AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

	Group	
	2012	2011
	RMB'000	RMB'000
Available-for-sale financial instrument		
– Unquoted shares, at cost	5,394	3,000

These equity instruments represent ordinary shares in two (2011: one) PRC incorporated private company. Management is of the view that the fair value of unquoted shares cannot be measured reliably as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be assessed. Accordingly, the investment is stated at cost.

No impairment loss was recognised during the financial year (2011: nil).

21. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recongised by the Group and movement thereon during the current and prior years:

	Arising from service concession arrangements	Undistributed earnings of PRC entities	Fair value adjustments on business combinations	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	7,594	6,548	–	–	21	14,163
Exchange difference	–	(78)	–	–	–	(78)
Acquisition of subsidiaries (Note 41)	34,380	1,702	–	–	(4,231)	31,851
Charged/(Credited) to profit or loss	2,387	–	–	–	(3,103)	(716)
At 31 December 2011	**44,361**	**8,172**	**–**	**–**	**(7,313)**	**45,220**
Exchange difference	–	47	–	–	–	47
Acquisition of subsidiaries (Note 41)	8,862	–	82,465	–	(6,945)	84,382
Charged/(Credited) to profit or loss	7,486	7,426	(1,359)	(1,203)	(5,326)	7,024
At 31 December 2012	**60,709**	**15,645**	**81,106**	**(1,203)**	**(19,584)**	**136,673**

21. DEFERRED TAXATION (CONT'D)

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax liabilities	161,342	48,479	1,324	1,276
Deferred tax assets	(24,669)	(3,259)	–	–
	136,673	45,220	1,324	1,276

A deferred tax asset amounting to approximately RMB1,203,000 (2011: RMB Nil) in respect of tax losses amounting to approximately RMB4,811,000 (2011: RMB Nil) has been recognised. No deferred tax asset was recognised in respect of the remaining tax losses of the Company of RMB83,033,000 and the remaining tax losses of the Group of RMB120,694,000 (2011: RMB61,589,000 and RMB105,778,000 respectively) due to the unpredictability of future profit streams.

The use of these tax losses 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. The use of PRC tax losses will expire within the next five years.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC entities from 1 January 2008 onwards. As at end of the reporting period, the Group has recognised deferred tax of RMB15,645,000 (2011: RMB8,172,000) in respect of undistributed profits retained by PRC entities in the consolidated financial statements.

22. GOODWILL ON CONSOLIDATION

	Group	
	2012	2011
	RMB'000	RMB'000
Cost		
At beginning of the year:		
- Acquisition of additional 9.6% interests in Kaidi Water	36,358	36,358
- Acquisition of additional 20% interests in Taizhou Kaidi Waste Water Treatment Co., Ltd. ("Taizhou Kaidi")	2,858	2,858
- Acquisition of Lap Yin International Limited ("Lap Yin")	6,692	–
- Acquisition of Wuhan Caidian	–	1,524
	45,908	40,740
Disposal of Wuhan Caidian	–	(1,524)
Acquisition of Lap Yin (Note 41)	–	6,692
At end of the year	45,908	45,908
Accumulated impairment losses		
At beginning of the year	25,624	27,148
Reversal of impairment loss from discontinued operations	–	(1,524)
At end of the year	25,624	25,624
Carrying amount	20,284	20,284

22. GOODWILL ON CONSOLIDATION (CONT'D)

Impairment testing of goodwill

The discount rates applied to the cash flow projections and the forecasted growth rates used in the impairment testing of goodwill are as follows:

Name of subsidiaries	CGU	Carrying amount of goodwill		Growth rates		Discount rates	
		2012	2011	2012	2011	2012	2011
		RMB'000	RMB'000	%	%	%	%
Kaidi Water	Municipal EPC segment	10,734	10,734	5.0	5.0	10.3	10.5
Lap Yin	Waste incineration power generation	6,692	6,692	–	–	10.3	10.5
Taizhou Kaidi	Waste water treatment segment	2,858	2,858	–	–	10.3	10.5
		20,284	20,284				

As at 31 December 2012, any reasonably possible change to the key assumptions applied is not likely to cause the recoverable amount to be below the carrying amounts of the CGU.

Taizhou Kaidi and Lap Yin

Value in use was determined by discounting the future cash flows to be generated from the continuing use of water treatment plant/ waste incineration power generation over the service concession period ranging from 20 to 25 years. Management believes that this forecast period is justifiable due to the long term nature of the projects. Changes to the assumptions used by the management to determine the impairment required, particularly the discount rate, can significantly affect the results.

Kaidi Water

The recoverable amounts of the CGU has been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. 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 the segment.

23. RETENTION MONIES/TRADE RECEIVABLES/BILLS RECEIVABLES

	Group		Company	
	2012	201	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	330,198	258,232	9,023	10,403
Retention monies	17,793	23,708	–	–
	347,991	281,940	9,023	10,403
Less: Allowance for doubtful receivables	(28,911)	(47,254)	–	–
	319,080	234,686	9,023	10,403
Retention monies (non-current)	(705)	(4,967)	–	–
Trade receivables, inclusive of retention monies (current)	318,375	229,719	9,023	10,403
Bills receivables (current)	8,885	10,518	–	–

Trade receivables and bills receivables are non-interest bearing and are generally on 90 to 180 (2011: 180) day terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Retention monies relate mainly to the construction contracts. The non-current portion of retention sums are carried at amortised cost using a weighted average effective interest rate of 6.65% (2011: 6.68%) per annum.

Trade receivables pledged by the Group is disclosed in Note 44 to the financial statements.

Except for amounts pertaining to the Company which are denominated in United States Dollar ("USD"), all amounts are denominated in the functional currency of the respective entities.

23. RETENTION MONIES/TRADE RECEIVABLES/BILLS RECEIVABLES (CONT'D)

Receivables that are past due but not impaired

The Group and the Company have trade receivables amounting to RMB83,924,000 and RMB9,023,000 (2011: RMB70,451,000 and Nil) that are past due at the end of the reporting period but not impaired. The Group has not recognised an allowance for doubtful receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 6 months	63,379	59,704	8,752	–
6 to 18 months (*)	13,863	9,790	271	–
More than 18 months	6,682	957	–	–
	83,924	70,451	9,023	–

(*) Included in this ageing category, the ageing for the receivables that are past due but not impaired for more than 12 months is RMB1,319,000 (2011: Nil)

Receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables – nominal amounts	170,153	154,626
Less: Allowance for doubtful receivables	(28,911)	(47,254)
	141,242	107,372

Movements in the allowance of doubtful receivables

	Group	
	2012	2011
	RMB'000	RMB'000
Balance at beginning of the year	47,254	16,779
Allowance made during the year (Note 6)	761	1,031
Reversal of allowance during the year (Note 6)	(23,150)	(12,059)
Previously classified as held for sale	–	42
Acquisition of subsidiaries	4,046	41,461
Balance at end of the year	28,911	47,254

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are slow in making payments or are in significant financial difficulties and have defaulted on payments.

The Company has no trade receivable amounts that are past due and impaired as at 31 December 2012 and 2011.

24. INVENTORIES

Inventories are stated at the lower of cost and net realisable value and comprise consumable supplies held for internal use.

	Group	
	2012	2011
	RMB'000	RMB'000
Inventories	16,284	16,749

There was a reversal of allowance for inventories of RMB141,000 in the financial year ended 31 December 2011.

25. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	Group	
	2012	2011
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses	760,979	779,618
Less: Progress billings	(736,888)	(800,515)
	24,091	(20,897)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	82,083	31,068
Amounts due to customer for contract work	(57,992)	(51,965)
	24,091	(20,897)
The gross retentions held by customers for contract works are as follows:		
Non-current	–	4,967
Current (included in trade receivables)	17,088	18,741
	17,088	23,708

All amounts are denominated in the functional currencies of the respective entities.

26. OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Sundry receivables [a]	85,781	36,804	–	–
Loan to non-controlling shareholders of the subsidiaries	37,893	–	–	–
Deposits	9,680	6,360	290	621
Advances to employees [b]	2,839	1,766	–	–
	136,193	44,930	290	621
Less: allowance for doubtful receivables	(22,317)	(1,093)	–	–
	113,876	43,837	290	621

(a) These are non-trade, unsecured and majority interest-free.

(b) These are unsecured, interest-free and mainly relate to advances given for use in the ordinary conduct of the Group's business.

Movements in allowance for doubtful receivables are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Balance at beginning of the year	1,093	241
Allowance made during the year (Note 6)	52	694
Acquisition of subsidiaries	24,837	1,040
Reversal of allowance during the year (Note 6)	(3,665)	(882)
Balance at end of the year	22,317	1,093

27. PREPAYMENTS

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for property, plant and equipment	220	636	–	–
Prepayments to suppliers	97,705	58,695	–	422
Others	3,844	1,902	95	304
	101,769	61,233	95	726

28. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amount due from subsidiaries to the Company is RMB615,194,000 (2011: RMB507,270,000).

Significant amounts due from subsidiaries (non-trade) that are not denominated in the functional currency of the Company are as follows:

	Company	
	2012	2011
	RMB'000	RMB'000
United States Dollar	109,696	110,880
Hong Kong Dollar	68,584	–

The amounts due to subsidiaries by the Company are RMB15,509,000 (2011: RMB14,625,000). These are denominated in RMB.

Amounts due from/(to) subsidiaries are non-trade, unsecured and interest-free and are repayable on demand.

29. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITY/ AMOUNTS DUE FROM ASSOCIATE

The amount due from jointly controlled entity and associate of the Group are RMB10,450,000 and RMB74,000 respectively (2011: RMB117,000 and RMB Nil).

The amount due from jointly controlled entity and associate are non-trade, unsecured, interest-free and is repayable on demand. All amounts are denominated in the functional currencies of the respective entities except for the amount due from jointly controlled entity of RMB10,450,000 (2011: RMB117,000) which is in Renminbi.

30. PLEDGED BANK DEPOSITS/ CASH AND CASH EQUIVALENTS

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 granted to the Group.

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

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	516,992	518,579	40,911	154,718
Less: Pledged bank deposits (Note 44)	(28,454)	(60,127)	–	(16,860)
Cash and cash equivalents	488,538	458,452	40,911	137,858

Cash and bank balances have range of effective interest rate 0.1% - 3.75% (2011: 0.1% - 4.4%) per annum for the financial year ended 31 December 2012.

30. PLEDGED BANK DEPOSITS/ CASH AND CASH EQUIVALENTS (CONT'D)

Significant cash and bank balances that are not denominated in the functional currency of the respective entities are as follows:

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
United States Dollar	3,400	139,709	1,820	2,409

31. TRADE PAYABLES/BILLS PAYABLE TO BANKS

Trade payables are denominated in RMB, non-interest bearing and are normally settled on 30 to 90 (2011: 30 to 180) day terms.

Bills payable to banks are denominated in the functional currencies of the respective entities (2011: except for RMB412,000 denominated in USD), interest-free and secured by certain bank deposits pledged with the issuing banks.

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Customer advances	127,256	21,956	–	–
Sundry payables	87,408	83,039	1,106	1,695
Amount due to non-controlling shareholders of the subsidiaries[(a)]	35,250	–	–	–
Accrued operating expenses	71,625	79,893	2,702	6,028
Accrued personnel expenses	37,267	17,824	4,200	2,431
Compensation from government for relocation of plant	–	126,143	–	–
	358,806	328,855	8,008	10,154

(a) These are unsecured, interest-free and mainly arise from capital reduction of a subsidiary.

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

33. PROVISION

Provision for warranty

The Group provides 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 end of reporting period for expected warranty claims based on past experience of the level of repairs and returns.

Movements in provision for warranty are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
At beginning of year	560	1,110
Provision made during the year (Note 6)	618	274
Adjustment for overprovision (Note 6)	–	(397)
Utilised during the year	(574)	(427)
At end of year	604	560

A provision of RMB618,000 (2011: Net reversal of RMB123,000) of warranty expense is recorded in the line item of "Selling and distribution expenses" in the consolidated income statement.

34. BANK AND OTHER BORROWINGS

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	1,570,776	1,031,045	–	–
Other borrowings [(a)]	514,920	217,440	–	–
Government loans	82,870	67,477	–	–
Bonds [(b)]	–	128,193	–	9,443
	2,168,566	1,444,155	–	9,443
Analysed as:				
Current	653,559	648,837	–	9,443
Non-current	1,515,007	795,318	–	–
	2,168,566	1,444,155	–	9,443

[(a)] Other borrowings relates to amount due to SII and SIHLFL of RMB217,440,000 and RMB297,480,000 respectively (2011: RMB217,440,000 and RMB Nil respectively).

34. BANK AND OTHER BORROWINGS (CONT'D)

(b) The bonds recognised in the statement of financial position are analysed as follow:

	Group			
	RMB 120 million bonds RMB'000	Bonds 2012 RMB'000	Bonds 2012A RMB'000	Total RMB'000
Carrying amount as at 1 January 2011	–	22,756	8,261	31,017
Effect of change in functional currency	–	–	12	12
Amount arising from acquisition of subsidiary during the year	117,343	–	–	117,343
Conversion during the year	–	(22,756)	–	(22,756)
Exchange difference	–	–	(803)	(803)
Amortisation (Note 8)	1,407	–	1,973	3,380
Carrying amount as at 31 December 2011	118,750	–	9,443	128,193
Conversion during the year	–	–	(9,670)	(9,670)
Repayment during the year	(120,000)	–	–	(120,000)
Exchange difference	–	–	43	43
Amortisation (Note 8)	1,250	–	184	1,434
Carrying amount as at 31 December 2012	–	–	–	–

	Company		
	Bonds 2012 RMB'000	Bonds 2012A RMB'000	Total RMB'000
Carrying amount as at 1 January 2011	22,756	8,261	31,017
Effect of change in functional currency	–	12	12
Conversion during the year	(22,756)	–	(22,756)
Exchange difference	–	(803)	(803)
Amortisation	–	1,973	1,973
Carrying amount as at 31 December 2011	–	9,443	9,443
Conversion during the year	–	(9,670)	(9,670)
Exchange difference	–	43	43
Amortisation	–	184	184
Carrying amount as at 31 December 2012	–	–	–

34. BANK AND OTHER BORROWINGS (CONT'D)

(i) *Bonds 2012*

Convertible bonds ("Bonds 2012") with a face value of US$4.5 million were issued to Triumph Power Limited on the same date as the Settlement Agreement in the form of a supplemental agreement (the "Supplemental Agreement"). These bonds were convertible at S$0.045 for each new share of the Company. The number of shares issued on conversion of a Bonds 2012 were determined by dividing the principal amount of Bonds 2012 converted (translated into S$ at the fixed rate of S$1.3815 to US$1) by the conversion price in effect at the conversion date. Bonds 2012 shall at all times rank *pari passu* and without any preference or priority among themselves, and the payment obligations of the Company under the Bonds 2012 rank at least *pari passu* with all other unsecured obligations (other than subordinated obligations and priorities created by law) of the Company.

The price at which shares will be issued upon conversion of a Bonds 2012 will initially be equal to S$0.045 per share but will be subjected to adjustment in the occurrence of events as specified in the Settlement Agreement.

The Company shall redeem the Bonds 2012 by paying the applicable redemption amount (130% of the principal amount) to the bondholders forthwith upon its receipt of a default notice issued by the bondholders pursuant to the occurrence of an event of default such as the following:

– A default is made in the payment of any principal due in respect of the Bonds 2012;

– A default is made in the payment of any other sums due in respect of the Bonds 2012; or

– failure by the Company to deliver and/or register the Shares as and when such Shares are required to be delivered and/or registered following conversion of a Bonds 2012.

On 5 January 2011, in accordance with the terms and conditions of the Supplement Agreement, Bonds 2012 of US$4.5 million were converted into 138,150,000 new ordinary shares at an exercise price of S$0.045 each.

(ii) *Bonds 2012A ("Repayment Bonds")*

The Company irrevocably and unconditionally undertakes to repay Lucky Six Limited US$2.0 million in the form of new convertible bonds ("Bonds 2012A" or "Repayment Bonds") with a face value of US$2.0 million on the terms and conditions set out in the Settlement Agreement, as payment of the balance of the aggregate outstanding amount and the outstanding redemption premium. The conversion rates and terms are similar to that of Bonds 2012. On 25 March 2011, the Company issued 1,217,789,975 Right shares pursuant to the Right Issue. The issue of the Right Shares constituted an event giving rise to an adjustment to the conversion price pursuant to the Bonds Conditions. Pursuant to the adjustment, the conversion price per share has been adjusted from S$0.045 to S$0.040.

As the Company is liable to pay additional 30% of principal amount as redemption premium to the bondholders upon the occurrence of events of default, this embedded default payment derivative should be accounted for as a derivative liability at fair value and gains or losses will be recognised in profit or loss.

34. BANK AND OTHER BORROWINGS (CONT'D)

(ii) ***Bonds 2012A ("Repayment Bonds")***

On initial recognition, both the embedded equity conversion option and the embedded default payment derivative should be measured at their fair value and presented as derivative financial instrument. The difference between total proceeds and the fair value of the equity conversion option and the embedded default payment derivative is recognised as the liability component.

Subsequently, the host liability component is carried at amortised cost until the liability is extinguished on conversion or redemption. The equity conversion option and the embedded default payment derivative are measured at fair value at each reporting date with changes in fair value recorded in the profit or loss until the derivatives are extinguished, cancelled or expired.

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

On 8 February 2012, Lucky Six Limited converted its remaining Bonds 2012A of US$1.6 million into 55,260,000 ordinary shares of the Company.

(iii) ***RMB120 million bonds***

On 24 August 2010, United Environment, a subsidiary under the Group issued RMB120 million of bonds under 2010 Shandong Weifang Small-Medium Enterprise bonds issuance. The bonds are valid for 2 years from the date of issuance. The bonds are fully repaid using cash during the financial year ended 2012.

The key terms of the bonds are as follows:

– Interest rate subjected based on The People's Bank of China's 1-year borrowings' rate plus a margin of 0.9% per annum; and

– Interest payable on yearly basis; and

– Final interest shall be payable along with repayment of the principal on its due date.

The effective interest rate of the bond is at 4.4% per annum.

On initial recognition, the bonds are recognised at fair value. After initial recognition, the bonds are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

34. BANK AND OTHER BORROWINGS (CONT'D)

Details of any collateral

The bank and other borrowings are secured/ guaranteed on concessionary arrangements; trade receivables (relating to concessionary arrangements) collection rights; guarantees by subsidiaries; and/or pledge on third party Company's assets. Relevant assets pledged by the Group and the Company are disclosed in Note 44 to the financial statements.

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Secured/ guaranteed	1,753,736	966,409	–	–
Unsecured/ unguaranteed	414,830	477,746	–	9,443
	2,168,566	1,444,155	–	9,443

Details on interest rates

The table below summarises the interest rate categories of the Group's and the Company's borrowings at the end of the reporting period:

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-free borrowings	9,513	21,161	–	9,443
Fixed-rate borrowings	892,620	347,440	–	–
Variable-rate borrowings	1,266,433	1,075,554	–	–
	2,168,566	1,444,155	–	9,443

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's and the Company's borrowings are as follows-

	Group	
	2012	2011
Fixed-rate borrowings (per annum)	4.35% - 7.41%	4.45% - 7.22%
Variable-rate borrowings (per annum)	2.55% - 8.28%	4.40% - 7.05%

34. BANK AND OTHER BORROWINGS (CONT'D)

Details on contractual maturity dates

The table below summarises the maturity profile of the Group's and the Company's borrowings at the end of the reporting period:

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount repayable:				
Within one year	653,559	648,837	–	9,443
More than one year but not more than two years	689,641	322,379	–	–
More than two years but not more than five years	454,335	221,025	–	–
Over five years	371,031	251,914	–	–
	2,168,566	1,444,155	–	9,443

35. DERIVATIVE FINANCIAL INSTRUMENT

The balance as at 31 December 2011, related to the derivative portions of Bonds 2012A. Bonds 2012A was fully converted into ordinary shares of the Company on 8 February 2012.

36. OTHER NON-CURRENT LIABILITIES

	Group	
	2012	2011
	RMB'000	RMB'000
Provision for benefits due to ex-employees	44,534	19,595
Provision for major overhaul (Note 15)	7,026	–
Collection of water purification revenue on behalf of government	1,737	2,311
Others	6,914	1,094
	60,211	23,000

All amounts are unsecured and interest-free.

Management has assessed that the above carrying amounts approximate fair value.

37. SHARE CAPITAL

	Group and Company Number of ordinary shares	Amount RMB'000
Issued and paid up share capital		
At 1 January 2011	2,273,526,689	415,455
Exchange differences	–	(57,370)
Rights issue (Note 34)	1,217,789,975	378,396
Bonds 2012 conversion (Note 34)	138,150,000	53,322
Settlement of debts	3,545,963	1,679
Settlement of acquisition consideration (Note 41)	1,301,622,274	321,235
Exercise of warrants	66,052,616	24,232
At 31 December 2011	5,000,687,517	1,136,949
Bonds 2012A conversion (Note 34)	55,260,000	16,180
At 31 December 2012	5,055,947,517	1,153,129

The holders of ordinary shares (except treasury 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.

38. TREASURY SHARES

Treasury shares relate to ordinary shares of the Company that are held by the Company.

During the financial year, the Company purchased 282,000 (2011: Nil) of its ordinary shares by way of on-market purchases at share prices ranging from S$0.054 to S$0.072. The total amount paid to purchase the shares was RMB96,000 and this is presented as a component within equity attributable to owners of the Company. All the treasury shares purchase made during the financial year is made out of "capital".

39. OTHER RESERVES

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Capital reserve	126,786	–	–	–
General reserve	48,889	42,693	–	–
Translation reserve	20,912	25,883	42,324	187
Share option reserve	–	11,988	–	11,988
Premium paid on acquisition of non-controlling interests	(26,547)	(26,547)	–	–
Merger reserve	(200,315)	(200,315)	–	–
	(30,275)	(146,298)	42,324	12,175

39. OTHER RESERVES (CONT'D)

(a) Capital reserve

The capital reserve relates to the fair value of deferred consideration shares of RMB102,321,000 and contingent consideration of RMB24,465,000 in relation to the acquisition of Rise Wealth (Note 41).

(b) General reserve

In accordance with the relevant laws and regulations of PRC, companies in PRC are required to set aside a general reserve fund by way of appropriation from their statutory net profit reported in PRC statutory financial statements at a rate of 10% for each year. Subject to approval from 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.

(c) Translation reserve

The translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(d) Share option reserve

Share option reserve represents the equity-settled share options granted to employees (Note 40). 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.

(e) Premium paid on acquisition of non-controlling interests

This represents the difference between consideration and the carrying value of additional non-controlling interest acquired in a step-acquisition transaction.

(f) Merger reserve

Merger reserve represents the difference between consideration and equity acquired in a business combination involving entities under common control using pooling-of-interest method.

40. SHARE-BASED PAYMENT TRANSACTIONS

The Company has terminated the existing Asia Water Share Option Scheme and the proposed adoption of the Asia Water Share Option Scheme 2012 and Asia Water Share Award Scheme, as approved by the shareholders of the Company at the extraordinary general meeting held on 27 April 2012. The ESOS 2012 shall continue in force at the discretion of the remuneration committee, subject to a maximum period of ten years commencing 27 April 2012.

(a) Asia Water Share Option Scheme (the "ESOS")

During the financial years ended 31 December 2012 and 2011, no share options were exercised or granted under the ESOS. During the financial year ended 31 December 2012, 761,442 (2011: 2,318,616) share options were forfeited. On 13 August 2012, 16,276,025 share options have expired. As at 31 December 2012, there were no share options outstanding (2011: 17,037,467).

(b) Asia Water Share Option Scheme 2012 (the "ESOS 2012")/ Asia Water Share Award Scheme (the "ESAS")

The ESOS 2012 is a share incentive scheme. The ESOS 2012 is proposed on the basis that it is important to retain and to give recognition to the Group full time employees, Group Executive Directors and employees of the ultimate holding company and the holding company of the Company and their subsidiaries ("Parent Group"), and to give recognition to Group Non-Executive Directors and Parent Group Non-Executive Directors who have contributed to the success and development of the Company and/or the Group. The ESOS 2012 will give such persons an opportunity to have a real and personal direct interest in the Company and to align the interests of such persons with those of the shareholders of the Company.

The ESAS is a performance incentive scheme which will form an integral part of the Group's incentive compensation program. The purpose of the ESAS is to provide an opportunity for the Group full time employees, Parent Group Employees and Directors of the Group and Parent Group, who have met performance targets to be remunerated not just through cash bonuses but also by an equity stake in the Company. The ESAS is also extended to the Group Non-Executive Directors and Parent Group Non-Executive Directors.

The aggregate number of shares comprised in options granted to controlling shareholders or their associate(s) under the ESOS 2012 shall not exceed 25% of the total number of shares (comprised in options and ESAS Awards) which may be granted under the ESOS 2012 and ESAS. The aggregate number of shares comprised in options granted to each controlling shareholder or their associate(s) shall not exceed 10% of the total number of shares (comprised in options and ESAS Awards) which may be granted under the ESOS 2012 and ESAS.

The total number of new Shares which may be issued pursuant to the awards granted under the ESAS ("ESAS Awards") granted on any date, when aggregated to the number of new Shares issued and/or issuable in respect of all ESAS Awards and any other share-based incentive schemes of the Company, shall not exceed fifteen per cent (15%) of the issued share capital of the Company (excluding treasury shares) from time to time.

40. SHARE-BASED PAYMENT TRANSACTIONS (CONT'D)

(b) Asia Water Share Option Scheme 2012 (the "ESOS 2012")/ Asia Water Share Award Scheme (the "ESAS") (cont'd)

The validity period of options that are granted under the ESOS 2012 ("ESOS 2012 Options") is five years from the date of offer of such options. Under the ESOS 2012, the subscription prices of ESOS 2012 Options granted by the Company will be at the Market Price of a Share at the time of grant, as determined by reference to the daily official list or any other publication published by the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the five consecutive trading days immediately preceding the date of offer of such option. ESOS 2012 Options will not be granted at a discount to the Market Price.

During the financial years ended 31 December 2012, no ESOS 2012 Options or ESAS Awards were granted.

41. ACQUISITION OF SUBSIDIARIES/ BUSINESS

For the year ended 31 December 2012

(a) Acquisition of Rise Wealth Investment Ltd. ("Rise Wealth", together with its subsidiaries and associated company, collectively the "Rise Wealth Group")

On 23 July 2012, the Group acquired 100% interest in Rise Wealth for a purchase consideration comprising (i) cash consideration of HK$266,024,000 (equivalent to RMB216,279,000); and (ii) 433,626,615 ordinary shares at an issue price of S$0.068 per share, for the expansion of the Group's business. In addition to the purchase consideration, Target Trend Management Limited (the "Vendor") will be entitled to receive an additional earn-out amount of up to RMB45.0 million, by way of issuance and allotment of up to 133,652,038 new shares at an issue price of S$0.068 per share, subjected to certain conditions being met ("contingent consideration").

Rise Wealth indirectly owns 69.378% equity interest in Nanfang Water, together with its subsidiaries and one associated Company, collectively the "Nanfang Group"). Nanfang Group is engaged principally in the business of environmental protection, including waste water treatment, tap water treatment, reclaimed water treatment, project investment, operation and management of water treatment facilities in the PRC.

<u>Impact of acquisition on profit or loss</u>

Transaction costs related to the acquisition amounting to RMB4,004,000 have been recognised in the "Administrative expenses" line item in the Group's profit or loss for the year ended 31 December 2012.

From the date of acquisition, Nanfang Group contributed RMB114,455,000 and RMB18,284,000 to the Group's revenue and profit net of tax respectively. If the acquisition had taken place at the beginning of the financial year, the Group's revenue from continuing operations would have been RMB864,094,000 and profit from continuing operations, net of tax would have been RMB196,250,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

The purchase price adjustments are finalised as at 31 December 2012. The carrying amount of identifiable assets and liabilities have been adjusted accordingly. No goodwill was recognised in connection with the acquisition of Rise Wealth Group.

41. ACQUISITION OF SUBSIDIARIES/ BUSINESS (CONT'D)

For the year ended 31 December 2011

During the year ended 31 December 2011, the Group acquired the following subsidiaries:

(a) Acquisition of Lap Yin International Limited ("Lap Yin", with its jointly controlled entity, collectively "Lap Yin Group")

On 3 July 2011, the Group acquired 100% interest Lap Yin for a purchase consideration comprising (i) cash consideration of S$16,186,000 (equivalent to RMB77,364,000); and (ii) 98,578,821 ordinary shares of the Company, for the expansion of its business. Lap Yin indirectly owns 50% equity interest in a jointly controlled entity, which is engaged in the business of waste incineration power generation in the PRC.

Impact of acquisition on profit or loss

Transaction costs related to the acquisition amounting to RMB277,000 have been recognised in the "Administrative expenses" line item in the Group's profit or loss for the year ended 31 December 2011.

From the date of acquisition, Lap Yin Group contributed no revenue to the Group and RMB4,174,000 to Group's profit net of tax. If the combination had taken place at the beginning of the financial year, the Group's profit from continuing operations, net of tax, would have been RMB140,877,000 and revenue from continuing operations would remain unchanged. The *pro forma* information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

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

On 29 November 2011, the Group acquired an additional 37% interest in its 43% owned associate, Wuhan Hanxi, for a cash consideration of RMB51,363,000. The acquisition of additional interest was undertaken by the Group due to the earnings and growth potential foreseen in Wuhan Hanxi. Upon completion of the transaction, Wuhan Hanxi became a 80% owned subsidiary of the Group. Wuhan Hanxi is principally engaged in waste water treatment in the PRC.

Impact of acquisition on profit or loss

No transaction cost has been incurred by the Group.

From the date of acquisition, Wuhan Hanxi contributed RMB6,839,000 and RMB4,126,000 to the Group's revenue and profit net of tax respectively. If the combination had taken place at the beginning of the financial year, the Group's profit from continuing operations, net of tax would have been RMB113,011,000 and revenue from continuing operations would have been RMB582,921,000. The *pro forma* information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

41. ACQUISITION OF SUBSIDIARIES/ BUSINESS (CONT'D)

(b) Acquisition of Wuhan Hanxi Waste Water Treatment Co., Ltd. ("Wuhan Hanxi") (cont'd)

In 2011, the Group recognised a provisional negative goodwill of RMB29,504,000, and provisional fair value gain of RMB21,123,000 on revaluation of equity interest in Wuhan Hanxi held by the Group immediately before the acquisition were recognised in profit or loss. Provisional goodwill and fair value gain on revaluation of equity interest arising from this acquisition and the carrying amount of identifiable assets and liabilities will be adjusted accordingly on a retrospective basis when the purchase price adjustments are finalised. FRS 103(R) allows the acquirer twelve months from date of acquisition to finalise the valuation and accounting for such business combination. In 2012, the restatements on certain line items have been amended in statement of financial position and statement of comprehensive income (Note 50), as result of the adjustments.

(c) Acquisition of subsidiary under common control and non-controlling interests

On 28 December 2011, the Group acquired 100% interest in both S.I. United Water Holdings (BVI) Limited ("SIBVI") and Golden Bell Development Limited ("GBBVI") (collectively the "United Group") for a purchase consideration comprising (i) cash consideration of RMB217,440,000; and (ii) 1,203,043,453 ordinary shares at an issue price of S$0.064 per share, for the expansion of the Group's business.

SIBVI is a subsidiary of the Group's ultimate holding company, SIIC. Both SIBVI and GBBVI own 100% interest in SIHK and JHDHK respectively. In turn, JHDHK and SIHK own 15.1% and 60.4% of United Environment respectively. United Environment and its subsidiaries are principally engaged in the business of waste water treatment, tap water and reclaimed water treatment, garbage treatment, project investment, management and consultation of refuse treatment in the PRC. The Group acquired United Group as a move to expand the business operations via acquisition of a profitable business in the same industry. United Group specialises in driving large scale municipal and industrial projects, offering innovative and effective engineering solutions for water purification and waste water treatment systems.

In relation to the acquisition of 60.4% equity interest in United Environment, the Group has elected to account for the acquisition using the pooling of interest method. Common control was established on 1 April 2011. Accordingly, the Group consolidated United Group's nine months results from 1 April 2011. No goodwill has resulted from the acquisition. The difference of RMB200,315,000 between the consideration transferred and the equity acquired is reflected within equity attributable to owners of the Group as "Merger reserve".

The Group accounted for the 15.1% acquisition from external party as an acquisition of non-controlling interests. The difference between the consideration transferred of RMB88,410,000 and the carrying value of the 15.1% equity acquired of RMB61,863,000 has been recognised as "Premium paid on acquisition of non-controlling interests" within equity.

<u>Impact of acquisition on profit or loss</u>

Transaction costs related to the acquisition amounting to RMB3,586,000 have been recognised in the "Administrative expenses" line item in the Group's profit or loss for the year ended 31 December 2011.

41. ACQUISITION OF SUBSIDIARIES/ BUSINESS (CONT'D)

(c) Acquisition of subsidiary under common control and non-controlling interests (cont'd)

From the date of acquisition, United Group contributed RMB243,784,000 and RMB50,065,000 to the Group's revenue and profit net of tax respectively. If the combination had taken place at the beginning of the financial year, the Group's profit from continuing operations, net of tax would have been RMB153,097,000 and revenue from continuing operations would have been RMB585,524,000. The *pro forma* information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

Details of the considered transferred, assets acquired and liabilities recognised in respect of the above acquisitions are as follows:

	2012	2011		
	Rise Wealth Group RMB'000	Lap Yin Group RMB'000	United Group RMB'000	Wuhan Hanxi RMB'000 (Reclassed)
Consideration transferred				
Cash	216,279	77,364	–	–
Deferred cash settlement	–	1,877	217,440	–
Cash prepaid in previous financial year	–	–	–	51,363
Interest in an associate	–	–	–	65,956
Ordinary shares issued by the Company	–	32,107	289,128	–
Ordinary shares to be issued by the Company (Note 39)	126,786	–	–	–
	343,065	111,348	506,568	117,319
Fair value of assets acquired and liabilities recognised at the respective dates of acquisition, except for United Group that was acquired under common control are as follows:				
Property, plant and equipment	12,058	–	71,056	–
Investment properties	–	–	5,188	–
Intangible assets	124,737	–	347,597	–
Land use rights	–	–	11,105	–
Interest in associate	1,905	–	–	–
Investment in jointly controlled entity	–	105,840	–	–

41. ACQUISITION OF SUBSIDIARIES/ BUSINESS (CONT'D)

	2012	2011		
	Rise Wealth Group RMB'000	Lap Yin Group RMB'000	United Group RMB'000	Wuhan Hanxi RMB'000 (Reclassed)
Available-for-sale financial instruments	2,394	–	3,000	–
Deferred tax assets	11,758	–	1,485	–
Inventories	4,538	–	17,222	1,905
Receivables under service concession arrangements	1,058,782	–	687,524	376,188
Trade receivables	44,428	–	55,707	131,601
Bills receivables	–	–	4,208	–
Other receivables and prepayments	239,141	2	33,105	283
Amounts due from associate	74	–	–	–
Amounts due from jointly controlled entity	14,702	514	–	–
Cash and cash equivalents	41,507	2	129,198	7,471
Trade payables	(30,749)	–	(67,664)	(7,778)
Bills payable to banks	–	–	(28,687)	–
Other payables and accruals	(209,211)	–	(166,816)	(78,602)
Bank and other borrowings	(655,136)	–	(574,106)	(239,623)
Derivative financial instrument	–	–	–	(1,798)
Taxation payable	(5,121)	–	(9,745)	(1,637)
Other non-current liabilities	(7,503)	–	–	–
Deferred tax liabilities	(96,140)	(1,702)	(9,169)	(22,465)
	552,164	104,656	510,208	165,545
Consideration transferred	343,065	111,348	506,568	117,319
Plus: Non-controlling interests	209,099	–	230,502	33,109
Less: Net assets acquired	(552,164)	(104,656)	(510,208)	(165,545)
Less: Premium paid on acquisition of non-controlling interests	–	–	(26,547)	–
Less: Merger reserve arising from acquisition	–	–	(200,315)	–
Goodwill/(Negative goodwill) arising from acquisition	–	6,692	–	(15,117)
Net cash (outflow)/inflow arising on acquisition				
Bank balances and cash acquired	41,507	2	129,198	7,471
Less: Cash consideration paid	(216,279)	(77,364)	–	–
	(174,772)	(77,362)	129,198	7,471

42. OPERATING LEASES

The Group as lessee

In addition to the land use rights disclosed in Note 15, the Group has entered into commercial leases for the rental of office premises and staff housing. These non-cancellable leases have remaining non-cancellable lease terms of between 4 to 320 months. Most leases contain renewable options.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	9,581	2,059
In the second to fifth year inclusive	22,167	2,977
After five years	70,970	3,287
	102,718	8,323

The Group as lessor

The Group has entered into commercial property leases on its investment property and office premises. These non-cancellable leases have remaining lease terms of between 0.5 and 11 years (2011: 1 and 12 years).

At the end of the reporting period, the Group had contracted with tenants for the following minimum lease payments:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	1,463	992
In the second to fifth year inclusive	3,118	5,962
After five years	2,153	2,493
	6,734	9,447

43. CAPITAL COMMITMENTS

	Group 2012 RMB'000	Group 2011 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
- Additional investment in available-for-sale financial instruments	2,000	2,000
- Additions in construction-in-progress relating to service concession arrangement	22,861	–
Capital expenditure authorised but not contracted for in respect of additions in construction-in-progress relating to service concession arrangement	370,000	–
	394,861	2,000

44. PLEDGE ON ASSETS

The aggregate carrying value of assets pledged by the Group and Company to banks to secure banking facilities granted by these banks are as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Bank deposits	28,454	60,127	–	16,860
Leasehold building	–	24,818	–	–
Intangible assets	233,957	357,156	–	–
Trade receivables	140,640	160,090	–	–
Receivables under service concession arrangements	1,293,973	862,661	–	–
	1,697,024	1,464,852	–	16,860

45. RELATED PARTY TRANSACTIONS

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	
	2012	2011
	RMB'000	RMB'000
Transactions		
Sales of consultancy service to associate	–	20,650
Interest expenses on loans due to SII and SIHLFL	(12,953)	(115)
Interest income from associate	–	89
Purchase of legal and corporate secretarial services from a firm related to a Director	(1,077)	(1,642)
Compensation of directors and other key management personnel		
Wages, salaries and bonus	(14,339)	(17,554)
CPF and other defined contributions	(730)	(1,347)
Other short-term benefits	(138)	(141)
	(15,207)	(19,042)

Purchase of legal and corporate secretarial services from firms related to a Director

The Company engages certain professional firms for legal work and corporate secretarial work done. One of the Company's Directors holds and/or has held senior managerial position in these firms.

Total amount of fees in relation to legal and corporate secretarial services provided for the year ended 31 December 2012 was approximately RMB1,077,000 (2011: RMB1,642,000). RMB54,000 was outstanding at the end of the reporting period (2011: RMB40,000).

46. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services provided to customer with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's operating businesses are organised into five business segments, namely Power Plant EPC ("Engineering, Procurement & Commissioning"), Municipal EPC, Water Purification Treatment, Waste Water Treatment and Consultancy Works.

(i) Power Plant EPC: Design, assembly, construction, installation and commissioning of sewage or waste water treatment systems for industrials.

(ii) Municipal EPC: Design, assembly, construction, installation and commissioning of sewage or waste water treatment systems for municipals.

(iii) Water Purification Treatment: Design, assembly, installation, and commissioning of water purification treatment systems; technology development of such water purification systems; and treatment of water drawn from underground and treatment and supply of tap water.

(iv) Waste Water Treatment: Supply and installation of equipment to be used in industrial and municipal waste water treatment systems; and treatment of industrial waste water and sewage.

(v) Consultancy Works and Others: Design and consultancy on the EPC projects for water purification treatment or waste water treatment systems.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Group's financing (including finance costs) and income taxes are managed on a Group basis and are not allocated to operating segments.

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 corporate assets and liabilities not relating to the Group's business segments.

Transfer prices between operating segments are on agreed-term basis in a manner similar to transactions with third parties.

46. SEGMENT INFORMATION (CONT'D)

(a) *Business segments*

	Power Plant EPC		Municipal EPC		Water Purification Treatment		Waste Water Treatment		Consultancy Work and Others		Group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
												(Reclassed)
Revenue	66,729	72,685	138,982	84,119	205,705	162,959	327,190	144,201	65,873	55,500	804,479	519,464
Segment results	(7,607)	5,690	(7,919)	21,931	46,065	48,946	131,418	43,264	8,648	6,231	170,605	126,062
Unallocated expenses, net											(9,121)	(30,786)
Finance income											124,423	43,324
Finance expenses											(102,878)	(66,466)
Other income											12,721	36,392
Other expenses											(6,678)	(8,583)
Negative goodwill											–	15,117
Fair value gain on revaluation of cost of investment in an associate											–	35,510
Share of result of associate											177	(4,962)
Share of results of jointly controlled entity											15,633	4,598
Income tax expense											(27,637)	(14,864)
Profit from continuing operations, net of tax											177,245	135,342
Profit from discontinued operations, net of tax	–	–	–	–	–	–	–	830	–	–	–	830
Segment depreciation and amortisation	1,278	274	1,596	2,199	36,339	18,527	9,960	16,285	1,452	1,670	50,625	38,955
Unallocated depreciation and amortisation											213	212
Total depreciation and amortisation											50,838	39,167

46. SEGMENT INFORMATION (CONT'D)

(a) *Business segments (cont'd)*

	Power Plant EPC		Municipal EPC		Water Purification Treatment		Waste Water Treatment		Consultancy Work and Others		Group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
												(Reclassed)
Segment non-cash income [(a)]	1,207	901	1,537	7,136	1,214	1,776	22,066	108	1,562	3,175	27,586	13,096
Segment non-cash expenses [(a)]	–	16	–	125	1,796	1,529	168	1	168	54	2,132	1,725
Segment assets	119,111	109,733	79,882	170,477	971,869	692,252	3,216,950	1,986,885	160,023	182,646	4,547,835	3,141,993
Interest in jointly controlled entity											115,990	110,438
Interest in associate											2,082	–
Investment properties											4,598	5,038
Available-for-sale financial instruments											5,394	3,000
Unallocated assets[(b)]											218,429	160,205
Total assets											4,894,328	3,420,674
Segment liabilities	67,247	57,865	85,214	209,818	519,874	684,301	1,676,935	761,412	209,685	164,075	2,558,955	1,877,471
Unallocated liabilities[(c)]											536,273	245,795
Total liabilities											3,095,228	2,123,266
Segment capital expenditure	405	287	435	305	115,997	31,926	3,864	16,969	539	546	121,240	50,033
Unallocated capital expenditure											402	53
Total capital expenditure											121,642	50,086

Note:

(a) Segment non-cash income consists of write-back of allowance for doubtful receivables, write-back of allowance of inventories and reversal of provision for foreseeable loss. Segment non-cash expenses consist of allowance for doubtful receivables and bad debts written off. These are presented in the respective notes to the financial statements.

46. SEGMENT INFORMATION (CONT'D)

(a) *Business segments (cont'd)*

Note: (cont'd)

(b) The nature of unallocated assets is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Goodwill on consolidation	6,692	–
Amount due from jointly controlled entity	10,450	117
Amount due from associate	74	–
Property, plant and equipment	619	784
Other receivables	4,700	621
Prepayments	122	314
Cash and cash equivalents	195,772	158,369
Total unallocated assets	218,429	160,205

(c) The nature of unallocated liabilities is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Loans and other borrowings	514,920	226,883
Deferred tax liabilities	1,324	2,977
Other payables and accruals	20,024	12,401
Tax payable	5	–
Derivative financial instrument	–	3,534
Total unallocated liabilities	536,273	245,795

(b) *Geographical information*

The Group's operations are mainly located in the PRC. The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue		Non-current Assets	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	804,479	519,464	3,667,472	2,470,935
Singapore	–	–	619	784
	804,479	519,464	3,668,091	2,471,719

Non-current assets information presented above mainly consist of receivables under service concession arrangements, intangible assets, property, plant and equipment and investment in jointly controlled entity as presented in the statements of financial position.

Information about major customers

Revenue from PRC government amounted to RMB325,747,000 (2011: RMB140,201,000) arising from waste water treatment segment.

47. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which includes the borrowings disclosed in Note 34, net cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, treasury shares, retained profits and other reserves.

The Group reviews the capital structure regularly. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. As part of this review, the cost of capital and the risks associated with each class of capital are being considered. The Group will balance its overall capital structure through the payment of dividends, return capital to shareholders or new share issues as well as the issue of new debt or the redemption of existing debt. No major changes were made to the objectives, policies or processes during the financial years ended 31 December 2012 and 2011.

48. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include (i) foreign currency risk, (ii) interest rate risk, (iii) liquidity risk and (iv) credit risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer and Management.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no major change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

(i) ***Foreign* currency *risk***

The Group has minimal transactional currency exposures arising from sales or purchases that are denominated in a currency other than the functional currency of Group entities, primarily RMB. The Group has nil sales (2011: 5%) denominated in foreign currencies whilst only 1% (2011: 7%) of costs are denominated in foreign currencies. Similarly, the Group's trade receivable and trade payable balances at the end of the reporting period 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. Currently, the Group has not entered into any hedge due to the limited transactional foreign currency exposure.

The carrying amounts of the Group's and the Company's monetary assets and monetary liabilities at the reporting date that are denominated in currencies other than the respective functional currency of the Group entities ("foreign currency") are as follows:

48. FINANCIAL INSTRUMENTS (CONT'D)

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

(i) *Foreign* **currency** *risk (cont'd)*

Summary of the applicable functional currencies against the respective foreign currency are as follows:

	Group				Company			
	Assets		Liabilities		Assets		Liabilities	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
SGD (against RMB)	87,361	13,911	237,896	20,255	–	–	15,509	15,558
SGD (against USD)	11,673	16,714	–	10,476	120,539	123,692	–	–
SGD (against HKD)	68,589	42,863	–	–	68,584	–	–	–
RMB (against USD)	751	133,398	6,440	14,255	–	–	–	–
RMB (against SGD)	–	288,568	–	–	–	–	–	–
HKD (against SGD)	–	–	1,359	42,865	–	–	–	–

<u>Sensitivity analysis for foreign currency risk</u>

The following table details the Group's and Company's sensitivity to a 10% (2011:10%) increase and decrease in the respective functional currency of the Group's entities, with all other variables held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for 10% (2011: 10%) increase in foreign currency rates. A (negative) positive number below indicates (a decrease) an increase in profit before taxation where the above foreign currency strengthens 10% against the functional currency of Group's entities.

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Increase in profit/(loss) before taxation	(7,732)	40,776	17,361	10,813

(ii) *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 loans and borrowings. The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

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 subjected to interest rate risks.

48. FINANCIAL INSTRUMENTS (CONT'D)

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

(ii) *Interest rate risk (cont'd)*

Sensitivity analysis for *interest rate* risk

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable-rate bank balances and short-term bank deposits (collectively referred to as the "Bank Deposits") and variable-rate borrowings at the end of the reporting period. For variable-rate borrowings and Bank Deposits, the analysis is prepared assuming that the amount of asset/liability outstanding at the end of the reporting period was outstanding for the whole year.

At the end of the reporting period, a change of 100 (2011: 100) basis points higher/lower in interest rate with all other variables held constant, would results in the Group's profit net of tax to be RMB9,672,000 (2011: RMB10,177,000) lower/higher (2011: lower/higher).

(iii) *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 liquidity position are monitored closely by the management.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months may be rolled over with existing lenders.

The Group registered a net profit of RMB177,245,000 (2011: RMB136,172,000) and net cash generated from operating activities of RMB260,388,000 (2011: RMB26,015,000) during the financial year ended 31 December 2012. As at 31 December 2012, the Group is in a net current liabilities position of RMB132,431,000 (2011: RMB307,514,000). In connection with the net current liabilities position, the Group is of the view that it is able to raise sufficient funds in excess of the shortfall in its net current liabilities position through the debt and/or equity markets should the need arises.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on contractual undiscounted payments.

The Group	1 year or less	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2012					
Financial liabilities					
Trade, other payables and accruals [(c)]	606,368	–	–	606,368	606,368
Bills payable to banks [(c)]	16,598	–	–	16,598	16,598
Loans and other borrowings [(a)]	716,269	1,356,093	523,880	2,596,242	2,168,566
	1,339,235	1,356,093	523,880	3,219,208	2,791,532

48. FINANCIAL INSTRUMENTS (CONT'D)

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

[Analysis of financial instruments by remaining contractual maturities] (cont'd)

The Group	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2011					
Financial liabilities					
Trade, other payables and accruals [(c)]	497,407	–	–	497,407	497,407
Bills payable to banks [(c)]	38,798	–	–	38,798	38,798
Loans and other borrowings [(a)]	673,177	577,760	307,643	1,558,580	1,444,155
	1,209,382	577,760	307,643	2,094,785	1,980,360

The Company	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2012					
Financial liabilities					
Trade, other payables and accruals [(c)]	8,008	–	–	8,008	8,008
Amounts due to subsidiaries [(c)]	15,509	–	–	15,509	15,509
	23,517	–	–	23,517	23,517

The Company	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at RMB'000
2011					
Financial liabilities					
Trade, other payables and accruals [(c)]	10,154	–	–	10,154	10,154
Bills payable to banks [(c)]	412	–	–	412	412
Amounts due to subsidiaries [(c)]	14,625	–	–	14,625	14,625
Loans and other borrowings [(b)]	9,627	–	–	9,627	9,443
	34,818	–	–	34,818	34,634

(a) The effective interest rates range from 2.55% to 8.28% (2011 : 4.35% to 17.95%) per annum.

(b) The effective interest rate is at 17.95% per annum.

(c) The balances are interest-free.

48. FINANCIAL INSTRUMENTS (CONT'D)

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

(iv) *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. For other financial assets (including cash and cash equivalents, pledged bank deposits, and receivables under service concession arrangements), the Group and the Company minimise credit risk by dealing exclusively 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 be subjected to credit verification procedures. Any exceptional case will need to be reviewed and approved by the appropriate level of authority. In addition, receivable balances are monitored on an ongoing basis.

<u>Exposure to credit risk</u>

At the end of the reporting period, 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 statements of financial position.

At the end of the reporting period, approximately 71% (2011: 62%) of the Group's trade receivable were major customers who are located in PRC. Receivables under service concession arrangements relate to consideration recoverable from certain governing bodies and agencies of the government of the PRC in respect of construction of water treatment plant and are generally considered as having low risk of default.

<u>Financial assets that are neither past due nor impaired</u>
Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and short-term deposits, and other financial assets that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

<u>Financial assets that are either past due or impaired</u>

Information regarding the financial asset that are either past due or impaired is disclosed in Note 23 to the financial statements.

48. FINANCIAL INSTRUMENTS (CONT'D)

(b) ***Fair value of financial instruments***

(I) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

The Group	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
2011				
Financial liabilities				
Financial derivatives instruments	–	3,534	–	3,534
	–	–	–	–
	–	3,534	–	3,534

Determination of fair value

There are no derivative financial instruments as at 31 December 2012. During the financial year ended 31 December 2011, the embedded equity conversion options of Bonds, as well as the rate used for the amortisation of the liability portions, were valued using the binomial method. The model incorporates various markets observable inputs which include risk-free rate, credit spread, expected yield (summation of risk-free rate and credit spread as bonds have zero coupon rate), expected volatility, terms of bonds and exchange rates. Fair value movement is included in income statement under the line items "Other Income" or "Other Expenses".

48. FINANCIAL INSTRUMENTS (CONT'D)

(b) ***Fair value of financial instruments (cont'd)***

(II) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Cash and cash equivalents and pledged bank deposits (Note 30), Receivables under service concession arrangements (Note 16), Trade receivables, bills receivables and retention monies (Note 23), Other receivables (Note 26), Amounts due from/(to) subsidiaries (Note 28), Amounts due from jointly controlled entity and associate (Note 29), Trade payables and bills payable to banks (Note 31), Other payables and accruals (Note 32), and Bank and other borrowings (Note 34).

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, 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 end of the reporting period, except for retention monies and receivables under service concession arrangements which are measured at amortised cost (Note 2.23) and approximates fair value.

(c) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows:

	Group			
	2012 RMB'000		2011 RMB'000	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Available-for-sale financial instruments	5,394	N.A.	3,000	N.A.
Financial liabilities:				
Bank and other borrowing				
- Interest free borrowings	(9,513)	(9,513)	(21,161)	(21,161)
- Fixed rate borrowings	(892,620)	(939,719)	(260,440)	(275,895)
Other non-current liabilities	(60,211)	(72,774)	(23,000)	(42,388)

N.A.: Not applicable.

Available-for-sale financial instruments

Fair value information has not been disclosed for the Group's investments in equity instruments that are carried at cost because fair value cannot be measured reliably (Note 20).

48. FINANCIAL INSTRUMENTS (CONT'D)

(b) ***Fair value of financial instruments (cont'd)***

(c) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

Determination of fair value

The fair values of Bank and other borrowings/Other non-current liabilities as disclosed in the table above are estimated by discounting expected future cash flows at prevailing interest rate or borrowings rate as at the end of the reporting period.

49. EVENTS AFTER THE REPORTING PERIOD

1. Additional investment in United Environment and incorporation of a subsidiary

The Company through its wholly owned subsidiaries has injected additional capital injection of RMB100 million in United Environment. Proceeds from the capital injection will be utilised by United Environment for its general working capital, funding and business expansion requirements. As the additional capital injection is executed on a proportionate basis by the respective shareholders of United Environment, the completion of the injection will not change the Group's percentage of shareholdings in United Environment from its current 75.5%.

Subsequent to the completion of the injection, United Environment has incorporated a wholly owned subsidiary in the PRC, Weifang Shangshi Environment Waste Water Treatment Co., Ltd. (潍坊上实环境污水处理有限公司), with a registered capital of RMB1 million to facilitate the follow up of investment opportunities in Shandong Province. There is no financial impact on the Group as at 31 December 2012.

2. Issuance of ordinary shares pursuant to the acquisition of Rise Wealth

Pursuant to the acquisition of Rise Wealth on 23 July 2012, the Company has issued and allotted 433,626,615 ordinary shares at the issue price as part of purchase consideration on 15 February 2013 (Note 41). Therefore, the total number of issued shares in the capital of the Company (excluding treasury shares) has increased from 5,055,665,517 to 5,489,292,132. There are no material impact on the basic and diluted EPS as at 31 December 2012.

3. De-registration of Bengbu Xinya Water Services Co., Ltd. ("Bengbu Xinya")

Bengbu Xinya had entered into a sale and purchase agreement with the municipal government in the second quarter of the financial year ended 31 December 2012 to sell off its key assets with a total carrying value of RMB8,700,000, for an aggregate cash consideration of RMB10,300,000. Following the completion of the disposal, Bengbu Xinya has been de-registered in March 2013 and has ceased to be an indirect subsidiary of the Company.

50. RESTATEMENTS AND RECLASSIFICATIONS

During the financial year ended 31 December 2012, following the finalisation of the purchase price adjustments in relation to acquisition of an additional 37% interest in Wuhan Hanxi on 29 November 2011, certain restatements and reclassifications have been made to the prior year's financial statements.

During the financial year ended 31 December 2011, the Company recorded fair value gain on revaluation of its cost of investment in an associate of RMB21,123,000. During the financial year ended 31 December 2012, the Company restated its investment in subsidiaries to reflect as actual cost.

Such adjustment have no impact on the statements of financial position of the Group and Company as at 31 December 2010.

	Company	
	As orginally stated RMB'000	As restated RMB'000
Statement of Financial Position		
Investment in subsidiaries	477,176	456,053
Retained earnings/(Accumulated losses)	(36,870)	(57,993)

	Group	
	As orginally stated RMB'000	As reclassed RMB'000
Statement of Comprehensive Income		
Negative goodwill	29,504	15,117
Fair value gain on revaluation of cost of investment in an associate	21,123	35,510
	50,627	50,627

51. COMPARATIVE FIGURES

The consolidated financial statements of the Company and its subsidiaries for the financial year ended 31 December 2011 were audited by another firm of auditor.

Statistics of Shareholdings

As at 18 March 2013

Class of shares	:	Ordinary shares
Voting rights	:	One vote per share
Total number of issued ordinary shares	:	5,489,574,132
Number of shares (excluding treasury shares)	:	5,489,292,132
Number of Treasury Shares and percentage	:	282,000 (0.005%)

Distribution of Shareholdings

Size of Shareholdings	No. Of Ordinary Shareholders	%	No. of Ordinary Shares (excluding Treasury Shares) No. of Shares	%
1 – 999	63	6.64	7,772	0.00
1,000 – 10,000	293	30.91	1,367,728	0.03
10,001 – 1,000,000	543	57.28	56,026,430	1.02
1,000,001 and above	49	5.17	5,431,890,202	98.95
TOTAL:	**948**	**100.00**	**5,489,292,132**	**100.00**

Twenty Largest Shareholders

No.	Name	No. of Shares	%
1.	Triumph Power Limited	1,934,647,757	35.24
2.	S.I. Infrastructure Holdings Limited	827,092,375	15.07
3.	China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited	768,564,586	14.00
4.	Mainland Gain Ltd.	216,813,308	3.95
5.	Double Wide Consultant Limited	216,813,307	3.95
6.	Yang Changmin	165,418,474	3.01
7.	Phillip Securities Pte Ltd	157,929,500	2.88
8.	Ye Qin	147,689,219	2.69
9.	Ye Yutong	147,689,219	2.69
10.	Time Wheel International Limited	133,441,388	2.43
11.	HSBC (Singapore) Nominees Pte Ltd	89,224,124	1.63
12.	DBS Nominees Pte Ltd	77,139,148	1.41
13.	Great Up Investments Limited	75,190,216	1.37
14.	Citibank Nominees Singapore Pte Ltd	70,332,407	1.28
15.	Raffles Nominees (Pte) Ltd	64,298,000	1.17
16.	Regal Capital Finance Limited	60,432,561	1.10
17.	DBS Vickers Securities (Singapore) Pte Ltd	57,461,000	1.05
18.	Maybank Kim Eng Securities Pte Ltd	56,240,006	1.02
19.	Bao Yidong	30,950,000	0.56
20.	Merril Lynch (Singapore) Pte Ltd	19,323,969	0.35
	TOTAL	**5,316,690,564**	**96.85**

Statistics of Shareholdings

As at 18 March 2013

SUBSTANTIAL SHAREHOLDERS AS AT 18 MARCH 2013
(As recorded in the Register of Substantial Shareholders)

	Before Share Purchase			
	Direct		Deemed	
	Number of Shares	%	Number of Shares	%
Triumph Power Limited ("**Triumph**")	1,934,647,757	35.24	–	–
S.I. Infrastructure Holdings Limited ("**SII**") (1)	827,092,375	15.07	1,934,647,757	35.24
Shanghai Industrial Holdings Limited ("**SIHL**") (1)	–	–	2,761,740,132	50.31
China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited ("**CECEPHK**")	768,564,586	14.00	–	–
China Energy Conservation and Environmental Protection Group ("**CECEP**")(2)	–	–	768,564,586	14.00

Notes:

(1) Each of Shanghai Industrial Investment (Holdings) Company Limited, which is controlled by the Shanghai Municipal People's Government (through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, South Pacific International Trading Limited, SIIC Treasury (B.V.I.) Limited, SIIC Trading Company Limited, SIIC CM Development Funds Limited, Billion More Investments Limited, Shanghai Industrial Financial (Holdings) Company Limited and SIIC CM Development Limited, and a 90.57% owned subsidiary namely The Tien Chu Ve-Tsin (Hong Kong) Company Limited) and Shanghai Investment Holdings Limited holds more than 20% of the issued and paid-up share capital of Shanghai Industrial Holdings Limited which owns all the issued and paid-up share capital of S.I. Infrastructure Holdings Limited which in turn owns all the issued and paid-up share capital of Triumph Power Limited. As such, Shanghai Industrial Investment (Holdings) Company Limited, Shanghai Investment Holdings Limited, SIHL and SII are deemed to be interested in the Shares held by Triumph.

(2) CECEP is deemed to be interested in the shares held by CECEPHK as CECEP owns 100% of the issued and paid-up share capital of CECEPHK.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

As at 18 March 2013, there are 1,792,818,940 shares held in the hands of the public, representing 32.66% of the issued ordinary share capital of the Company. Accordingly, the Company has complied with Rule 723 of the Listing Manual of SGX-ST.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of SIIC Environment Holdings Ltd. (the "**Company**") will be held at East West Room, Level 2, Conrad Centennial Singapore, Two Temasek Boulevard, Singapore 038982, on Tuesday, 23 April 2013 at 2.00 p.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company and the Group for the financial year ended 31 December 2012 together with the Auditors' Report thereon. **(Resolution 1)**

2. To approve the payment of Directors' fees of S$615,000 for the financial year ending 31 December 2013. (2012: S$575,000). **(Resolution 2)**

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

   Mr. Zou Jiefu (Retiring under Article 91) **(Resolution 3)**
   Mr. Tan Chong Huat (Retiring under Article 91) **(Resolution 4)**
   Ms. Liu Yujie (Retiring under Article 91) **(Resolution 5)**

   [See Explanatory Note (i)]

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

5. To transact any other ordinary business which may be properly 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:

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

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

   (a) (i) issue shares in the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

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

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

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

provided that:

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

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the percentage of issued shares and Instruments shall be based on the number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

    (a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

    (b) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Resolution; and

    (c) any subsequent consolidation or subdivision of shares;

(3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting ("**AGM**") of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)] **(Resolution 7)**

Notice of Annual General Meeting

7. **Renewal of Share Purchase Mandate**

That for the purposes of Sections 76C and 76E of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to make purchases or otherwise acquire issued shares in the capital of the Company from time to time (whether by way of market purchases or off-market purchases on an equal access scheme) of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as ascertained as at the date of AGM of the Company) at the price of up to but not exceeding the Maximum Price as defined in the Appendix to the Notice of AGM dated 8 April 2013 (the "Appendix"), in accordance with the Authority and Limits of the Share Purchase Mandate set out in the Appendix, and this mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iii)] **(Resolution 8)**

8. **Authority to issue shares under the Asia Water Share Option Scheme 2012 *(the "Scheme")***

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be authorised and empowered to issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of share options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iv)] **(Resolution 9)**

9. **Authority to issue shares under the Asia Water Share Award Scheme *(the "Share Award Scheme")***

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be authorised and empowered to issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the vesting of share awards under the Share Award Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Share Award Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (v)] **(Resolution 10)**

By Order of the Board

Tan Kim Han, Raymond
Company Secretary

Singapore, 8 April 2013

Explanatory Notes:

(i) Mr. Tan Chong Huat will, upon re-election as a Director of the Company, remain as Chairman of the Remuneration Committee and member of the Audit Committee and will be considered independent.

(ii) Resolution 7, if passed, will empower the Directors of the Company from the date of this AGM until the date of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro rata basis to existing shareholders of the Company.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Resolution is passed and any subsequent consolidation or subdivision of shares.

(iii) Resolution 8 above, if passed, will empower the Directors of the Company from the date of this AGM until the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier, to repurchase ordinary shares of the Company by way of market purchases or off-market purchases of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the Maximum Price as defined in the Appendix. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase or acquisition including the amount of financing and the financial effects of the purchase or acquisition of ordinary shares by the Company pursuant to the Share Purchase Mandate on the audited consolidated financial accounts of the Group for the financial year ended 31 December 2012 are set out in greater detail in Appendix.

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

(v) Resolution 10 above, if passed, will empower the Directors of the Company, from the date of this AGM until the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the vesting of share awards under the Share Award Scheme provided that the aggregate additional shares to be issued pursuant to the Share Award Scheme do not exceeding in total (for the entire duration of the Scheme) fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

Notes:

1. A Member entitled to attend and vote at the AGM (the "**Meeting**") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at One Temasek Avenue #37-03 Millenia Tower Singapore 039192 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

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SIIC ENVIRONMENT HOLDINGS LTD.

(Company Registration No. 200210042R)
(Incorporated in the Republic of Singapore)

PROXY FORM –
ANNUAL GENERAL MEETING

(Please see notes overleaf before completing this Form)

IMPORTANT:
1. For investors who have used their CPF monies to buy SIIC Environment Holdings Ltd.'s shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely **FOR INFORMATION ONLY**.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to vote should contact their CFP Approved Nominees.

I/We, ____ (Name)

of ____ (Address)

being a member/members of **SIIC ENVIRONMENT HOLDINGS LTD.** (the "**Company**"), hereby appoint:

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

and/or (delete as appropriate)

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

or failing the person, or either or both of the persons, referred to above, the Chairman of the Annual General Meeting (the "**Meeting**") as my/our* proxy/proxies* to vote for me/us* on my/our behalf at the Meeting of the Company to be held at East West Room, Level 2, Conrad Centennial Singapore, Two Temasek Boulevard, Singapore 038982, on Tuesday, 23 April 2013 at 2.00 p.m. and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies* will vote or abstain from voting at his/her* discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

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

No.	**Resolutions relating to:**	**For**	**Against**
	Ordinary Business		
1.	Directors' Report and Audited Accounts for the financial year ended 31 December 2012		
2.	Approval of Directors' fees amounting to S$615,000 for the financial year ending 31 December 2013		
3.	Re-election of Mr. Zou Jiefu as a Director		
4.	Re-election of Mr. Tan Chong Huat as a Director		
5.	Re-election of Ms. Liu Yujie as a Director		
6.	Re-appointment of Deloitte & Touche LLP as Auditors and to authorise the Directors of the Company to fix their remuneration		
	Special Business		
7.	Authority to allot and issue shares		
8.	Renewal of Share Purchase Mandate		
9.	Authority to issue shares under the Asia Water Share Option Scheme 2012		
10.	Authority to issue shares under the Asia Water Share Award Scheme		

Dated this ____________ day of ________________ 2013

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 not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at One Temasek Avenue #37-03 Millenia Tower Singapore 039192 not less than forty-eight (48) hours before the time appointed for the Meeting.

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

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

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

Corporate Information

Board of Directors
Mr. Zhou Jun (Executive Chairman)
Mr. Feng Jun (Executive Director)
Ms. Liu Yujie (Executive Director)
Mr. Yang Changmin (Executive Director)
Mr. Zhang Chao (Non-Executive Director)
Mr. Zou Jiefu (Non-Executive Director)
Mr. Yeo Guat Kwang (Lead Independent Director)
Mr. Tay Ah Kong Bernard (Independent Director)
Mr. Tan Chong Huat (Independent Director)
Mr. Tan Gim Soo (Independent Director)

Nominating Committee
Mr. Tan Gim Soo (Chairman)
Mr. Yeo Guat Kwang
Mr. Tay Ah Kong Bernard

Remuneration Committee
Mr. Tan Chong Huat (Chairman)
Mr. Zhou Jun
Mr. Yeo Guat Kwang
Mr. Tay Ah Kong Bernard

Audit Committee
Mr. Tay Ah Kong Bernard (Chairman)
Mr. Yeo Guat Kwang
Mr. Tan Chong Huat
Mr. Tan Gim Soo

Company Secretary
Mr. Tan Kim Han Raymond

Registered Office
One Temasek Avenue #37-03
Millenia Tower
Singapore 039192
Tel: (65) 6538 2598
Fax: (65) 6538 2896
Email: info@siicenv.com
Website: www.siicenv.com

Share Registrar
Boardroom Corporate Advisory Services Pte. Ltd.
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623
Tel: (65) 6536 5355
Fax: (65) 6536 1360

Auditors
Deloitte & Touche LLP
6 Shenton Way #32-00
DBS Building Tower Two
Singapore 06889
Partner-in-charge:
Dr. Ernest Kan Yaw Kiong (appointed on 28 November 2012)

Principal Bankers
Standard Chartered Bank (Singapore)
United Overseas Bank Limited (Singapore)
Bank of China (Hong Kong)
Agricultural Bank of China (PRC)
Bank of Communications (PRC)
Huaxia Bank (PRC)
Industrial and Commercial Bank of China Limited (PRC)

SIIC ENVIRONMENT HOLDINGS LTD.

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