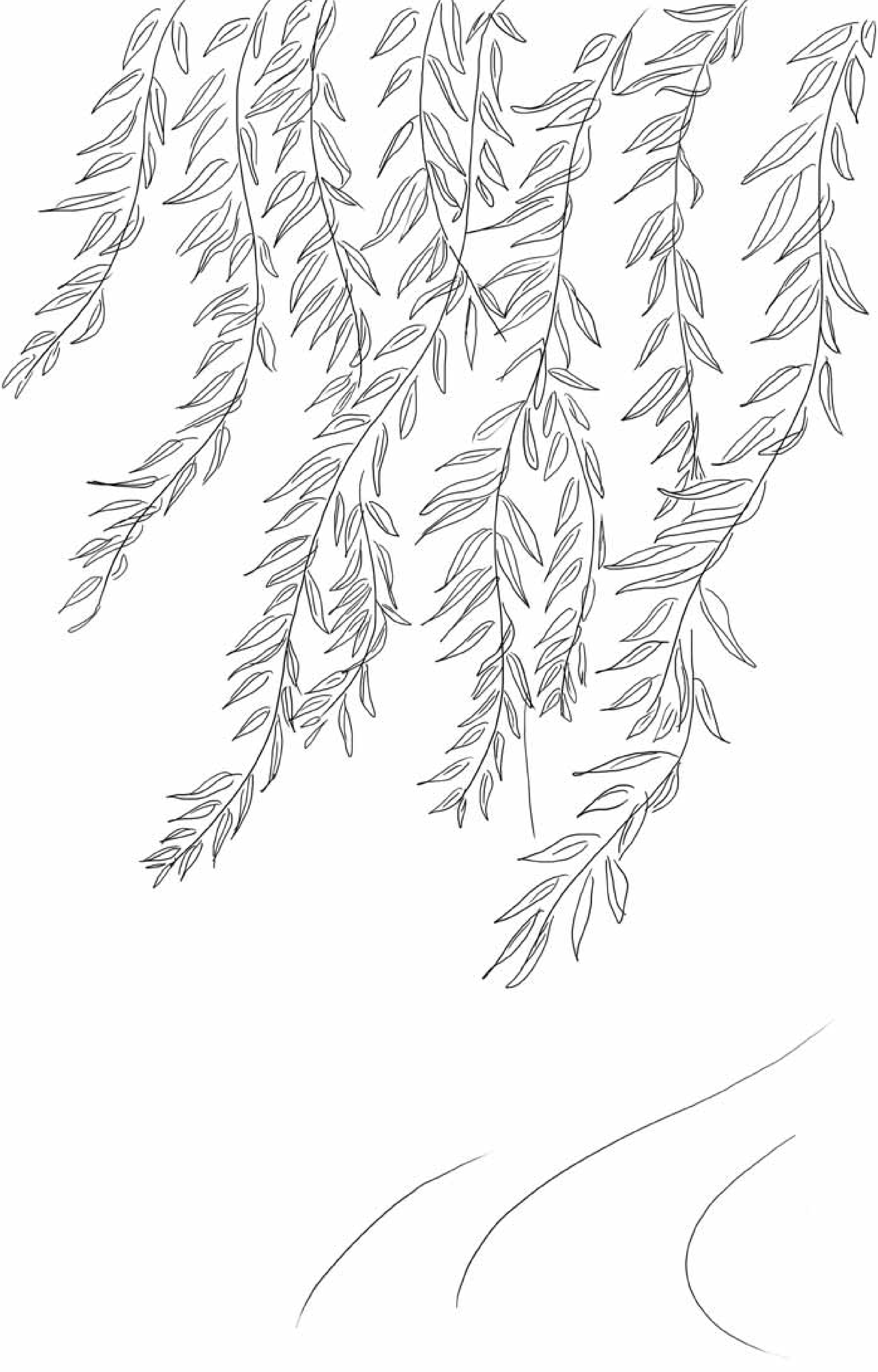
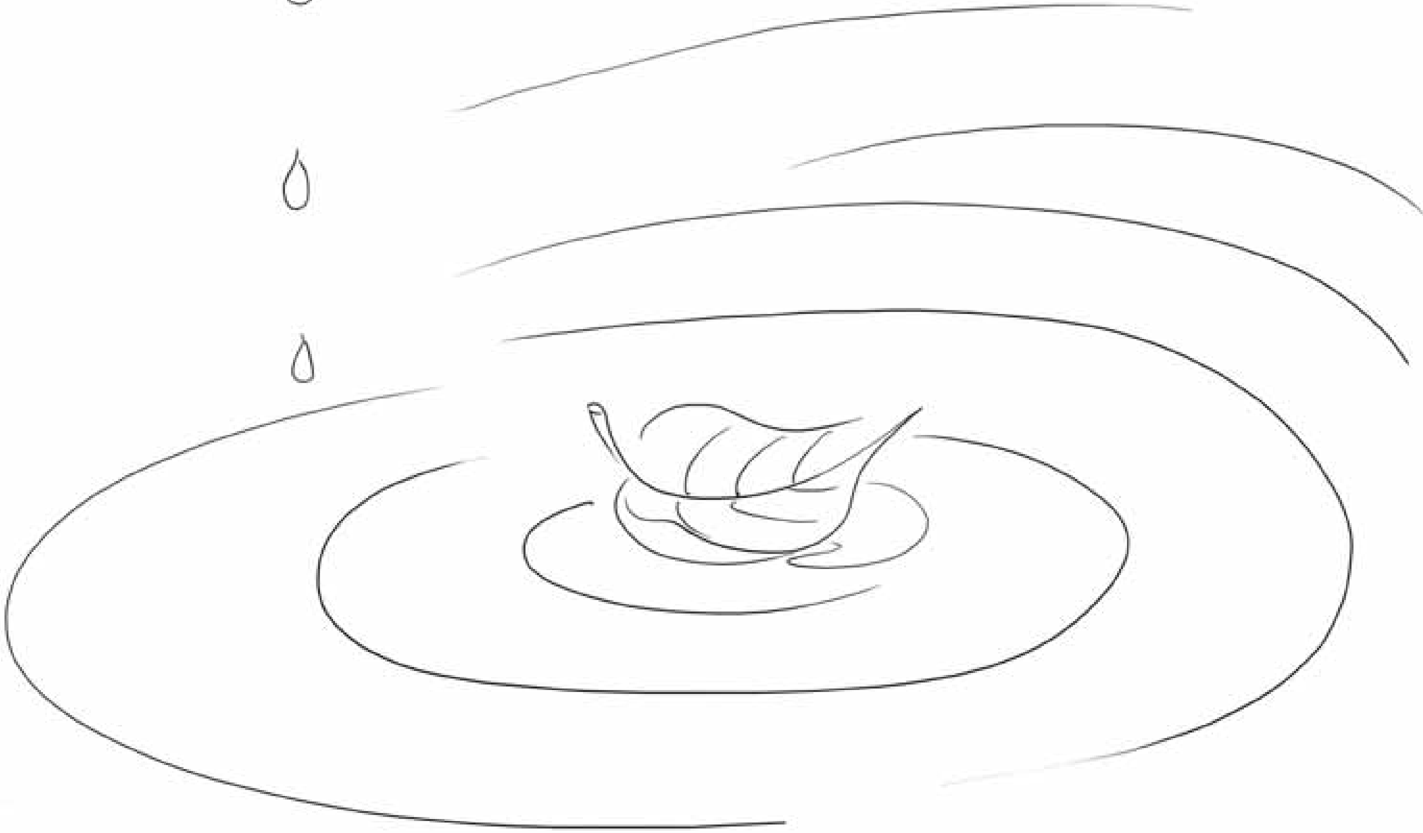
Bio-Treat Technology Limited

Annual Report 2010



Small picture, big picture.

At Bio-Treat, we attend to the small details that make a huge difference to our business just like how an artist pays attention to the fine details of his work of art. We employ 'big picture' thinking to create innovative solutions that enable us to stay ahead of the market, tackle challenges and anchor the Group as a key player in the PRC's waste and wastewater treatment industry.



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"Taking care of the environment is our business. By putting our waste and wastewater treatment technologies to work, we take part in creating a cleaner environment."

Corporate Profile

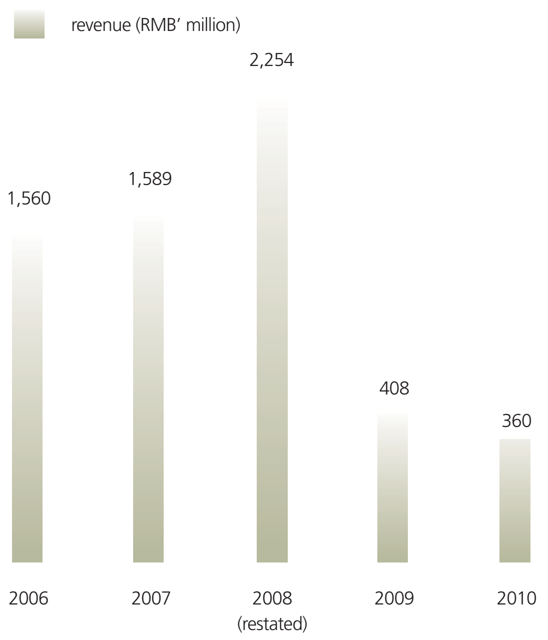
Bio-Treat Technology Limited is the PRC's leading waste and wastewater treatment company. Listed on the Main Board of the Singapore Exchange since February 2004, its key businesses comprise of the development and application of biotechnology in waste and wastewater treatment.

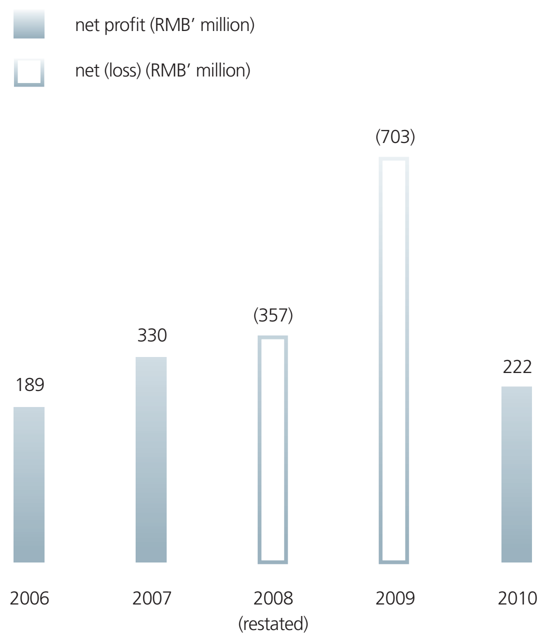
Central to Bio-Treat's business is its proprietary BMS Biological Process Technology ("BMS Technology"), which combines the use of microorganisms and modern engineering techniques to treat waste and wastewater in a cost-effective, efficient and environmentally-friendly manner.

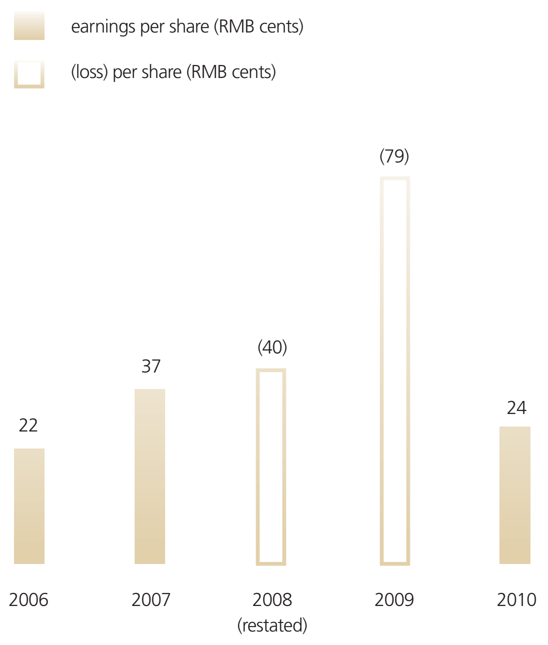
Since its first trial in 1993, the BMS Technology has been applied to over 500 wastewater treatment projects in the PRC including residential, commercial and industrial projects. This breakthrough attests to Bio-Treat's strong research and development capabilities, and its commitment to deliver quality waste and wastewater treatment services that meet the regulatory effluent standards in the PRC.

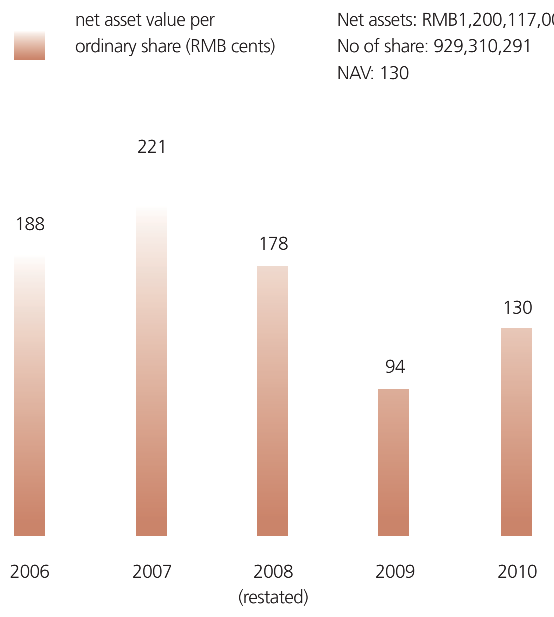
Currently, the Group has an extensive portfolio of large-scale Built-Operate-Transfer ("BOT") and Transfer-Operate-Transfer ("TOT") projects in the PRC, including Beijing, Jiangsu, Shaanxi, Hubei and Shandong. Upon completion of these projects, Bio-Treat will have a daily treatment capacity of over one million metric tonnes of wastewater.

Financial Highlights









Net assets: RMB1,200,117,000
No of share: 929,310,291
NAV: 130

"China's continued emphasis on wastewater treatment and promotion of environmental protection to achieve the common vision of 'Better City, Better Life'" will create new opportunities for our industry. With Bio-Treat emerging stronger from its financial restructuring, it is well-positioned to deepen its presence in the PRC."

Message to Shareholders

Dear Shareholders

On behalf of the Board of Directors of Bio-Treat Technology Limited ("Bio-Treat" or "the Company"), I am pleased to present to you the Company's annual report and financial statements for the financial year ended 30 June 2010 ("FY2010").

Bio-Treat steered through FY2010 amidst numerous challenges facing the Company and the industry. As we have highlighted in earlier communications to shareholders, the reduction in the Company's debt levels, arising from the legacy convertible bond issue, substantially occupied the management of the Company during the course of the year.

In FY2010, we successfully cut down the Group's debt levels significantly as a result of a mark down of the outstanding amounts owing to the former convertible bondholders. As shareholders would know, we convened a Special General Meeting on 30th December 2009, during which you voted in favor of the mark-down.

The revaluation of the bonds was part of a back-to-back transaction involving Bio-Treat issuing about S$31.4 million worth of new zero coupon bonds and about 75.2 million of detachable warrants. This helps in strengthening the Group's balance sheet and its financial ratios.

Financial Performance in FY2010

As a result, the Company reported a net profit of RMB222.0 million for FY2010, a reverse from the net loss of RMB703.34 million for the year earlier. However, this change was a result of financial restructuring, rather than a material change in the financial position of the Company. Similarly, the Company's gross profit improved by 210% to RMB85.2 million, from a loss of RMB77.60 million a year earlier.

Revenues fell 12% to RMB359.7 million which was partly caused by the absence of contributions from EPC contracts in FY2010.

Bio-Treat continued to exhibit fiscal prudence in all its operations, resulting in no distribution expenses and research and development expenses being incurred in FY2010.

The Company's cash and cash equivalents decreased by 87% to RMB8.6 million (excluded pledged deposit) due to payments for construction work on BOT projects. Equally important was the progress made in relation to the reorganization of the Company's bulk of the unsecured liability, which resulted in the convertible bonds being restructured and replaced by the issuance of new zero coupon bonds with detachable warrants.

Dividend

Given the difficult circumstances that the Company has had to deal with, the Board of Directors has decided to exercise financial prudence by not proposing a dividend for FY2010.

Looking Ahead

Bio-Treat will direct management efforts and expertise towards the goal of transforming the Company into a stronger entity so that it can move swiftly ahead with its wastewater management business in the PRC.

From a macro perspective, we continue to believe that China's wastewater treatment industry will continue to expand as a result of the growing emphasis of state and government bodies at all levels on environmental protection. The total volume of wastewater treated in China is expected to increase annually and many believe that China's wastewater treatment industry is still in its infancy.

In so far as the Company is concerned, we expect to complete our financial restructuring and commence work on a rights issue in the current financial year. From an operational perspective, Bio-Treat aims to maximize proceeds through water tariff collections as well as improve the utilisation rates at its BOT and TOT plants.

This will put the Company on a firmer footing to grow shareholder value in the future. We seek your understanding and patience and will continue to work with you.

Words of Appreciation

I take this opportunity to thank my fellow Directors on the Board for their invaluable contributions and guidance during the year, and our employees for their dedication and hard work.

On behalf of the Board, I express my sincere gratitude to you, our valued shareholders, for your confidence in us. We appreciate your loyalty and continued support to Bio-Treat. We are focused on strengthening our core businesses to deliver sustainable growth and long term value to our stakeholders.

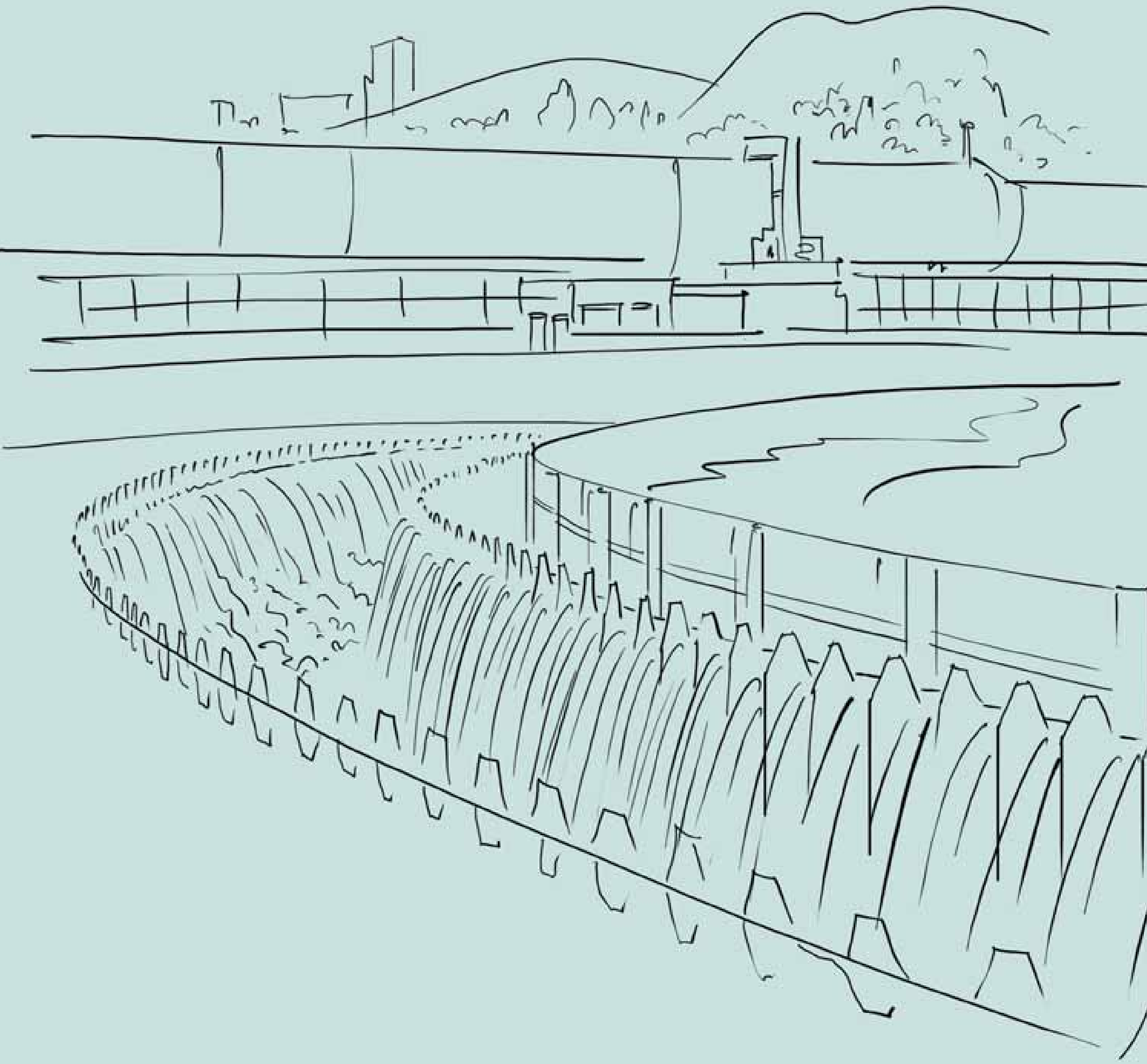
Paul Lim
Interim Acting Chief Executive Officer

"We aim to take Bio-Treat to a higher stage of growth by capturing good opportunities in the waste and wastewater treatment arena."

Business Review

The Company began the financial year ended 30 June 2010 ("FY2010") with a focus on pressing on with its financial restructuring efforts. It pursued this with all earnestness so that on completion of the fund raising exercise, the Company will strengthen its balance sheet and be better able to direct its attention to its core wastewater treatment business.

To do this, it continued its strategy on the operational front to generate revenues through discharge fees from BOT and TOT projects. This resulted in the Company eliminating all its turnkey water treatment plant construction business in FY2010. One of the main reasons for the shift in strategy was to ensure that the Company reduced its exposure to the more risk-prone turnkey business while it aims to focus on generating recurring revenue streams.



As a result, discharge fees became the primary revenue stream for the Company in FY2010.

By the end of FY2010, the Company had completed construction of the first phase of its 13 projects. However, it would take some time before all the plants operate optimally in terms of utilisation rates. The Company will continue the next phase of some of the projects so as to achieve the overall designed capacity.

On the financial restructuring aspect of the Company's operations, several milestones were reached in FY2010 that enabled the Company to make further progress.

Efforts to resolve the outstanding convertible bond issue gathered pace and culminated in a key bondholders meeting in October 2009. The meeting set the stage for Bio-Treat to mark down the value of the bonds to a value of S$31.4 million.

The management of the Company convened a Special General Meeting on 30 December 2009, during which shareholders voted in favour of resolutions leading to the mark-down.

By April 2010, an amended and restated agency agreement was brought into effect. This effectively resulted in the principal value of Bio-Treat's outstanding convertible bonds being marked-down to S$31.4 million.

In addition, a share charge of limited security by the Company's subsidiary was granted in favour of the holders of the marked-down bonds. Finally, the agreement paved the way for 75.2 million warrants to be issued to holders of the marked-down bonds, allowing them to subscribe for new shares in the Company.

These efforts at financial restructuring substantially occupied management during the course of the year and enabled the Company to resolve some of the legacy issues that have continued to affect the Company. The results show that the Company continues to be on the mend.

“We will continue with our strategy of focusing on large-scale BOT and TOT projects that yield attractive returns on investment.”

Outlook

While opportunities in the wastewater treatment landscape in China continue to abound, Bio-Treat is still making progress in its financial restructuring efforts.

Operationally, the main focus is to maximize the water tariffs and wastewater treatment capacity of its current water treatment plants. Currently, the Company is of the view that its recurring water tariffs will be sufficient to cover the working capital requirements for its water treatment plants.

In this regard, once the financial restructuring is complete, Bio-Treat will direct even more energy to implement forward-looking strategies to expand the Company’s project portfolio and diversify its revenue streams.

Against this internal backdrop, China’s wastewater treatment industry continues to grow. Bio-Treat is well-positioned to further expand its footprint in China vis-à-vis foreign and newer industry players with its deep understanding of the country’s water issues.

"Our people is our strength. It is our employees that create the type of synergy that positions us for success, generate sound business ideas that transform to growth opportunities, and build the roadmap that prepares us for the changes and challenges ahead."

Board of Directors & Senior Management

BOARD OF DIRECTORS & MANAGEMENT TEAM

Lim Yu Neng Paul

Interim Acting CEO and Executive Director

Mr. Lim assumed the position of Interim Acting CEO and Executive Director on 30 June 2010. Prior to that, he was appointed as an Independent Director on 31 July 2007.

Mr. Lim has over 23 years of banking experience. He is the Founder and Director of TruPartners Asia Pte Ltd. Prior to his current appointment of Interim Acting CEO, Mr. Lim was a Consultant to Morgan Stanley Asia for 2 years and a Consultant to Deutsche Bank for more than 5 years.

Mr. Lim was the President Director and Head of Investment Banking of PT Salomon Smith Barney, Indonesia. Before that, he held the positions of Head of Debt Capital Market for South East Asia in both Salomon Smith Barney and Schroder International Merchant Bankers Limited.

Mr. Lim is an Independent Director of United Fiber System Ltd, a company listed on the Singapore Exchange Limited. He is the Chairman of the Audit Committee and member of both Nominating Committee and Remuneration Committee. Mr. Lim is also an Advisor to the Board of Commissioners and Board of Directors of PT BNI Securities Indonesia.

Mr. Lim obtained his MBA in Finance and Bachelor of Science in Computer Science from the University of Wisconsin, Madison, USA. He is a Chartered Financial Analyst (CFA).

Cui Jun

Senior Engineer and Executive Director

Mr. Cui joined our Group as Senior Engineer in February 2005 and was appointed as Executive Director in April 2005. With over 25 years of environmental engineering experience, he brings to Bio-Treat strong technical expertise and currently leads the project management team. His career achievements include being in charge of the project design and engineering of the North District Wastewater Treatment Plant in Shanghai, a project which won the Third-Grade Award of Shanghai Science and Research. He also designed many other waste and wastewater treatment projects including commercial, residential, industrial, and municipal projects such as the mobile toilets for China's Ministry of Railway. Mr. Cui also serves as an Assistant Professor in Tonji University, Shanghai, specialising in waste and wastewater treatment. As many of his students are from the environmental protection industry, Mr. Cui brings to Bio-Treat an extensive network of client contracts from both the private and public sectors. Prior to working at Bio-Treat, Mr. Cui worked as a Senior Engineer in the Shanghai Railway City Transportation Design Department for 20 years.

Ma Zheng Hai

Company Legal Counsel and Executive Director

Mr. Ma joined our Group as Company Legal Counsel and Executive Director in April 2005. He brings to Bio-Treat over 16 years of legal experience from various facets of corporate and commercial law. Mr. Ma is responsible for our Company's legal matters including drafting of company contracts and overseeing legal matters such as patents, company licenses, and negotiations with the PRC government for commercial contracts. He is also in charge of our Group's internal legal controls to ensure that relevant governmental laws and regulations are adhered to by our Company. Prior to joining Bio-Treat, Mr. Ma was a lawyer at the Economic and Commerce Law Office of Xiangtan City, Hunan Province, the PRC. Mr. Ma graduated from the Northwest Political Science and Law University with a law degree.

Cheng Fong Yee, Fonda

Independent Director

Ms. Cheng was appointed as our Independent Director on 31 July 2007. She is the Chairman of our Remuneration Committee and a member of our Audit Committee. Ms. Cheng is currently heading the Insurance Division within the Bok Seng Group. Her role involves risk management and develop insurance business in the emerging market for the Company. She has more than 20 years of experience in the insurance industry. Ms. Cheng is an Associate of the Australian Insurance Institute. She has been involved in major overseas insurance projects, particularly in the Asia region and is actively involved in utilising insurance as a financial tool for project development in the region.

Zhou Yao Ming

Independent Director

Mr. Zhou is one of our Independent Directors and was appointed to our Board in October 2003. He is the Chairman of our Nominating Committee and a member of our Audit Committee and Remuneration Committee respectively. Mr. Zhou has over 42 years of experience in training and education in the PRC and was the Principal of Jinan University from 1991 to 1995. He graduated from Zhongshan University with a bachelor degree in History.

Kwok Chi-Shing

Independent Director

Mr. Kwok is one of our Independent Directors and was appointed to our Board in May 2004. He is the Chairman of our Audit Committee and also a member of our Nominating Committee and Remuneration Committee respectively. Mr. Kwok brings with him over 16 years of accounting experience. He is currently a Director of Lam, Kwok, Kwan, & Cheng CPA Limited, a Hong Kong based accounting firm. He was formerly a partner of Wong, Lam, Leung, & Kwok CPA from 1993 to 1997. He has extensive experience in corporate and financial management work, especially for real estate development and property management industries. Mr. Kwok received his MA Honours degree in Accountancy and Economics from the University of Aberdeen, United Kingdom.

Chen Dawei, David

President

Mr. Chen was appointed as our President on 13 September 2010. Mr. Chen is the sole shareholder and director of Giant Delight Holdings Limited ("GDHL") which entered into a subscription agreement ("Fund Raising Exercise") with the Company on 12 December 2009.

Mr. Chen holds a MBA from Southwestern University, China and is currently taking his Executive MBA at Beijing University. He is the founder and CEO of Beijing Revolution Science and Technology Co., Ltd. and has over 15 years of experience in China investment and management of which 8 years were spent in the wastewater treatment industry.

Yeung Chi Ming, Stanley

Chief Financial Officer

Mr. Yeung was appointed as our Chief Financial Officer on 26 July 2010. Mr. Yeung holds a Bachelor of Commerce and a Bachelor of Laws from the University of Melbourne and is a Chartered Accountant of Australia. He has over 25 years of professional experience in a range of finance and accounting related roles. Over the last two years, he has been a director of an executive recruitment company and prior to that, Mr. Yeung was the Chief Financial Officer of a foreign joint venture group in China for more than 5 years.

Zuo Wei

Chief Operating Officer

Mr. Zuo was appointed as our Chief Operating Officer on 13 September 2010.

Mr. Zuo holds a Bachelor of Science and Engineering from Zhejing Unversity, China and a MBA from Murdoch University (Australia) and has over 20 years of extensive management experience in various industries including the water treatment industry.

Corporate Governance Report

The Company is committed to achieving high standards of corporate governance to ensure investor confidence in the Company as a trusted business enterprise. The Board and Management will continue to uphold good corporate governance practices to enhance long-term value and returns for shareholders and protect shareholders' interests.

This report describes the Company's corporate governance practices with specific reference made to each of the principles of the Code of Corporate Governance 2005 ("Code").

(A) Board Matters

The Board's conduct of its affairs

The Board's key responsibilities include providing leadership and supervision to the management of the Company and its subsidiaries (the "Group") with a view to protecting shareholders' interests and enhancing long-term shareholders' value.

The Board's principal functions include the following:

(1) review and approve corporate strategies, financial objectives and direction of the Group;

(2) establish goals for management and monitor the achievement of these goals;

(3) ensure management leadership of high quality, effectiveness and integrity;

(4) approve annual budgets and investment and divestment proposals;

(5) review the internal controls, risk management, financial performance and reporting compliance; and

(6) assume responsibility for corporate governance.

To execute its responsibilities, the Board has delegated specific functions to various sub-committees, namely, the Nominating Committee, the Remuneration Committee and the Audit Committee. These sub-committees function within written terms of reference and operating procedures, which are reviewed on a regular basis.

The Board meets regularly, at least on a quarterly basis. Ad-hoc meetings are held at such times, as and when required, to address any specific significant matters that may arise. At meetings of the Board, the Directors are free to discuss and openly challenge the views presented by management and other Directors. The decision making process is an objective one.

The number of meetings and Directors' attendance at the Board meetings, held during the year, are as follows:

Name	Audit Committee No. of Meetings Held					Nominating Committee No. of Meetings Held			Remuneration Committee No. of Meetings Held			Board No. of Meetings Held						
Date	28/8/09	13/11/09	1/2/10	10/5/10	Total	5/8/09	7/6/10	Total	5/8/09	7/6/10	Total	28/8/09	13/11/09	1/2/10	18/3/10	10/5/10	9/6/10	Total
Mr. Chan Kong	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1	N/A	N/A	N/A	N/A	N/A	1
Mr. Cui Jun	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1	1	1	1	1	1	6
Mr. Ma Zheng Hai	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1	1	1	1	1	1	6
Ms. Cheng Fong Yee	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1	1	2	1	1	1	1	1	1	6
Mr. Lim Yu Neng Paul	1	1	1	1	4	1	N/A	1	N/A	N/A	N/A	1	1	1	1	1	N/A	5
Mr. Kwok Chi-Shing	1	1	1	1	4	1	1	2	1	1	2	1	1	1	1	1	1	6
Mr. Zhou Yao Ming	1	1	1	1	4	1	1	2	1	1	2	1	1	1	1	1	1	6

In lieu of physical meetings, written resolutions were also circulated for approval by members of the Board. The Company's Bye-Laws also provide for meetings by way of telephone, electronic or other communication facilities.

(A) Board Matters *(continued)*

The Board's conduct of its affairs *(continued)*

The current members of the Board are familiar with the Group's business operations and corporate governance practices. The Nominating Committee ensures that new Board appointees are provided with information to familiarise themselves with the Group's business, strategic goals and direction and corporate governance practices.

At Board meetings, the Company provides ongoing education on Board processes, corporate governance practices and industry developments. Directors are encouraged to keep themselves abreast of the latest developments relevant to the business of the Group.

Board Composition and Balance

The Board currently comprises of six Directors, three of whom are Independent Directors, namely, Mr. Kwok Chi-Shing, Mr. Zhou Yao Ming and Ms. Cheng Fong Yee.

The Board has determined that it is of an appropriate size to facilitate effective decision making, and to meet the objective of having a balance of skills and experience, taking into account the size and scope of Company's operations.

The current Board comprises of business leaders and professionals with industry, legal, accounting, financial, business and management backgrounds. This composition enables the management to benefit from a diverse and objective external perspective, on issues raised before the Board. Each Director has been appointed based on the strength of his caliber, experience and his potential to contribute to the Group and its businesses. Profiles of the Directors are set out on pages 14 to 16 of this Annual Report.

The Directors and the sub-committees of the Board on which they sit are as follows:

Name of Director	Board	Audit	Nominating	Remuneration
(1) Mr. Lim Yu Neng, Paul	Interim Acting Chief Executive Officer	No	No	No
Mr. Ma Zheng Hai	Executive Director	No	No	No
Mr. Cui Jun	Executive Director	No	No	No
Mr. Zhou Yao Ming	Independent Director	Yes	Yes (Chairman)	Yes
Mr. Kwok Chi-Shing	Independent Director	Yes (Chairman)	Yes	Yes
(2) Ms. Cheng Fong Yee	Independent Director	Yes	Yes	Yes (Chairman)

(1) Mr Lim Yu Neng, Paul was appointed as Interim Acting Chief Executive Officer of the Company with effect from 30 June 2010.

(2) Ms Cheng Fong Yee was appointed as a member of the Audit Committee and Nominating Committee of the Company with effect from 30 June 2010.

The Board is able to exercise objective judgment on corporate affairs independently from the Management. No individual or small group of individuals is allowed to dominate the Board's decision making. The Board is of the view that, given its current structure, there is a sufficiently strong independent element on the Board to enable the independent exercise of objective judgment on corporate affairs of the Group by members of the Board, taking into account factors such as the number of Independent Directors on the Board, as well as the size and scope of the affairs and operations of the Group.

(A) Board Matters *(continued)*

Chairman and Chief Executive Officer

The Company has not appointed a Chairman of the Board since the resignation of its previous chairman, Mr. Wing Hak Man, on 30 October 2006. However, it is continuing its search to appoint a suitable candidate who has relevant experience and leadership skills to take up a leading role on the Board.

The Chief Executive Officer of the Company was Mr. Chan Kong during FY2009; he resigned as the Chief Executive Officer with effect from 1 September, 2009. Mr. Lau Cheuk Lun Alan, the Ex– Chief Financial Officer of the Company was appointed as the Acting CEO with effect from 1 September 2009. Mr. Lau resigned as the Acting CEO with effect from 30 June 2010. Mr. Lim Yu Neng Paul, a then independent director of the Company relinquished his position as independent director and was appointed as Interim Acting Chief Executive Officer with effect from 30 June 2010.

The Interim Acting Chief Executive Officer and management regularly consult with and seek the advice of members of the Board (both individually and collectively) through meetings, telephone calls as well as by electronic mail.

Board Membership and Board Performance

The Nominating Committee comprises Mr. Zhou Yao Ming as its Chairman, Mr. Kwok Chi-Shing and Ms Cheng Fong Yee as its members all of whom are Independent Directors. The Chairman of the Nominating Committee is not directly associated with a substantial shareholder of the Company within the meaning of the Code.

The principal functions of the Nominating Committee are as follows:

(1) make recommendations to the Board on all board appointments and re-nominations with regards to each Director's contribution and performance, his or her attendance at meetings of the Board or Board committees (where applicable), participation, candour and any special contributions;

(2) review and determine annually whether a Director is independent, bearing in mind the considerations set out in the Code;

(3) decide whether or not each Director is able to and has adequately carried out his duties as a director of the company, in particular where the Director concerned has multiple board representations;

(4) identify any gaps in the mix of skills, experience and other qualities required in an effective Board and nominate or recommend suitable candidate(s) to fill these gaps; and

(5) ensure that all Board appointees undergo an appropriate orientation programme.

In considering the re-appointment of a Director, the Nominating Committee evaluates such Director's contribution and performance, such as his or her attendance at meetings of the Board or Board committees, where applicable, participation, candour and any special contributions.

(A) Board Matters *(continued)*

Access to Information

To enable the Board to function effectively and to fulfill its responsibilities, Management strives to provide Board members with adequate information for Board meetings and on an ongoing basis.

The Board is furnished with Board papers prior to any Board meeting. These papers are issued in sufficient time to enable Directors to obtain additional information or explanations from Management, if necessary.

Directors are given separate and independent access to the Management team to address any enquiries and also have separate and independent access to the Company Secretary. The Company Secretary attends all Board meetings and ensures that they are conducted in accordance with the Bye-Laws of the Company and that applicable rules and regulations are complied with. When necessary, Directors can seek independent professional advice at the Company's expense.

(B) Remuneration Matters

Procedures for Developing Remuneration Policies

The Remuneration Committee comprises Ms. Cheng Fong Yee as Chairman, Mr. Kwok Chi-Shing and Mr. Zhou Yao Ming as members, all of whom are independent Directors.

The Remuneration Committee reviews the remuneration of the Interim Acting Chief Executive Officer, the Directors and key executives and approves recommendations on remuneration policies and packages for Directors and key executives.

The review covers all aspects of remuneration, including, but not limited to directors' fees, salaries, allowances, bonuses, options, and benefits-in-kind. No Director shall be involved in any decision-making in respect of any compensation to be offered or granted to him.

Level and Mix of Remuneration

Under the framework developed by the Remuneration Committee, the Remuneration Committee use the following factors to determine Directors' remuneration:

(1) qualifications and experience of directors required by the Company;

(2) for Independent Directors, the general level of fees earned by each Director in his professional capacity or billed by professionals in their industry;

(3) time spent in preparing for meetings and actual attendance;

(4) indirect costs and expenses incurred by the Directors;

(5) such remuneration as may be considered fair and reasonable having regard to the nature and size of the business of the Company;

(6) level of remuneration to vary in direct proportion to the extent of involvement and participation in and contribution to the business of the Company;

(7) the level of commitment and the ability to devote sufficient time and attention to the business of the Company; and

(8) where special circumstances justify, the payment of additional remuneration.

(B) Remuneration Matters *(continued)*

Level and Mix of Remuneration (continued)

Annual reviews are carried out by the Remuneration Committee to ensure that key executives are appropriately rewarded, giving due regard to the financial health and business needs of the Group.

The Group's remuneration policy is to provide compensation packages appropriate to attract, retain and motivate key executives and Directors.

Disclosure on Remuneration

A breakdown of the remuneration of Directors and the top five key executives (who are not Directors) for the financial year ended 30 June 2010 is set out below:

a) The level and mix of each Director's remuneration are as follows:

Remuneration Band and Name of Director	Directors' Fee%	Salary%	Bonus%	Others %	Total %
Below S$250,000					
(1) Mr. Chan Kong	–	100	–	–	100
Mr. Ma Zhenghai	–	100	–	–	100
Mr. Cui Jun	–	100	–	–	100
(2) Mr. Wong Kim Kwan, Kings	–	100	–	–	100
Mr. Kwok Chi Shing	39.3	–	–	60.7	100
Mr. Zhou Yao Ming	100	–	–	–	100
Mr. Lim Yu Neng Paul	44.4	–	–	55.6	100
Ms. Cheng Fong Yee	44.4	–	–	55.6	100

The salary amount shown is inclusive of allowances, statutory contributions, all fees other than directors' fees, and other emoluments.

(B) Remuneration Matters *(continued)*

Disclosure on Remuneration (continued)

b) The level and mix of each key executive's (who are not also Directors) remuneration in bands are as follows:

Remuneration Band and Name of Key Executive	Salary# %	Bonus%	Others %	Total %
Below S$250,000				
(3) Mr. Chen Dawei, David	100	–	–	100
(4) Mr. Su Jianlong	–	22	78	100
(5) Mr. Lau Cheuk Lun	97	3	–	100
(6) Mr. Zuo Wei	100	–	–	100
(7) Mr. Yeung Chi Ming, Stanley	100	–	–	100

The salary amount shown is inclusive of allowances, statutory contributions, all fees other than directors' fees, and other emoluments.

(1) Mr. Chan Kong resigned as Chief Executive Officer and Executive Director with effect from 1 September 2009.

(2) Mr. Wong Kim Kwan, Kings resigned as Executive Director of the Company with effect from 5 August 2009.

(3) Mr. Chen Dawei, David appointed as President of the Company with effect from 13 September 2010.

(4) Mr. Su Jianlong resigned as General Manager of the Company with effect from 23 March 2010.

(5) Mr. Lau Cheuk Lun resigned as the Acting Chief Executive Officer of the Company with effect from 30 June 2010.

(6) Mr. Zuon Wei appointed as Chief Operating Officer of the Company with effect from 13 September 2010.

(7) Mr. Yeung Chi Ming, Stanley appointed as Chief Financial Officer of the Company with effect from 26 July 2010.

There are no employees of the Group who are immediate family members of a Director and whose remuneration exceeds S$150,000 during the financial year ended 30 June 2010. None of the Directors and key executives' remuneration exceeded S$250,000 per annum for the financial year ended 30 June 2010.

The Company had in June 2005 cancelled all outstanding options granted to Directors and employees under the Bio-Treat Technology Employee Share Option Scheme (the "Scheme"). As at the date of this Report, there are no outstanding options under the Scheme.

(C) Accountability and Audit

Accountability

The Board's primary role is to protect and enhance long-term value and returns for Shareholders. In the discharge of its duties to Shareholders, the Board, when reporting the Group's financial performance via SGXNET announcements and the Annual Report, has a responsibility to present a fair assessment of the Group's financial performance, position and prospects. Management currently provides the Board with detailed management accounts of the Group's performance, position and prospects on a quarterly basis. Directors have access to the Management at all times.

(C) Accountability and Audit *(continued)*

Audit Committee

The Audit Committee comprises three Independent Directors and is chaired by Mr. Kwok Chi-Shing. The other two members are Mr. Zhou Yao Ming and Ms Cheng Fong Yee.

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

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

The functions of the Audit Committee include:

(a) reviews with the external independent auditors their audit plan, their evaluation of the system of internal accounting controls, their letter to management and management response;

(b) reviews the quarterly and annual financial statements with management and external independent auditors (where applicable) before submission to the board of directors;

(c) reviews the adequacy of the Group's internal controls, including financial, operational and compliance controls and risk management policies and systems;

(d) reviews and approve the internal audit plans of the internal auditors;

(e) evaluates the effectiveness of both the internal and external audit efforts through regular meetings;

(f) determines that no unwarranted management restrictions are being placed upon either the internal or external independent auditors;

(g) recommend to the board of directors the appointment or re-appointment of the external independent auditors for the coming year;

(h) reviews the nature and extent of non-audit services provided by external independent auditor;

(i) meet with the external independent auditors, without the presence of the Company's management, at least annually; and

(j) reviews interested person transactions (if any), in accordance with the requirements of the SGX-ST Listing Manual.

The Audit Committee is authorised to investigate any matter within its terms of reference, and has full access to the Management and also full discretion to invite any Director or executive officer to attend its meetings, as well as reasonable resources to enable it to discharge its functions properly.

The Audit Committee is satisfied with the independence and objectivity of the external auditors, Moore Stephens LLP and is satisfied that the provision of non-audit services by them would not affect their independence and objectivity and has recommended to the Board the re-appointment of Moore Stephens LLP as the external auditors of the Company.

(C) Accountability and Audit (continued)

Internal Controls and Internal Audit

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will eliminate all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material mis-statement or loss. The Board and the Audit Committee regularly review the adequacy of all internal controls, including, financial, operational and compliance controls, and risk management policies and systems established by the Management.

Follow up actions taken during the year under review are listed as follow:

1. *Internal Audit*
   We will hire an external accounting firm to be responsible for our internal audit by project basis. The firm will be hired to review the adequacy of internal controls in our financial system and to provide recommendations to strengthen any weaknesses in our internal controls.

2. *Interested Person Transactions*
   On a quarterly basis, board members have to declare that they have no direct or indirect interests in any of the interested person transactions of the Group.

3. *Internal Control Process and Operations*
   A series of internal control policies and measures have been actively implemented to facilitate our business development and to improve the Group's internal controls and corporate governance and these policies have been developed by Management and approved by the Board during the year. The Board and its Audit Committee will review the status and the efficacy of the internal control processes and operations on a quarterly basis and will determine if further action need to be taken.

(D) Communication with Shareholders

In line with continuous disclosure obligations of the Company, and pursuant to the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Rules and Bermuda companies legislation, the Board ensures that shareholders are fully informed of all major developments that impact the Group.

Information is disseminated to the shareholders on a timely basis through:

(i) SGXNET announcements and press releases;

(ii) Annual Reports prepared and issued to all shareholders; and

(iii) Company's website at www.bio-treattechnology.com at which shareholders can access information on the Group.

Quarterly results are released within 45 days of the quarter of the financial year. The Company ensures that it does not practice selective disclosure of material information. Material information is publicly released before the Company meets with investors or analysts.

Shareholders are encouraged to attend the Company's Annual General Meeting to be kept informed of the Group's strategy and goals. The notice of the Annual General Meeting is despatched to shareholders, together with explanatory notes or a circular on items of special business, at least 14 working days before the meeting. The Annual General Meeting is the principal forum for dialogue with shareholders.

The respective Board members will be available at the forthcoming Annual General Meeting to answer questions relating to the work of those sub-committees. The external auditors will also be present to assist the Directors in addressing any relevant queries from the shareholders.

(D) Communication with Shareholders *(continued)*

Our Management acknowledges that effective communication with investors is of paramount importance to the Group. In order to reinforce mutual understanding between shareholders and the Company, we have established and maintained a number of ways to strengthen our communication with investors

Measures that the Company has taken are as follows:

a. organise analyst briefings to explain our latest published financial information as well as to provide our business update when necessary;

b. attend meetings/telephone conferences requested by investors/shareholders/analysts on an ongoing basis throughout the year to assist them in understanding the latest updates relating to the Company;

c. organise road shows for our investors/potential investors. This may be done solely by ourselves or coordinated with investment bankers;

d. organise plant visits by investors/potential investors to our facilities; and

e. ensure important information of the Group will be announced in a timely manner without delay.

(E) Dealings in Securities

In line with Listing Rule 1207(18) of the Listing Manual, the Group prohibits its Directors and employees from trading in the Company's securities on short-term considerations. In addition, the Group prohibits its Directors and employees from dealing in the Company's securities during the period beginning one month before the release of any financial results of the Group or if they are in possession of any unpublished material price-sensitive information relating to the Group.

(F) Interested Person Transactions

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the Audit Committee and that transactions are conducted on arm's length basis and not prejudicial to the interests of the shareholders. There are no interested person transactions for the financial year ended 30 June 2010.

(G) Material Contracts

There are no material contracts of the Group involving the interests of any Directors or controlling shareholders subsisting at the end of the financial year ended 30 June 2010, or entered into since the end of the previous financial year.

(H) Risk Management

Management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks within the Group's policies and strategies. To further strengthen this area, a Risk Management Committee ("RMC") was set up in financial year FY2007, mainly to enhance communication between top management and all staff of the company. The Committee was set up to allow employees to report urgent cases relating to significant business events directly to top management, by passing the usual reporting channel. This will enable management to be kept informed of any significant events that may happen from time to time, and to make urgent decisions in a timely manner.

The terms of reference are:

- participation from all levels of staff (from management to general staff);
- timely investigation by management;
- no threshold limit for reporting; staff members will not be penalised even if the issues are proven not to be significant.

The RMC was established by management to facilitate more timely communication. The management will report to the Board on a quarterly basis, summarising all activities in the past quarter.

Report of the Directors

The directors are pleased to present their report to the members together with the consolidated financial statements of Bio-Treat Technology Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 30 June 2010 and the audited balance sheet of the Company as at 30 June 2010.

1 Directors

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

Lim Yu Neng, Paul
Ma Zheng Hai
Cui Jun
Cheng Fong Yee, Fonda
Kwok Chi-Shing
Zhou Yao Ming

2 Arrangements to Enable Directors to Acquire Shares or Debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

3 Directors' Interests in Shares or Debentures

The directors of the Company who held office at the end of the financial year had no interests in the shares or debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company.

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

4 Directors' Contractual Benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the financial statements. Certain directors also received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

5 Options Granted

During the financial year, no options to take up unissued shares of the Company or any corporation in the Group were granted.

6 Options Exercised

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of options to take up unissued shares.

7 Options Outstanding

As at the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

8 Audit Committee

The members of the Audit Committee at the end of the financial year are as follows:

Kwok Chi-Shing (Chairman)
Cheng Fong Yee, Fonda (Member)
Zhou Yao Ming (Member)

All members of the Audit Committee are independent and non-executive directors. The Audit Committee carried out its functions as required by the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual and the Code of Corporate Governance.

The functions performed by the Audit Committee during the financial year are disclosed in the Company's Annual Report under the section on Corporate Governance Report.

9 Independent Auditors

The auditors, Moore Stephens LLP, Public Accountants and Certified Public Accountants, have expressed their willingness to accept reappointment.

On behalf of the Board of Directors,

PAUL LIM
Interim Acting CEO/Executive Director

MA ZHENG HAI
Executive Director

9 October 2010

Statement by Directors

30 June 2010

(a) The directors are of the opinion that the consolidated financial statements of the Group and the balance sheet of the Company set out on pages 33 to 111 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2010 and of the results, changes in equity and cash flows of the Group for the year then ended; and

(b) As mentioned and more fully discussed in Note 2 to the financial statements, the ability of the Company and the Group to continue as going concerns is dependent upon:

- the continuing support of the Loan Lenders and the successful completion of the PWGL Settlement with the Loan Lenders as described in Note 2(b) to the financial statements;

- the continuing support of the Zero-Coupon bondholders and for them not to demand immediate redemption of the Zero Coupon Bond or enforce the Share Charge as described in Note 2(c) to the financial statements; and

- the success of various strategies that management is presently evaluating to improve the operating performance, financial position and cash flows of the Company and the Group. These strategies include, inter alia, undertaking fund raising exercises to obtain alternative sources of finance, as more fully described in Note 35 and Note 38 to the financial statements.

(c) At the date of this statement, for the reasons set out in paragraph (b) above the directors are of the opinion that there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

PAUL LIM
Interim Acting CEO/Executive Director

MA ZHENG HAI
Executive Director

9 October 2010

Independent Auditors' Report

To the members of Bio-Treat Technology Limited
(Incorporated in Bermuda)

1 We were engaged to audit the accompanying financial statements of Bio-Treat Technology Limited (the "Company") and its subsidiaries (the "Group"), as set out on pages 33 to 111, which comprise the balance sheets of the Company and of the Group as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes:

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

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

Auditors' Responsibility

3 Our responsibility is to express an opinion on these financial statements based on conducting an audit in accordance with Singapore Standards on Auditing. Due to the significance of the matters discussed in paragraphs 5 to 7 below, we were not able to form an opinion on the consolidated financial statements of the Group and the balance sheet of the Company.

Disclaimer Audit Opinion on the Financial Statements for the Year Ended 30 June 2009

4 The auditors' report dated 13 October 2009 for the financial statements for the year ended 30 June 2009 contained a disclaimer audit opinion on the ability of the Company and the Group to continue as going concerns. The ability of the Company and the Group to continue as going concerns was dependent upon:

– the continuing support of Precious Wise Group Limited and Datasino Group Limited (collectively the "Loan Lenders") and the successful outcome of the negotiations with the Loan Lenders;

– the continuing support of the convertible bondholders and the successful outcome of the proposed settlement with the convertible bondholders; and

– the success of various strategies that management was then evaluating to improve the operating performance, financial position and cash flows of the Company and the Group. These strategies include, inter alia, obtaining alternative sources of finance.

In the absence of sufficient appropriate evidential matter, we were unable to obtain sufficient audit assurance regarding the use of the going concern assumption in the preparation of the financial statements. Accordingly, we were unable to form a view as to the use of the going concern assumption in the preparation of the financial statements.

The disclaimer audit opinion for the previous financial year summarised above continues into the current financial year as discussed under paragraph 5 below.

Basis for Disclaimer of Opinion on the Financial Statements

Going Concern Assumption

5 We draw attention to Note 2 to the financial statements, which discloses that:

(a) As at 30 June 2010, the Group's current liabilities exceeded its current assets by RMB620,134,000 (2009: RMB1,205,408,000).

(b) As disclosed in Note 27(b)(i) to the financial statements, the Group has an outstanding loan amount in default of HK$239,412,000 (RMB208,777,000) as at 30 June 2010 (2009: HK$239,412,000 (RMB211,449,000)) due to Precious Wise Group Limited ("Precious Wise"), a former shareholder of the Company.

As disclosed in Note 27(b)(ii) to the financial statements, the Group has an outstanding loan amount in default of HK$37,854,575 (RMB33,011,000) as at 30 June 2010 (2009: HK$37,854,575 (RMB33,433,000)) due to Datasino Group Limited ("Datasino"), a related party of Precious Wise.

As disclosed in Note 27(b)(iv) to the financial statements, the Company has on 11 December 2009 entered into a Settlement Deed ("PWGL Settlement") with Precious Wise and Datasino (collectively the "Loan Lenders") to effect a full and final settlement of all the Group's outstanding payment obligations under the outstanding loans, the terms of which are set out in the same Note 27(b)(iv) to the financial statements. The completion of the PWGL Settlement is conditional upon, inter alia:

- the PWGL Settlement being validly executed by the Company; and
- the completion of the Subscription Agreement with Giant Delight Holdings Limited (see Note 35(i) to the financial statements).

As at the date of this report, the PWGL Settlement has not been completed.

(c) As disclosed in Note 30 to the financial statements, the Company has effected a full and final settlement of all the Company's outstanding payment obligations under the Convertible Bonds with the convertible bondholders during the current financial year, the terms of which include, inter alia, the marking down of the remaining balance of the Convertible Bonds to be repayable on certain agreed bullet repayment dates (Zero Coupon Bonds - see Note 31 to the financial statements); a share charge over the Group's shareholding in World Pioneer Investments Limited (which wholly owns Kunshan Gang Dong Wastewater Treatment Co. Ltd that operates the wastewater treatment plant in Kunshan City, PRC) in favour of the holders of the Marked-down Bonds (the "Share Charge"); and the issue of warrants to the holders of the Marked-down Bonds (Warrants – see Note 32 to the financial statements).

However, as disclosed in Note 31 to the financial statements, the Company has on 15 July 2010 received notice from the Zero-Coupon bondholders that the Zero Coupon Bond's full outstanding principal amount remains due and payable and the Company continues to be in breach of its obligations under the conditions of the Zero Coupon Bonds. The obligations of the Company in respect of the Zero Coupon Bonds are secured by the Share Charge as mentioned above. As at the date of this report, the Zero-Coupon bondholders have not demanded for immediate redemption of the Zero Coupon Bonds or enforced the Share Charge.

Basis for Disclaimer of Opinion on the Financial Statements (continued)

Going Concern Assumption *(continued)*

(d) As mentioned in Note 2(d) to the financial statements, the conditions referred to in paragraphs 5(a) to 5(c) above indicate the existence of material uncertainties which may cast significant doubt as to the ability of the Company and the Group to continue as going concerns and to discharge their liabilities in the normal course of business. The ability of the Company and the Group to continue as going concerns is therefore dependent upon:

– the continuing support of the Loan Lenders and the successful completion of the PWGL Settlement with the Loan Lenders as described in paragraph 5(b) above;

– the continuing support of the Zero-Coupon bondholders and for them not to demand immediate redemption of the Zero Coupon Bonds or enforce the Share Charge as described in paragraph 5(c) above; and

– the success of various strategies that management is presently evaluating to improve the operating performance, financial position and cash flows of the Company and the Group. These strategies include, inter alia, undertaking fund raising exercises to obtain alternative sources of finance, as more fully described in Note 35 and Note 38 to the financial statements.

(e) The financial statements have been prepared on the assumption that the Company and the Group will remain as going concerns, and discharge their liabilities in the normal course of business, the validity of which is dependent on, inter alia, the above events discussed in paragraph 5(d). This assumption is premised on future events, the outcome of which is inherently uncertain.

In view of the material uncertainties as discussed above, we are unable to obtain sufficient audit assurance regarding the use of the going concern assumption in the preparation of the financial statements. Accordingly, we are unable to form a view as to the use of the going concern assumption in the preparation of the financial statements.

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

Impairment of Hubei Plant and Suqian Plants

6 Included in the Group's consolidated financial statements as at 30 June 2010 is a wastewater treatment plant classified under property, plant and equipment with a gross carrying amount of RMB83,855,000 (the "Hubei Plant"). As disclosed and for the reason set out in Note 13 to the financial statements, the Group has recognised impairment losses amounted to RMB40,000,000 based on management's assessment of the estimated recoverable amount of the Hubei Plant, resulting in a net carrying amount of RMB43,855,000 as at 30 June 2010.

Further, included in the Group's consolidated financial statements as at 30 June 2010 are certain concession rights classified under intangible assets relating to two water/wastewater treatment plants with a gross carrying amount of RMB216,112,000 (the "Suqian Plants"). As disclosed and for the reason set out in Note 14 to the financial statements, the Group has recognised impairment losses amounting to RMB191,300,000 based on management's assessment of the estimated recoverable amounts of the Suqian Plants, resulting in a net carrying amount of RMB24,812,000 as at 30 June 2010.

Basis for Disclaimer of Opinion on the Financial Statements (continued)

Impairment of Hubei Plant and Suqian Plants *(continued)*

As at the date of this report, we were unable to obtain sufficient information and explanations from management or have access to other form of sufficient audit evidence with respect to the basis of the allowance for impairment and there were no practicable alternative audit procedures that we could carry out to ascertain the appropriateness of the net carrying amounts of the Hubei Plant and Suqian Plants as at 30 June 2010.

Transactions and outstanding balances with Dongguan Kechuang

7 (a) Included in the Group's consolidated financial statements as at 30 June 2010 is an amount of RMB62,389,000 (2009: Nil) (Note 22 to the financial statements) due from Dongguan Kechuang Future Energy Technology Development Co., Ltd ("Dongguan Kechuang"), which is a related party to Precious Wise.

As at the date of this report, we were not provided with adequate information and explanations to satisfy ourselves as to the validity and appropriateness of a significant number of material transactions with Dongguan Kechuang and there were no practicable alternative audit procedures that we could carry out to satisfy ourselves of the same. We are therefore also unable to satisfy ourselves as to the validity and recoverability of the outstanding balance due from Dongguan Kechuang as at 30 June 2010.

(b) Included in the Group's consolidated financial statements as at 30 June 2010 is an amount of RMB66,369,000 (2009: Nil) (Note 29 to the financial statements) due to Dongguan Kechuang as at 30 June 2010.

As at the date of this report, we were not provided with adequate information and explanations to satisfy ourselves as to the validity and appropriateness of a significant number of material transactions with Dongguan Kechuang and there were no practicable audit alternative procedures that we could carry out to satisfy ourselves of the same. We are therefore also unable to satisfy ourselves as to the validity of the outstanding balance due to Dongguan Kechuang as at 30 June 2010.

Disclaimer Audit Opinion

8 Because of the significance of the matters discussed in paragraphs 5 to 7 above, we are not in a position to, and accordingly do not, express an opinion as to whether the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2010 and the results, changes in equity and cash flows of the Group for the year ended on that date.

MOORE STEPHENS LLP
Public Accountants and
Certified Public Accountants

Singapore
9 October 2010

Consolidated Statement of Comprehensive Income

For the financial year ended 30 June 2010

	Note	Group 2010 RMB'000	2009 RMB'000
Revenue	(5)	359,691	407,985
Cost of sales		(274,460)	(485,582)
Gross profit/(loss)		85,231	(77,597)
Other income	(6)	9,822	65,170
Selling and distribution expenses		–	(2,513)
Research and development costs		–	(13,141)
Administrative expenses		(55,913)	(65,324)
Other operating expenses		(35,828)	(6,785)
Exceptional items	(7)	306,248	(467,528)
Finance income	(8)	592	465
Finance costs	(9)	(85,933)	(109,692)
Share of losses of an associated company	(17)	–	(1)
Profit/(Loss) before income tax	(10)	224,219	(676,946)
Income tax	(11)	(2,165)	(26,392)
Net profit/(loss) for the year		222,054	(703,338)
Other comprehensive income			
Exchange differences on translation of foreign operations		29	(147)
Total comprehensive income/(loss) for the year		222,083	(703,485)
Net profit/(loss) attributable to:			
Owners of the Company		222,062	(702,744)
Non-controlling interests		(8)	(594)
		222,054	(703,338)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		222,091	(702,891)
Non-controlling interests		(8)	(594)
		222,083	(703,485)
Earnings/(Loss) per share (RMB cents)	(12)		
– Basic		0.24	(0.79)
– Diluted		0.24	(0.79)

The accompanying notes form an integral part of these financial statements

Balance Sheets

As at 30 June 2010

	Note	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
ASSETS					
Non-current Assets					
Property, plant and equipment	(13)	54,094	103,368	–	–
Intangible assets	(14)	321,574	484,075	–	–
Financial receivables	(15)	1,780,271	1,794,318	–	–
Investments in subsidiaries	(16)	–	–	261,882	261,882
Investment in an associated company	(17)	34,574	34,574	–	–
Financial assets, available-for-sale	(18)	69,845	69,845	–	–
Land use rights	(19)	66,322	75,909	–	–
Deferred tax assets	(28)	–	–	–	–
		2,326,680	2,562,089	261,882	261,882
Current Assets					
Financial receivables	(15)	7,527	6,091	–	–
Inventories	(20)	842	741	–	–
Trade and other receivables	(22)	98,415	63,453	1,669,412	1,666,707
Other current assets	(23)	32,974	56,665	–	–
Cash and bank balances	(24)	10,412	80,262	260	136
		150,170	207,212	1,669,672	1,666,843
Total Assets		2,476,850	2,769,301	1,931,554	1,928,725
EQUITY AND LIABILITIES					
Share Capital and Reserves					
Share capital	(25)	140,107	377,496	140,107	377,496
Reserves	(26)	1,069,010	463,987	1,355,647	375,021
Equity attributable to owners of the Company		1,209,117	841,483	1,495,754	752,517
Non-controlling interests		(1,201)	31	–	–
Total equity		1,207,916	841,514	1,495,754	752,517
Non-current Liabilities					
Borrowings	(27)	484,032	501,440	–	–
Deferred tax liabilities	(28)	14,598	13,727	–	–
		498,630	515,167	–	–

The accompanying notes form an integral part of these financial statements

Balance Sheets *(continued)*

As at 30 June 2010

	Note	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
Current Liabilities					
Trade and other payables	(29)	**209,662**	114,496	**48,672**	37,190
Due to deconsolidated subsidiaries	(18)	**69,845**	69,845	**–**	–
Convertible bonds	(30)	**–**	927,569	**–**	927,569
Zero coupon bonds	(31)	**153,150**	–	**153,150**	–
Other financial liabilities	(32)	**20,841**	–	**20,841**	–
Borrowings	(27)	**316,806**	300,462	**213,137**	211,449
Provision for income tax		**–**	248	**–**	–
		770,304	1,412,620	**435,800**	1,176,208
Total Liabilities		**1,268,934**	1,927,787	**435,800**	1,176,208
Total Equity and Liabilities		**2,476,850**	2,769,301	**1,931,554**	1,928,725

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2010

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Foreign currency translation reserve RMB'000	Statutory reserve RMB'000	Convertible bonds equity reserve RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Group									
2010									
As at 1 July 2009	377,496	650,238	1,920	62,785	–	(250,956)	841,483	31	841,514
Effects on adoption of amendments to FRS 27 (Note 3 (a))	–	–	16	–	–	1,208	1,224	(1,224)	–
Net profit for the year	–	–	–	–	–	222,062	222,062	(8)	222,054
Other comprehensive income for the year	–	–	29	–	–	–	29	–	29
Total comprehensive income for the year	–	–	29	–	–	222,062	222,091	(8)	222,083
Conversion of convertible bonds	9,051	127,865	–	–	–	–	136,916	–	136,916
Capital reduction (Note 25)	(247,520)	–	–	–	–	247,520	–	–	–
Exercise of warrants	1,080	6,323	–	–	–	–	7,403	–	7,403
As at 30 June 2010	140,107	784,426	1,965	62,785	–	219,834	1,209,117	(1,201)	1,207,916
Group									
2009									
As at 1 July 2008	377,496	650,238	2,067	62,785	33,678	451,788	1,578,052	6,168	1,584,220
Net loss for the year	–	–	–	–	–	(702,744)	(702,744)	(594)	(703,338)
Other comprehensive loss for the year	–	–	(147)	–	–	–	(147)	–	(147)
Total comprehensive loss for the year	–	–	(147)	–	–	(702,744)	(702,891)	(594)	(703,485)
Reclassification of convertible bonds	–	–	–	–	(33,678)	–	(33,678)	–	(33,678)
Acquisition from non-controlling interests	–	–	–	–	–	–	–	(5,543)	(5,543)
As at 30 June 2009	377,496	650,238	1,920	62,785	–	(250,956)	841,483	31	841,514

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the financial year ended 30 June 2010

	2010 RMB'000	2009 RMB'000
Cash Flows from Operating Activities		
Profit/(Loss) before income tax	224,219	(676,946)
Adjustments for:		
Amortisation of discount on convertible bonds	18,579	24,260
Depreciation of property, plant and equipment	7,291	26,107
Amortisation of intangible assets	22,344	19,386
Amortisation of land use rights	1,563	2,106
Allowance for impairment-property, plant and equipment	40,000	–
Allowance for impairment-intangible assets	191,300	–
Allowance for impairment-financial receivables	126,141	–
Allowance for impairment-land use rights	189	20,000
Write-off of construction in progress	2,644	–
Write-off of inventories	169	187
Write-off of other receivables	8,000	344,027
Write-off of other current assets	3,706	58,643
Loss on disposal of property, plant and equipment	7	6,589
Loss on disposal of a subsidiary	–	44,858
Negative goodwill arising on acquisition of subsidiaries	–	(335)
Net fair value gain on derivatives	(8,149)	–
Write down of convertible bonds	(678,228)	–
Unrealised foreign exchange loss/(gain)	34,962	(64,463)
Share of losses of an associated company	–	1
Finance income	(592)	(465)
Interest expense	67,294	85,432
Operating cash flows before working capital changes	61,439	(110,613)
Changes in working capital:		
Financial receivables	(113,530)	(146,909)
Inventories	(270)	338
Trade and other receivables	(42,933)	157,107
Other current assets	19,986	(21,747)
Trade and other payables	81,271	(74,081)
Cash generated from/(used in) operations	5,963	(195,905)
Interest received	592	465
Income tax paid	(1,542)	(49,707)
Net cash generated from/(used in) operating activities	5,013	(245,147)

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows *(continued)*

For the financial year ended 30 June 2010

	2010 RMB'000	2009 RMB'000
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(674)	(4,710)
Proceeds from disposal of property, plant and equipment	6	–
Deposits for property, plant and equipment	–	(1,854)
Increase in intangible assets	(51,143)	(1,861)
Decrease/(Increase) for land use rights	7,835	(38)
Net cash inflow from disposal of a subsidiary (Note 16(b)(i))	–	15,000
Net cash outflow on acquisition of subsidiaries (Note 16(b)(ii))	–	(5,148)
Net cash (used in)/generated from investing activities	(43,976)	1,389
Cash Flows from Financing Activities		
Proceed from exercise of warrants	1,749	–
Proceeds from bank borrowings	50,000	55,000
Repayment of bank borrowings	(52,330)	(44,380)
Proceeds from other loans	4,360	44,160
Repayment of other loans	–	(10,727)
Advances from an associated company	–	34,638
Interest paid	(34,695)	(35,639)
Decrease in bank balances pledged	10,489	4,022
Net cash (used in)/generated from financing activities	(20,427)	47,074
Net decrease in cash and cash equivalents	(59,390)	(196,684)
Cash and cash equivalents at the beginning of the year	67,973	264,657
Effect of exchange rate changes on cash and cash equivalents	29	–
Cash and cash equivalents at the end of the year (Note 24)	8,612	67,973

The accompanying notes form an integral part of these financial statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 General

Bio-Treat Technology Limited (the "Company") is incorporated in Bermuda as an exempt company with limited liability and is listed on the Mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The registered address of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is at Tu Tang Industry Area, Tu Tang, Changping, Dongguan City, Guangdong Province, the People's Republic of China ("PRC").

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries and associated company are set out in Note 16 and 17 respectively.

The Board of Directors has authorised the issue of the financial statements in accordance with a resolution of the directors on the date of the Statement by Directors.

2 Going Concern Assumption

(a) As at 30 June 2010, the Group's current liabilities exceeded its current assets by RMB620,134,000 (2009: RMB1,205,408,000).

(b) As disclosed in Note 27(b)(i) to the financial statements, the Group has an outstanding loan amount in default of HK$239,412,000 (RMB208,777,000) as at 30 June 2010 (2009: HK$239,412,000 (RMB211,449,000)) due to Precious Wise Group Limited ("Precious Wise"), a former shareholder of the Company.

As disclosed in Note 27(b)(ii) to the financial statements, the Group has an outstanding loan amount in default of HK$37,854,575 (RMB33,011,000) as at 30 June 2010 (2009: HK$37,854,575 (RMB33,433,000)) due to Datasino Group Limited ("Datasino"), a related party of Precious Wise.

As disclosed in Note 27(b)(iv) to the financial statements, the Company has on 11 December 2009 entered into a Settlement Deed ("PWGL Settlement") with Precious Wise and Datasino (collectively the "Loan Lenders") to effect a full and final settlement of all the Group's outstanding payment obligations under the outstanding loans, the terms of which are set out in the same Note 27(b)(iv) to the financial statements. The completion of the PWGL Settlement is conditional upon, inter alia:

- the PWGL Settlement being validly executed by the Company; and
- the completion of the Subscription Agreement with Giant Delight Holdings Limited (see Note 35(i) to the financial statements).

As at the date of authorisation of these financial statements, the PWGL Settlement has not been completed.

(c) As disclosed in Note 30, the Company has effected a full and final settlement of all the Company's outstanding payment obligations under the Convertible Bonds with the convertible bondholders during the current financial year, the terms of which include, inter alia, the marking down of the remaining balance of the Convertible Bonds to be repayable on certain agreed bullet repayment dates (Zero Coupon Bonds – see Note 31); a share charge over the Group's shareholding in World Pioneer Investments Limited (which wholly owns Kunshan Gang Dong Wastewater Treatment Co. Ltd that operates the wastewater treatment plant in Kunshan City, PRC) in favour of the holders of the Marked-down Bonds (the "Share Charge"); and the issue of warrants to the holders of the Marked-down Bonds (Warrants – see Note 32).

However, as disclosed in Note 31 to the financial statements, the Company has on 15 July 2010 received notice from the Zero-Coupon bondholders that the Zero Coupon Bond's full outstanding principal amount remains due and payable and the Company continues to be in breach of its obligations under the conditions of the Zero Coupon Bonds. The obligations of the Company in respect of the Zero Coupon Bonds are secured by the Share Charge as mentioned above. As at the date of authorisation of these financial statements, the Zero-Coupon bondholders have not demanded for immediate redemption of the Zero Coupon Bonds or enforced the Share Charge.

2 Going Concern Assumption (continued)

(d) The conditions referred to in Note 2(a) to 2(c) above indicate the existence of material uncertainties which may cast significant doubt as to the ability of the Company and the Group to continue as going concerns and to discharge their liabilities in the normal course of business. The ability of the Company and the Group to continue as going concerns is therefore dependent upon:

– the continuing support of the Loan Lenders and the successful completion of the PWGL Settlement with the Loan Lenders as described in Note 2(b) above;

– the continuing support of the Zero-Coupon bondholders and for them not to demand immediate redemption of the Zero Coupon Bonds or enforce the Share Charge as described in Note 2(c) above; and

– the success of various strategies that management is presently evaluating to improve the operating performance, financial position and cash flows of the Company and the Group. These strategies include, inter alia, undertaking fund raising exercises to obtain alternative sources of finance, as more fully described in Note 35 and Note 38.

(e) The financial statements have been prepared on the assumption that the Company and the Group will remain as going concerns, and discharge their liabilities in the normal course of business, the validity of which is dependent on, inter alia, the above events discussed in Note 2(d). The assumption is premised on future events, the outcome of which is inherently uncertain.

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

3 Significant Accounting Policies

(a) Basis of Preparation

The financial statements, which are expressed in Renminbi ("RMB"), have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). These financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise judgements in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and contingent liabilities at the balance sheet date that are not readily apparent from other sources. Estimates and judgements are continually evaluated and are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results may ultimately differ from these estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3 Significant Accounting Policies *(continued)*

(a) Basis of Preparation *(continued)*

(i) Adoption of New and Revised FRS

On 1 July 2009, the Group adopted the standards mandatory for annual financial periods beginning on or after 1 January/1 July 2009. The key standards newly adopted are as follows:

Descriptions		Effective for annual period beginning on or after
FRS 1 (revised)	Presentation of Financial Statements	1 January 2009
FRS 23	Borrowing Costs	1 January 2009
Amendments to FRS 27	Consolidated and Separate Financial Statements	1 July 2009
FRS 103 (revised)	Business Combinations	1 July 2009
Amendments to FRS 107	Financial Instruments: Disclosures	1 January 2009
FRS 108	Operating Segments	1 January 2009

FRS 1 *Presentation of Financial Statements (Revised)*

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

FRS 23 *Borrowing Costs*

The revised standard removes the option to expense borrowing costs and requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group's current policy to capitalise borrowing costs is consistent with the requirement in the revised standard.

Amendments to FRS 27 *Consolidated and Separate Financial Statements*

Amendments to FRS 27 include: a) a change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognised in profit or loss, b) when control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in profit or loss, and c) losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest's share in the subsidiary's equity. The amendments have been applied prospectively from 1 July 2009, and the effect on the adoption of the Amendments to FRS 27 is set out in the Group's consolidated statement of changes in equity for the current financial year ended 30 June 2010.

3 Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

(i) Adoption of New and Revised FRS (continued)

FRS 103 *Business Combinations (Revised)*

FRS 103 (revised) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group shall apply FRS 103 (revised) prospectively to all business combinations from 1 July 2009.

Amendments to FRS 107 *Financial Instruments: Disclosures*

The amendments to FRS 107 require additional disclosures about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instruments. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurement is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures and liquidity risk disclosures are presented in Note 37.

FRS 108 *Operating Segments*

FRS 108 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. The Group's reportable segments have been redesignated as a result of the adoption of FRS 108. Disclosures of each reportable segment, including the revised comparative information are shown in Note 36.

(ii) New and Revised FRS Issued But Not Yet Effective

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

FRS 24 *Related Party Disclosures (Revised)*

The revised FRS 24 simplifies the definition of a related party and provides partial exemption for government-related entities. The revised FRS 24 applies retrospectively for annual periods beginning on or after 1 January 2011 but earlier application is permitted. The Group is in the process of assessing the impact on the financial statements.

3 Significant Accounting Policies *(continued)*

(b) Currency Translation

(i) Functional and Foreign Currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Group's functional and presentation currency, as it best reflects the economic substance of the underlying events and circumstances relevant to the Group. All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(ii) Transactions and Balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to the profit or loss on disposal or partial disposal of the net investment.

(iii) Translation of Group Entities' Financial Statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

– Income and expenses for the income statement are translated an average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

– Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the currency translation reserve (attributable to non-controlling interests as appropriate).

3 Significant Accounting Policies *(continued)*

(b) Currency Translation *(continued)*

(iii) Translation of Group Entities' Financial Statements (continued)

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

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

(c) Basis of Consolidation

(i) Subsidiaries

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

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

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

In business combinations achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether a non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree net identifiable assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill on the statement of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

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

3 Significant Accounting Policies *(continued)*

(c) Basis of Consolidation *(continued)*

(ii) Transactions with Non-Controlling Interests

Non-controlling interests represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheets, separately from equity attributable to owners of the Company.

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

(iii) Associated Companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting. Investments in associated companies in the consolidated balance sheets includes goodwill (net of any accumulated impairment losses) identified on acquisition and is assessed for impairment as part of the investment.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses is recognised in the statement of comprehensive income and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

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

The financial statements of the associates are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Dilution gains and losses arising from investments in associated companies are recognised in profit or loss.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

3 Significant Accounting Policies (continued)

(c) Basis of Consolidation (continued)

(iv) Investments in Subsidiaries and Associated Company

Investments in subsidiaries and associated company are carried at cost less accumulated impairment losses in the balance sheet of the Company.

On disposal of investments in subsidiaries and associated company, the difference between the net disposal proceeds and the carrying amount of the investments are recognised in profit or loss.

(d) Property, Plant and Equipment

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.

Construction-in-progress represents property, plant and equipment under construction, are carried at cost less accumulated impairment losses. Costs capitalised include costs of construction, and other directly related development expenditure including borrowing costs incurred in construction. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives less residual values where applicable on the following basis:

Laboratory equipment	–	20%
Machinery	–	10% – 20%
Motor vehicles and office equipment	–	20%
Leasehold improvements	–	25%
Wastewater treatment plant and building	–	4%

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

Fully depreciated assets still in use are retained in the financial statements. On disposal or retirement of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognised in profit or loss.

(e) Land Use Rights

Land use rights are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged to the profit or loss on a straight-line method over the respective lease period of the land use rights, which range from 25 to 50 years.

3 Significant Accounting Policies *(continued)*

(f) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiaries, or associated companies over the fair value of the Group's share of the net identifiable net assets and contingent liabilities of the acquired subsidiaries, and associated companies at the date of acquisition.

Goodwill on acquisition of subsidiaries is initially recognised as an intangible asset at cost and subsequently recognised at cost less any accumulated impairment losses.

Goodwill on acquisition of associated companies is included in the carrying amount of the investments.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit and loss on disposal.

Negative goodwill which represents the excess of the fair value of the Group's share of the net identifiable net assets and contingent liabilities of the acquired subsidiaries over the cost of an acquisition of subsidiaries is recognised in profit or loss at the date of acquisition.

(ii) Concession Rights

Concession rights are stated at the fair value of services provided less accumulated amortisation and impairment losses. Concession rights are amortised to profit or loss on a straight-line method over the concession periods, which range from 25 to 32 years, from commencement of operation of the plants.

(g) Service Concession Arrangements

The Group has entered into various service concession arrangements with governing bodies or agencies of the government of the People's Republic of China ("PRC")(the "grantors") to construct and operate water/wastewater treatment plants for concession periods of between 25 to 32 years and transfer the plants to the grantors at the end of the concession periods. Such concession arrangements fall within the scope of INT FRS 112 Service Concession Arrangements and are accounted for as follows:

(i) Financial Receivables

The Group recognises a financial receivable arising from a service concession arrangement when it has a right to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the concession infrastructure. The financial receivable is accounted for in accordance with the accounting policy set out in Note 3(i).

3 Significant Accounting Policies *(continued)*

(g) Service Concession Arrangements *(continued)*

(ii) Intangible Assets

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure but does not have any contractual rights under the concession agreements to receive a fixed and determinable amount of payments during the concession period. Intangible assets received as consideration for providing construction services in a service concession arrangement are measured at fair value upon initial recognition, estimated by reference to the fair value of the construction services provided. When the Group receives an intangible asset and a financial assets as consideration for providing construction services in a service concession arrangement, the Group estimates the fair value of intangible assets as the difference between the fair value of the construction services provided and the fair value of the financial assets received. The intangible asset ("concession rights") is accounted for in accordance with the accounting policy set out in Note 3(f).

Subsequent costs and expenditure related to infrastructure and equipment arising from the Group's commitments to the concession contracts or that increase future revenue is recognised as additions to the intangible asset and/or financial receivables are stated at cost. Capital expenditures necessary to support the Group's operation as a whole and is recognised as property, plant and equipment and accounted for in accordance with the accounting policy stated under property, plant and equipment in Note 3(d). When the Group has contractual obligations that it must fulfill as a condition of its license to: a) maintain the infrastructure to a specified standard or, b) to restore the infrastructure when the infrastructure has deteriorated below a specified condition, it recognises and measures these contractual obligations in accordance with the accounting policy for provisions. Repairs and maintenance and other expenses that are routine in nature are expensed and recognised in profit or loss as incurred.

(h) Impairment of Non-financial Assets

(i) Goodwill

Goodwill is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Goodwill included in the carrying amount of as an investment in an associated company is tested for impairment as part of the investment, rather than separately.

For the purpose of impairment testing of goodwill, goodwill is allocated, from the acquisition date, to each of the Group's cash-generating-units ("CGU") that are expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as an expense and is not reversed in a subsequent period.

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

3 Significant Accounting Policies *(continued)*

(h) Impairment of Non-financial Assets *(continued)*

(ii) Intangible Assets, Property, Plant and Equipment and Investments in Subsidiaries and Associated Company

At the balance sheet date, the Group reviews the carrying amounts of its intangible assets, property, plant and equipment and investments in subsidiaries and associated company to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any), on an individual asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3 Significant Accounting Policies *(continued)*

(i) Financial Assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset.

Financial Assets, Available-for-sale

The Group's investments in equity securities are classified as financial assets, available-for-sale. They are presented as non-current assets unless management intends to dispose of the assets within twelve months after the balance sheet date.

Financial assets, available-for-sale are initially recognised at fair value plus, any directly attributable transaction costs, and subsequently carried at fair value with gains and losses being recognised directly in equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Where an investment in an equity security classified as a financial assets, available-for-sale does not have a quoted market price in an active market and other methods of determining fair value do not result in a reasonable estimate, the investment is measured at cost less impairment losses.

Loans and Receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. They are presented as current assets, except for those maturing later than twelve months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as 'trade and other receivables' and 'cash and cash equivalents' on the balance sheet.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and at banks or financial institutions, including fixed deposits, less restricted bank balances, which form an integral part of the Group's cash management. Cash and cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value.

(j) Impairment of Financial Assets

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

Financial Assets, Available-for-sale

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

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

3 Significant Accounting Policies *(continued)*

(j) Impairment of Financial Assets *(continued)*

Loans and Receivables (continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

(k) Construction Contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date (percentage-of-completion method). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of the contract costs incurred that are likely to be recovered. When it is probable that total contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is only included in contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

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

3 Significant Accounting Policies *(continued)*

(k) Construction Contracts *(continued)*

At the balance sheet date, the aggregated costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where costs incurred plus recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contract work-in-progress within "trade and other receivables" in the balance sheet. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contract work-in-progress within "trade and other payables" in the balance sheet.

Progress billings not yet paid by customers and retentions are included within trade receivables. Advances received are included within trade and other payables.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale. Allowance is made for obsolete and slow-moving stocks.

(m) Financial Liabilities and Equity Instrument issued by the Group

(i) Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

(iii) Compound Instruments

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

(iv) Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss "FVTPL" or "other financial liabilities".

3 Significant Accounting Policies *(continued)*

(m) Financial Liabilities and Equity Instrument issued by the Group *(continued)*

(v) *Financial liabilities at Fair Value through Profit or Loss "FVTPL"*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

(vi) *Other Financial Liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Other financial liabilities are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least twelve months after the balance sheet date.

3 Significant Accounting Policies *(continued)*

(m) Financial Liabilities and Equity Instrument issued by the Group *(continued)*

(vii) Derecognition of Financial Liabilities

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

(n) Derivative Financial Instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

(o) Financial Guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at their fair values plus transaction costs and are subsequently amortised to profit or loss over the period of the subsidiary's borrowing, unless it is probable that the Group will reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantee shall be carried at the expected amount payable to the bank.

(p) Borrowing Costs

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

(q) Provision

Provisions are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

(r) Share Capital

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

3 Significant Accounting Policies *(continued)*

(s) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, when it is probable that the collectibility of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

Discharge Fees from Treatment of Wastewater

Discharge fees from treatment of wastewater are recognised based on the volume of wastewater treated and are recognised in the period when the services are rendered.

Finance Income

Finance income represents the interest income on the financial receivable arising from a service concession arrangement, and is recognised using the effective interest method.

Revenue from Construction Services

Revenue from construction services under a service concession arrangement is recognised in accordance with the Group's accounting policy on recognition of revenue for construction contracts (Note 3(k)).

Revenue from rendering of construction contract services for the design, installation and construction of plants for wastewater and sewage treatment is recognised using the stage of completion method.

Sale of Goods

Revenue from the sale of goods is recognised when a Group entity has delivered the products to the customer; the customer has accepted the products; and collectability of the related receivables is reasonably assured.

Interest Income

Interest income is recognised on a time-proportion basis using the effective interest method.

(t) Employee Benefits

The Group participates in the national schemes as defined by the laws of the countries in which it has operations. Defined contribution plans are post-employment benefit plans under which the Group pays contributions to and are recognised as an expense in profit or loss as and when they are incurred.

(u) Operating Leases

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line method over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3 Significant Accounting Policies (continued)

(v) Taxation

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

(i) Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred Tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

(iii) Current and Deferred Tax for the Period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

3 Significant Accounting Policies *(continued)*

(w) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

4 Critical Accounting Estimates, Assumptions and Judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an ongoing basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results may ultimately differ from these estimates.

(a) Critical Judgements in Applying the Company's Accounting Policies

In addition to Note 2 to the financial statements, in the process of applying the Company's accounting policies, management has made the following judgements apart from those involving estimation, which have the most significant effect on the amounts recognised in the financial statements.

Fair values of financial instruments

Where the fair values of financial instruments recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs regarding volatility and risk-free rates of return. The valuation of financial instruments is more fully described in Note 37.

(b) Key Sources of Estimation Uncertainty

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

Financial receivables and/or intangible assets under INT FRS 112 Service Concession Arrangements

The Group recognises the consideration received or receivable in exchange for the construction services as a financial receivable and/or an intangible asset under a service concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future water treatment volume of the relevant water treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including revenue recognition under the financial asset component and intangible asset component are determined by the Group's management based on their experience and assessment on current and future market conditions. The carrying amount of the intangible assets ("concession rights") and financial receivables at the end of the financial year are disclosed in Note 14 and 15, respectively.

4 Critical Accounting Estimates, Assumptions and Judgements *(continued)*

(b) Key Sources of Estimation Uncertainty *(continued)*

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each balance sheet date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are used, the estimated future cash flows are discounted to their present value using a suitable discount rate. For the current financial year, no allowance for impairment have been recognised for the Group's non-financial assets except for the impairment of property, plant and equipment which amounted to RMB40,000,000, land use rights which amounted to RMB189,000 and intangible assets which amounted to RMB191,300,000 (see Note 13, Note 14 and Note 19 respectively) (2009: Impairment of land use rights amounted to RMB20,000,000). A 5% difference in impairment losses will result in a 5.21% (2009: 0.28%) variance in the Group's net profit/(loss) for the year.

Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the balance sheet date is disclosed in Note 15, 22, 23 and 24. During the current financial year, an allowance for impairment of RMB126,141,000 (2009: Nil) has been recognised for the Group's financial receivables. In addition, there were other receivables and other current assets written off during the current financial year which totalled RMB11,706,000 (2009: Other receivables written off of RMB344,027,000). A 5% difference in impairment losses will result in a 2.84% (2009: 4.82%) variance in the Group's net profit/(loss) for the year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on straight-line method over their estimated useful lives. The Group's management estimates the useful lives of these property, plant and equipment to be within 4 to 25 years. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of a similar nature and function. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying amount of the Group's property, plant and equipment at the balance sheet date is disclosed in Note 13. A 5% difference in expected useful lives of the property, plant and equipment from management's estimates would result in approximately 0.16% (2009: 0.37%) variance in the Group's net profit/(loss) for the year.

5 Revenue

	Group 2010 RMB'000	2009 RMB'000
Construction services from service concession arrangement	139,901	60,229
Construction contract services	–	93,480
Finance income from service concession arrangement	165,568	160,846
Discharge fees from wastewater treatment	54,222	61,893
Sale of goods	–	31,537
	359,691	407,985

6 Other Income

	Group 2010 RMB'000	2009 RMB'000
Foreign exchange gain, net	–	64,108
Net fair value gain on derivatives	8,149	–
Negative goodwill arising on acquisition of subsidiaries (Note 16(b)(ii))	–	335
Business tax refund	–	101
Sundry income	1,673	626
	9,822	65,170

Included in sundry income is an amount of RMB592,000 (2009: Nil) relating to one-time unconditional grants given by the PRC government.

7 Exceptional Items

	Group 2010 RMB'000	2009 RMB'000
Allowance for impairment:		
– property, plant and equipment (Note 13)	40,000	–
– intangible assets (Note 14)	191,300	–
– financial receivables (Note 15)	126,141	–
– land use rights (Note 19)	189	20,000
Write-off of construction in progress (Note 13)	2,644	–
Write-off of other receivables (Note 22)	8,000	344,027
Write-off of other current assets (Note 23)	3,706	58,643
Loss on disposal of a subsidiary (Note 16(b)(i))	–	44,858
Write down of convertible bonds (Note 30)	(678,228)	–
	(306,248)	467,528

8 Finance Income

	Group 2010 RMB'000	2009 RMB'000
Interest income on bank deposits	592	465

9 Finance Costs

	2010 RMB'000	2009 RMB'000
Amortisation of discount on convertible bonds	18,579	24,260
Interest expense on:		
– convertible bonds	19,091	21,268
– bank borrowings	34,695	35,225
– other loans	13,508	28,525
Bank charges	60	414
	85,933	109,692

10 Profit/(Loss) before Income Tax

	Group 2010 RMB'000	2009 RMB'000
This is arrived at after charging the following items:		
Amortisation of intangible assets included in:		
– cost of sales	22,344	19,386
Amortisation of land use rights included in:		
– cost of sales	1,563	2,106
Depreciation on property, plant and equipment included in:		
– cost of sales	4,665	9,116
– research and development costs	–	12,889
– administrative expenses	2,626	4,102
Included in cost of sales:		
– cost of inventories sold	–	21,333
– construction services cost over-run	55,859	285,126
Included in other operating expenses:		
– loss on disposal of property, plant and equipment	7	6,589
– inventories written off	169	187
– foreign exchange loss, unrealised	34,962	–
– foreign exchange loss realised	341	–
Rental expense on operating leases	3,901	3,401
Staff costs (including directors' remuneration):		
– directors' fees	927	723
– wages and salaries	18,604	21,262
– defined contribution plans	3,152	1,836
– welfare and other benefits	3,674	2,640
– contract termination fees	3,152	–

There were no non-audit fees paid to the auditors of the Company for the financial years ended 30 June 2010 and 2009.

11 Income Tax

	Group 2010 RMB'000	2009 RMB'000
Current tax:		
– current year	1,294	12,360
Deferred tax (Note 28):		
– current year	1,703	820
– reversal of temporary differences	(832)	13,212
	871	14,032
Income Tax	2,165	26,392

The Group's tax assessable profits were entirely derived by the operations of the Group's subsidiaries in the PRC.

A reconciliation of income tax expense and loss before tax multiplied by the applicable corporate tax rate in the PRC is as follows:

	Group 2010 RMB'000	2009 RMB'000
Profit/(Loss) before income tax	224,219	(676,946)
Income tax expense calculated based on the applicable PRC corporate tax rate of 25% (2009: 25%)	56,055	(169,237)
Tax concession	(1,691)	(1,363)
Non-deductible expenses	114,093	195,316
Deferred tax assets not recognised	5,302	1,676
Income not subject to tax	(171,594)	–
	2,165	26,392

Foreign invested manufacturing enterprises in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in the tax rate for the next three years, commencing from the first profitable year of operation after offsetting all tax losses brought forward from previous years (at most five years) ("Tax Holiday").

During the current financial year, the Group's subsidiaries are either in a tax loss position or their profits are exempted from EIT.

11 Income Tax (continued)

The current income tax expense is mainly attributable to the following subsidiaries of the Group and their respective tax status is as follows:

(b) Xianyang Bai Sheng Shui Purifying Co., Ltd was exempted from tax from FY2006. It is currently in the fourth year of its Tax Holiday and is subject to EIT at a rate of 12.5% (2009: 12.5%). Its Tax Holiday will expire during FY2011.

(c) Kunshan Gang Dong Wastewater Treatment Co., Ltd was exempted from tax from FY2005. Its Tax Holiday has since expired during FY2010 and is subject to EIT at a rate of 25% (2009: 12.5%)

(d) Hubei New Environment Water Co., Ltd currently does not enjoy any tax incentives and is subject to EIT at a rate of 25% (2009: 25%).

As at the end of the financial year, certain of the Group's subsidiaries in the PRC have unutilised tax losses of approximately RMB45,279,000 (2009: RMB24,071,000) that are available for offset against future taxable profits of the subsidiaries in which the losses arose, for which no deferred tax asset is recognised due to the uncertainty of its utilisation. The use of these unutilised tax losses is subject to agreement of the PRC tax authorities and compliance with certain provisions of the PRC tax legislation.

12 Earnings/(Loss) Per Share

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated on the Group's net profit/(loss) for the year attributable to equity holders of the Company divided by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2010	2009
Profit/(Loss) for the year attributable to equity holders of the Company (RMB'000)	**222,062**	(702,744)
Weighted average number of ordinary shares outstanding during the year (RMB'000)	**910,551**	891,324
Basic earnings/(loss) per share (RMB cents)	**0.24**	(0.79)

12 Earnings/(Loss) Per Share *(continued)*

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares, being the outstanding convertible bonds and warrants issued by the Company which are assumed to have been converted into ordinary shares at the beginning of the financial year and the profit/(loss) for the year is adjusted to eliminate the amortisation of the discount on convertible bonds, foreign exchange difference arising from convertible bonds and fair value gain on warrants.

	Group	
	2010	2009
Profit/(Loss) for the year attributable to equity holders of the Company (RMB'000)	**222,062**	(702,744)
Amortisation of discount on convertible bonds (RMB'000)	**18,579**	24,260
Exchange loss/(gain) on convertible bonds (RMB'000)	**21,207**	(35,092)
Fair value gain on financial liabilities-warrants (RMB' 000)	**(8,149)**	–
Adjusted profit/(loss) used to determine diluted loss per share (RMB'000)	**253,699**	(713,576)
Weighted average number of ordinary shares outstanding during the year for basic loss per share ('000)	**910,551**	891,324
Adjustment for convertible bonds ('000)	**98,462**	98,461
Adjustment for warrants ('000)	**36,720**	–
Adjusted weighted average number of ordinary shares ('000)	**1,045,733**	989,785
Diluted earnings/(loss) per share (RMB cents)	**0.24**	(0.72)*

* The diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share as the effect of the conversion of the convertible bonds and warrants is anti-dilutive.

13 Property, Plant and Equipment

	Laboratory equipment RMB'000	Machinery RMB'000	Motor vehicles & office equipment RMB'000	Leasehold Improvements RMB'000	Wastewater treatment plant & building RMB'000	Construction work in progress RMB'000	Total RMB'000
Group							
2010							
Cost							
As at 1 July 2009	–	5,491	19,913	1,506	114,373	2,644	143,927
Additions	–	147	527	–	–	–	674
Disposals	–	–	(15)	–	–	–	(15)
Write off	–	–	–	–	–	(2,644)	(2,644)
As at 30 June 2010	–	5,638	20,425	1,506	114,373	–	141,942
Accumulated depreciation and impairment losses							
As at 1 July 2009	–	1,553	12,155	446	26,405	–	40,559
Charge for the year	–	589	2,369	220	4,113	–	7,291
Impairment losses recognised in profit or loss	–	–	–	–	40,000	–	40,000
Disposals	–	–	(2)	–	–	–	(2)
As at 30 June 2010	–	2,142	14,522	666	70,518	–	87,848
Net book value							
As at 30 June 2010	–	3,496	5,903	840	43,855	–	54,094
2009							
Cost							
As at 1 July 2008	106,362	77,740	17,990	8,039	114,063	2,847	327,041
Additions	–	2,225	2,378	–	–	107	4,710
Acquisition of subsidiaries (Note 16(b)(ii))	–	–	228	–	–	–	228
Transfers	–	–	–	–	310	(310)	–
Disposals	(106,362)	(74,474)	(639)	(6,533)	–	–	(188,008)
Disposal of a subsidiary	–	–	(44)	–	–	–	(44)
As at 30 June 2009	–	5,491	19,913	1,506	114,373	2,644	143,927
Accumulated depreciation							
As at 1 July 2008	82,005	68,952	9,651	4,957	22,310	–	187,875
Charge for the year	12,889	5,213	3,099	811	4,095	–	26,107
Disposals	(94,894)	(72,612)	(591)	(5,322)	–	–	(173,419)
Disposal of a subsidiary	–	–	(4)	–	–	–	(4)
As at 30 June 2009	–	1,553	12,155	446	26,405	–	40,559
Net book value							
As at 30 June 2009	–	3,938	7,758	1,060	87,968	2,644	103,368

13 Property, Plant and Equipment *(continued)*

During the current financial year, the output volume of treated wastewater from the Group's wastewater treatment plant, which is located in Hubei City, PRC (the "Hubei Plant") and owned by Hubei New Environment Water Co., Ltd, a wholly owned subsidiary of the Group, has decreased significantly due to water leakages arising from the deterioration of the plant's piping system. This resulted in lower discharge fees from wastewater treatment collected/collectible from the relevant municipal government. As a consequence to the circumstances described above, management has assessed the recoverable amount of the Hubei Plant and based on the assessment, the Group has recognised impairment losses amounted to RMB40,000,000 (2009: Nil), representing the write down of the Hubei Plant to its estimated recoverable amount of RMB43,855,000 from its gross carrying amount of RMB83,855,000 as at 30 June 2010.

14 Intangible Assets

	Concession rights RMB'000
Group	
2010	
Cost	
As at 1 July 2009	**526,114**
Additions	**51,143**
As at 30 June 2010	**577,257**
Accumulated amortisation and impairment losses	
As at 1 July 2009	**42,039**
Additions	**22,344**
Impairment losses recognised in profit or loss	**191,300**
As at 30 June 2010	**255,683**
Net book value	
As at 30 June 2010	**321,574**
2009	
Cost	
As at 1 July 2008	524,253
Additions	1,861
As at 30 June 2009	526,114
Accumulated amortisation	
As at 1 July 2008	22,653
Additions	19,386
As at 30 June 2009	42,039
Net book value	
As at 30 June 2009	484,075

14 Intangible Assets *(continued)*

The significant aspects of the service concession arrangements are summarised as follow:

(a) The arrangements are concession arrangements for water/wastewater treatment plants with various municipal governments in the PRC under INT FRS 112 *Service Concession Arrangements*. As the counterparties of the service concession arrangements are municipal governments in the PRC, management is of the view that the associated credit risk is not significant.

(b) The intangible assets of concession rights arose from 3 water/wastewater treatment plants located in various cities in the PRC. For these arrangements with concession years ranging between 25 years to 32 years, the Group receives the right to charge users a fee for using the services which the grantor will collect and pay to the operator at fees agreed.

(c) All the water/wastewater treatment arrangements state the right and obligations for the grantor and operator as follows:

(i) The operator has the obligation to treat the required amount of water/wastewater and also to ensure the treated water fulfills the standard quality requirement of the grantor.

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

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

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

(d) During the current financial year, due to the plants' constant failure to meet water quality requirements, the operations of two plants located in Suqian City, PRC (collectively the "Suqian Plants"), which are operated by Suqian City Cheng Bei Wastewater Treatment Co., Ltd and Suqian City Cheng Bei Water Treatment Co., Ltd, wholly owned subsidiaries of the Group, have been suspended by the municipal government and the municipal government eventually took over the management of the plants' operations. Consequent to the circumstances described above, the management has assessed the recoverable amounts of the Suqian Plants and based on the assessment, the Group has recognised impairment losses which amounted to RMB191,300,000 (2009: Nil), representing the write down of the Suqian Plants to their estimated recoverable amounts of RMB24,812,000 from their gross carrying amounts of RMB216,112,000 as at 30 June 2010.

As at the date of authorisation of these financial statements, negotiations by the Group are currently on-going with the municipal government to seek a settlement.

15 Financial Receivables

	Group	
	2010	2009
	RMB'000	RMB'000
Current	7,527	6,091
Non-current	1,780,271	1,794,318
	1,787,798	1,800,409

The significant aspects of the service concession arrangements are summarised as follow:

a) The arrangements are concession arrangements for water/wastewater treatment plants with various municipal governments in the PRC under INT FRS 112 *Service Concession Arrangements*. As the counterparties of the service concession arrangements are municipal governments in the PRC, management is of the view that the associated credit risk is not significant.

b) These water/wastewater treatment plants which are located in 8 different cities in the PRC have concession years ranging between 25 years to 30 years, of which the Group has a contractual right under concession arrangements to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the plants. Under the terms of the arrangements, the Group will receive a yearly minimum amount of RMB126,528,000 (2009: RMB57,524,000) from the contracted parties (grantors) in exchange for services performed by the Group.

The right and obligations of these water/wastewater treatment arrangements are the same as those disclosed in Note 14.

c) Service concession receivables amounting to RMB719,584,000 (2009: RMB743,348,000) are pledged to secure the loans for the Group.

d) The fair value of the non-current portion of financial receivables approximates its carrying amount, as management is of the opinion that the effective interest rates used are similar to market interest rates.

e) The Group tests financial receivables annually for impairment or more frequently if there are indications that financial receivables might be impaired. Due to revisions in guaranteed amounts receivable from the municipal governments in certain plants, management estimated the recoverable amounts of the cash generating units based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and expected cash flows generated from the concession arrangements during the concession period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the cash generating units. Expected cash flows are based on past experience, terms of concession arrangement and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by the management using an average discount rate of 6% (2009: 6%) based on the Group's average internal rate of return and growth rate for the plants.

Based on the assessment for the current financial year ended 30 June 2010, the Group has recognised impairment losses of RMB126,141,000 (2009: Nil).

16 Investments in Subsidiaries

	Company 2010 RMB'000	2009 RMB'000
Unquoted equity shares, at cost	**261,882**	261,882

(a) Details of the subsidiaries at the end of the financial year are as follows:

Name of company	Principal activities	Country of incorporation and operation	Effective interest held by the Group 2010 %	2009 %
Held by the Company				
Ocean Force International Limited	Investment holding	British Virgin Islands ("BVI")	**100**	100
Held by subsidiaries				
Bio-Treat Resources Limited	Investment holding	BVI	**100**	100
Bio-Treat International Limited	Investment holding	BVI	**100**	100
Ocean Master International Limited	Investment holding	BVI	**100**	100
Sky Billion Limited	Investment holding	BVI	**100**	100
Newsussex International Limited	Investment holding	BVI	**100**	100
Biopower International Limited	Investment holding	BVI	**100**	100
True Global Limited	Investment holding	BVI	**100**	100
World Pioneer Investments Limited	Investment holding	BVI	**100**	100
Trademart Developments Limited	Investment holding	BVI	**100**	100
Rich Progress Limited	Investment holding	Hong Kong	**100**	100
Perfect Grace Investments Limited	Investment holding	Hong Kong	**100**	100
Bio-Treat Finance Limited	Investment holding	Hong Kong	**100**	100
Great Lucky Holdings Group Limited	Investment holding	Hong Kong	**64**	64

16 Investments in Subsidiaries *(continued)*

(a) Details of the subsidiaries at the end of the financial year are as follows: *(continued)*

Name of company	Principal activities	Country of incorporation and operation	Effective interest held by the Group 2010 %	2009 %
Profit Choice Investments Limited	Investment holding	Hong Kong	**60**	60
Oriental Fortune Limited	Investment holding	Hong Kong	**100**	100
New Efficient Limited	Investment holding	BVI	**100**	100
Prime Green Environment Technology Co., Ltd	Production, marketing, sales of Aqua Mate Coagulant	PRC	**60**	60
Golden Idea Bio-Engineering (Dongguan) Co., Ltd.	Research and development of environmental protection technologies, production and wastewater treatment equipment and provision of after-sales services such as installation and maintenance	PRC	**100**	100
Xianyang Bai Sheng Shui Purifying Co., Ltd.	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Lianyungang King Fortune Water Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Suqian City Cheng Bei Wastewater Treatment Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100

16 Investments in Subsidiaries *(continued)*

(a) Details of the subsidiaries at the end of the financial year are as follows: *(continued)*

Name of company	Principal activities	Country of incorporation and operation	Effective interest held by the Group 2010 %	2009 %
Suqian City Cheng Bei Water Treatment Co., Ltd.	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Kunshan Gang Dong Wastewater Treatment Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Hubei New Environment Water Co., Ltd	Construction and operation of water treatment plant	PRC	**100**	100
Nanjing Golden Idea Water Development Co., Ltd.	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Jinai Bio-Technology Engineering (Shanghai) Co., Ltd. (1)	Research and development of environmental technologies	PRC	**–**	–
Shanghai Jindi Bio-Technology Co., Ltd. (1)	Research and development of BMS Biological Process Technology, provision of environmental services and design of wastewater treatment projects	PRC	**–**	–
Shanghai Aidi Technology Co., Ltd. (1)	Research and development of environmental technologies	PRC	**–**	–

16 Investments in Subsidiaries *(continued)*

(a) Details of the subsidiaries at the end of the financial year are as follows: *(continued)*

Name of company	Principal activities	Country of incorporation and operation	Effective interest held by the Group 2010 %	2009 %
Beijing Bio-Treat Water Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Suzhou Jin Di Water Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Nanjing Jin Huan Water Development Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Binzhou Jin Di Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100
Anhui Jin Di Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**97**	97
Jiangdu Yanjiang Hui Tong Co., Ltd	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**100**	100

(1) The subsidiaries were deconsolidated with effect from 1 July 2006 (Note 18).

All the subsidiaries are audited by Moore Stephens LLP, Singapore.

16 Investments in Subsidiaries (continued)

(b) Acquisition and Disposal of Subsidiaries

Financial year ended 30 June 2010

There was no acquisition or disposal of subsidiaries during the financial year ended 30 June 2010.

Financial year ended 30 June 2009

(i) On 3 April 2009, the Group entered into an agreement with a third party to dispose of its 100% interest in the issued share capital of Foshan Jin Di Co., Ltd for a cash consideration of RMB23,995,000, resulting in a loss recognised of RMB44,858,000 (Note 7) in the Group's consolidated financial statements for the financial year ended 30 June 2009. According to the terms of the agreement, the consideration is to be received in three installments (i) RMB15,000,000 being the deposit and the first installment payment, (ii) RMB7,795,000 being the second installment due on 10 June 2009 and (iii) RMB1,200,000 being the third and final installment receivable on or before 10 December 2009.

The carrying amounts of the assets and liabilities of the subsidiary disposed of and the effect of the disposal on the Group's consolidated cash flows are as follows:

	Group 2009 RMB'000
Identifiable assets and liabilities	
Property, plant and equipment	(40)
Financial receivables	(45,538)
Other current assets	(23,539)
Other payables	264
Identifiable net assets (disposed)	(68,853)
Cash consideration for disposal	23,995
Less: Cash consideration receivable	(8,995)
Less: Cash and bank balances in subsidiary disposed	–
Net cash inflow on disposal	15,000

(ii) On 8 May 2009, the Group acquired a 100% interest in the issued share capital of Oriental Fortune Limited ("Oriental Fortune"), a company incorporated in Hong Kong, for a cash consideration of RMB5,334,000.

On 19 May 2009, the Group acquired the remaining 85% interest in the issued share capital of New Efficient Limited for a cash consideration of RMB434,000, including a settlement of certain liabilities of New Efficient Limited, amounting to RMB18,066,000, according to the terms of the acquisition. Prior to the acquisition, the Group held a 15% interest in the subsidiary which was accounted for under financial assets, available-for-sale. As at the date of this report, there is a balance outstanding of RMB423,000.

16 Investments in Subsidiaries *(continued)*

(b) Acquisition and Disposal of Subsidiaries *(continued)*

(ii) *(continued)*

The fair values of the identifiable assets and liabilities of the subsidiaries acquired and the effect of acquisition on the Group's consolidated cash flows are as follows:

	Group	
	At fair values RMB'000	Carrying amounts in acquirees' books RMB'000
Identifiable assets and liabilities		
Property, plant and equipment	228	228
Intangible assets	2,174	2,174
Financial receivables	46,730	46,730
Inventories	14	14
Trade and other receivables	2,386	2,386
Other current assets	111	111
Cash and bank balances	620	620
Non-controlling interest acquired [1]	5,543	5,543
Total assets	57,806	57,806
Deferred tax liabilities	340	340
Trade and other payables	51,363	51,363
Total liabilities	51,703	51,703
Identifiable net (assets) acquired	(6,103)	(6,103)
Negative goodwill arising on acquisition of interests in subsidiaries (Note 6)	335	
Cash consideration for acquisition paid	(5,768)	
Less: Cash and bank balances in subsidiaries acquired	620	
Net cash outflow on acquisition	(5,148)	

(1) Non-controlling interest relating to the 5% interest held in Lianyungang King Fortune Water Co., Ltd by Oriental Fortune Limited consequent to the acquisition of the 100% interest in Oriental Fortune Limited is disclosed above.

17 Investment in an Associated Company

	Group 2010 RMB'000	2009 RMB'000
As at 1 July	**34,574**	34,575
Share of losses of an associated company	**–**	(1)
As at 30 June	**34,574**	34,574

(a) Details of the associated company at the end of the financial year are as follows:

Name of company	Principal activities	Country of incorporation and operation	Effective interest held by the Group 2010 %	2009 %
New World Jiangdu Water Network Co., Ltd [1]	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	**35**	35

[1] The associated company is audited by Moore Stephens LLP, Singapore.

(b) The summarised financial information of the associated company is as follows:

	Group 2010 RMB'000	2009 RMB'000
Total assets	**99,639**	99,639
Total liabilities	**(3)**	(3)
Total revenue	**–**	–
Net loss for the year	**–**	(1)

18 Financial Assets, Available-for-Sale

	Group 2010 RMB'000	2009 RMB'000
Fair value of investments in deconsolidated subsidiaries	**69,845**	69,845
Due to deconsolidated subsidiaries	**(69,845)**	(69,845)

In 2006, the directors of the Company were unable to obtain the accounting and other records of certain subsidiaries for the purpose of preparing the Group's consolidated financial statements, as the Group had ceased to have control over the management of these subsidiaries. These subsidiaries were not material to the Group as they have ceased operations in 2006 and remained inactive since that year. The directors of the Company were therefore of the view that these entities have ceased to be subsidiaries of the Group and accordingly they were deconsolidated from the Group's consolidated financial statements with effect from 1 July 2006.

The amounts due to deconsolidated subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand.

19 Land Use Rights

	Land use rights RMB'000
Group	
2010	
Cost	
As at 1 July 2009	64,147
Impairment	(189)
As at 30 June 2010	63,958
Accumulated amortisation	
As at 1 July 2009	4,674
Additions	1,563
As at 30 June 2010	6,237
Net book value	
As at 30 June 2010	57,721
Deposits for acquisition of land use rights	
As at 30 June 2010	8,601
Total	66,322

19 Land Use Rights *(continued)*

	Land use rights RMB'000
Group *(continued)*	
2009	
Cost	
As at 1 July 2008	81,973
Acquisition of subsidiaries (Note 16(b)(ii))	2,174
Impairment	(20,000)
As at 30 June 2009	64,147
Accumulated amortisation	
As at 1 July 2008	2,568
Additions	2,106
As at 30 June 2009	4,674
Net book value	
As at 30 June 2009	59,473
Deposits for acquisition of land use rights	
As at 30 June 2009	16,436
Total	75,909

For the current financial year ended 30 June 2010, management of Golden Idea Bio-Engineering (Dongguan) Co., Ltd, a wholly owned subsidiary of the Group, carried out a review of the recoverable amount of its land use rights to an unoccupied plot of land in Dongguan City, PRC. Based on the assessment, the Group recognised impairment losses of RMB189,000 (2009: RMB20,000,000), representing the write down of the said land use rights of to their recoverable amount based on the land's estimated open market value of RMB21,000,000 (2009: RMB24,000,000) as at 30 June 2010.

20 Inventories

	Group 2010 RMB'000	2009 RMB'000
At cost:		
Raw materials and consumables	**842**	741

21 Construction Contract Work-in-Progress

	Group	
	2010	2009
	RMB'000	RMB'000
Construction services in progress under service concession arrangements recognised in financial receivables and/or intangible assets	**212,373**	628,324

22 Trade and Other Receivables

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables – third parties	**923,078**	931,228	**–**	–
Less: Allowance for impairment loss	**(889,260)**	(889,260)	**–**	–
Trade receivables, net	**33,818**	41,968	**–**	–
Due from subsidiaries	**–**	–	**1,669,412**	1,666,707
Due from a third party	**62,389**	–	**–**	–
Proceeds due from the disposal of a subsidiary (Note 16 (a)(i))	**423**	8,995	**–**	–
VAT recoverable	**–**	1,796	**–**	–
Sundry debtors	**1,785**	10,694	**–**	–
	98,415	63,453	**1,669,412**	1,666,707

Trade receivables are non-interest bearing and are generally on 30 to 90 days terms.

The amounts due from subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand.

The amount due from a third party, Dongguan Kechuang Future Energy Technology Development Co., Ltd ("Dongguan Kechuang"), which is a related party to Precious Wise Group Limited, are non-trade in nature, unsecured, interest-free and repayable on demand. As disclosed in Note 29, there is also an amount of RMB66,369,000 (2009: Nil) due to Dongguan Kechuang as at 30 June 2010.

Included in the previous year's sundry debtors was an amount of RMB8,000,000 relating to proceeds outstanding for the disposal of property, plant and equipment which has been written off during the current year as recovery of the amount was remote.

23 Other Current Assets

	Group 2010 RMB'000	Group 2009 RMB'000
Deposits for purchases of property, plant and equipment	24,522	29,013
Deposits for bidding and contracts secured	4,600	23,872
Sundry deposits	290	1,534
	29,412	54,419
Prepayments	3,562	2,246
	32,974	56,665
Other current assets are denominated in:		
Renminbi	32,720	56,227
Hong Kong dollar	254	438
	32,974	56,665

During the current financial year, the Group has written-off certain long outstanding deposits for purchases of property, plant and equipment and bidding and contracts secured totalling RMB3,706,000 (2009: RMB58,643,000) as there are significant uncertainties over the recovery of these deposits.

24 Cash and Bank Balances

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Cash at banks and on hand	8,612	72,262	260	136
Short-term bank deposits	1,800	8,000	–	–
	10,412	80,262	260	136

Bank balances bear interest rates at a range of 0.01 % to 1.65 % (2009: 0.01% to 1.41%) per annum. Short term bank deposits at the balance sheet date have a maturity period of 10 months (2009: 12 months) from the end of the financial year and bear an interest rate of 2.25% (2009: 1.35%) per annum.

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Renminbi	9,649	79,143	–	–
Hong Kong dollar	504	988	8	5
Singapore dollar	252	131	252	131
United States dollar	7	–	–	–
	10,412	80,262	260	136

24 Cash and Bank Balances (continued)

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprised:

	Group 2010 RMB'000	2009 RMB'000
Cash and bank balances	10,412	80,262
Less: Restricted bank balances	(1,800)	(12,289)
	8,612	67,973

The restricted bank balances relate to security deposits for the construction of wastewater treatment plants and tender deposits for bidding of contracts by the Group.

25 Share Capital

	Group and Company			
	2010 No. of ordinary shares of HK$0.10 each	2010 RMB'000	2009 No. of ordinary shares of HK$0.40 each	2009 RMB'000
Authorised share capital				
As at beginning of the year	2,000,000,000*	848,106	2,000,000,000	848,106
Capital reduction	(1,082,961,689)	(623,158)	–	–
Creation of new shares	5,082,961,689	447,198	–	–
As at end of the year	6,000,000,000	672,146	2,000,000,000	848,106
Issued and fully paid				
As at 1 July	891,324,026*	377,496	891,324,026	377,496
Issue of shares for conversion of convertible bonds	25,714,285*	9,051	–	–
Capital reduction	–	(247,520)	–	–
Issue of shares for exercise of warrants	12,271,980	1,080	–	–
As at 30 June	929,310,291	140,107	891,324,026	377,496

All issued ordinary shares are fully paid.

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

* The par value of these ordinary shares is HK$0.40 each.

25 Share Capital (continued)

Capital Reduction

Pursuant to the settlement with Convertible bondholders (see Note 30), the Company has on 30 December 2009 resolved and approved that the issued and paid up share capital of the Company be reduced (the "Capital Reduction") from HK$366,815,324 (RMB386,547,000) to HK$91,703,831 (RMB139,027,000) by cancelling the paid-up capital of the Company to the extent of HK$0.30 on each of the shares of HK$0.40 in issue so that each issued share of HK$0.40 shall be treated as one fully paid up share of HK$0.10. All the authorised but unissued shares of HK$0.40 each in the Company be cancelled and the authorised share capital of the Company be diminished by HK$708,296,169 representing the amount of shares so cancelled, and upon such cancellation, the authorised share capital be increased to HK$600,000,000 (RMB672,146,000) by the creation of 5,082,961,689 new ordinary shares of HK$0.10 each.

Upon the Capital Reduction taking effect, the credit amount of HK$275,111,493 (RMB247,520,000) arising from the Capital Reduction was credited to the accumulated losses of the Company.

26 Reserves

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Share premium	**784,426**	650,238	**784,426**	650,238
Foreign currency translation reserve	**1,965**	1,920	**–**	–
Statutory reserve	**62,785**	62,785	**–**	–
Retained earnings/(Accumulated losses)	**219,834**	(250,956)	**571,221**	(275,217)
	1,069,010	463,987	**1,355,647**	375,021

The movements of the Group's reserves are set out in the Group's consolidated statement of changes in equity.

(i) Share premium

The share premium account may be applied only for the purposes specified in the Companies Act 1981 of Bermuda.

(ii) Foreign currency translation reserve

The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of group entities whose functional currency is different from that of the Group's presentation currency.

(iii) Statutory reserve

The Group's subsidiaries which are incorporated in the PRC are required to appropriate 10% of the profit arrived at in accordance with PRC Generally Accepted Accounting Practices for each year to a statutory reserve. The profit arrived at must be used to set off against any accumulated losses. The appropriation to statutory reserve after offsetting against any accumulated losses must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends.

27 Borrowings

	Group 2010 RMB'000	2009 RMB'000
Current:		
Bank borrowings (a)	70,658	55,580
Other loans (b)	246,148	244,882
	316,806	300,462
Non-current:		
Bank borrowings (a)	484,032	501,440
	800,838	801,902

(a) Bank borrowings

	Group 2010 RMB'000	2009 RMB'000
Current:		
Borrowing I	10,880	10,880
Borrowing II	40,000	30,000
Borrowing III	5,500	4,500
Borrowing IV	3,500	3,000
Borrowing V	7,000	7,000
Borrowing VI	1,000	200
Borrowing VII	2,778	–
	70,658	55,580

27 Borrowings *(continued)*

(a) Bank borrowings *(continued)*

	Group 2010 RMB'000	2009 RMB'000
Non-current:		
Borrowing I	**21,760**	32,640
Borrowing II	**290,000**	330,000
Borrowing III	**51,250**	53,500
Borrowing IV	**34,000**	37,500
Borrowing V	**21,000**	28,000
Borrowing VI	**18,800**	19,800
Borrowing VII	**47,222**	–
	484,032	501,440
Total bank borrowings	**554,690**	557,020
Non-current bank borrowings are repayable as follows:		
2 to 5 years	**286,132**	274,590
After 5 years	**197,900**	226,850
	484,032	501,440

(i) Borrowing I

Borrowing I relates to a term loan facility amounting to RMB65,280,000 granted by a financial institution to a subsidiary of the Group to finance the subsidiary's acquisition of a wastewater treatment plant located in Lianyungang City, PRC.

This facility has been fully drawn down and the balance outstanding at 30 June 2010 is RMB32,640,000 (2009: RMB43,520,000).The loan is scheduled to be repaid within six years, with twelve equal installments of RMB5,440,000 each to be paid bi-annually in every March and September of the year, with the first installment commencing from September 2007. The loan incurred an effective interest of 5.94 % (2009: 6.80%) per annum.

The term loan facility granted to the subsidiary includes the following covenants:

- Receipts from trade receivables from the operation of the water treatment plant shall be processed through the financial institution.
- No dividends to shareholders of the subsidiary shall be declared or paid until full repayment of the loan.
- Assets of the water treatment plant shall not be pledged or assigned to third parties.

27 Borrowings *(continued)*

(a) Bank borrowings *(continued)*

(ii) Borrowing II

Borrowing II relates to a term loan facility amounting to RMB390,000,000 granted by a financial institution to a subsidiary of the Group to finance its construction of a wastewater treatment plant located in Suzhou City, PRC.

This facility has been fully drawn down and the balance outstanding at 30 June 2010 is RMB330,000,000 (2009: RMB360,000,000). The loan is scheduled to be repaid, commencing from November 2009, by two equal installments of RMB30,000,000 each over the first two years, followed by two equal installments of RMB40,000,000 each in the next two years, and another five equal installments of RMB42,000,000 each over the following five years, and a last installment of RMB40,000,000 by November 2017. The loan incurred effective interest at 5.94 % (2009: 6.80%) per annum.

The term loan facility granted to the subsidiary includes the following covenants:

- Receipts from trade receivables from the operation of the water treatment plant shall be processed through the financial institution.
- No dividends to shareholders of the subsidiary shall be declared or paid until full repayment of the loan.
- Assets of the water treatment plant shall not be pledged or assigned to third parties.

(iii) Borrowing III

Borrowing III relates to a term loan facility amounting to RMB60,000,000 granted by a financial institution to a subsidiary of the Group to finance its construction of a wastewater treatment plant located in Beijing City, PRC.

This facility has been fully drawn down and the balance outstanding at 30 June 2010 is RMB56,750,000 (2009: RMB58,000,000). During the year, the original loan repayment was rescheduled and is to be repaid, commencing from May 2010, by first installment of RMB1,250,000 during the first year, followed by RMB5,000,000 in the second year, RMB6,750,000 in the third year, and five equal installments of RMB7,500,000 each year by 2017. The loan incurred effective interest at 5.94 % (2009: 6.80%) per annum.

The term loan facility granted to the subsidiary includes the following covenants:

- Receipts from trade receivables from the operation of the water treatment plant shall be processed through the financial institution.
- Guarantee from a related company, Golden Idea Bio-Engineering (Dongguan) Co., Ltd.

27 Borrowings *(continued)*

(a) Bank borrowings *(continued)*

(iv) Borrowing IV

Borrowing IV relates to a term loan facility amounting to RMB42,000,000 granted by a financial institution to a subsidiary of the Group to finance its construction of a wastewater treatment plant located in Nanjing City, PRC.

This facility has been fully drawn down and the balance outstanding at 30 June 2010 is RMB37,500,000 (2009: RMB40,500,000). The loan is scheduled to be repaid, bi-annually in every May and October of the year, commencing from May 2010, by four equal installments of RMB1,500,000, followed by six equal installments of RMB2,000,000 each, six equal installments of RMB2,500,000 each, two last installments of RMB3,000,000 each and a last installment of RMB3,000,000 by March 2018. The loan incurred effective interest at 5.94% (2009: 6.80%) per annum.

The term loan facility granted to the subsidiary includes the following covenants:

- Upon completion of the construction of the water treatment plant (the "assets") in Nanjing City, PRC, the assets shall be pledged to the bank.

- Guarantee from a related company, Golden Idea Bio-Engineering (Dongguan) Co., Ltd.

(v) Borrowing V

Borrowing V relates to a term loan facility amounting to RMB35,000,000 granted by a financial institution to a subsidiary of the Group to finance the subsidiary's acquisition of a wastewater treatment plant located in Lianyungang City, PRC.

This facility has been fully drawn down and the balance outstanding at 30 June 2010 is RMB28,000,000 (2009: 35,000,000) . The loan is scheduled to be repaid within five years, with ten equal installments of RMB3,500,000 each to be paid bi-annually in every February and August of the year, with the first installment commencing from August 2009. The loan incurred effective interest at 6.34% per annum (2009: 6.34%).

The term loan facility granted to the subsidiary includes the following covenants:

- Daily bank balances shall not be less than RMB250,000.

- Assets of the water treatment plant shall be pledged to the bank.

27 Borrowings *(continued)*

(a) Bank borrowings *(continued)*

(vi) Borrowing VI

Borrowing VI relates to a term loan facility amounting to RMB20,000,000 granted by a financial institution to a subsidiary of the Group to finance its construction of a wastewater treatment plant located in Nanjing City, PRC.

This facility has been fully drawn down and the balance outstanding at 30 June 2010 is RMB19,800,000 (2009: RMB20,000,000). The loan is scheduled to be repaid, annually in every November of the year, by nine installments with first installment of RMB200,000 in 2009, RMB1,000,000 in 2010, RMB1,400,000 in 2011, RMB1,900,000 in 2012, RMB2,400,000 in 2013, RMB2,700,000 in 2014, RMB3,000,000 in 2015, RMB3,500,000 in 2016 and last installment of RMB3,900,000 in 2017. The loan incurred effective interest at 7.72% (2009: 7.72 %) per annum.

The term loan facility granted to the subsidiary includes the following covenants:

- Guarantee from a related company, Golden Idea Bio-Engineering (Dongguan) Co., Ltd.

(vii) Borrowing VII

Borrowing VII relates to a term loan facility amounting to RMB50,000,000 granted by a financial institution to a subsidiary of the Group to finance the subsidiary's construction of a wastewater treatment plant located in Kunshan City, PRC.

This facility has been fully drawn down and the balance outstanding at 30 June 2010 is RMB50,000,000 (2009: Nil). The loan is scheduled to be repaid in 36 quarterly installment with first installment of RMB1,388,889 starting on March 2011. The loan incurred effective interest at 5.94% per annum (2009:Nil).

The term loan facility granted to the subsidiary includes the following covenants:

- Assets of the water treatment plant shall be pledged to the bank.

(vii) Carrying Amount and Fair Value Information

The following fair values of bank borrowings are for information purposes only and are not recognised in the financial statements.

	Group	
	2010	2009
	RMB'000	RMB'000
Carrying amounts	**554,690**	557,020
Fair values	**554,992**	492,915

The fair values of bank borrowings at the balance sheet date are based on expected future cash flows, discounted using market rates for similar instruments at the balance sheet date.

27 Borrowings (continued)

(b) Other loans

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current:				
Loan I	**208,777**	211,449	**208,777**	211,449
Loan II	**33,011**	33,433	**–**	–
Loan III	**4,360**	–	**4,360**	–
	246,148	244,882	**213,137**	211,449

The loans are denominated in Hong Kong dollars.

(i) *Loan I*

On 18 January 2008, the Company entered into a loan agreement with a former shareholder, Precious Wise Group Limited ("Precious Wise"), for a loan facility of up to but not exceeding the principal sum of HK$360,000,000 in aggregate for a loan period of five years and six months, up to 2013. The loan incurs interest at a rate of 4.5% per annum. The full principal amount of the loan was originally scheduled to be repaid in one lump sum on the maturity date, subject to the terms and conditions of the loan agreement.

For both financial years ended 30 June 2009 and 30 June 2010, there was no further utilisation of the loan facility nor repayment made in respect of the outstanding loan. As at 30 June 2010, the principal sum of the outstanding loan amounted to HK$239,412,000 (RMB208,777,000) (2009: HK$239,412,000 (RMB211,449,000)). The movement during the current financial year is due to currency adjustment.

Event of Default

On 15 May 2008, pursuant to the event of default of the Convertible Bonds (Note 30), the Group received notice from Precious Wise that the Company's failure to meet the repayment terms for other loans of the Group constituted an event of default for the outstanding loan, and therefore they had invoked their rights pursuant to the terms and conditions of the loan agreement.

In connection with the above, the Group entered into several Deeds of Charge ("Charge Deed") with Precious Wise, dated 28 November 2008, over the Group's interests in shares ("Charged Shares") held in certain subsidiaries ("Charged Subsidiaries") to provide Precious Wise with security for the Group's repayment of the defaulted loan. Consequently, the Group's interests in shares of the Charged Subsidiaries were transferred to Precious Wise for perfection of Precious Wise's security for the Group's repayment of the defaulted loan, in accordance with the terms of the Charge Deed.

During the current financial year, the Group entered into several Supplemental Deeds with Precious Wise, dated 16 September 2009, to amend certain terms of the Charge Deed, amongst which the parties agreed that the Group will remain beneficial owner of the Charged Shares (i.e. control over the management of the Charged Subsidiaries remains with the Group subject only to the security created by the Charge Deed) and that prior to the enforcement of the security constituted by the Charge Deed, the Group retains all voting and other rights associated with the Charged Shares and the full rights to vote at all general meetings of the Charged Subsidiaries. The amendments to the Charge Deed are effective from the date of the relevant Charge Deed and the shares of the Charged Subsidiaries were consequently transferred back to the Group.

27 Borrowings (continued)

(b) Other loans (continued)

(ii) *Loan II*

On 18 July 2008, a subsidiary of the Group entered into a loan agreement with Datasino Group Limited ("Datasino"), which is a related party of Precious Wise, for a loan facility of a principal sum of HK$50,000,000. The full principal amount was scheduled to be repaid in one lump sum on 15 July 2009 and incurs interest at a rate of 2% per month. The Group had not repaid the outstanding loan amount which was due on 15 July 2009.

During the current financial year ended 30 June 2010, there was no further utilisation of the loan facility nor repayment made in respect of the outstanding loan amount. As at 30 June 2010, the principal sum of the outstanding loan amounted to HK$37,854,575 (RMB33,011,000) (2009: HK$37,854,575 (RMB33,433,000)). The movement during the current financial year is due to currency adjustment.

Event of Default

In connection with the above loan, the Group entered into a Deed of Charge ("Charge Deed") with Datasino, dated 28 November 2008, over the Group's interest in shares ("Charged Shares") held in a subsidiary ("Charged Subsidiary") to provide Datasino with security for the Group's repayment of the loan. Consequently, the Group's interest in shares of the Charged Subsidiary was transferred to Datasino for perfection of Datasino's security for the Group's repayment of the loan, in accordance with the terms of the Charge Deed.

During the current financial year, the Group entered into several Supplemental Deeds with Datasino, dated 16 September 2009, to amend certain terms of the Charge Deed, dated 28 November 2008, amongst which the parties agreed that the Group will remain the beneficial owner of the Charged Shares (i.e. control over the management of the Charged Subsidiaries remains with the Group subject only to the security created by the Charge Deed) and that prior to the enforcement of the security constituted by the Charge Deed, the Group retains all voting and other rights associated with the Charged Shares and the full rights to vote at all general meetings of Charged Subsidiaries. The amendments to the Charge Deed are effective from the date of the relevant Charge Deed and the shares of the Charged Subsidiaries were consequently transferred back to the Group.

(iii) *Loan III*

On 12 October 2009, the Company entered into a loan agreement with a third party for a loan facility of up to but not exceeding the principal sum of HK$5,000,000 at an interest rate of 9% per annum with no fixed terms of repayment.

During the current financial year ended 30 June 2010, the Company utilised the loan facility in full and as at 30 June 2010, the principal sum of the outstanding loan amounted to HK$5,000,000 (RMB4,360,000).

(iv) *Settlement Arrangement for Loan I and Loan II*

The Company has on 11 December 2009 entered into a Settlement Deed (the "PWGL Settlement") with Precious Wise and Datasino to effect a full and final settlement of all the Group's outstanding payment obligations under Loan I and Loan II. Pursuant to the terms of the PWGL Settlement:

- Precious Wise shall receive a cash payment of HK$140,511,961 (RMB123,060,000);
- Datasino shall receive a cash payment equivalent to the Loan II outstanding sum;

27 Borrowings *(continued)*

(b) Other loans *(continued)*

(iv) Settlement Arrangement for Loan I and Loan II (continued)

- The Company shall issue convertible bonds (the "PWGL Notes") to Precious Wise with a principal amount of HK$222,238,256 (RMB194,636,000). The PWGL Notes bear interest at a rate of 1% per annum and in the event that the interest is not paid, the holder (the "PWGL Noteholder(s)") of the PWGL Notes shall have the right to receive new shares in the capital of the Company in lieu of such interest. The principal amount due under the PWGL Notes will be redeemable at 110% of the principal amount at the end of the period of the PWGL Notes and in the event that such amount is not paid to PWGL Noteholder(s), default interest at the rate of 15% per annum will be levied on the unpaid amount of the PWGL Redemption Amount. The PWGL notes are convertible into ordinary share of the Company at a price of S$0.04 per share; and

- The Company shall issue 31,631,598 free, unlisted, detachable warrants (the "PWGL Warrants") to Precious Wise. The warrants can be exercised at S$0.025 each and receive one ordinary share of the Company.

The completion of the PWGL Settlement is conditional upon, inter alia:

- the PWGL Settlement being validly executed by the Company; and

- the completion of the Subscription Agreement with Giant Delight Holdings Limited (See Note 35).

As at the date of authorisation of these financial statements, the PWGL Settlement has not been completed.

28 Deferred Tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when the deferred taxes relates to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown as follows:

(i) Deferred tax assets

The deferred tax assets arose from the excess of tax written down value over net book value of property, plant and equipment. The movement during the last financial year is due to the disposal of property, plant and equipment.

	Group	
	2010	2009
	RMB'000	RMB'000
Recoverable after one year:		
As at beginning of the year	–	13,212
Charged to income statement (Note 11)	–	(13,212)
As at end of the year	–	–

28 Deferred Tax *(continued)*

(ii) Deferred tax liabilities

	Group	
	2010	2009
	RMB'000	RMB'000
Deferred tax liabilities:		
– to be settled within one year	**131**	174
– to be settled after one year	**14,467**	13,553
	14,598	13,727

The deferred tax liabilities relate to the temporary differences due to accounting of service concession arrangements and the movement is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Balance at beginning of year	**13,727**	12,567
Charged to income statement (Note 11)	**871**	820
Acquisition of subsidiaries (Note 16(b)(ii))	**–**	340
Balance at end of year	**14,598**	13,727

29 Trade and Other Payables

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables – third parties	**1,360**	3,014	**–**	–
Accrued expenses	**8,513**	16,329	**2,976**	132
Accrued interest on other loans	**47,791**	34,343	**36,328**	26,790
Other taxes payable	**447**	166	**–**	–
Due to an associated company	**34,638**	34,638	**–**	–
Due to a third party	**66,369**	–	**–**	–
Sundry creditors	**50,544**	26,006	**9,368**	10,268
	209,662	114,496	**48,672**	37,190

Trade payables are non-interest bearing and are generally settled on 30 to 90 days terms.

The amount due to an associated company is non-trade in nature, unsecured, interest-free and repayable on demand.

29 Trade and Other Payables *(continued)*

The amount due to a third party, Dongguan Kechuang Future Energy Technology Development Co., Ltd ("Dongguan Kechuang"), which is a related party to Precious Wise, is non-trade in nature, unsecured, interest-free and repayable on demand. As disclosed in Note 22, there is also an amount of RMB62,389,000 (2009: Nil) due from Dongguan Kechuang as at 30 June 2010.

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi	**149,937**	77,284	**–**	–
Hong Kong dollar	**47,381**	26,812	**36,328**	26,790
Singapore dollar	**2,976**	132	**2,976**	132
United States dollar	**9,368**	10,268	**9,368**	10,268
	209,662	114,496	**48,672**	37,190

30 Convertible Bonds

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Current:		
Put bonds	**–**	429,290
Convertible bonds	**–**	498,279
	–	927,569

Event of Default of Convertible Bonds

On 18 January 2008, certain Convertible Bondholders exercised their put option in respect of the Convertible Bonds (the "Put Options"), with a principal amount of S$116,400,000 (RMB 586,656,000), to cause the Company to redeem the Put Bonds at 108.77% of their principal amount, totalling S$126,608,000 (RMB638,106,000). The Company made partial payment amounting to S$39,972,000 (RMB201,145,000) in respect of the Put Bonds during the previous financial year ended 30 June 2008. No further payment has been made in respect of the Put Bonds during the current financial year. The principal amount outstanding in respect of the Put Bonds amounted to S$79,651,000 (RMB374,990,000) as at 30 June 2009 (2008: S$79,651,000 (RMB401,729,000)).

The Company had on 18 April 2008, 22 July 2008 and 23 July 2008 received notices from certain Convertible Bondholders claiming that the Company's failure to redeem fully the Put Bonds that were put to the Company on 18 January 2008 constituted an event of default (the "Alleged Default") which the Alleged Default entitled the other Convertible Bondholders to accelerate the remaining Convertible Bonds (the "Accelerated Bonds") to become immediately due and payable, and accordingly, in the financial statements, the Accelerated Bonds had been reclassified to current liabilities as at the end of the financial year ended 30 June 2008. The total principal amount of the remaining Convertible Bonds that could potentially be accelerated was S$89,600,000 (RMB 453,644,000) as at 30 June 2008, of which the Company has, as at the date of authorisation of the financial statements for the financial year ended 30 June 2008, received notices of acceleration in respect of Convertible Bonds amounting to S$50,600,000 (RMB255,206,000).

30 Convertible Bonds *(continued)*

Event of Default of Convertible Bonds *(continued)*

Subsequently, the Company has on 8 October 2008 and 25 February 2009 received further notices of acceleration from certain Convertible Bondholders and consequently, as at the date of authorisation of the financial statements for the financial year ended 30 June 2009, the Convertible Bonds which are subject to the various notices of acceleration received by the Company totalled S$61,200,000 (RMB288,124,000).

Settlement with Convertible Bondholders

During the current financial year, the Company has on 22 September 2009 announced certain revisions to the terms of the Convertible Bonds to all the Convertible Bondholders (the "CB Holders") to effect a full and final settlement of all the Company's outstanding payment obligations under the Convertible Bonds (the "CB Settlement"). The CB Settlement was approved and resolved on 15 October 2009 in a meeting with the CB Holders:

(i) the Company and all the CB Holders effecting a marking-down of the remaining balance of the Convertible Bonds from the principal amount of S$169,251,000 (RMB838,634,000) to S$37,080,000 (RMB182,897,000) (the "Marked-down Bonds") to be repayable on certain agreed bullet repayment dates;

(ii) the Company procures a wholly owned subsidiary of the Group, Bio-Treat International Limited ("BTI"), to grant a security ("Share Charge") interest over the shares held by BTI in World Pioneer Investments Limited, a wholly owned subsidiary of BTI, by way of two charges given in favour of the holders and the Bank of New York Mellon as security agents and trustees to secure the Company's obligations under the Marked-down Bonds; and

(iii) the Company issues warrants (the "Warrants") to the holders of the Marked-down Bonds entitling the holders to subscribe for 89,000,000 new ordinary shares at an exercise price of S$0.025 for each new share in the capital of the Company upon the exercise of the Warrants.

Pursuant to the terms of the CB Settlement, the Company entered into the Amended and Restated Agency Agreement ("ARAA") which came into effect on 26 April 2010 with the following updates:

(i) the principal amount under the Convertible Bonds was marked-down to S$31,398,000 (RMB154,870,000) and replaced by Zero Coupon Bonds (see Note 31);

(ii) the Share Charge was granted in favour of (a) The Bank of New York Mellon; and (b) Rich Progress Limited, in their capacities as security agent on behalf of CB Holders holding their interests in the Marked-Down Bonds in definitive form and through the global bond respectively; and

(iii) 75,198,000 warrants were issued to the CB Holders in proportion to their entitlement to the Marked-Down Bonds (see Note 32).

The financial impact of the write down of the Convertible Bond is RMB678,228,000 as disclosed in Note 7.

31 Zero Coupon Bonds

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Current:		
Zero coupon secured bonds due 2010	153,150	–

The Zero Coupon Bonds are interest-free and secured by a Share Charge over the Group's shareholding in World Pioneer Investments Limited (which wholly owns Kunshan Gang Dong Wastewater Treatment Co. Ltd that operates the wastewater treatment plant in Kunshan City, PRC) in favour of the holders of the Zero Coupon Bonds (the "Zero-Coupon Bondholders") (see Note 30).

The Zero Coupon Bonds shall be redeemed as follow:

(a) First payment date: 61.11 % of their outstanding principal amount no later than 31 December 2009; and

(b) Second payment date: the balance of their outstanding principal amount on 31 March 2010.

Event of Default of Zero Coupon Bonds

The Company has on 15 July 2010 received notice from Zero-Coupon Bondholders that the Zero Coupon Bond's full outstanding principal amount remains due and payable and the Company continues to be in breach of its obligations under the conditions of the Zero Coupon bonds.

As at the date of authorisation of these financial statements, the Zero-Coupon Bondholders have not demanded for immediate redemption of the Zero Coupon Bonds or enforced the Share Charge.

32 Other Financial Liabilities

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Financial Liabilities carried at fair value through profit or loss (FVTPL),		
Current:		
– Warrants	20,841	–
Financial Liabilities, warrants		
As at 1 July	–	–
Initial recognition	34,644	–
Exercise of warrants	(5,654)	–
Net changes in fair value	(8,149)	–
As at 30 June	20,841	–

32 Other Financial Liabilities *(continued)*

Fair value of warrants

75,198,000 warrants were issued to the CB Holders as part of the CB Settlement as disclosed in Note 30. Each warrant can be exercised at an exercise price of S$0.025 for one ordinary share at par value of HK$0.10 each. The exercise period is 5 years, expiring on 26 April 2015.

The fair value of the warrants is estimated at both the issue and year-end dates, using the Black Schole's Pricing model. The following table lists the inputs to the option pricing model for the current financial year ended 30 June 2010.

	2010 RMB'000
Risk-free rate (% p.a)	0.76%
Exercise price (S$)	S$0.025
Underlying share price (S$)	S$0.100
Years to maturity (years)	5 years
Volatility (%)	123%

The volatility reflects the assumption that the historical volatility over a period similar to the life of the warrant is indicative of future trends, which may not necessarily be the actual outcome.

33 Related Party Transactions

(i) Transactions with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

During the financial year, the Group had significant transactions with related parties on terms agreed between the parties as follows:

	Group	
	2010 RMB'000	2009 RMB'000
With a company in which a director has an interest		
Professional fees	764	212

33 Related Party Transactions (continued)

(ii) Compensation of directors and key management personnel

	Group 2010 RMB'000	2009 RMB'000
Salaries, bonus and related benefits	3,649	4,466
Defined contribution plans	11	60
	3,660	4,526
Comprised amounts paid/payable to:		
Directors of the Company	461	1,767
Other key management personnel	3,199	2,759
	3,660	4,526

34 Commitments

(i) Future capital commitments

	Group 2010 RMB'000	2009 RMB'000
Capital expenditure on purchase of property, plant and equipment		
– committed but not provided for in the financial statements	112,726	95,318
	112,726	95,318

(ii) Operating lease commitments

At the balance sheet date, the Group had entered into several operating lease commitments for office premises and staff accommodation. These leases do not contain renewal options and there were no restrictions placed upon the Group by entering into these leases. At the balance sheet date, the future minimum lease payables under these non-cancellable operating leases are as follows:

	Group 2010 RMB'000	2009 RMB'000
Within one year	2,673	3,296
Between two to five years	6,284	8,797
	8,957	12,093

35 Fund Raising Exercises Undertaken by the Company

(i) Subscription Agreement with Giant Delight Holdings Limited ("GDHL")

On 11 December 2009, the Company entered into a subscription agreement with GDHL, an investment holding company incorporated in the British Virgin Islands, for the following transactions:

- GDHL to subscribe for 370 million new ordinary shares of the Company for a cash consideration of HK$76.9 million (approximately RMB68.0 million);

- The Company will issue convertible bonds (the "GD notes") of principal amount of HK$290.1 million (approximately RMB256.7 million) with interest of 1% per annum. Interest can be settled either by cash or new shares of the Company in lieu of the interest.

- The GD notes can be converted into approximately 1.4 million new ordinary shares of the Company at a conversion price of S$0.04 per share, subject to applicable adjustments under the terms and conditions of the GD Notes. In the event that the GD Notes are not converted during the period of the GD Notes, they are redeemable at 110% of the principal amount at the end of the period of the GD Notes. In the event that such amount is not paid, default interest at the rate of 15% per annum will be levied on the unpaid amount. In the event that default interest is not paid, noteholders have the right to receive new shares in the capital of the Company in lieu with such default interest.

- The Company will issue 57.7 million free, unlisted detachable warrants (the "GD Warrants") to GDHL, at an exercise price of S$0.025 per share for 57.7 million new ordinary shares in the capital of the Company, subject to applicable adjustments under the deed poll concerning the GD Warrants.

The total consideration of the above is HK$364.4 million (approximately RMB322.4 million), net of estimated expenses, which will be used as follows:

– Payment of HK$140.5 million (approximately RMB124.3 million) and HK$39.5 million (approximately RMB35.0 million) to Precious Wise and Datasino, respectively;
– Payment of S$31.4 million (approximately RMB144.4 million) to Zero Coupon Bonds Holders in accordance to the provisions of the ARAA; and
– Balance of HK$21.2 million (approximately RMB18.7 million) to be used as working capital and for capital expenditure.

On 29 April 2010, the Company entered into a supplemental deed with GDHL for the purpose of, inter alia:

– Extending the long-stop-date for the completion of the Subscription Agreement;
– Granting GDHL's conditional consent to the Rights Issue (see (ii) below); and
– Documenting the conditional agreement to waive its right to adjust the GD Notes and GD Warrants to be issued to GDHL

As at the date of authorisation of these financial statements, the subscription agreement with GDHL has not been completed.

(ii) Rights Issue

The Company announced on 29 April 2009 that it proposes to carry out an additional fund raising exercise by way of a renounceable non-underwritten rights issue ("Rights Issue") of up to 595,341,864 ordinary shares in the capital of the Company ("Rights Shares"). The Rights Issue is proposed to be offered on a renounceable basis to all shareholders of the Company at an issue price of S$0.04 for each Rights Share on the basis of three Rights Shares for every five existing ordinary share held, so as to allow shareholders to participate in the fund raising exercise of the Company following the proposed issue of securities to GDHL (as set out in (i) above) and the delayed repayment following the proposed issue of securities to Precious Wise (see Note 27(b)(iv)).

Subsequent to the financial year end, the foregoing Rights Issue was aborted and replaced by a new fund raising exercise, the details of which are set out in Note 38.

36 Segment Reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of resource allocation and performance assessment.

Revenue reported below represents revenue generated from external customers. There were no inter-segment sales in the current financial year (2009: Nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies disclosed in Note 3. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expense, interest-bearing borrowings and related expenses, share of losses of associated company and income and deferred taxes. No operating segments have been aggregated to form the following reportable operating segments.

Business segments

The Group's main business segment for the current financial year is Built-Operate-Transfer ("BOT")/Transfer-Operate-Transfer ("TOT") water service fees.

The Group has gradually ceased the "Best Micro-Organism System ("BMS") turnkey wastewater treatment services" and "BMS and Aqua Mate Product Sales" businesses since the previous financial year.

Geographical segments

The Group operates predominantly in the PRC.

Customer segments

No single individual company contributed significantly to the Group's revenue.

36 Segment Reporting *(continued)*

Group	BMS turnkey wastewater treatment services RMB'000	BMS and Aqua Mate product sales RMB'000	BOT/TOT wastewater treatment RMB'000	Total RMB'000
2010				
Revenue	–	–	359,691	359,691
Segment results	–	–	(298,318)	(298,318)
Unallocated income				9,822
Unallocated expense				(80,172)
Finance income				592
Finance costs				(85,933)
Exceptional items				678,228
Profit before income tax				224,219
Income tax				(2,165)
Profit for the year				222,054
Other segment items				
Capital expenditure				
– allocated	–	–	608	608
– unallocated				66
				674
Depreciation				
– allocated	–	–	5,912	5,912
– unallocated				1,379
				7,291
Amortisation of intangible assets				22,344
Amortisation of land use rights				
– allocated	–	–	1,107	1,107
– unallocated				456
				1,563

36 Segment Reporting *(continued)*

Group	BMS turnkey wastewater treatment services RMB'000	BMS and Aqua Mate product sales RMB'000	BOT/TOT wastewater treatment RMB'000	Total RMB'000
2010				
Allowance for impairment of:				
– intangible assets	–	–	191,300	191,300
– financial receivables	–	–	126,141	126,141
– property, plant and equipment	–	–	40,000	40,000
Unallocated				
– land use rights				189
– construction in progress				2,644
– other current assets				3,706
– trade and other receivables				8,000
Assets and Liabilities				
Segment assets	–	–	2,335,591	2,335,591
Unallocated assets				141,259
Total assets				2,476,850
Segment liabilities	–	–	677,638	677,638
Unallocated liabilities				591,296
Total liabilities				1,268,934

36 Segment Reporting *(continued)*

Group	BMS turnkey wastewater treatment services RMB'000	BMS and Aqua Mate product sales RMB'000	BOT/TOT wastewater treatment RMB'000	Total RMB'000
2009				
Revenue	93,480	31,537	282,968	407,985
Segment results	(375,209)	(59,903)	(97,220)	(532,332)
Unallocated income				65,170
Unallocated expense				(100,556)
Finance income				465
Finance costs				(109,692)
Share of losses of an associated company				(1)
Loss before income tax				(676,946)
Income tax				(26,392)
Loss for the year				(703,338)
Other segment items				
Capital expenditure				
– allocated	1,303	440	2,967	4,710
Depreciation				
– allocated	14,351	4,842	5,576	24,769
– unallocated				1,338
				26,107
Amortisation of intangible assets	–	–	19,386	19,386
Amortisation of land use rights	656	221	1,229	2,106
Allowance for impairment of:				
– land use rights	20,000	–	–	20,000
– trade receivables	285,485	58,542	–	344,027
Assets and Liabilities				
Segment assets	38,472	13,149	2,532,222	2,583,843
Unallocated assets				185,458
Total assets				2,769,301
Segment liabilities	5,200	1,755	27,072	34,027
Unallocated liabilities				1,893,760
Total liabilities				1,927,787

37 Financial Risk Management

The Group's activities exposed it to a variety of financial risks such as market risk (including interest rate risk and currency risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group continually monitors the risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Board will review and agree on policies for managing each of these risks as summarised below.

(a) Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposures to interest rate risk relates primarily to the Group's interest-bearing assets and liabilities. The Group does not enter into interest rate swaps to manage its interest rate risk. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

The table below sets out the Group's exposure to interest rate risks. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Variable rates			Fixed rates		Non-interest	
	Within 1 year	1 to 5 years	After 5 years	Within 1 year	1 to 5 years	bearing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group							
2010							
Assets							
Cash and bank balances	8,279	–	–	1,800	–	333	10,412
Trade and other receivables	–	–	–	–	–	98,415	98,415
Financial receivables – current	–	–	–	–	–	7,527	7,527
Financial receivables – non current	–	–	–	–	–	1,780,271	1,780,271
Other financial assets	–	–	–	–	–	99,257	99,257
Non-financial assets	–	–	–	–	–	480,968	480,968
Total assets	8,279	–	–	1,800	–	2,466,771	2,476,850
Liabilities							
Borrowings	70,658	286,132	197,900	246,148	–	–	800,838
Zero coupon bonds	–	–	–	–	–	153,150	153,150
Trade and other payables	–	–	–	–	–	279,507	279,507
Other financial liabilities	–	–	–	–	–	20,841	20,841
Non-financial liabilities	–	–	–	–	–	14,598	14,598
Total liabilities	70,658	286,132	197,900	246,148	–	468,096	1,268,934

37 Financial Risk Management *(continued)*

(a) Interest Rate Risk *(continued)*

	Variable rates			Fixed rates		Non-interest	
	Within 1 year	1 to 5 years	After 5 years	Within 1 year	1 to 5 years	bearing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group							
2009							
Assets							
Cash and bank balances	71,942	–	–	8,000	–	320	80,262
Trade and other receivables	–	–	–	–	–	63,453	63,453
Financial receivables-current	–	–	–	–	–	6,091	6,091
Financial receivables – non current	–	–	–	–	–	1,794,318	1,794,318
Other financial assets	–	–	–	–	–	124,264	124,264
Non-financial assets	–	–	–	–	–	700,913	700,913
Total assets	71,942	–	–	8,000	–	2,689,359	2,769,301
Liabilities							
Borrowings	55,580	274,590	226,850	244,882	–	–	801,902
Convertible bonds	–	–	–	429,290	–	498,279	927,569
Trade and other payables	–	–	–	–	–	184,341	184,341
Non-financial liabilities	–	–	–	–	–	13,975	13,975
Total liabilities	55,580	274,590	226,850	674,172	–	696,595	1,927,787

37 Financial Risk Management *(continued)*

(a) Interest Rate Risk *(continued)*

	Variable rates			Fixed rates		Non-interest	
	Within 1 year	1 to 5 years	After 5 years	Within 1 year	1 to 5 years	bearing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Company							
2010							
Assets							
Cash and bank balances	260	–	–	–	–	–	260
Trade and other receivables	–	–	–	–	–	1,669,412	1,669,412
Non-financial assets	–	–	–	–	–	261,882	261,882
Total assets	260	–	–	–	–	1,931,294	1,931,554
Liabilities							
Borrowings	–	–	–	213,137	–	–	213,137
Zero coupon bonds	–	–	–	–	–	153,150	153,150
Trade and other payables	–	–	–	–	–	48,672	48,672
Other financial liabilities	–	–	–	–	–	20,841	20,841
Total liabilities	–	–	–	213,137	–	222,663	435,800
Company							
2009							
Assets							
Cash and bank balances	136	–	–	–	–	–	136
Trade and other receivables	–	–	–	–	–	1,666,707	1,666,707
Non-financial assets	–	–	–	–	–	261,882	261,882
Total assets	136	–	–	–	–	1,928,589	1,928,725
Liabilities							
Borrowings	–	–	–	211,449	–	–	211,449
Convertible bonds	–	–	–	429,290	–	498,279	927,569
Trade and other payables	–	–	–	–	–	37,190	37,190
Total liabilities	–	–	–	640,739	–	535,469	1,176,208

37 Financial Risk Management *(continued)*

(a) Interest Rate Risk *(continued)*

Sensitivity Analysis

A change of 100 basis points in interest rate for the Group's variable rate borrowings would affect profit/(loss) after tax by the amounts as shown below. This analysis assumes that all other variables, in particular foreign currency and tax rates, remain constant.

	Group	
	2010	2009
	RMB'000	RMB'000
Floating rate instruments		
– 100 basis point increase	**(4,160)**	4,178
– 100 basis point decrease	**4,160**	(4,178)

Interest rate risk for the Company is not significant and therefore no sensitivity analysis has been disclosed in the financial statements.

(b) Foreign Currency Risk

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's mainly operates in the PRC and its functional currency is in Renminbi. The Group's is exposed to foreign currency risk when transactions such as expenses and borrowings are denominated in currencies other than Renminbi. The currencies giving rise to this risk are primarily Singapore dollar (S$), Hong Kong dollar (HK$) and United States dollar (US$).

The Group has not entered into any forward currency contracts or any hedging instruments to manage the foreign currency risk. This exposure is managed as far as possible by natural hedges of matching assets and liabilities.

37 Financial Risk Management *(continued)*

(b) Foreign Currency Risk *(continued)*

The Group's foreign currency exposure based on the information provided to key management is as follow:

	Denominated in the following currencies		
	Singapore	Hong Kong	United States
Group	dollars	dollars	dollars
2010	RMB'000	RMB'000	RMB'000
Financial assets			
Cash and bank balances	252	504	7
Other current assets	–	254	–
	252	758	7
Financial liabilities			
Zero Coupon bonds	153,150	–	–
Other loans	–	246,148	–
Warrants	20,841	–	–
Trade and other payables	2,976	47,381	9,368
	176,967	293,529	9,368
Net financial liabilities	(176,715)	(292,771)	(9,361)
Group			
2009	RMB'000	RMB'000	RMB'000
Financial assets			
Cash and bank balances	131	988	–
Other current assets	–	438	–
	131	1,426	–
Financial liabilities			
Convertible bonds	927,569	–	–
Other loans	–	244,882	–
Trade and other payables	132	26,812	10,268
	927,701	271,694	10,268
Net financial liabilities	(927,570)	(270,268)	(10,268)

37 Financial Risk Management *(continued)*

(b) Foreign Currency Risk *(continued)*

Sensitivity Analysis

A change of 5% (2009: 5%) (taking into consideration both strengthening and weakening aspect) of the following currencies against RMB at the year end date would increase/(decrease) the Group's profit/(loss) after income tax by the amounts as shown below. This analysis assumes that all other variables, in particular interest and tax rates, remain constant.

	Group 2010 RMB'000	Group 2009 RMB'000
Group		
S$ against RMB		
– strengthened	(6,627)	(34,784)
– weakened	6,627	34,784
HK$ against RMB		
– strengthened	(10,979)	(10,135)
– weakened	10,979	10,135
US$ against RMB		
– strengthened	(351)	(385)
– weakened	351	385

	Denominated in the following currencies		
Company 2010	**Singapore dollars RMB'000**	**Hong Kong dollars RMB'000**	**United States dollars RMB'000**
Financial assets			
Cash and bank balances	252	8	–
Other current assets	–	–	–
	252	8	–
Financial liabilities			
Zero Coupon bonds	153,150	–	–
Other loans	–	213,137	–
Other financial liabilities	20,841	–	–
Trade and other payables	2,976	36,328	9,368
	176,967	249,465	9,368
Net financial liabilities	(176,715)	(249,457)	(9,368)

37 Financial Risk Management *(continued)*

(b) Foreign Currency Risk *(continued)*

	Denominated in the following currencies		
Company	Singapore dollars	Hong Kong dollars	United States dollars
2009	RMB'000	RMB'000	RMB'000
Financial assets			
Cash and bank balances	131	5	–
Other current assets	–	–	–
	131	5	–
Financial liabilities			
Convertible bonds	927,569	–	–
Other loans	–	211,449	–
Trade and other payables	132	26,790	10,268
	927,701	238,239	10,268
Net financial liabilities	(927,570)	(238,234)	(10,268)

Sensitivity Analysis

A change of 5% (2009: 5%) (taking into consideration both strengthening and weakening aspect) of the following currencies against RMB at the year end date would increase/(decrease) the Company's profit/(loss) after income tax by the amounts as shown below. This analysis assumes that all other variables, in particular interest and tax rates, remain constant.

	Company	
	2010	2009
	RMB'000	RMB'000
Company		
S$ against RMB		
– strengthened	**(6,627)**	(34,784)
– weakened	**6,627**	34,784
HK$ against RMB		
– strengthened	**(9,355)**	(8,934)
– weakened	**9,355**	8,934
US$ against RMB		
– strengthened	**(351)**	(385)
– weakened	**351**	385

37 Financial Risk Management *(continued)*

(c) Credit Risk

Credit risk refers to the risk that the customer or counterparty failed to discharge an obligation and resulted in a financial loss to the Group.

As the Group does not hold any collateral, the maximum exposure to credit risk is the carrying amounts of the related financial assets presented on the balance sheet.

The Group's credit risk is primarily attributable to its trade and other receivables. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

Trade and other receivables balances are monitored on an ongoing basis and whether the trade and other receivables are recoverable are estimated by the Group's management based on prior experience and the current economic environment.

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

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's credit exposure is concentrated mainly in the PRC.

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy companies with good payment record with the Group. Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit ratings and no history of default.

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due but not impaired except for trade receivables.

The age analysis of trade receivables past due at the balance sheet date but not impaired is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Past due within 30 days	3,100	4,030
Past due 31 to 90 days	2,648	4,030
Past due over 90 days	–	–
	5,748	8,060

37 Financial Risk Management *(continued)*

(c) Credit Risk *(continued)*

Financial assets that are past due but not impaired (continued)

The carrying amount of trade receivables individually determined to be impaired at the balance sheet date and the movement in the related allowance for impairment is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Trade receivables-nominal amounts	**889,260**	889,260
Less: Allowance for impairment	**(889,260)**	(889,260)
	–	–
Movement in allowance accounts:		
As at beginning of the year	**889,260**	545,233
Charge for the year	**–**	344,027
As at end of the year	**889,260**	889,260

The impaired trade receivable arose from long outstanding amounts due from customers which remained unpaid as at the balance sheet date and accordingly there are significant uncertainties over the recovery of these amounts due from these customers.

(d) Liquidity Risk

Liquidity risk refers to the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has defaulted on certain loans and borrowings as disclosed in the relevant notes to the financial statements.

The Group's current financial liabilities mature within 1 year and the contractual undiscounted cash flows of these current financial liabilities approximate their carrying amounts. The table below analyses the maturity profile of the Group's non-current financial liabilities based on contractual undiscounted cash flows.

			Cash Flows		
	Carrying amount	Contractual cash flows	More than 1 year to 2 years	Between 2 to 5 years after	After 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
2010					
Non-current borrowings	**484,032**	**598,559**	**104,787**	**345,840**	**147,932**
2009					
Non-current borrowings	501,440	605,852	67,880	328,827	209,145

37 Financial Risk Management *(continued)*

(d) Liquidity Risk *(continued)*

No analysis of the maturity profile of the Company has been disclosed in the financial statements as there are no non-current financial liabilities outstanding as at the year-end.

The contractual expiry by maturity of the Group's financial guarantees (see Note 27(a)) amounting to RMB114,050,000 (2009: RMB118,500,000) is less than a year based on the allocation of the maximum amount of the financial guarantee contract to the earliest period in which the guarantee could be called on.

(e) Fair Values of Financial Assets and Liabilities

Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair values of each class of financial instruments.

(i) *Non-current borrowings*

The fair value (Note 27(a)) is calculated based on discounted expected future principal and interest cash flows. The discount rates used are based on market rates for similar instruments at the balance sheet date.

(ii) *Financial instruments*

Effective 1 July 2009, the Group and Company adopted the amendment to FRS 107 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

37 Financial Risk Management *(continued)*

(e) Fair Values of Financial Assets and Liabilities *(continued)*

(ii) Financial instruments (continued)

The following table presents the financial instruments measured at fair value at 30 June 2010.

	Level 1 S$	Level 2 S$	Level 3 S$	Total S$
Group				
2010				
Assets				
Financial assets, available-for sale	–	–	69,845	69,845
Liabilities				
Financial liabilities				
– Warrants	–	20,841	–	20,841
Company				
2010				
Assets				
Financial assets, available-for sale	–	–	69,845	69,845
Liabilities				
Financial liabilities				
– Warrants	–	20,841	–	20,841

There was no transfer between Level 1 and 2 during the financial year.

(iii) Other financial assets and financial liabilities

The fair values of financial assets and liabilities with a maturity of less than one year (including cash and cash equivalents, trade and other receivables, short-term borrowings and trade and other payables) are close approximation of their carrying amounts due to the relatively short-term maturity of these financial instruments.

(f) Capital Risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, issue new shares or obtain new borrowings.

Management monitors capital based on a net debt against equity ratio. The Group strategies are to maintain a prudent balance between the advantage and flexibility afforded by a strong capital position and the higher return on equity that are possible with greater leverage.

37 Financial Risk Management *(continued)*

(f) Capital Risk *(continued)*

Consistently, the Company monitors capital based on a net debt against equity ratio. The net debt against equity ratio is calculated by dividing net debt by total equity. Net debt is calculated as total liabilities (as shown in the balance sheet, excluding provision for tax and deferred tax liabilities) less cash and cash equivalents. Total equity comprises of share capital plus reserves.

	Group	
	2010	2009
	RMB'000	RMB'000
Net debt	**1,245,724**	1,845,839
Total equity	**1,209,117**	841,483
Net debt against equity ratio	**1.03**	2.19

The Group is in compliance with all externally imposed capital requirements for the financial year ended 30 June 2010 and 30 June 2009, except as disclosed in Note 27(b) and Note 31.

38 Events Subsequent to Balance Sheet Date

Subsequent to the financial year end, the Company announced on 28 September 2010 that in place of a previous rights issue announced on 29 April 2010 (see Note 35(ii)), the Company shall carry out a new fund raising exercise by way of a renounceable non-underwritten rights issue of up to 992,236,440 ordinary shares in the capital of the Company ("Rights Shares"). The new rights issue is offered to all shareholders of the Company at an issue price of S$0.04 for each Rights Share on the basis of one Rights Share for every one existing ordinary share held. Should the rights issue be fully subscribed, the Company is expected to raise gross proceeds of approximately S$39.7 million.

Statistics of Shareholdings

as at 16 September 2010

Authorised share capital	:	HKD600,000,000
Issued and fully paid capital	:	HKD93,017,967.6
Class of shares	:	Ordinary share of HKD0.10 each
Number of Shares	:	930,179,676
Voting rights	:	One vote per ordinary share

Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	586	8.81	129,652	0.01
1,000 – 10,000	2,315	34.80	13,302,035	1.43
10,001 – 1,000,000	3,705	55.70	299,063,209	32.15
1,000,001 and above	46	0.69	617,684,780	66.41
Total:	**6,652**	**100.00**	**930,179,676**	**100.00**

On the basis of the information available to the Company, approximately 61.28% of the equity securities of the Company are held in the hands of the public. This is in compliance with Rule 723 of the Listing Manual of the SGX-ST, which requires at least 10% of a listed issuer's equity securities to be held by the public.

Twenty Largest Shareholders

	Name	No. of Shares	%
1.	OCBC SECURITIES PRIVATE LTD	161,390,071	17.35
2.	RAFFLES NOMINEES (PTE) LTD	75,704,966	8.14
3.	CITIBANK NOMINEES SINGAPORE PTE LTD	69,596,922	7.48
4.	PHILLIP SECURITIES PTE LTD	45,081,016	4.85
5.	DBS NOMINEES PTE LTD	42,667,897	4.59
6.	DBSN SERVICES PTE LTD	41,932,988	4.51
7.	HSBC (SINGAPORE) NOMINEES PTE LTD	21,692,651	2.33
8.	KIM ENG SECURITIES PTE. LTD.	14,995,498	1.61
9.	KHO KIA HONG	13,000,000	1.40
10.	IYER ANJALI SUBRAMANIAN	12,000,514	1.29
11.	UOB KAY HIAN PTE LTD	11,489,840	1.24
12.	CHIA SIONG LIM	9,300,000	1.00
13.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	8,621,795	0.93
14.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	6,918,901	0.74
15.	DB NOMINEES (SINGAPORE) PTE LTD	5,785,592	0.62
16.	TAN WHYE KIAT	5,000,000	0.54
17.	TJIONG BOEN NGIAP @BUSHAR TOMI OR OEY MI LING @ MERY WIDJAYA	4,937,000	0.53
18.	NG KIM CHOON	4,831,308	0.52
19.	MERRILL LYNCH (SINGAPORE) PTE LTD	4,310,781	0.46
20.	DMG & PARTNERS SECURITIES PTE LTD	4,226,948	0.45
	Total:	**563,484,688**	**60.58**

	Direct Interest	%	Deemed Interest	%
Dongguan Baosheng Environmental Investment Company Ltd	0	0	265,535,333	28.55
Shah Capital Management	94,600,000	10.17	0	0

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Kallang Room, Level 4, Holiday Inn Atrium, 317 Outram Road, Singapore 169075 on Friday 29 October 2010 at 9.00 a.m. to transact the following business:

AS ORDINARY BUSINESS

1. To receive and consider the Directors' Report and Audited Financial Statements of the Company for the financial year ended 30 June 2010 and the Auditors' Report thereon. **(Resolution 1)**

2. To approve the payment of Directors' fees of S$146,000 for the financial year ended 30 June 2010. (2009: S$146,000) **(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to Bye-Laws 86(1) of the Company's Bye-Laws, and who, being eligible, will offer themselves for re-election:–

   (a) Mr Lim Yu Neng, Paul **(Resolution 3)**
   (b) Ms Cheng Fong Yee **(Resolution 4)**

   Ms Cheng Fong Yee will, upon re-election as Director of the Company, remain as Chairman of the Remuneration Committee, and a member of the Audit Committee and Nominating Committee, respectively and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

4. To note the retirement of Mr. Kwok Chi-Shing as a Director retiring pursuant to Bye-Laws 86(1) of the Company's Bye-Laws. **(Resolution 5)**

   Mr Kwok Chi-Shing, who is retiring by rotation pursuant to Bye-Laws 86(1) of the Company's Bye-Laws, and has indicated that he will not be seeking re-election as a Director of the Company.

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

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following ordinary resolutions with or without modifications:

6. **Authority to allot and issue shares**

   (a) "That, pursuant to Company's Bye-laws, and the listing rules of the Singapore Exchange Securities Trading Limited, approval be and is hereby given to the Directors of the Company at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit, to :

      (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise;

      (ii) make or grant offers, agreements or options that might or would require shares to be issued or other transferable rights to subscribe for or purchase shares (collectively, "Instruments") including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares;

      (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues; and

AS SPECIAL BUSINESS *(continued)*

6. **Authority to allot and issue shares** *(continued)*

   (b) (notwithstanding the authority conferred by the shareholders may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

   provided always that

   (i) the aggregate number of shares to be issued pursuant to this resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) does not exceed 50% of the total number of issued shares excluding treasury shares of the Company, of which the aggregate number of shares (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) to be issued other than on a pro rata basis to existing shareholders of the Company does not exceed 20% of the total number of issued shares excluding treasury shares of the Company, and for the purpose of this resolution, the issued share capital shall be the Company's total number of issued shares excluding treasury shares at the time this resolution is passed, after adjusting for;

      a) new shares arising from the conversion or exercise of convertible securities, or

      b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the Singapore Exchange Securities Trading Limited, and

      c) any subsequent bonus issue, consolidation or subdivision of the Company's shares, and

   (ii) the 50% limit in (i) above may be increased to 100% for the Company to undertake pro-rata renounceable rights issue at any time up to 31 December 2010 or such other date as may be determined by the SGX-ST; and

   (iii) unless revoked or varied by the Company at a general meeting, the authority conferred by this resolution shall continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

   (Resolution 7)

   (See Explanatory Note i)

7. Authority to allot and issue shares under the Bio-Treat Technology Limited Scrip Dividend Scheme

   That authority be and is hereby given to the Directors to allot and issue from time to time such number of shares in the Company as may be required to be allotted and issued pursuant to the Bio-Treat Technology Limited Scrip Dividend Scheme. **(Resolution 8)**

   (See Explanatory Note ii)

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

BY ORDER OF THE BOARD

Lotus Isabella Lim Mei Hua
Company Secretary

Date: 14 October 2010

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy in his stead.

2. A proxy need not be a member of the Company.

3. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4. The instrument appointing a proxy must be deposited at the office of the Company's Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte Ltd at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not later than 48 hours before the time appointed for the Meeting.

Explanatory Notes:–

i. The ordinary resolution 7 proposed in item 6 is to authorise the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 50 percent of the total number of issued shares excluding treasury shares of the Company, of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20 percent of the total number of issued shares excluding treasury shares of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. The 50% limit referred to in the preceding sentence may be increased to 100% for the Company to undertake pro-rata renounceable rights issues from the date of the Annual General Meeting until 31 December 2010 or such date as may be prescribed by the Singapore Exchange Securities Trading Limited. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

ii. Pursuant to the Special General Meeting of the Company held on 28 October 2005, the shareholders of the Company approved the passing of the ordinary resolution relating to the "Bio-Treat Technology Limited Scrip Dividend Scheme". In the circular dated 11 October 2005, the Scrip Dividend Scheme provides members with the option to elect to receive shares in lieu of the cash amount of any dividend declared on their holding of shares. The Ordinary Resolution 8 proposed in item 7, if passed, will empower the Directors of the Company to allot and issue shares in the Company pursuant to the terms and conditions of the Bio-Treat Technology Limited Scrip Dividend Scheme.

Corporate Information

Board of Directors

Executive Directors:

Lim Yu Neng, Paul (appointed as Interim Acting Chief Executive Officer and Executive Director on 30 June 2010)
Cui Jun
Ma Zheng Hai

Independent Directors:

Cheng Fong Yee
Kwok Chi-Shing
Zhou Yao Ming

Company Secretary

Lotus Isabella Lim Mei Hua

Audit Committee

Kwok Chi-Shing *(Chairman)*
Cheng Fong Yee
Zhou Yao Ming

Nominating Committee

Zhou Yao Ming *(Chairman)*
Cheng Fong Yee
Kwok Chi-Shing

Remuneration Committee

Cheng Fong Yee *(Chairman)*
Zhou Yao Ming
Kwok Chi-Shing

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

Head Office and Principal Place of Business

Tu Tang Industry Area, Tu Tang
Chang Ping, Dongguan City
Guangdong Province, PRC

Office in Shenzhen, PRC
Great China International Exchange Square
East Area 26F, Jintian Road, Futian District
Shenzhen, China 518034

Representative Office in Hong Kong
Unit 1610, Tower 2, Silvercord
30 Canton Road
Tsim Sha Tsui, Hong Kong

Bermuda Share Registrar

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11, Bermuda

Singapore Share Transfer Agent

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

Auditors

Moore Stephens LLP
10 Anson Road
#29-15 International Plaza
Singapore 079903
Partner-in-charge: Ng Chiou Gee Willy
Date of Appointment: July 1, 2008

Principal Banker

Fubon Bank (Hong Kong) Limited

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