

RISK FACTORS

Risks associated with the Group's business

Water shortages and restrictions on the use or supply of water could adversely affect the Group's business.

In the event of water shortages, additional costs may be incurred in order to provide emergency reinforcement to supplies in areas of shortage which may adversely affect the Group's business, financial condition and results of operations. In addition, restrictions on the use or supply of water may adversely affect the Group's turnover and, in very extreme circumstances, may lead to significant compensation becoming due to customers because of interruptions to supply, both of which could adversely affect the Group's business, results of operations, profitability or financial condition.

Extensive regulations may adversely affect the Group's water supply business.

Revenue from the Group's water supply business consists primarily of tariff payments under the relevant concession agreements. Adjustments to tariffs are generally subject to approvals by the relevant government authorities in the PRC and applications for upward adjustments to the tariffs may usually be made in the case of increases in key costs including raw material prices, labour costs and electricity charges. There is no assurance that in the event that there is any increase in such key costs, the relevant government authorities will approve the Group's applications for increasing the tariffs to reflect such increase in costs. Furthermore, even if the relevant government authorities agree to increase the tariff, there is no assurance that such increase will fully reflect the increase in the Group's actual costs.

The Group may not be able to manage future rapid growth, which could put significant strain on its managerial, operational and financial resources.

The Group's business and operations have recently grown rapidly. The Group's revenue increased by 267% from HK\$1,730.0 million for the year ended 31 December 2009 to HK\$6,348.1 million for the year ended 31 December 2010. The Group's fast business growth could put significant strain on its managerial, operational and financial resources. The Group's ability to manage future growth will depend on its ability to effectively implement and improve management, operational and financial information systems on a timely basis and to expand, train, motivate and manage its workforce. There is no assurance that the Group's personnel, systems, procedures and controls will be adequate to support its future growth. Failure to manage the Group's expansion effectively may lead to increased costs, a decline in revenue and reduced profitability, which in turn will affect the Group's business, financial condition and results of operations.

The continued growth of the Group's business requires substantial capital expenditure.

The Group will require significant additional financing to fund capital expenditure and to support the future growth of its business, particularly for its construction projects and acquisition of water plants. Historically, the Group has financed its capital expenditure from various sources, including cash flow from operations and existing credit facilities. The Group's ability to arrange for external financing and the cost of such financing are dependent on various factors, including general economic conditions, interest rates, credit availability from banks or other lenders. However, there can be no assurance that additional external financing, either on a short-term or on a long-term basis, will be made available or, if available, that such financing will be obtained on terms favourable to the Group. If, for any reason, adequate capital is not available when needed and at favourable costs, such shortage of capital may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's customers may make claims against it and/or terminate its services in whole or in part prematurely should it breach the terms of agreements with them or fail to implement projects which fully satisfy their requirements and expectations.

As of 31 December 2010, the Group was engaged in eight BT projects for the construction of water infrastructure in the PRC and 16 BOT projects for the construction of water plants (including sewage treatment and water supply plants). There is no assurance that the construction of the above projects will not be delayed or that these projects will be completed to the requirements and expectations of the Group's customers. Failure to complete projects on time or fully in compliance with the requirements and expectations of the Group's customers, or the delivery by the Group of defective systems or products, may lead to claims being brought against the Group by its customers and/or termination of its services in whole or in part by the Group's customers prematurely. Unsatisfactory design or workmanship, staff turnover, human errors, failure to deliver services on time, default by the Group's subcontractors or misinterpretation of or failure to adhere to regulations and procedures could result in delays or failures in the construction, testing or commissioning of any water plant. As a result, the Group could experience delays in the recognition of its revenue from such projects and the Group may not receive payments from the relevant customer, which could adversely affect the Group's cashflow. This in turn could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, the Group's reputation may be negatively affected which could negatively affect the Group's ability to obtain new projects.

The Group may not be able to secure new construction projects.

A substantial part of the Group's revenue is generated from its water facilities construction projects. For the years ended 31 December 2009 and 2010, revenue from the Group's BT and BOT construction projects accounted for 62% and 86% of the Group's total revenue, respectively. The 24% increase in the revenue contribution of the Group's construction projects in 2010 as compared to 2009 was primarily attributable to the commencement of the Group's five new BT projects in Kunming (the "Kunming BT Projects") and Dalian Chang Xing Dao Project (the "Dalian BT Project"). Although the Group expects its construction projects to provide an increasing portion of revenue in subsequent periods, there is no assurance that it will be able to secure additional construction projects, which could adversely affect its financial condition and results of operations.

The Group's sewage treatment and water supply projects are capital intensive with long payback periods and the Group may require additional funding for these projects.

The Group is engaged in sewage treatment and water supply projects primarily on a BOT basis and a TOT basis which typically require significant initial cash outlays and have long payback periods. The Group's BOT projects require the Group to make substantial financial

investments during the construction phase of the projects, which typically lasts approximately 12 to 18 months. The Group is responsible for the costs of construction of the water or sewage treatment facilities. The Group's TOT projects require the Group to pay the proprietors of the sewage or water supply facilities for the right to operate such facilities during the concession period (the "TOT Operation Right"). The concession periods for the Group's BOT and TOT projects generally range from 20 to 30 years, during which the Group bears the operation costs and the costs of maintenance and repair of the facilities. After the construction is completed and commercial operations of the relevant facilities have commenced (in the case of BOT projects), and upon obtaining the TOT Operation Right (in the case of TOT projects), the Group receives regular, typically monthly, tariff payments from its customers during the concession term.

Due to the capital intensive and long term nature of the Group's sewage treatment and water supply projects, there is no assurance that the Group will be able to secure adequate funding or refinancing for these projects on terms that are acceptable to the Group or at all or that these projects will achieve their initial expected returns. Since the Group relies substantially on external financings for such projects, if the Group fails to obtain project financing or refinancing for such projects in the amount budgeted or at all, the Group may need to finance these projects from its internal resources, which may strain its resources for developing or acquiring other projects and other corporate purposes.

In addition, any failure by the Group to properly perform its obligations in respect of these projects may lead to a reduction in its returns and may even lead to the loss of part of its initial capital investments. As a result, the Group may not be able to undertake or acquire new projects as the Group planned and the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group typically only receives payment in connection with the revenue recognised from the construction of its BOT projects on receipt of cash tariff payments during the operational phase of these BOT projects.

For each of the Group's BOT projects, once the facility is operational, the Group receives regular, usually monthly, cash payments from the relevant customer based on the contractually agreed pricing formula and the volume of sewage treated or water supplied (or the contractually guaranteed minimum volume, if any). The Group usually does not receive payments from its customers during the construction phase of these projects. However, in accordance with HKFRS as supplemented by Hong Kong (International Financial Reporting Interpretations Committee) — Interpretation 12 on Service Concession Agreements ("HK (IFRIC) — Interpretation on Service Concession Agreements"), the Group recognises revenue from these projects during both the construction phase and the operational phase. The Group records revenue during the construction phase on the basis of percentage of completion method, based on the cost of construction incurred plus the fair market value of a certain mark-up on the construction costs determined by an independent appraiser. The revenue recognised from the construction phase of a BOT project is also recognised as a service concession receivable to be offset against the allocated amount after receipt of the cash tariff and other payments received related to the relevant project during the operational phase. Service concession receivables for BOT projects are settled during the concession periods of the relevant BOT projects, which can be up to 20 to 30 years. There is no assurance that the service concession receivables will be fully settled before the expiry of the relevant concession period, which may cause an impairment of the Group's financial assets and adversely affect its results of operations.

Failure to achieve the projected utilisation of the facilities the Group operates may adversely affect its earnings.

Each of the Group's BOT projects has been or will be built to a specified design capacity in accordance with the terms of the relevant concession agreement. Depending on the growth in

the population and level of industrialisation in the area serviced by the relevant facilities, there is no assurance that the facilities the Group operates will be able to achieve the forecast utilisation of their design capacity, which may adversely affect its results of operations. If the facilities the Group operates are not utilised to their designed capacities fully, the Group may not generate the revenue and profit it had expected from the relevant projects and its business, financial condition and results of operations may be adversely affected.

The Group is subject to various completion risks with respect to its construction projects which could give rise to significant delays or additional costs.

The construction of water facilities involves many potential risks, including changes in construction design and oppositions by relevant interest groups to the development of land and construction of industrial areas, or delays caused by the discovery of historical artifacts during the land development process. Any such risks, if realised, could result in cost overruns which may adversely affect the Group's financial conditions and results of operations.

In addition, protests and other forms of opposition by relevant interest groups, such as lawsuits or demonstrations, may delay the Group's construction projects. No assurance can be given that such activities in the future, including currently pending or future lawsuits, will not cause the Group to experience significant delays or additional costs.

The Group relies on the performance of its subcontractors.

The Group has arrangements with subcontractors that are essential to its operations. If any of these key counterparties fails to perform its obligations or if the credit-worthiness of any of these counterparties deteriorates, the Group's operations, business and financial condition may be materially and adversely affected.

Furthermore, there is a risk that the Group may not be able to find suitable alternative sub-contractors at commercially reasonable contract terms if contracts with its current counterparties terminate. This may result in delays in the completion of the Group's projects or incurrence of additional costs, which could materially and adversely affect the Group's business, financial condition and results of operations.

The Group is exposed to the credit risk of and payment delays by its customers.

The Group is subject to the credit risks of its customers and its profitability is dependent on its customers making prompt payment on billings for work the Group performed. The Group's construction and service contracts provide for payments by instalment. If there is any delay in payment by the Group's customers, the Group's working capital, profitability and cash flow may be adversely affected.

The Group is exposed to risks associated with entering into contracts with PRC Government and other public organisations, and its performance may be significantly affected by government spending on infrastructure and other projects.

The Group's customers include agencies or entities owned or otherwise controlled by the PRC Government. To the extent that the Group's projects are funded by the PRC Government, they may be subject to delays or changes as a result of the changes in the PRC Government's budgets or for other policy considerations. The PRC Government's spending on infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in the PRC's economic conditions and changes in the PRC Government's policies. The revenue contributed by the Group's government and government controlled customers accounted for the majority of the Group's total revenue for 2009 and 2010. The Group therefore has significant exposure to the risks associated with contracting with public organisations. In addition, any disputes with governmental entities and other public

organisations could potentially lead to contract termination if unresolved or may take a considerably longer period of time to resolve than disputes with counterparties in the private sector, and payments due to the Group from these entities and organisations may be delayed as a result. In some circumstances, they may also require the Group to change its construction methods, equipment or other performance terms or direct it to reconfigure its designs or purchase specific equipment for the relevant project in connection with the Group's engineering and construction projects or undertake additional obligations or change other contractual terms, thereby subjecting the Group to additional costs. Resolution of any disagreement with them with respect to such changes may be time-consuming and may cause the Group to incur additional costs. Changes in governmental budgets and policies relating to the Group's projects could also result in delays in project commencement or completion, adverse changes to such projects or a withholding of, or delay in, payment to the Group. If a government entity or other public organisation terminates a contract with the Group, its order book could be reduced, its business plans may be adversely affected.

The Group is subject to risks associated with technological changes.

As an established integrated water solutions provider, the Group must ensure that it is able to continually provide relevant solutions to its customers that meet their needs in order to maintain its market share. However, there are rapid technological changes and improvements in water and sewage treatment technology and equipment. The Group's products and technologies must pass rigorous testing and field trials, which can be time-consuming and expensive. The commencement and completion of the tests and field trials are subject to many risks such as delays in producing or failure to produce test results, data or analysis, inadequate or inconclusive results, changes in regulatory policies or industry standards or delays by government or regulatory authorities. Changes in regulations or standards for water and sewage treatment in the regions where the Group conducts its business may also necessitate the use of new technologies or the improvement of its existing technologies. For example, after the outbreak of severe acute respiratory syndrome in 2003, higher standards for treatment of sewage discharged by hospitals and clinics were imposed by the then State Environmental Protection Administration, currently the Ministry of Environmental Protection of the PRC (the "MOEP"), to prevent the spread of communicable diseases. On 1 July 2007, the Ministry of Health of the PRC (the "MOH") and Standardisation Administration of the PRC further adopted 106 standards for drinking water. Under the relevant regulations, immediate compliance with 42 standards was required and compliance with the remaining 64 standards will become mandatory by 1 July 2012. The Group may need to develop new technologies or upgrade existing technologies, or upgrade existing facilities to meet the standards imposed by the MOH or other regulatory authorities. In the event that the Group is unable to develop or source new and enhanced water and sewage treatment solutions to keep up with such technological changes or changes in regulatory requirements, the Group's market share, results of operations and profitability may be materially and adversely affected.

The Group is subject to numerous environmental laws and regulations, and the Group could be exposed to risk relating to environmental and health and safety issues.

The Group and its subcontractors are required to comply with numerous national and local laws and regulations relating to the protection of the environment and land use which are constantly changing. For example, the Measures for the Licence Administration of Qualification for Operation of Environmental Pollution Control Facilities (the "Pollution Control Measures") issued by the MOEP requires any company engaged in the operation of environmental pollution control facilities to obtain the Qualification License for Operation of

Environmental Pollution Control Facilities (the “License”). Pursuant to the Pollution Control Measures, companies engaged in sewage treatment are deemed to be engaged in the operation of environmental pollution control facilities. There can be no assurance that the requirements to obtain such license may not be made more stringent in the future and that such license would be renewed when they expire. Failure to comply with environmental laws and regulations by the Group or its subcontractors could have a material adverse effect on the Group, including closure of individual facilities not in compliance, as well as the imposition of civil or criminal liability and the imposition of liens or fines, and expenditures to bring its facilities into compliance.

Of the members of the Group engaged in sewage treatment, certain subsidiaries including Shenzhen Beikong Fengtai Investment Co., Ltd. (深圳北控豐泰投資有限公司), Mianyang Zhongkecheng Sewage Sanitisation Co., Ltd. (綿陽中科成污水淨化有限公司) and Shenzhen Beikong Environmental Protection Technology Co., Ltd. (深圳北控環保科技有限公司) (the “Relevant Subsidiaries”) have yet to obtain the License as of the date of this document. Although each of the Relevant Subsidiaries is intending to apply for the License in the near future, there is no assurance that the Relevant Subsidiaries will receive such Licences in time or at all. The operation of environmental pollution control facilities without the License by any of the Relevant Subsidiaries may subject such Relevant Subsidiary to a suspension order and an administrative fine of CNY20,000 to CNY30,000 by the relevant authority.

In addition, the Group’s water resources, water supply, and water plant development operations could expose it to risk of substantial liability relating to environmental and health and safety issues, such as those resulting from discharge of pollutants into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. The Group may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated construction sites. The Group may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the Government or private litigants as a result of the Group’s or its subcontractors’ activities. In the course of the Group’s operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated as third party-owned or operated disposal sites. If those sites become contaminated, the Group could also be held responsible for the cost of investigation and remediation of such sites, any associated natural resource damage, and civil or criminal fines or penalties.

The Group is exposed to significant risks relating to its operations, including natural disasters and other disruptive events, and its insurance policies may not provide adequate coverage.

Significant damage or other impediments to water supply and sewage treatment systems, managed by the Group as a result of:

- natural disasters, such as, but not limited to, earthquakes, floods, prolonged droughts and typhoons;
- human-errors in operating the water supply and sewage treatment systems; and
- protests and other forms of opposition by environmental interest groups, such as lawsuits or demonstrations, among others, may materially harm the Group’s business, financial condition and results of operations.

The Group maintains insurance against some, but not all, of these events but no assurance can be given that its insurance will be adequate to cover any direct or indirect losses or liabilities it may suffer.

The Group's ability to grow will be harmed if it does not retain the continued services of its key technical and management personnel and identify, hire and retain additional qualified personnel.

There is a strong competition for qualified technical and management personnel in the sectors in which the Group competes. The Group may not be able to continue to attract and retain qualified technical and management personnel, such as engineers, architects and project managers, who are necessary for the development of its business or to replace qualified personnel. The Group's planned growth may place increased demands on its resources and will likely require the addition of technical and management personnel and the development of additional expertise by existing personnel. Loss of the services of, or failure to recruit, key technical and management personnel could limit the Group's ability to complete existing projects successfully and to engage in new projects.

The Group faces foreign exchange and conversion risks and fluctuation of the Renminbi may adversely affect the Group's operations and financial results.

The value of Renminbi is subject to changes in the PRC Government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on exchange rates published by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates in the PRC and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of Renminbi into U.S. dollars has generally been stable. However, on 21 July 2005, the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies.

The Group currently does not have any outstanding hedging transactions to manage its exposure to foreign currency exchange risk. While the Group may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited and the Group may not be able to successfully hedge its exposure or at all. In addition, the Group's currency exchange losses may be magnified by PRC exchange control regulations that restrict the Group's ability to convert foreign currency into Renminbi. As a result, fluctuations in exchange rates may have a material adverse effect on the Group's results of operations.

Work stoppage and other labour relations matters may have an adverse effect on the Group's financial results.

The Issuer believes that the Group has a good working relationship with its employees and has not experienced any material work stoppages, strikes or other labour problems in the past. However, there is no assurance that any of such events will not arise in the future. If its employees were to engage in a strike or other work stoppage, the Group could experience a significant disruption of operations and/or higher ongoing labour costs, which may have a material adverse effect on its business and results of operations.

RISKS ASSOCIATED WITH DOING BUSINESS IN THE PRC

Substantially all of the Group's assets are located in the PRC. Accordingly, its results of operations, financial position and prospects are, to a significant degree, affected by the economic, political and legal developments of the PRC.

Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC Government could adversely affect the Issuer's results of operations and financial condition.

The Issuer's operating subsidiaries are based in the PRC and therefore, its results of operations and financial condition will be affected to a significant extent by economic, political, legal developments and government policies in the PRC.

Although the PRC's economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned by the PRC Government. The PRC Government also exercises significant control over the economic growth of the PRC through allocating resources, controlling foreign exchange, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC Government has implemented economic reform measures emphasising the use of market forces to drive economic development. These economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall PRC economy, but may also have a negative effect on the industry or the Issuer's business.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to the Group.

The Issuer's subsidiaries are generally subject to laws and regulations applicable to foreign investment in the PRC. The PRC legal system is based on written statutes. Prior court decisions may only be cited for reference. Since 1979, the PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in the PRC. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, and may not be as consistent or predictable as in other more developed jurisdictions. Depending on the government agency or how an application or case is presented to such agency, the Group may receive less favourable interpretations of laws and regulations than its competitors, or the Group may receive interpretations that are inconsistent with its interpretations. These uncertainties may impede the Group's ability to enforce the contracts it has entered into with its customers, suppliers and business partners. The Group cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the pre-emption of local regulations by national laws, or the overturn of local government's decisions by itself, provincial or national governments. These uncertainties may limit legal protections available to the Group. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention and have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The payment of dividends by the Issuer's operating subsidiaries in the PRC is subject to restrictions under the PRC law.

The Issuer operates its core business mainly through its operating subsidiaries in the PRC. The PRC laws require that dividends be paid only out of net profit, calculated according to the PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions. The PRC law requires foreign invested enterprises, including some of the Issuer's subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Since the

availability of funds to fund the Issuer's operations and to service its indebtedness depends upon dividends received from these subsidiaries, any restrictions on the availability and usage of its major source of funding may impact the Issuer's ability to fund its operations and to service its indebtedness.

Higher labour costs and inflation in the PRC may adversely affect the Group's business and its profitability.

Labour costs in the PRC have also risen in recent years as a result of the enactment of new labour laws and social development. In addition, inflation in the PRC has increased. According to the National Bureau of Statistics of the PRC, consumer price inflation in the PRC was 5.9%, -0.7% and 3.3% in 2008, 2009 and 2010, respectively. Because the Group purchases raw materials from suppliers in the PRC, higher labour cost and inflation in the PRC increases the costs of labour and raw materials the Group must purchase for manufacturing. Recently released data indicated that the PRC's inflation rates will continue to rise in 2011. As the Group expects its production staff to increase, rising labour costs may increase its operating costs and partially erode the cost advantage of its PRC-based operations and therefore negatively impact its profitability.

Making capital contributions or loans to the Issuer's PRC subsidiaries is subject to PRC regulations.

Any capital contributions or loans that the Issuer, as an offshore entity, makes to its PRC subsidiaries are subject to PRC regulations. For example, loans to the Issuer's foreign invested PRC subsidiaries cannot exceed the difference between the total amount of investment each of its foreign invested PRC subsidiaries is approved to make under relevant PRC laws and the registered capital of each of its foreign invested PRC subsidiaries, and must be registered with the local branch of the State Administration of Foreign Exchange as a procedural matter. In addition, the Issuer's capital contributions to each of its PRC subsidiaries must be approved by MOFCOM or its local counterpart. The Issuer cannot assure that it will be able to obtain these approvals on a timely basis, or at all. If the Issuer fails to obtain such approvals, the ability to make equity contributions or provide loans to its PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect their liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

Occupancy of certain of the Group's properties in the PRC may be threatened.

The Group's occupancy of certain properties in the PRC may be threatened for various reasons. These include where the Group has entered into leases of certain properties in the PRC that have been or may have been mortgaged by their respective owners prior to entering into the respective leases with the Group. Under the PRC law, a lease entered into in respect of a property which has been mortgaged prior to the entering into such lease is not legally binding on any prospective transferee of such property in the event that such property is foreclosed under the terms of the relevant mortgage. Any new owner of properties with lease of this type could request the Group to move or renegotiate the terms of its lease which could adversely affect the Group's business and financial condition. In addition, as of the date of this document, the lessors of certain properties have not provided the Group with evidence of their valid and enforceable building ownership rights or land use rights thereof. There is no assurance that no third party will seek to assert their rights against these lessors or challenge the Group's occupancy of those properties under leases in the future. Should disputes arise due to title encumbrances on such properties or lessors' failure to register the relevant leases with the government authorities, the Group may encounter difficulties in its continued leasing of such properties. However, the related impact on the Group's business is expected to be minimal.

The Issuer's PRC-sourced income is subject to PRC withholding tax under the new Enterprise Income Tax Law of the PRC.

The Issuer conducts substantially all its operation in the PRC. Under the new Enterprise Income Tax law, or the EIT Law, and its implementation rules, both of which became effective on 1 January 2008, the PRC-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, is generally subject to a 10% withholding tax.

It may be difficult to effect service of legal process, enforce foreign judgments or bring original actions in the PRC based on other foreign laws against the Issuer.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. Therefore, it may not be possible for investors to effect service of process upon those persons in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts. In addition, recognition and enforcement in the PRC of judgments of a court of any other jurisdiction in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

Facts and statistics in this document relating to the Chinese economy may be inaccurate.

Some of the facts and statistics in this document relating to the PRC, the PRC economy and related industry sectors are derived from various publications and obtained in communications with various agencies that the Issuer believes to be reliable. However, the Issuer cannot guarantee the quality or reliability of such source materials. Such facts and statistics have not been independently verified by the Issuer, the Joint Lead Managers nor any of its or their affiliates or advisors and, therefore, neither the Issuer nor any of the Joint Lead Managers makes any representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this document relating to the Chinese economy and related industry sectors may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Group

The following table sets forth the consolidated total borrowings (both current and non-current portions), equity and total capitalisation of the Group as of 31 December 2010:

	As of 31 December 2010
	Actual
	(HK\$ million)
Total borrowings — current portion	
Bank and other borrowings ⁽¹⁾	5,296.2
Total borrowings — non-current portion	
Bank and other borrowings ^{(2) (3)}	3,231.4
	<u>3,231.4</u>
Equity	
Issued capital ⁽⁴⁾	456.7
Reserves	3,436.2
	<u>3,892.9</u>
Total capitalisation⁽⁵⁾	<u>7,124.3</u>
Total capitalisation and current portion of total borrowings	<u>12,420.5</u>

Notes:

- (1) Certain of the Group's bank loans are secured by, among others, a pledge over the Group's 60% equity interest in Shenzhen Bei Kong Chuang Xin Investment Co., Ltd., the Issuer's subsidiary.
- (2) On 28 March 2011, the Issuer entered into a term loan facility agreement for a term loan facility of HK\$1.3 billion. As of the date of this document, the Issuer drew down HK\$1.3 billion under this loan facility.
- (3) On 18 April 2011, the Issuer entered into a term loan facility for a term loan facility of HK\$700 million. As of the date of this document, the Issuer drew down HK\$700 million under this loan facility.
- (4) On 15 March 2011, the Issuer's shareholders, made a capital injection of HK\$3.4 billion in the Issuer through a rights offering of 2,283,378,231 shares in the Issuer.
- (5) Total capitalisation represents the sum of total borrowings - non-current portion and equity.
- (6) As of the date of this document, except for Beijing Enterprises (Dalian) Environmental Development Co., Ltd., whose shareholder has not paid the capital contributions for the second instalment on its shares, all the outstanding shares of capital stock or other equity interest of each subsidiary of the Issuer have been fully paid.

Except as otherwise disclosed in this document, there has been no material change in the consolidated capitalisation and indebtedness of the Group since 31 December 2010.

DESCRIPTION OF THE BUSINESS

Overview

The Group is one of the leading integrated water and sewage treatment solutions service providers in the PRC. The Group is principally engaged in the provision of sewage treatment, water supply, reclaimed water, construction, and technical and consulting services. The coverage of the Group's water plants has extended to 14 provinces and municipalities all across the PRC. As of 31 December 2010, the Group had 62 sewage treatment plants, 13 water supply plants, three reclaimed water plants and one sea water desalination plant either in operation, under construction or ownership of which was being transferred from the proprietors to the Group under service concession agreements. As of 31 December 2010, out of the foregoing 79 plants, 40 sewage treatment plants, five water supply plants and two reclaimed water plants were in operation. The total daily design capacity of the Group's operating water plants reached 5.9 million tonnes as of 31 December 2010, representing an increase of 69% as compared with the total daily design capacity as of 31 December 2009. For the year ended 31 December 2010, the Group treated 563.8 million tonnes of sewage and supplied 47.6 million tonnes of tap water. The Group's construction projects generally entail the construction of infrastructure such as water tanks, water and sewage pipelines and sewage treatment and water supply plants on a BT or BOT basis. As of 31 December 2010, the Group had eight BT projects and 16 BOT projects.

Leveraging upon its core technologies, strategic alliances with local governments, project management expertise, financing channels and engineering, consulting and project design capabilities, the Issuer has continued to expand its operations in the PRC through equity investments in other water supply service providers in the PRC. The Issuer was ranked twentieth among the "Top 50 Water Companies in the World" by Global Water Intelligence in October 2009. In addition, the Issuer was ranked second and first among the "Top Ten Influential Enterprises in the Water Industry in China" in 2009 and 2010, respectively, in the surveys jointly organised by Chinawater.net, Tsinghua University and China Environmental News. In 2009, the Issuer was recognised by the Ministry of Water Resources of China as a "Well-known Water Enterprise in China".

As of 31 December 2010, the Group's total assets and total liabilities were HK\$17,224.8 million and HK\$12,156.8 million, respectively, and as of 31 December 2009, the Group's total assets and liabilities were HK\$7,423.7 million and HK\$4,411.9 million, respectively. For the year ended 31 December 2010, the Group's total revenue, profit from operating activities and profit for the year amounted to HK\$6,348.1 million, HK\$929.3 million and HK\$564.2 million, respectively, and for the year ended 31 December 2009, the Group's total revenue, profit from operating activities and profit for the year amounted to HK\$1,730.0 million, HK\$397.8 million and HK\$228.7 million, respectively.

The Issuer was incorporated in Bermuda on 23 November 1992. As of 31 March 2011, the Issuer has 72 subsidiaries in the PRC.

As of 31 December 2010, the authorised share capital of the Issuer was HK\$1,500,000,000 divided into 15,000,000,000 shares of HK\$0.10 par value each, and the issued share capital of the Issuer was HK\$456,676,000 divided into 4,566,756,463 shares of HK\$0.10 par value each.

The Group's registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

History

The Issuer was incorporated in Bermuda under the name of "Wanon International Holdings Limited" in 1992.

The Issuer's principal business of water-related services commenced in 2008 as a result of a change in the Issuer's business strategy. In view of the PRC Government's support for companies engaged in the water resources protection business, the Issuer targeted the water business as a means by which to maximise its revenue base. In January 2008, BEHL became the Issuer's major shareholder through its acquisition of approximately 74.78% equity interest in the Issuer through its wholly owned subsidiary, Lucky Crown Management Limited (now known as Beijing Enterprises Environmental Construction Limited). In March 2008, the Issuer changed its name to "Beijing Enterprises Water Group Limited" and commenced its water operations in August 2008.

The Issuer commenced the operation of its sewage treatment business in August 2008 with the acquisition of Z.K.C. Environmental Group Co., Ltd. (currently known as BEWG Environmental Group Co., Ltd.). In September 2008, the Issuer acquired Shenzhen Hua Qiang Chuang Xin Investment Company Limited which owned three water plants with a combined design water processing capacity of 315,000 tonnes per day and in January 2009, the Issuer acquired a 66.67% equity interest in Guigang Municipality Water Supply Limited Liability Company ("Guigang Water"), which is principally engaged in sewage treatment, water supply and provision of related services in Guigang Municipality of Guangxi province in the PRC. In 2010, the Issuer established a joint venture company with Yunnan Water Industry Investment Co., Ltd. in Yunnan province in the PRC which was mandated to carry out the Kunming Konggang Sewage Treatment Plant Development Project. In April 2010, the Group's water treatment coverage was extended to seawater desalination through the acquisition of a 50% equity interest in Aqualyng China Limited (currently known as Aqualyng - BEWG China Desalination Company Limited).

On 23 April 2010, the Issuer entered into a subscription agreement with China International Construction Investment Holding (Hong Kong) Limited ("CICI") pursuant to which the Issuer acquired 70% of the enlarged issued share capital of CICI. CICI is the shareholder of various enterprises in the PRC and these enterprises are engaged in a number of BT projects in Kunming City, the PRC.

On 20 June 2010, the Issuer entered into a joint venture agreement with Meishi International Investment Group Limited ("Meishi") in relation to the establishment of a joint venture in Dalian to carry out the Dalian BT project (the "Joint Venture"). Pursuant to the joint venture agreement, the Issuer acquired a 60% equity interest in the Joint Venture. On 24 June 2010, the Issuer entered into a loan agreement with Meishi and Mr. Wu, the sole shareholder of Meishi ("Mr. Wu") (the "First Loan Agreement") to grant Meishi a loan of US\$35.2 million (the "First Loan"). The First Loan was used by Meishi to finance its investment in the Joint Venture. In addition, on 14 December 2010, the Issuer entered into a supplemental loan agreement with Meishi and Mr. Wu to supplement the First Loan Agreement (the "Supplemental Loan Agreement"), pursuant to which the Issuer granted an additional loan of approximately US\$23.9 million (the "Second Loan") to Meishi. The purpose of the Second Loan is for capital contribution by Meishi into the Joint Venture. On 25 May 2011, the Issuer entered into a second supplemental loan agreement with Meishi and Mr. Wu (the "Second Supplemental Loan Agreement") to grant a loan to Meishi in the amount of approximately US\$140.9 million (the "Additional Loan"). The Additional Loan will be used solely by Meishi for the financing of an additional capital contribution to the Joint Venture. Completion of the Second Supplemental Loan Agreement and transactions contemplated therein (the "Transactions") is subject to, among others, the approval from the independent shareholders of the Issuer under the applicable listing rules of the Hong Kong Stock Exchange. As of the date of this document, the independent shareholders of the Issuer were yet to approve the Transaction.

In July 2010, the Issuer obtained the operation and management control of Shenzhen Buji Sewage Treatment Plant, the largest domestic underground sewage treatment plant in the PRC, with a sewage treatment capacity of 200,000 tonnes per day.

On 25 October 2010, the Issuer entered into an equity transfer agreement with Guiyang Water Supply Corporation (the “Equity Transfer Agreements”). Pursuant to the Equity Transfer Agreement, the Group acquired a 45% equity interest in Guiyang Water Co., Ltd. (“Guiyang Water”). The principal business of Guiyang Water is the provision of water supply services within specified areas in Guiyang City, the PRC, under operating concession agreements.

Key Competitive Strengths

The Issuer believes that the Group has the following principal strengths, which make the Group competitive in its principal business sectors.

Favourable industry dynamics benefiting from the supportive Government policies

The Group, as a market leader in the water and sewage treatment industry in the PRC, is well positioned to benefit from favourable industry dynamics and supportive Government policies.

- China faces a fresh water shortage problem. According to the World Bank in its report in 2009, per capita water resource in China was 2,134 m³ in 2007, representing approximately one-fourth of the global average. In addition, China’s strong economic growth has led to a consistent increase in its water demand which has outpaced its water supply. According to the National Bureau of Statistics of China, urban sewage emissions in the PRC recorded a CAGR of 4.2% from 2003 to 2009 due to increasing urbanisation and industrialisation in the PRC. In light of the foregoing, the Issuer expects that the demand for efficient and advanced tap water supply and sewage treatment services in China will remain robust.
- China’s current average water tariff as a percentage of its net disposable income is much lower compared to most developed countries, implying a potential for further tariff increases. According to the National Bureau of Statistics of China, China’s average water tariff accounted for only 0.66% of its average income of employed population in urban areas. In addition, tap water tariffs and sewage treatment tariffs in China grew at a CAGR of 3.6% and 6.4%, respectively, from 2006 to 2010 according to Chinawater.net. The Issuer expects this increasing trend will continue due to water scarcity and the supportive Government policies.
- With environmental protection remaining a priority for the Government in its 12th Five Year Plan, the Issuer expects stricter environmental protection and water quality standards to be promulgated and implemented. In addition, the Government encourages investment in the sewage treatment industry from private sectors. The Issuer anticipates that the Government’s goal of substantially reducing pollution levels in rivers, lakes and seas in the PRC will create increasing demand for the Group’s sewage treatment service.

One of the leading integrated water solutions service providers

The Group is a comprehensive integrated water and sewage treatment solutions provider with strong in-house capabilities in design, procurement, capital investment, project management and facilities operation and maintenance. The Group’s systematic approach enables it to combine both design and technical expertise and practical execution experience to provide integrated solutions to its customers reducing construction time and cost and enhancing the operating efficiency of its facilities. The Group’s extensive expertise across the entire industry value chain has enabled it to offer innovative solutions to customers and pioneer the application of new project models to the PRC water and sewage treatment industry. The Group believes that its track record, design capability, relationships with local government, understanding of the market and regulatory environment in the PRC and reputation have allowed it to stay at the forefront of its industry.

Diversified project portfolio strategically located in different geographic areas

The Group maintains diversified project portfolio across 14 provinces and municipalities in China, ensuring a well-balanced geographic presence. The 14 provinces and municipalities comprise Heilongjiang, Liaoning, Beijing, Hebei, Shandong, Zhejiang, Guangdong, Hunan, Fujian, Hainan, Sichuan, Yunnan, Guizhou and Guangxi provinces. According to National Bureau of Statistics of China, the average GDP per capita and urbanisation rate as of 2009 for these 14 provinces and municipalities were higher than those of China's national average. The Issuer believes that relatively high levels of GDP per capita and urbanisation rates in such provinces and municipalities have contributed to a strong demand for the Group's sewage treatment and water supply services. In addition, according to Chinawater.net, the average water supply tariffs and sewage treatment tariffs in these 14 provinces and municipalities have been higher than those of China's national average in recent years.

The Group has also diversified its business to undertake water supply, reclaimed water and seawater desalination services in addition to its core sewage treatment service and construction service. As of 31 December 2010, the Group operated 40 sewage treatment plants in all of the Northern, Shandong, Eastern, Southern and Western Regions, two reclaimed water plants in the Northern and Shandong Regions and five water supply plants in the Shandong and Southern Regions. In addition, as of 31 December 2010, the Group was in the course of constructing a sea water desalination plant and a reclaimed water plant in the Northern Region. The Issuer is also exploring growth opportunities in international markets. As part of its international expansion initiative, in November 2009, the Issuer entered into a non-binding memorandum of understanding with the Malaysian government for the construction of sewage treatment plants in Malaysia. As of the date of this document, no formal agreement was entered into between the Issuer and the Malaysian government for the foregoing construction project.

Stable and predictable cash flows due to stable nature of business

The Group's cash flows are stable and predictable due to the nature of the water supply and sewage treatment business. Demand driven by local governments and household consumption are predictable and concessions for sewage treatment are typically granted for 20 to 30 years which provide long term earning visibility. The water industry in the PRC also receives support from local governments which typically guarantee a minimum sewage treatment volume. In terms of tariff and returns, the Group is able to maintain its average tariff for sewage treatment at HK\$1.07 per tonne for both 2009 and 2010. In addition, the service concession agreements entered into by the Group have built-in price adjustment mechanism to protect the Group from rising operating cost. The tariff for sewage treatment is usually adjusted every two to three years by reference to changes in key cost indices such as CPI and such tariff has in the past been adjusted upward.

Proven track record of superior growth

The Group has enjoyed sustainable and rapid increases in sewage treatment and water supply capacity and revenue from 2008 to 2010 leveraging upon advanced technology and superior operational expertise. The Group's revenue increased from HK\$337.7 million for the year ended 31 December 2008 to HK\$1,730.0 million and to HK\$6,348.1 million for the years ended 31 December 2009 and 2010, respectively. In addition, the Group expanded its daily water processing capacity from 1.5 million tonnes for the year ended 31 December 2008 to 3.5 million tonnes and to 5.9 million tonnes for the years ended 31 December 2009 and 2010, respectively, recording a CAGR of 100% from 2008 to 2010.

SOE background and strong support from BEHL with superior ratings

As of the date of this document, BEHL was the single largest shareholder of the Issuer with a 44.49% equity interest in the Issuer held through its wholly owned subsidiary, Beijing Enterprises Environmental Construction Limited.

As the major water utilities flagship company of BEHL, the Group's strong partnership with BEHL benefits the Group in various ways, including (i) project sourcing and securing new water projects in affluent regions in the PRC; (ii) securing bank lending from various major banks at preferential interest rates; and (iii) obtaining equity financing through rights offerings which are typically underwritten by BEHL.

Leveraging upon its strong relationship with its ultimate holding company, Beijing Enterprises Group Co., Ltd. (北京控股集團有限公司), which is wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, BEHL is well-positioned to help the Group to continue to secure large-scale water projects from local governments. In addition, the Group's relationship with BEHL enables the Group to capitalise on BEHL's relatively strong credit strength to secure bank lending at rates favourable to the Group. The Group also benefits from financial support from BEHL in the form of equity investment and the Group has recently secured a capital injection from BEHL in the amount of approximately HK\$1.6 billion through the Issuer's rights offering, which accounted for approximately 46.0% of the total capital raised.

Experienced management team

The Group's management team has extensive experience in the water industry with a proven track record in water and sewage treatment. The majority of the Group's core management team has been working together for more than nine years and has provided guidance and execution leadership. The Group's core team benefits significantly from the accumulated expertise and hands-on experience of its project managers. The Issuer believes that the management team enables it to continue to improve the efficiency of its operations, the quality of its product offerings and its ability to satisfy its customers' requirements. The Issuer believes that its strong management and execution capacity is evidenced by its strong revenue and profit growth.

Strategies

The Issuer believes that increasing water consumption in the PRC and rapid industrialisation of the PRC economy will continue to create growth opportunities for the Group. The Group has leveraged its competitive advantage in, among others, advanced technologies, strong networks with local governments and project management expertise to become one of the leading integrated water system solution providers in the PRC. The Group intends to maintain its leading position in the PRC water industry by pursuing the following strategies:

Re-designing business model to accelerate expansion of sewage treatment and water supply projects

The Group possesses an integrated business model with design and technical consultancy, construction, and operational capabilities for sewage treatment and water supply projects. The Group's extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation. By reviewing the Government's industrial policies and enhancing its research and development capabilities, the Group plans to broaden its sewage treatment and water supply portfolio through the completion of fully integrated projects that utilise its wide range of capabilities and capture a larger share of the value chain for each project.

Develop new profit drivers

The Issuer believes that its water operations will provide stable cash flows in coming years due to its track record and the Government's policies to expand sewage treatment and water supply facilities in the PRC. Although the Group has historically generated stable cashflows and has maintained relatively consistent operating margins, thereby maintaining a solid platform for conservative growth, the Group is seeking opportunities for advanced strategic co-operations in seawater desalination, international business development and sludge treatment with a view to diversifying its revenue sources whilst mitigating business concentration risk.

Maintain prudent financial policies

Going forward, the Group will maintain prudent financial policies to preserve a low cost structure and optimal capital structure. This will be done by careful management of key measures such as capital expenditures, cash flow and fixed charge coverage. The Group will also focus on lowering its cost of financing.

Organisational Structure

The following diagram sets out the organisational structure of the Group as of 31 December 2010:



[#] Listed on the Main Board of The Stock Exchange of Hong Kong Limited

Businesses of the Group

The Group's business can be divided into: (i) water operation business, (ii) construction of water-related facilities primarily under BOT and BT contract arrangements and (iii) technical and consulting services. As of 31 December 2010, the coverage of the Group's water plants extended to 14 provinces across the PRC. For the year ended 31 December 2010, the daily design capacity of the Group's operating water plants increased by 2,405,000 tonnes to 5,909,500 tons, representing a 69% increase as compared with the corresponding period in 2009. The increment of 2,405,000 tonnes of daily design capacity included 495,000 tonnes from BOT projects, 140,000 tonnes from TOT projects, 50,000 tonnes from design-build-operate projects, 695,000 tonnes from entrustment projects and 1,025,000 tonnes from other water-related projects. The below table sets out the Group's revenue by business segment for the years ended 31 December 2009 and 2010:

Business Segment

	As of 31 December 2010	
	2009	2010
	(HK\$ million)	
Water operation business		
Sewage treatment business.....	439.7	591.6
Water supply business.....	60.5	75.5
Construction business ⁽¹⁾		
BT projects.....	82.3	4,600
BOT projects.....	983.5	831.6
Technical and consulting business		
BT projects.....	—	226.0
Others.....	69.2	23.4
Sale of sewage treatment facilities ⁽²⁾	94.8	—
Total	<u>1,730.0</u>	<u>6,348.1</u>

Note:

- (1) The Group's construction revenue was recognised on the basis of percentage of completion method in accordance with HKFRS.
- (2) The Group is no longer engaged in the sale of sewage treatment facilities.

Water operation business

The Group's water operation business primarily comprises the provision of sewage treatment services and water supply to municipal governments and industrial customers. For the years ended 31 December 2009 and 2010, revenue from the Group's water operation business accounted for 29% and 11% of the Group's total revenue, respectively.

As of 31 December 2010, the Group had 62 sewage treatment plants, 13 water supply plants, three reclaimed plants and one seawater desalinisation plant either in operation, under construction or ownership of which was being transferred from the proprietors to the Group under service concession agreements. As of 31 December 2010, out of the foregoing 79 plants, 40 sewage treatment plants, five water supply plants and two reclaimed water plants were in operation. The Group's water plants had a combined design water processing capacity

of 5.9 million tonnes per day as of 31 December 2010. The below table sets out daily design water processing capacity and the actual water processing capacity of the Group's water plants in operation for the year ended 31 December 2010, and revenue generated from the Group's water operation business for the years ended 31 December 2009 and 2010.

			Actual processing capacity for the year ended 31 December 2010	Revenue for the year ended 31 December	
	Number of plants in operation	Design capacity		2009	2010
			(million tonnes/day)	(HK\$ million)	
Sewage treatment service:					
Western Region	14	1,000,000	190.2	115.0	144.4
Southern Region	13	792,000	199.1	160.8	211.8
Shandong Region	7	297,000	79.3	100.2	100.2
Eastern Region	2	170,000	45.0	48.0	63.2
Northern Region	6	455,000	50.2	15.7	72.0
	42 ⁽¹⁾	2,714,000	563.8	439.7	591.6
Water supply service	5	150,000	47.6	60.5	75.5
Total	47	2,864,000	611.4	500.2	667.1

Note:

(1) Includes two reclaimed water plants in the Shandong and Northern Regions.

Service concession arrangements

A substantial part of the Group's revenue for its water operation business is generated from the provision of sewage treatment and water supply services under service concession arrangements.

The Group has entered into a number of service concession agreements with certain government authorities in the PRC on a BOT or a TOT basis in respect of its sewage treatment and water supply projects. The Group typically secures concession arrangements through carrying out the construction of water facilities and acquiring other water companies with existing concession arrangements. These service concession arrangements generally involve the Group as an operator of the relevant sewage treatment and water supply plants responsible for operating and maintaining the sewage treatment and water supply plants at a specified level of serviceability on behalf of the relevant government authorities for periods ranging from 20 to 30 years. Under the service concession agreements, the Group is generally entitled to use all the property, plant and equipment of the sewage treatment and water supply plants whilst the relevant government authorities as grantors will control and regulate the scope of services the Group provides, and retain the beneficial entitlement to any residual interest in the sewage treatment and water supply plants at the end of the term of the service concession periods.

As of 31 December 2010, the Group had 51 service concession agreements on sewage treatment and five service concession agreements on water supply with various government authorities in the PRC and the following table sets out certain information regarding the Group's major sewage treatment and water supply projects under concession agreements which principally affected the Group's results of operations for the year ended 31 December 2010:

No.	Name of subsidiary as operator ⁽¹⁾	Name of plant ⁽¹⁾	Location	Name of grantor ⁽¹⁾	Type of service concession arrangement	Practical processing capacity m ³ /day	Service concession period
1.	綿陽中科成污水淨化有限公司 (Mianyang Zhongkecheng Sewage Sanitisation Co. Ltd.)	綿陽市塔子壩污水處理廠一期 (Taziba Sewage Treatment Plant Phase I in Mianyang)	Mianyang, Sichuan Province, the PRC	綿陽市人民政府 (People's Government of Mianyang Municipal)	TOT	100,000	30 years from 2002 to 2032
2.	綿陽中科成污水淨化有限公司 (Mianyang Zhongkecheng Sewage Sanitisation Co. Ltd.)	綿陽市塔子壩污水處理廠二期 (Taziba Sewage Treatment Plant Phase II in Mianyang)	Mianyang, Sichuan Province, the PRC	綿陽市人民政府 (People's Government of Mianyang Municipal)	BOT	50,000	30 years from 2004 to 2034
3.	長沙中科成污水淨化有限公司 (Changsha Zhongkecheng Sewage Sanitisation Co. Ltd.)	長沙市金霞污水處理廠 (Jinxia Sewage Treatment Plant in Changsha)	Changsha, Hunan Province, the PRC	長沙市公用事業管理局 (Changsha Municipal Public Utilities Management Bureau)	TOT	180,000	20 years from 2004 to 2024
4.	青島膠南中科成污水淨化有限公司 (Qingdao Jiaonan Zhongkecheng Sewage Sanitisation Co. Ltd.)	膠南市污水處理廠 (Jiaonan Sewage Treatment Plant)	Jiaonan, Shandong Province, the PRC	膠南市城鄉建設局 (Jiaonan Municipal Urban and Rural Construction Bureau)	BOT	60,000	20 years from 2006 to 2026
5.	青島中科成污水淨化有限公司 (Qingdao Zhongkecheng Sewage Sanitisation Co. Ltd.)	山東省膠州市污水處理廠 (Jiaozhou Sewage Treatment Plant in Shangdong)	Jiaozhou, Shandong Province, the PRC	山東省膠州市城鄉建設局 (Shangdong Province Jiaozhou Municipal Urban and Rural Construction Bureau)	BOT	50,000	20 years from 2004 to 2024
6.	荷澤中科成污水淨化有限公司 (Heze Zhongkecheng Sewage Sanitisation Co. Ltd.)	荷澤市污水處理廠 (Heze Sewage Treatment Plant)	Heze, Shandong Province, the PRC	荷澤市建設局 (Heze Municipal Construction Bureau)	TOT	80,000	25 years from 2007 to 2032

No.	Name of subsidiary as operator ⁽¹⁾	Name of plant ⁽¹⁾	Location	Name of grantor ⁽¹⁾	Type of service concession arrangement	Practical processing capacity m ³ /day	Service concession period
7.	廣州中業污水處理有限公司 (Guangzhou Zhongye Sewage Treatment Co. Ltd.)	廣州市花都區新華污水處理廠一期 擴建工程 (Xinhua Sewage Treatment Plant Phase I-Extension Project in Huadu District, Guangzhou)	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局 (Guangzhou Municipal Huadu District Urban Utilities and Landscaping Bureau)	BOT	100,000	25 years from 2008 to 2033
8.	廣州中業污水處理有限公司 (Guangzhou Zhongye Sewage Treatment Co. Ltd.)	廣州市花都區新華污水處理廠 (二期) (Xinhua Sewage Treatment Plant Phase II in Huadu District, Guangzhou)	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局 (Guangzhou Municipal Huadu District Urban Utilities and Landscaping Bureau)	BOT	99,000	25 years from 2009 to 2034
9.	廣州中科成污水淨化有限公司 (Guangzhou Zhongkecheng Sewage Sanitisation Co. Ltd.)	廣州南沙開發區黃閣污水處理廠 (Huangge Sewage Treatment Plant in (Guangzhou Nansha Development Zone))	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局 (Guangzhou Nansha Development Zone Construction Bureau)	BOT	50,000	22 years from 2004 to 2026
10.	廣州中科成污水淨化有限公司 (Guangzhou Zhongkecheng Sewage Sanitisation Co. Ltd.)	廣州南沙開發區黃閣污水處理廠 (二期) (Huangge Sewage Treatment Plant Phase II in Guangzhou Nansha Development Zone)	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局 (Guangzhou Nansha Development Zone Construction Bureau)	BOT	50,000	22 years from 2004 to 2026
11.	台州市路橋中科成污水淨化有限公司 (Taizhou Luqiao Zhongkecheng Sewage Sanitisation Co. Ltd.)	路橋污水處理廠二期 (Luqiao Sewage Treatment Plant Phase II)	Taizhou, Zhejiang Province, the PRC	台州市建設規劃局路橋分局 (Taizhou Municipal Construction and Planning Bureau Luqiao Branch)	BOT	50,000	27 years from 2006 to 2033

No.	Name of subsidiary as operator ⁽¹⁾	Name of plant ⁽¹⁾	Location	Name of grantor ⁽¹⁾	Type of service concession arrangement	Practical processing capacity m ³ /day	Service concession period
12.	佛山市三水中科成水質淨化有限公司 (Foshan Sanshui Zhongkecheng Water Sanitisation Co. Ltd)	佛山市三水區中心工業園南部污水處理廠 (Southern Sewage Treatment Plant in Central Industrial Park of Sanshui District, Foshan Municipal)	Foshan, Guangdong Province, the PRC	佛山市三水工業園區管理委員會 (Foshan Municipal, Sanshui Industrial Park Management Committee)	BOT	50,000	22 years from 2010 to 2032
13.	永州市北控污水淨化有限公司 (Yongzhou Beikong Sewage Sanitisation Co., Ltd.)	永州市下河線污水處理廠 (Xiahexian Sewage Treatment Plant in Yongzhou)	Yongzhou, Hunan Province, the PRC	永州市公用事業管理局 (Yongzhou Municipal Public Affairs Administrative Bureau)	BOT	50,000	30 years from 2008 to 2038
14.	深圳北控豐泰投資有限公司 (Shenzhen Beikong Fengtai Investment Co., Ltd.) (formerly known as 深圳華強豐泰投資有限公司) (Shenzhen Huaqiang Fengtai Investment Co. Ltd.)	深圳市龍崗區橫嶺污水處理廠 (Hengling Sewage Treatment Plant in Longgang District, Shenzhen)	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府 (People's Government of Longgang District, Shenzhen)	BOT	200,000	25 years from 2003 to 2028
15.	濱州華強西海水務有限公司 (Binzhou Huaqiang Xihai Water Co. Ltd.)	濱州市西海供水工程 ⁽²⁾ (Xihai Water Supply Project in Binzhou)	Binzhou, Shandong Province, the PRC	濱州市人民政府 (People's Government of Binzhou Municipal)	BOT	50,000	40 years from 2006 to 2046
16.	台州黃岩北控水務污水淨化有限公司 (Taizhou Huangyan Beikong Water and Sewage Sanitisation Co. Ltd)	台州市黃岩區污水處理廠 (Huangyan Sewage Treatment Plant in Taizhou)	Taizhou, Zhejiang Province, the PRC	台州市黃岩區建設局 (Taizhou Municipal, Huangyan District Construction Bureau)	TOT	80,000	30 years from 2009 to 2039
17.	成都青白江中科成污水淨化有限公司 (Chengdu Qingbaijiang Zhongkecheng Sewage Sanitisation Co. Ltd.)	成都市青白江區污水處理廠 (Qingbaijiang Sewage Treatment Plant in Chengdu)	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府 (People's Government of Qingbaijiang District, Chengdu Municipal)	TOT	100,000	25 years from 2009 to 2034
18.	齊齊哈爾市北控污水淨化有限公司 (Qi Qi Har Beikong Sewage Sanitisation Co. Ltd.)	齊齊哈爾市富拉爾基區污水處理廠 (Furaji Sewage Treatment Plant in Qi Qi Har)	Qi Qi Har, Heilongjiang Province, the PRC	齊齊哈爾市環境保護局 (Qi Qi Har Municipal Environmental Protection Bureau)	BOT	100,000	28 years (Not yet started)

No.	Name of subsidiary as operator ⁽¹⁾	Name of plant ⁽¹⁾	Location	Name of grantor ⁽¹⁾	Type of service concession arrangement	Practical processing capacity m ³ /day	Service concession period
19.	錦州市北控水務有限公司 (“Jinzhou Beikong”)	錦州市一期污水處理廠 (Jinzhou Sewage Treatment Plant Phase I)	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局 (Jinzhou Municipal Public Affairs Administrative and Property Bureau)	TOT	100,000	30 years from 2009 to 2039
20.	Jinzhou Beikong	錦州市二期污水處理廠 ⁽³⁾ (Jinzhou Sewage Treatment Plant Phase II)	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局 (Jinzhou Municipal Public Affairs Administrative and Property Bureau)	BOT	100,000	30 years from 2010 to 2040
21.	Jinzhou Beikong	錦州市再生水項目 (Jinzhou Reclaimed Water Project)	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局 (Jinzhou Municipal Public Affairs Administrative and Property Bureau)	BOT	180,000	30 years from 2010 to 2040
22.	福州北控水質淨化有限公司 (Fuzhou Beikong Water Sanitisation Co. Ltd.)	福州市浮村污水處理廠 (Fucun Sewage Treatment Plant in Fuzhou)	Fuzhou, Fujian Province, the PRC	福州市建設局 (Fuzhou Municipal Construction Bureau)	BOT	50,000	27 years from 2010 to 2037
23.	廣西貴港北控水務有限公司 (“Guigang Water”)	貴港市城西污水處理廠 (Chengxi Sewage Treatment Plant in Guigang)	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局 (Guigang Municipal Urban Utilities Management Bureau)	BOT	100,000	30 years from 2008 to 2038
24.	Guigang Water	龍床井水廠 ⁽²⁾ (Longchuangjing Water Plant)	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局 (Guigang Municipal Urban Utilities Management Bureau)	BOT	50,000	30 years from 2008 to 2038
25.	Guigang Water	南江水廠 ⁽²⁾ (Nanjiang Water Plant)	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局 (Guigang Municipal Urban Utilities Management Bureau)	BOT	100,000	30 years from 2008 to 2038

Notes:

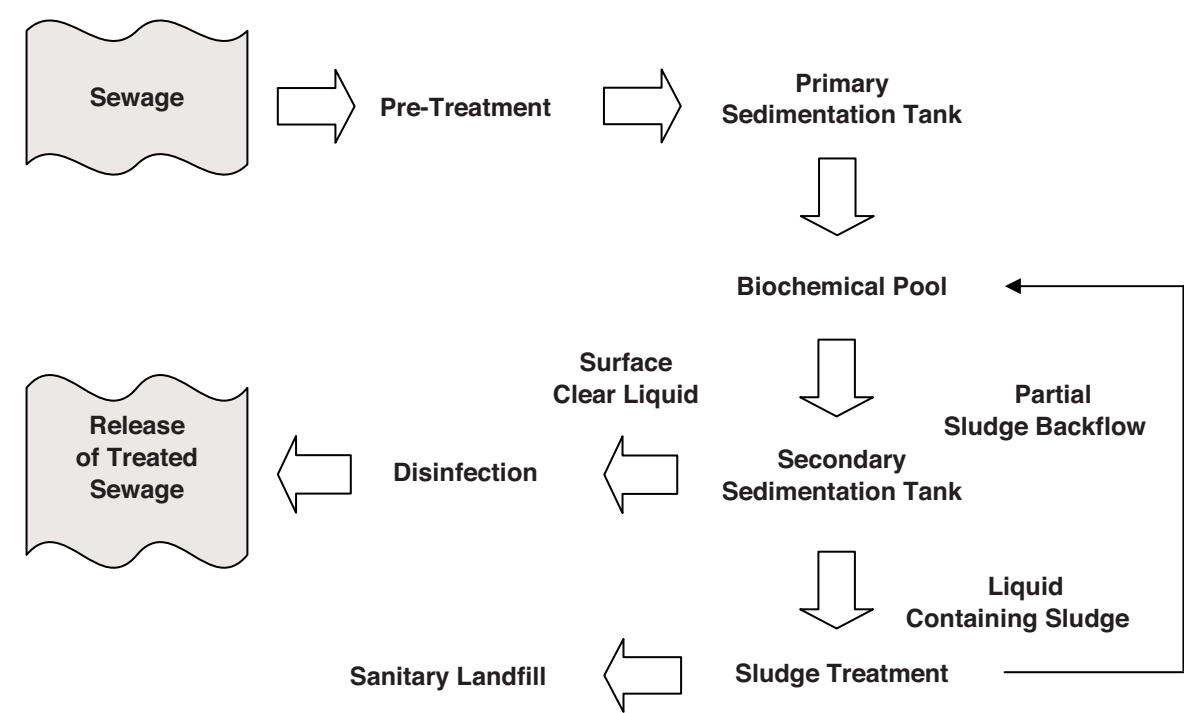
- (1) English names for the Group's PRC subsidiaries, plants and grantors are for identification purpose only.
- (2) These concession arrangements related to water supply projects.
- (3) This concession arrangement related to reclaimed water processing project.
- (4) Except as provided for in (2) and (3) above, all other concession arrangements related to sewage treatment projects.

Sewage treatment service

The Group designs and constructs facilities that remove pollutants from water and sewage using multiple processes, including the application of chemicals and biological agents and the use of physical process. The Group has developed several proprietary technologies that enhance existing technologies for the treatment of water and sewage from different sources. The Group adapts and deploys these technologies in combination according to the specific requirements of the Group’s customers and the type of project. For example, the Group developed LIER-POOLK technology, for which the Group has registered a patent, for the treatment of industrial sewage, which contains toxic materials and has a high concentration of ammonia nitrogen and tar. This technology is highly effective and cost efficient in removing sulphur oxide, oil, ammonia nitrogen and organic materials from industrial sewage. The Group’s LIER-POOLK waste treatment technology was awarded with Grade A Quality Certificates issued by the State Ministry of Construction and the Development, the Reform Commission and the Ministry of Environmental Protection of the PRC.

While specific processes and technologies deployed in sewage treatment vary by different projects and industries and in accordance with the specific requirements of each of the Group’s customers, set out below is an overview of the key steps involved in sewage treatment:

Sewage treatment process



The sewage treatment process begins with the pre-treatment of the sewage to remove large solid materials in the raw sewage. Sewage is then transferred to a sedimentation tank where smaller solid waste and sludge are separated from the sewage by sedimentation. After that, the sewage is discharged into biochemical pools where oxidation ditches are used to introduce an optimal level of oxygen to increase the growth of micro-organisms that consume organic pollutants in the sewage. Separation of sludge from sewage is then conducted at a secondary sedimentation stage. Afterwards, the treated sewage is disinfected to kill any harmful micro-organisms before being reintroduced into the environment or otherwise reused. Some of the separated sludge flows back into the biochemical pool to maintain a sufficient level of micro-organisms in the biochemical pool, while the residual sludge by-products from the treatment process is then sent to sludge landfill sites for disposal.

As of 31 December 2010, the Group had 42 operating sewage treatment plants with a design sewage treatment capacity (including reclaimed water processing capacity) of 2,714,000 tonnes per day. The average contracted tariff charge for sewage treatment was approximately HK\$1.07 per tonne. The actual aggregate sewage processing volume for the year ended 31 December 2010 was 563.8 million tonnes (average daily processing volume of 1,929,000 tonnes and average daily treatment rate of 71%) generating revenue of HK\$591.6 million during the same period which accounted for 9% of the Group's total revenue for the same period. Set out below is a summary of the Group's regional sewage treatment operations in the PRC:

Western China

As of 31 December 2010, the Group's operating sewage treatment plants in Western China had the largest sewage treatment capacity in the Group. As of the same date, the Group had 14 operating sewage treatment plants with a combined daily design sewage treatment capacity of 1,000,000 tonnes, representing an increase of 440,000 tonnes per day or 78.6% as compared with 560,000 tonnes per day as of 31 December 2009. The Group's sewage treatment plants in Western China are mainly located in Yunnan, Guangxi, Sichuan and Guizhou provinces of the PRC. For the year ended 31 December 2010, the actual sewage processing volume was 190.2 million tonnes and the Group's sewage treatment operation in Western China recorded an operating revenue of HK\$144.4 million.

Southern China

As of 31 December 2010, the Group had 13 operating sewage treatment plants with a combined daily design sewage treatment capacity of 792,000 tonnes, representing an increase of 262,000 tonnes per day or 49% as compared with 31 December 2009. The 49% increase in the daily design sewage treatment capacity was primarily attributable to an increase in operating volume of sewage treatment facilities the Group developed and operated on a BOT basis in the Southern China region. The Group's sewage treatment facilities are mainly located in Guangdong and Hunan provinces of the PRC and the actual aggregate processing volume of such facilities for the year ended 31 December 2010 amounted to 199.1 million tonnes. The Group's sewage treatment operation in Southern China recorded an operating revenue of HK\$211.8 million for the year ended 31 December 2010.

Shandong

As of 31 December 2010, the total daily design sewage treatment capacity of the Group's operating sewage treatment plants in the Shandong region increased by 42,000 tonnes to 297,000 tonnes as compared with 255,000 tonnes as of 31 December 2009. As of the same date, the Group had seven plants in the Shandong region and the actual combined sewage processing volume of those plants for the year ended 31 December 2010 was 79.3 million tonnes. For the same period, the Group's sewage treatment operation in Shandong region recorded an operating revenue of HK\$100.2 million.

Eastern China

As of 31 December 2010, the total design sewage treatment capacity of the Group's operation in Eastern China remained unchanged at 170,000 tonnes per day compared to 31 December 2009. The Group's operating sewage treatment plants in Eastern China are located in the Zhejiang province of the PRC and for the year ended 31 December 2010, the actual combined sewage treatment capacity of such plants was 45.0 million tonnes. For the same period, the Group's Eastern China sewage treatment operation in Eastern China recorded an operating revenue of HK\$63.2 million.

Northern China

As of 31 December 2010, the Group had six operating sewage treatment plants in Northern China with a combined sewage treatment capacity of 455,000 tonnes per day, representing an increase of 355,000 tonnes per day as compared to 31 December 2009. The six sewage treatment plants are mainly located in the Liaoning province of the PRC and for the year ended 31 December 2010, the Group's sewage treatment operation in Northern China recorded an actual sewage treatment capacity of 50.2 million tonnes and an operating revenue of HK\$72.0 million.

Water supply service

The Group uses chemical and biological processes to treat and purify raw water at its waterworks facilities before supplying the water for general consumption. As of 31 December 2010, the Group had five operating water supply plants with a combined water supply capacity of 150,000 tonnes per day. For the year ended 31 December 2010, the Group's aggregate actual water supply volume amounted to 47.6 million tonnes as compared with 34.6 million tonnes for the year ended 31 December 2009. The Group's water supply plants are located in Guizhou province, Shandong province and Guangxi province of the PRC and the Group's water supply systems are equipped with large-scale pipelines and water treatment facilities.

For the year ended 31 December 2010, the average contracted tariff charge of water supply was approximately HK\$1.57 per tonne and each tariff determined by the Group must be approved by the relevant government authorities in the PRC. The Group's water supply contracts generally provide for a general concession period of up to 40 years and adjustment to tariffs are generally subject to approvals by the relevant government authorities in the PRC. Applications for the adjustment to the tariffs may usually be made in the case of increases in key costs such as raw material prices, labour costs and electricity charges.

Construction business

The Group's construction projects are primarily divided into BT projects and BOT projects.

BT projects

The Group provides construction services on a BT basis for the design, construction and installation of water or sewage treatment facilities and pipeline networks for its customers at a fixed contract price (subject to agreed variation orders). Upon completion, the Group delivers the project to its customers for their operation and bears no further responsibility for the maintenance or repair of the facilities. The Group's BT projects typically take between 12 and 18 months to complete. The Group recognises revenue from its BT projects on the basis of the percentage of completion method commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated. The Group's BT projects primarily involve the construction of an intercepting canal and its ancillary facilities, water environmental renovation facilities, pipeline networks and other infrastructure. As of 31 December 2010, the Group had eight BT projects under construction.

The Group's BT projects are located in Tongling, Anhui province, Kunming, Yunnan province and Dalian, Liaoning province of the PRC. For the years ended 31 December 2009 and 2010, the Group recorded revenue of HK\$82.3 million and HK\$4,600.0 million from its BT projects, respectively. The significant increase in the Group's revenue from its BT projects in 2010 as compared with 2009 was primarily due to the commencement of the Kunming BT projects and the Dalian BT project during 2010. The aggregate revenue contributed by the Kunming BT projects and Dalian BT project for the year ended 31 December 2010 amounted to HK\$4,433.4 million, which accounted for 96.4% of the Group's total revenue from its BT projects for the same period.

BOT projects

The Group has entered into a number of service concession agreements on a BOT basis in respect of its water supply and sewage treatment business. For the Group's BOT projects, the Group invests in the design of and constructs water and sewage treatment facilities which the Group operates for a contractually agreed period of up to 20 to 30 years following completion. The Group bears all relevant design, construction and operating costs of the treatment facilities and does not typically receive payments from its customers during the construction stage of the projects. Upon commencement of the operation of the facilities, the Group receives regular, typically monthly, payments from the local government based on a contractually agreed tariff in accordance with a pricing formula based on key cost indices such as CPI and the volume of water treated (or the contractually guaranteed minimum volume, if any). The Group is also responsible for all of the costs of repair and maintenance of the treatment facilities during the term of the concession. At the end of the agreed concession period, the Group will be required to transfer the treatment facilities to the relevant local government for no consideration, but the Group may be reappointed under a bidding process to continue to operate the facilities at the end of the term of the concession.

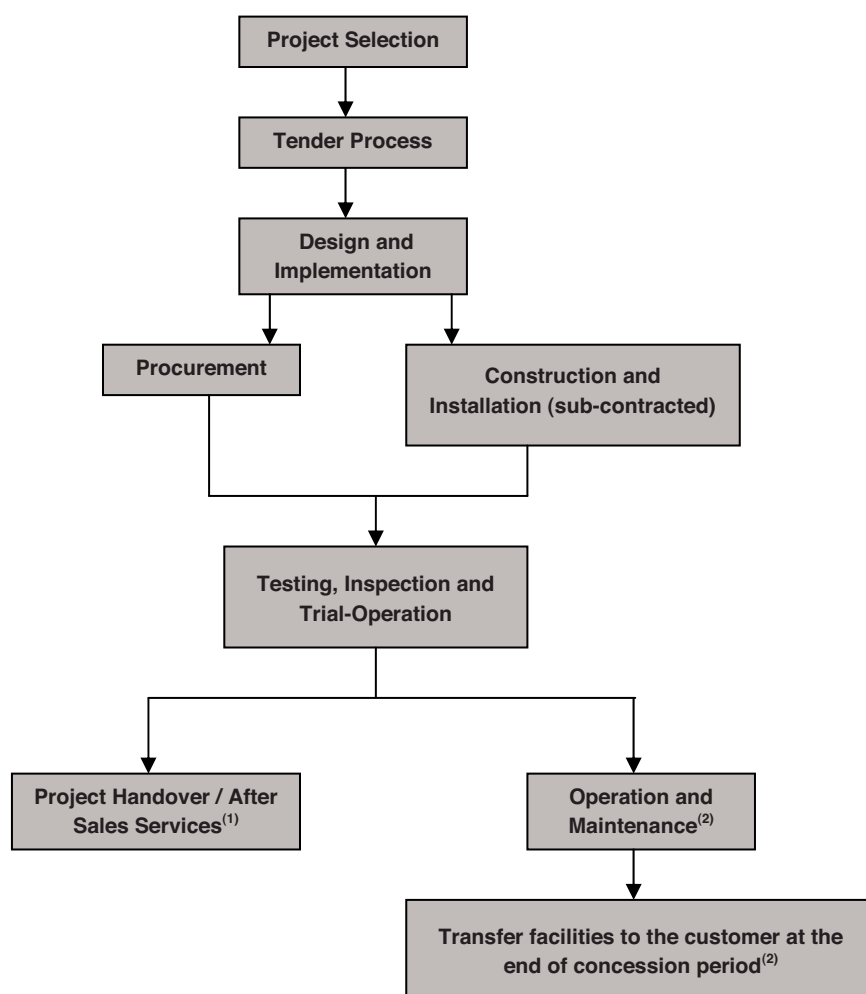
BOT projects are capital intensive and require substantial investment for the construction of the water facilities. The Group funds its BOT projects mainly through external financing. The Group expects its borrowings and financing expenses to increase in the future as a result of the expansion of the Group's BOT project business.

Although the Group does not usually receive payments from its customers during the construction phase of its BOT projects, in accordance with HKFRS as supplemented by HK(IFRIC) - Interpretation 12 on Service Concession Agreements, the Group recognises revenue from the BOT projects during both the construction phase and the operational phase. The Group records revenue during the construction phase on the basis of percentage of completion, based on the cost of construction incurred plus the fair market value of a certain mark-up on the construction costs determined by an independent appraiser. The revenue recognised from the construction phase of a BOT project is also recognised as a service concession receivable to be offset against the allocated amount after receipt of the cash tariff and other payments received related to the relevant project during the operational phase. For the years ended 31 December 2009 and 2010, revenue from the construction phase of the Group's BOT projects amounted to HK\$983.5 million and HK\$831.6 million, respectively.

As of 31 December 2010, 16 water plants (including sewage treatment and water supply plants) were under construction on a BOT basis. These water plants are mainly located in Guangdong, Sichuan, Shandong, Liaoning, Heilongjiang and Hunan provinces of the PRC and as of 31 December 2010, the total daily design capacity of these water plants was 1,101,500 tonnes. Most of these projects are expected to commence their operations in 2011.

Business process for construction projects

Set out below is a summary of the Group's typical construction project management process:



Notes:

(1) applicable to BT projects only.

(2) applicable to BOT projects only.

a) BT project

Project selection

The Group considers its ability to choose the right projects to be a cornerstone of its operational success and profitability. The Group adopts a commercially driven approach to the selection of its projects, conducting a thorough analysis of a potential project's prospective profitability before submitting a tender.

The Group actively tracks and sources potential projects throughout the PRC. The Group monitors information from local government authorities such as local news and the latest development in the local water and sewage industry and utilises local connections to identify new business opportunities. The Group's profile in the water and sewage treatment industry in the PRC and extensive track record of successfully completed projects also results in referrals from its existing or previous customers and invitations from local and municipal governments and industrial enterprises to bid for projects.

In evaluating opportunities, the Group takes into account a variety of factors depending on the project, including the following:

- the prospective profitability of the project; the Group generally focuses on projects with a contract value and projected return in excess of minimum thresholds determined internally based on the management's experience and market conditions;
- the credit-worthiness of the potential customer and the customer's source of funding for the project;
- the composition of the sewage and the resulting technical demands of the project;
- the specific requirements of the customer;
- the available treatment technologies;
- the competition for the project and the identity of its competitors in the bidding process;
- the projected cost of building the facilities; and
- the applicable regulatory standards.

The Group maintains a list of projects which it reviews on a regular basis to monitor their status and development. In reviewing such projects, the Group considers project IRR, tariff structure, economic and fiscal conditions of the relevant local government and water supply and demand in the relevant region. The Group's technology and support team assigns priority to various projects and allocates resources to those the Group will pursue. The Group then gathers further information on these potential projects, such as laboratory analyses of the sewage, and further considers the project's suitability. Once sufficient information has been compiled for the Group's technology and support department's consideration, the Group will decide which projects the Group will actively pursue and submit a tender.

Tender process

The tender process for the Group's construction projects is conducted by the Group's technology and support department. The Group's technology and support department has

extensive experience in project pricing in the water and sewage treatment industry. By having a specialised team of technicians and sales staff focused on the tender process, the Group is able to increase the consistency and efficiency of its tender process, thereby increasing the Group's competitiveness.

The Group's technology and support department coordinates the preparation of all relevant tender documents. This process includes careful consideration of the treatment options available, discussions with the prospective customer to understand its needs, project budgeting and preparation of a preliminary project design.

The Group's technology and support department formulates its initial tender price based on its estimate of the project costs, and the target profitability of the project. The Group's Chief Executive Officer, deputy general manager, chief engineer and senior members in the Group's sales and marketing department review and approve the final tender price.

The factors that a customer considers in assessing a tender vary from one project to another, but generally include the credentials and qualifications of the applicant, the tender price, the technical design and the experience of the proposed project team. Generally, the Group is required to pay a deposit or provide a letter of guarantee issued by a bank in order to participate in the tender process. Any deposit the Group pays will be returned to it after the tender process, but any letter of guarantee will be applied as a performance bond if the Group is successful in the tender. Once the Group successfully secures the tender, the Group will enter into a formal contract with its customer.

Design

The Group considers that the expertise and experience of its in-house design team has been a key factor of its success. When the Group prepares a tender, its technology and support department, assisted by its design department, prepares a project plan which outlines the proposed treatment process, taking into account the customer's specifications and the relevant laws and regulations. The Group develops innovative designs adapted to the specific project constraints after the Group investigates and researches the background of each project. After securing the project, the Group's design department will prepare a detailed design plan for the construction of the treatment facilities based on the project plan.

Procurement and subcontractors

After the design and implementation plans have been finalised, the Group purchases the water and sewage treatment equipment and parts required for the project directly from its suppliers and appoints appropriate subcontractors to carry out certain parts of the project. The Group usually approaches several potential suppliers or subcontractors for contracts whose value exceeds thresholds determined internally based on the management's experience.

The Group is typically responsible for the overall project management and equipment procurement portion for its projects. The Group retains subcontractors to carry out the civil engineering work for the treatment facilities and the installation of equipment. The Group may also require subcontractors to supply basic construction raw materials such as steel and cement.

Construction and Installation

The Group subcontracts its construction and installation work to its subcontractors. During construction and installation, the Group's on-site project management team will monitor the progress of its subcontractors to ensure that its subcontractors comply with its quality control standards. For each project, the Group has an on-site project management team consisting of administrative and technical representatives from various operations departments. The team can draw on the resources of each of the Group's operations departments during any stage of a project, giving it full access to the extensive knowledge and experience of its various departments.

Testing

Upon the completion of the construction of the water or sewage treatment facilities and the installation of equipment, the Group's project management team and the relevant local government carry out a site inspection to ensure the facilities conform to the layout plans and conduct trial operations of the facilities to examine their operational efficiency, capacity and water quality to ensure that the treated sewage and water quality standards meet the local government's specifications specified in the relevant contract. If the test results are satisfactory, the Group's project management team will then submit the completion report to the relevant local government and/or its supervisory team for approval.

Project Handover / After Sales Services

Once the relevant local government has confirmed that the facilities are in working order and comply with the relevant specifications and has confirmed the contract price thereafter, the Group will hand over the treatment facility to the relevant local government for its operation. The Group provides the relevant local government's staff with training on the operation of the facilities. The Group also provides a detailed operation manual to the relevant local government at handover.

Upon handover, the defects liability period (which is usually 12 months) commences and during this period the Group will attend to fix any defects in the equipment or systems for which the Group is responsible at its own cost. Upon the expiry of the Group's defects liability period, the Group may continue to provide such maintenance services to the relevant local government for a fee but is not otherwise responsible for carrying out such maintenance or any repairs.

b) BOT project

The project management processes for the construction phase of the Group's BT and BOT projects are substantially similar. The construction phase of the Group's BOT projects usually lasts between 12 months and 24 months. However, due to the substantial investment required for its BOT projects, the Group has put in place additional measures in respect of its project selection and financing requirements to mitigate the different risk profile associated with such projects. Set out below are the key aspects in which the Group's business process for its BOT projects differs from that for its BT projects:

Project Financing

For the Group's BOT projects, the Group is responsible for funding the construction of the water and sewage treatment facilities. The Group typically funds the cost of construction of its BOT projects mainly through external financing from commercial banks to the maximum extent possible to finance its BOT projects.

Operation and maintenance of treatment facilities

The staffing requirement for the operation of each of the Group's BOT projects varies depending on the volume of water to be treated by the facilities. The Group conducts on-site training for its staff members to ensure that they have the necessary knowledge to operate the facilities and are made aware of its safety guidelines. During the term of the concession, the Group is responsible for the maintenance and repair of the treatment facilities, including the costs involved in repairing or replacing the equipment. To ensure the smooth operation of the facilities, the Group carries out regular inspections, maintenance and repair of the facilities.

During the operational stage of the Group's BOT projects, the Group receives regular payments from its customers, who are usually local government authorities or government related investment entities. The sewage treatment services agreement usually provides for a contractually guaranteed minimum volume of sewage to be treated by the Group and the Group is entitled to receive payment for such minimum volume even if the volume of water actually treated by it is lower than the minimum. The guaranteed minimum treatment volume is intended to provide a minimum rate of return on the Group's investment and its treatment facilities' capacity is designed with reference to such guaranteed minimum treatment volume to mitigate risks of under-utilisation. The Group sets its target minimum rate of return on its investment at 10% of IRR. In addition to the minimum guaranteed amount, the Group may also receive an additional amount based on the quantity of water or sewage treated by its treatment plants above the minimum guaranteed treatment volume and the relevant tariff.

Subcontractors

Generally, the Group subcontracts to construction companies the construction of water facilities, while it provides relevant technology and supervises the construction in progress.

The Group selects subcontractors based on their reputation, track record, technical qualifications and certification. However, the Group generally gives preference to those it has previously engaged for a construction project. The duration of contracts the Group enters into with subcontractors is typically 12 months with a warranty period of a further 12 months.

The Issuer believes that the Group has a good working relationship with its subcontractors and has not had any material dispute with its subcontractors in the past. If the Group is required to find other subcontractors, the Issuer believes that there is a sufficient number of alternative subcontractors with a good reputation, reliability and financial resources in the PRC market.

Technical and consulting services

The Group maintains a number of licenses in engineering consulting and design of water plants. As an integrated water system solution provider, the Group has not only acquired extensive experience in bidding, building and operating sewage treatment and water supply projects, but also successfully marketed its treatment technology and experience in construction services to other operators and constructors.

The Group generally enters into consulting agreements with its customers to provide consulting services on the application of the Group's patented technologies relating to sewage treatment and facilities layout and design. The Group also provides consulting services in relation to facilities management and equipment maintenance and operation to other relatively small water solutions providers. Technical and consulting fees are negotiated on a case-by-case basis under service agreements.

For the years ended 31 December 2009 and 2010, revenue from the provision of technical and consulting services was HK\$69.2 million and HK\$249.4 million, respectively, each representing 4% of the Group's total revenue for the same periods. The increase in revenue from technical and consulting services in 2010 as compared with 2009 was primarily due to the provision of technical services and construction advisory and management services to the subcontractors of the Kunming BT projects. Revenue contributed by these projects for the year ended 31 December 2010 amounted to HK\$226.0 million, representing 91% of the Group's total revenue from its technical and consulting business.

Major customers

The percentage of the Group's total revenue attributable to its top five customers for the years ended 31 December 2009 and 2010 was approximately 40% and 72%, respectively. The Group's major customers comprise of local governments and government-invested companies.

Major suppliers

The Group's principal suppliers during 2009 and 2010 were subcontractors retained by it to construct and install the Group's projects. The percentage of the Group's total purchases from its top five suppliers for the years ended 31 December 2009 and 2010 was approximately 41% and 73%, respectively. Notwithstanding the Group's reliance on key suppliers for certain raw materials and equipment, the Issuer believes that there are a sufficient number of alternative suppliers in the PRC market who can supply such raw materials and equipment which meet the Group's volume demands and specifications.

Competition

The water and sewage treatment market in the PRC has evolved significantly over the past decade. The market is highly competitive and fragmented. The Group's existing and potential competitors include major State-owned and private water and sewage solutions providers and a number of international environmental services companies. The Group considers that its major competitors include Tianjin Capital, Beijing Capital (Shanghai Stock Exchange Stock Code: 600008) and China Everbright International Ltd. (Hong Kong Stock Exchange Stock Code: 257). The Group's competitors compete with it in terms of technology, quality, price, brand recognition, project execution capability, marketing and customer services. Some of the Group's competitors have greater financial, marketing or other resources and some have more advanced technologies. Certain competitors may also have greater brand recognition, economies of scale, longer track records or more established relationships in certain markets in which the Group operates. However, the Group believes that it can compete effectively by virtue of (i) its extensive project execution capabilities; (ii) its cost-effective treatment solutions; (iii) its familiarity with PRC regulations and the needs of local customers; (iv) its technology; and (v) its reputation for quality and customer service.

Property

As of 31 December 2010, the Group owned 11 parcels of land across the PRC under land use certificates with an aggregate site area of approximately 850,950.9 square meters and 32 buildings with an aggregate gross floor area of approximately 36,026.6 square meters under registration certificates. As of the same date, the Group also occupied 56 parcels of land in connection with its BOT business with an aggregate site area of approximately 2,741,221.41 square meters. The Group's BOT project companies occupied these parcels of land for the construction and operation of sewage treatment facilities pursuant to the relevant concession agreements.

Environmental and safety

The Group is subject to, among other PRC laws and regulations promulgated by the central and local governments, the Environmental Protection Law of the PRC, the Law of the PRC on Appraising Environment Impact and the Law of the PRC on the Prevention and Control of Water Pollution.

The Group is generally required to comply with all applicable laws and regulations, but specific requirements to do so are usually not incorporated into the relevant contracts for its projects or equipment supply. In 2009 and 2010, the Group did not receive any claims from its customers for failing to comply with the relevant licensing and environmental requirements. For effective environmental protection and safety control, the Group has adopted two sets of internal measures, one governing environmental management and the other governing production safety management. The Group's environmental measures regulate different aspects of its operations, from the design and construction of treatment facilities, to the selection of subcontractors and operation of treatment facilities. The Group's safety measures, on the other hand, set forth procedures and requirements to prevent the occurrence of safety related accidents. In order to comply with relevant regulations, the Group has adopted certain measures including but not limited to: (i) choosing techniques, equipment and materials that cause less environmental pollution; (ii) using techniques and processes which ensure that the outflow water quality of the Group's sewage treatment facilities meets relevant standards and requirements; and (iii) setting up relevant procedures that effectively identify and control the important environmental factors and major hazards to fulfill the Group's environmental and safety targets and policies. In November 2010, the Issuer received certification by China Quality Mark Certification Group Co., Ltd. that its (i) quality control system complied with ISO9000; (ii) environment management systems complied with ISO14001; and (iii) occupational health and safety management system complied with OHSMS18000.

Research and development and intellectual property

The Group's research and development ("R&D") activities are carried out at the joint R&D centre established with Tsinghua University.

As of 31 December 2010, the Group owned two utility model rights, and had four patent applications pending in the PRC. Most of the Group's patents relate to manufacturing technologies for building materials, water purification technologies and processes and sewage treatment technologies and processes. Most of the Group's copyrights relate to software programmes used for the managements of water facilities, waterworks and R&D. The Group's new technology relates to the technology of measuring the efficiency of a water pump that is based on thermodynamics.

The period of protection offered under current law with respect to patents is 20 years from the date of filing for registration, with respect to utility model rights is ten years from the date of filing for registration, with respect to trademarks is ten years from registration with the option to renew for an additional ten years indefinitely, with respect to copyrights is 50 years from publication, and with respect to programmes is 50 years from publication.

Regulatory compliance

The Group's operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality, among others. In the Group's compliance measures, the Group aims to meet regulatory and industrial standards of relevant central and local government authorities and its industry associations. Except as otherwise disclosed in this document, the Group is in compliance with all applicable laws and regulations of the PRC in all material respects, and have obtained all necessary permits and licenses required for its operation in all material respects.

Employees and labour relations

As of 31 December 2010, the Group had 1,945 employees, all of whom were employed within the PRC and as of the same date, some of the Group's employees in the PRC were members of the labour union. The labour union participates in the management of the Group by having a representative in each of the investment evaluation committee, the personnel committee, executive management meetings and nationwide executive management meetings and jointly preparing annual management reports.

The Group's remuneration packages are generally structured by reference to market rates and individual merits. Salaries are normally reviewed annually, based on performance appraisals and other relevant criteria.

The Group considers its current relations with its workforce to be good. It has not experienced any work stoppages, strikes or other labour problems in the past.

Insurance

Based on the level of the Group's operating risks, the Group maintains insurance policies covering properties, fixed assets, the vehicles that it owns as well as social security. The Group generally does not maintain insurance for most of its BOT and BT projects, except when it is required under the terms of the relevant contracts or financing agreements.

The Group believes that the coverage from these insurance policies is adequate for its present operations. Most of the Group's project contracts do not impose an obligation on it or its customers to take out additional insurance. Where the Group subcontracts certain parts of its projects to subcontractors, the Group's subcontracting agreement provides that the subcontractor shall bear all liabilities and losses arising from the part of the project for which it is responsible. The Group typically receives letters of guarantee or performance guarantees from its subcontractors to hedge against the risk of failure by such subcontractors to bear all liabilities and losses arising from their responsible projects.