

**THIS SCHEME DOCUMENT IS ISSUED BY SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED (UNDER JUDICIAL MANAGEMENT). THIS SCHEME DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.**

If you are in any doubt about this Scheme Document or as to the action that you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers immediately.

If you have sold or transferred all your ordinary shares in the capital of the Company, please forward this Scheme Document and the accompanying proxy forms immediately to the purchaser or transferee or to the bank, stockbroker or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Scheme Document.



**SinoEnv**

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED**

**(UNDER JUDICIAL MANAGEMENT)**

(Incorporated in the Republic of Singapore)  
(Company Registration Number 200106480Z)

**PROPOSED SCHEME OF COMPROMISE AND ARRANGEMENT  
UNDER SECTION 210 (READ WITH SECTION 227X) OF  
THE COMPANIES ACT, CHAPTER 50 OF SINGAPORE**

Independent Financial Adviser in relation to the Scheme



(Incorporated in the Republic of Singapore)  
(Company Registration Number: 200105040N)  
[www.stirlingcoleman.com](http://www.stirlingcoleman.com)

Last date and time for lodgment of proxy form for the Court Meeting of Creditors	5.00 p.m. on 24 August 2011
Last date and time for lodgment of proxy form for the Court Meeting of Shareholders	5.00 p.m. on 24 August 2011
Date and time of the Court Meeting of Creditors	9.30 a.m. on 26 August 2011
Date and time of the Court Meeting of Shareholders	11.00 a.m. on 26 August 2011
Place of the Court Meeting of Creditors and the Court Meeting of Shareholders	Training Room 903, NTUC Centre, One Marina Boulevard, Singapore 018989

The action to be taken by you is set out on pages 29 to 31 of this Scheme Document.

**The important dates and times relating to the Court Meeting of Creditors and the Court Meeting of Shareholders and the expected timetable are set out on pages 9 and 10 of this Scheme Document. Your attention is also drawn to the notes under the expected timetable.**

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## DEFINITIONS

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In this Scheme Document, the following definitions apply throughout unless otherwise stated or the context otherwise requires:

### **Companies within the Group**

**Company** : Sino-Environment Technology Group Limited (Company Registration Number 200106480Z), a company incorporated in Singapore which is under judicial management pursuant to the Judicial Management Order

**Group** : The Company and its subsidiaries

### **Other companies, organisations and entities**

**ACRA** : The Accounting and Corporate Regulatory Authority of Singapore

**AVIC Group** : AVIC Singapore and its subsidiaries

**AVIC Kairong** : AVIC International Kairong Limited (Company Registration Number 1493834), a limited company incorporated under the laws of the Hong Kong Special Administrative Region of the PRC

**AVIC Singapore** : AVIC International Investments Limited (Company Registration Number 201024137N), a company incorporated in Singapore on 11 November 2010 as a wholly-owned subsidiary of AVIC Kairong

**CDP** : The Central Depository (Pte) Limited

**CPF** : The Central Provident Fund

**HLM** : HLM Consulting Limited

**MSCI** : Morgan Stanley & Co International PLC

**PwC** : PricewaterhouseCoopers LLP

**SGX-ST** : Singapore Exchange Securities Trading Limited

**SIC** : The Securities Industry Council of Singapore

### **General**

**Approved Scheme Claim** : The Scheme Claim of any Creditor that has been:

- (i) determined for the purpose of the Scheme in accordance with the provisions of Clause 6.1.10 of the Scheme; or
- (ii) in the event of a Disputed Claim, determined by the Court in accordance with the provisions of Clause 6.1.12 of the Scheme

and exceeds zero

**Asset Recovery Agreement** : The asset recovery agreement dated 7 January 2011, entered into between the Judicial Managers, for and on behalf of the Company, and HLM, pursuant to which, *inter alia*, HLM was appointed to assist the Company in regaining control over and the recovery of the Company's assets in the PRC

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## DEFINITIONS

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<b>AVIC Shares</b>	:	Ordinary shares in the share capital of AVIC Singapore
<b>Books Closure Date</b>	:	The date and time to be determined by the Judicial Managers that the share transfer books and the register of members of the Company will be closed to determine the entitlements of Shareholders to the Shares for the purposes of calculating entitlements to AVIC Shares under the Scheme which is expected to be not less than three (3) days and not more than ten (10) days after the Court sanction of the Scheme
<b>Business Day</b>	:	A day (other than a Saturday or Sunday or public holiday) on which banks are generally open for business in Singapore
<b>Cessation Date</b>	:	The day following the expiry of six (6) calendar months after the date of the cheque payment of the net proceeds from the sale of Consideration Shares pursuant to Clauses 5.2.1(ii) and 6.2.4(i) of the Scheme
<b>Code</b>	:	The Singapore Code on Take-overs and Mergers
<b>Companies Act</b>	:	The Companies Act, Chapter 50 of Singapore
<b>Companies Regulations</b>	:	The regulations promulgated under the Companies Act
<b>Compliance Placement</b>	:	The compliance placement to be undertaken by AVIC Singapore in connection with the listing and quotation of AVIC Shares on the Main Board of the SGX-ST
<b>Compliance Placement Price</b>	:	The issue price for each AVIC Share to be issued pursuant to the Compliance Placement
<b>Consideration Shares</b>	:	The AVIC Shares to be allotted and issued and/or transferred by AVIC Singapore to the Scheme Administrators, pursuant to the Scheme and the Implementation Agreement, as described under Clause 3.1 of the Scheme
<b>Convertible Bonds</b>	:	The 4% convertible bonds due 2013 in an aggregate principal amount of S\$149,000,000, to be issued by the Company pursuant to the subscription agreement entered into with Morgan Stanley Asia (Singapore) Pte. on 3 June 2008
<b>Court</b>	:	The High Court or the Court of Appeal (as the case may be) of the Republic of Singapore
<b>Court Meeting of Creditors</b>	:	The meeting of Creditors to be convened and held under the directions of the Court, and any adjournment thereof
<b>Court Meeting of Shareholders</b>	:	The meeting of Shareholders to be convened and held under the directions of the Court, and any adjournment thereof
<b>Court Meetings</b>	:	The Court Meeting of Creditors and the Court Meeting of Shareholders collectively
<b>CPF Agent Bank Account</b>	:	A CPF investment account held by a CPFIS investor with a CPF Agent Bank under the CPFIS
<b>CPF Agent Banks</b>	:	Agent banks included under the CPFIS

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## DEFINITIONS

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<b>CPFIS</b>	:	The Central Provident Fund Investment Scheme
<b>Creditor</b>	:	Any person who has or who purports to have a Scheme Claim against the Company
<b>Depositor</b>	:	Has the meaning ascribed to it in Section 130A of the Companies Act and for the avoidance of doubt for the purposes of the Scheme shall exclude persons holding Shares through CPF Agent Banks
<b>Depository Register</b>	:	Has the meaning ascribed to it in Section 130A of the Companies Act
<b>Directors</b>	:	The Directors of the Company as at the date of this Scheme Document
<b>Disputed Claim</b>	:	Has the meaning ascribed to it in Clause 6.1.12 of the Scheme
<b>Encumbrance</b>	:	Any legal, equitable or security interest, including but not limited to any mortgage, charge (whether fixed or floating), pledge, lien (including without limitation any unpaid vendor's lien or similar lien), assignment of rights and receivables, debenture, right of first refusal, option, hypothecation, title retention or conditional sale agreement, lease, hire or hire purchase agreement, restriction as to transfer, use or possession, easement, subordination to any right of any other person, and any other encumbrance or security interest
<b>ETL</b>	:	The eligibility-to-list
<b>IFA</b>	:	Independent financial adviser
<b>Implementation Agreement</b>	:	The conditional implementation agreement dated 7 January 2011, entered into between the Judicial Managers, for and on behalf of the Company, and AVIC Kairong relating to, <i>inter alia</i> , the Scheme
<b>Information Memorandum</b>	:	The information memorandum dated 10 August 2011 issued by AVIC Singapore in connection with the listing and quotation of the AVIC Shares on the Main Board of the SGX-ST, containing, <i>inter alia</i> , information on the AVIC Group, and accompanying this Scheme Document
<b>Interim Judicial Managers</b>	:	The interim judicial managers of the Company, namely Mr Seshadri Rajagopalan and Ms Ee Meng Yen Angela of Ernst & Young LLP, who were appointed as interim judicial managers of the Company pursuant to an Order of Court dated 13 May 2010, until their appointment as Judicial Managers pursuant to the Judicial Management Order
<b>Judicial Management Order</b>	:	The Order of Court dated 4 June 2010 placing the Company under judicial management and as extended thereafter from time to time
<b>Judicial Managers</b>	:	The judicial managers of the Company, namely Mr Seshadri Rajagopalan and Ms Ee Meng Yen Angela of Ernst & Young LLP, who were appointed as judicial managers of the Company pursuant to the Judicial Management Order

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## DEFINITIONS

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<b>Latest Practicable Date</b>	:	3 August 2011
<b>Liability</b>	:	Any obligation, liability or indebtedness of a person whether it is present, future, prospective or contingent, whether its amount is fixed or unliquidated, whether it arises in contract, tort, restitution or otherwise, whether or not it involves the payment of money, which arises at common law, in equity, by statute (in Singapore or in any other jurisdiction) or which arises pursuant to a valid assignment or a valid authority to pay any amount on behalf of a person or in any other manner whatsoever provided that such expression does not include any obligation or liability which is barred by statute or one for which no remedy may be granted or is otherwise unenforceable. For the avoidance of doubt, where any obligation or liability under a contract or policy is void or, being voidable, has been duly avoided, no obligation or liability shall arise in respect of such obligation or liability
<b>Order of Court</b>	:	An order made by the High Court or the Court of Appeal (as the case may be) of the Republic of Singapore
<b>Overseas Creditors</b>	:	Creditors whose addresses according to the records of the Company are outside Singapore and/or who have not notified the Company, the Judicial Managers or the Scheme Administrators of addresses in Singapore
<b>Overseas Shareholders</b>	:	Shareholders whose addresses are recorded in the register of members of the Company or in the Depository Register maintained by CDP as being outside Singapore
<b>Per cent or %</b>	:	Percentage or per centum
<b>PRC</b>	:	The People's Republic of China
<b>Proof of Debt</b>	:	The form executed or to be executed by a person who has or purports to have a Scheme Claim against the Company in respect of a claim arising out of or having its origin in any matter occurring on or prior to 4 June 2010, stating the amount and particulars of its claim against the Company as at 4 June 2010 in the form annexed as Schedule 1, submitted to the Judicial Managers at the Specified Address on or before the Proof of Debt Submission Date; or submitted to the Judicial Managers at the Specified Address after the Proof of Debt Submission Date and admitted by the Judicial Managers pursuant to Clause 6.1.1 of the Scheme; or an equivalent proof of debt form which is admitted by the Judicial Managers pursuant to Clause 6.1.2 of the Scheme
<b>Proof of Debt Submission Date</b>	:	5.00 p.m. on 15 August 2011, being the latest date for submission of Proof of Debt by the Creditors for the purposes of voting at the Court Meeting of Creditors and participating in the Scheme
<b>Registrar</b>	:	The Accounting and Corporate Regulatory Authority of Singapore
<b>Scheme</b>	:	The scheme of compromise and arrangement as set out in <b>Appendix E</b>

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## DEFINITIONS

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<b>Scheme Administrators</b>	:	The Judicial Managers or any persons appointed by the Court to be the administrators of the Scheme whether in addition to or in replacement of any person as administrators of the Scheme provided nevertheless that in the event of the termination of the judicial management of the Company, then the persons who held appointment as Scheme Administrators immediately on or before the termination of the judicial management of the Company shall continue to be Scheme Administrators unless and until replaced by the Court, and subject to the provisions of Clause 13 of the Scheme
<b>Scheme Claim</b>	:	In relation to any Creditor means the total amount of Liabilities (including any Liabilities that had been agreed between the Company and the respective Creditor but remained unpaid as at 4 June 2010), if any, as at 4 June 2010 for which the Company is or may be liable to that Creditor (whether contingently or otherwise) in respect of or arising from any and all acts, omissions, agreements, transactions, dealings, matters and events whatsoever effected, occurring or otherwise taking place at any time prior to 4 June 2010, and which determination shall be subject to the provisions of the Scheme
<b>Scheme Document</b>	:	This Document including all its Appendices
<b>Scheme Effective Date</b>	:	The date on which the Scheme becomes effective in accordance with the terms of the Scheme, being the date on which a copy of the Order of Court sanctioning the Scheme is lodged with the Registrar pursuant to the Companies Act or such earlier date as the Court may determine and as may be specified in the Order of Court sanctioning the Scheme
<b>Scheme Meeting</b>	:	Has the meaning ascribed to it in Part VIII of the Scheme
<b>Securities Account</b>	:	Securities account maintained by a Depositor with CDP, but does not include a securities sub-account or a CPF Agent Bank Account
<b>SGXNET</b>	:	A system network used by listed companies to send information and announcements to the SGX-ST or any other system network prescribed by the SGX-ST
<b>Share Distribution</b>	:	The proposed allotment and issuance and/or transfer by AVIC Singapore of the Consideration Shares valued at the aggregate sum of S\$6,000,000.00 to the Scheme Administrators to hold on trust for the Shareholders and the Creditors with Approved Scheme Claims under the Scheme
<b>Shareholders</b>	:	Persons who are registered as holders of Shares in the register of members of the Company as at the Books Closure Date or, where CDP is the registered holder, the term Shareholders shall, in relation to such Shares, means the Depositors whose Securities Accounts are credited with Shares as at the Books Closure Date
<b>Shares</b>	:	Ordinary shares in the share capital of the Company
<b>Small Creditor</b>	:	A Creditor with an Approved Scheme Claim of less than S\$2,000.00



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## DEFINITIONS

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<b>Specified Address</b>	:	The office of the Judicial Managers in Singapore at One Raffles Quay, North Tower Level 18, Singapore 048583
<b>Swap Agreement</b>	:	The swap agreement entered into between the Company and MSCI on 3 June 2008, concurrently with the Company's entry into a subscription agreement with Morgan Stanley Asia (Singapore) Pte. on 3 June 2008 for the issue of the Convertible Bonds, further details of which are set out in paragraph 2.1.2(ii) of the Explanatory Statement
<b>Transfer Date</b>	:	The date falling one (1) Business Day after the Scheme Effective Date
<b>Singapore Dollars or S\$ or \$ and cents</b>	:	Singapore dollars and cents, respectively, being the lawful currency of the Republic of Singapore
<b>Vesting Date</b>	:	The date falling ten (10) Business Days after the Scheme Effective Date and at least two (2) Business Days before the trading of AVIC Shares on the SGX-ST commences, or such other period as the Scheme Administrators may determine

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. References to *persons* shall include firms and corporations.

Any reference in this Scheme Document to any statute or enactment or the Listing Manual is a reference to that statute or enactment or the Listing Manual as for the time being amended or reenacted. Any word defined under the Companies Act or the Listing Manual, or any modification thereof, and used in this Scheme Document shall, where applicable, have the meaning assigned to it under the Companies Act or the Listing Manual or any modification thereof, as the case may be, unless otherwise provided.

Any reference to a time of day or date in this Scheme Document shall be a reference to Singapore time or date, as the case may be, unless otherwise stated.

Any discrepancies in tables included in this Scheme Document between the sum of the figures stated and the totals thereof shown are due to rounding. Accordingly, figures shown as totals in this Scheme Document may not be an arithmetic aggregation of the figures which precede them.

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## INDICATIVE TIMETABLE

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Proof of Debt Submission Date : 5.00 p.m. on 15 August 2011

Last date and time for lodgment<sup>(1)</sup> of proxy forms<sup>(2)</sup> for the Court Meeting of Creditors : 5.00 p.m. on 24 August 2011

Last date and time for lodgment<sup>(1)</sup> of proxy Forms<sup>(2)</sup> for the Court Meeting of Shareholders : 5.00 p.m. on 24 August 2011

Date and time of the Court Meeting of Creditors : 9.30 a.m. on 26 August 2011

Date and time of the Court Meeting of Shareholders : 11.00 a.m. on 26 August 2011

Expected date of the Court hearing of the application to sanction the Scheme : 6 September 2011

**The following events are subject to the approval of the Scheme at the Court Meetings and the sanction of the Scheme by the Court:**

Expected Books Closure Date : To be announced in due course by the Company.  
Expected to be 8 September 2011

Expected Scheme Effective Date : To be announced in due course by the Company.  
Expected to be 8 September 2011

Expected Transfer Date : One (1) Business Day after the Scheme Effective Date.  
Expected to be 9 September 2011

Expected AVIC Singapore Listing and Company Delisting : One (1) Business Day after the Scheme Effective Date.  
Expected to be 9 September 2011

Expected Vesting Date : Ten (10) days after the Scheme Effective Date and at least two (2) Business Days before trading of the Consideration Shares on the SGX-ST commences, or such other period as the Scheme Administrators may determine.  
Expected to be 22 September 2011

Expected date of CDP notification of the Shareholders and Creditors with Approved Scheme Claims who are Depositors of their individual entitlements to the Consideration Shares under the Share Distribution : Approximately three (3) Market Days after the Vesting Date.  
Expected to be 27 September 2011

**The following event is subject to, *inter alia*, the completion of the Compliance Placement:**

Expected date for the lifting of the suspension on trading of the AVIC Shares on the Main Board of the SGX-ST : After completion of the Compliance Placement.  
Expected to be no later than 30 September 2011

*You should note that, save for the Proof of Debt Submission Date, the last date and time for lodgment of proxy forms and the date and time of the Court Meetings, the above timetable is indicative only and may be subject to change. For the events listed above which are described as "expected", please refer to future announcement(s) by the Company and/or the SGXNET for the exact dates and times of these events.*

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## INDICATIVE TIMETABLE

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**Notes:**

- (1) All proxy forms for the Court Meetings must be lodged at the office of the Judicial Managers in Singapore at One Raffles Quay, North Tower Level 18, Singapore 048583. The proxy forms for the Court Meetings are requested to be lodged not later than 5.00 p.m. on 24 August 2011. Completion and return of a proxy form will not preclude a Shareholder or Creditor from attending and voting in person at the relevant Court Meeting if they subsequently decide to do so. In such event, the proxy form will be deemed revoked.
- (2) Please use the correct proxy forms for the respective meetings. The relevant proxy forms for the respective meetings are as follows:

To be completed by	Colour of Proxy Form	For
Creditors	Green	Court Meeting of Creditors
Shareholders	Yellow	Court Meeting of Shareholders

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## CORPORATE INFORMATION

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<b>Board of Directors</b>	:	Mr In Nany Sing Charlie Mr Sam Chong Keen Dr Wong Chiang Yin Mr Goh Chee Wee Mr Wong Sek Choon
<b>Judicial Managers of the Company</b>	:	Mr Seshadri Rajagopalan and Ms Ee Meng Yen Angela of Ernst & Young LLP
<b>Company Secretary</b>	:	Ms Kim Yi Hwa
<b>Registered Office</b>	:	One Raffles Quay North Tower Level 18 Singapore 048583
<b>Auditors of the Company</b>	:	PricewaterhouseCoopers LLP
<b>Share Registrar and Share Transfer Office</b>	:	Boardroom Corporate & Advisory Services Pte Ltd 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623
<b>Solicitors to the Company in relation to the Scheme</b>	:	Stamford Law Corporation 10 Collyer Quay #27-00 Ocean Financial Centre Singapore 049315
<b>Independent Financial Adviser</b>	:	Stirling Coleman Capital Limited 4 Shenton Way #07-03 SGX Centre 2 Singapore 068807

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## PRELIMINARY

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This Scheme Document has been prepared solely for the purpose of seeking Shareholders' and Creditors' approval for the Scheme and may not be relied upon by any person other than the Creditors and the Shareholders or for any other purpose.

No person has been authorised to give any information or to make any representation other than those contained in this Scheme Document and the accompanying Information Memorandum in connection with the Scheme and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, AVIC Singapore, the Judicial Managers or the Scheme Administrators. Nothing contained herein is, or may be relied upon as, a promise or representation as to the future performance, financial position or policies of the Company or the AVIC Group. None of the delivery of this Scheme Document and the accompanying Information Memorandum and the Share Distribution shall, under any circumstance, constitute a continuing representation, or give rise to any implication or suggestion, that there has not been or there will not be any change in the affairs of the Company or the AVIC Group or in the information herein since the Latest Practicable Date. Where any such changes occur after the date hereof, the Company and/or AVIC Singapore (as the case may be) may make an announcement of the same on the SGXNET. You should take note of any such announcement and shall, upon the release of such an announcement, be deemed to have notice of such changes.

The distribution of this Scheme Document, the accompanying Information Memorandum and other relevant documents, and/or the Share Distribution (if any) may be prohibited or restricted by law in certain jurisdictions. You are required to inform yourself of and to observe any such prohibitions and restrictions. It is your responsibility in such jurisdictions to satisfy yourself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any government, exchange control or other consents which may be required, the compliance with all necessary formalities which are required to be observed and/or payment of any issue, transfer or other taxes due in such jurisdiction(s).

Where the Company is of the view that the distribution of this Scheme Document, the accompanying Information Memorandum and/or any other relevant document to any Overseas Shareholder or Overseas Creditor of the Company in any jurisdiction(s) may infringe any relevant foreign law or necessitate compliance with conditions or requirements which the Company regards as onerous or impracticable by reason of costs, delay or otherwise, the Company reserves the right not to distribute this Scheme Document, the accompanying Information Memorandum and other relevant documents to Overseas Shareholders and Overseas Creditors with addresses in such jurisdiction(s). Please also refer to Section 8 of the Explanatory Statement entitled **"Overseas Shareholders and Overseas Creditors"**.

This Scheme Document, the accompanying Information Memorandum and/or any other related documents may not be used for the purposes of, and does not constitute, an offer, invitation or solicitation in any jurisdiction or in any circumstances in which such offer, invitation or solicitation is not authorised or to any person to whom it is unlawful to make such offer, invitation or solicitation.

You are advised to consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers immediately if you are in any doubt as to any aspect of the Scheme, including the tax implications of approving the Scheme or the holding of AVIC Shares pursuant to the Scheme. It is emphasised that none of the Company, the Judicial Managers, the Scheme Administrators, AVIC Singapore, the directors of AVIC Singapore or any other persons involved in the Scheme accept responsibility for any tax effects of, or such liabilities resulting from, the Scheme and/or the holding of AVIC Shares.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Scheme Document.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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All statements contained in this Scheme Document and the accompanying Information Memorandum, including statements in press releases and oral statements, that are made or may be made by the Company or its officers, the Judicial Managers, or employees acting on the Company's behalf, and/or the AVIC Singapore, that are not statements of historical fact, constitute "forward-looking statements". Some of these forward-looking statements can be identified by terms such as "anticipate", "believe", "could", "estimate", "expect", "forecast", "if", "intend", "may", "plan", "possible", "probable", "project", "should", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding AVIC Singapore's expected financial position, performance, business strategy, plans and prospects are forward-looking statements.

These forward-looking statements, including (but not limited to) statements as to AVIC Singapore's revenue and profitability, costs measures, expected industry trends, prospects, future plans, planned strategy and other matters discussed in this Scheme Document and/or the accompanying Information Memorandum regarding matters that are not historical fact, are only predictions.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause AVIC Singapore's actual future results, performance or achievements to be materially different from any future results, performance or achievements expected in, expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among others, those relating to AVIC Singapore described in the accompanying Information Memorandum under the section "**Risk Factors**". Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under the sections entitled "**General Information on our Group**", and "**Management's Discussion and Analysis of Financial Condition and Results of Operations**" in the accompanying Information Memorandum and other matters not yet known to the Company and/or AVIC Singapore or not yet currently considered material by AVIC Singapore and/or the Company.

Given the risks and uncertainties that may cause AVIC Singapore's actual future results, performance or achievements to be materially different from those expected in, or expressed or implied by, the forward-looking statements or financial information set out in this Scheme Document and/or the accompanying Information Memorandum, undue reliance must not be placed on them. Neither the Company, AVIC Singapore, the IFA, the Judicial Managers, the Scheme Administrators nor any other party involved in the Scheme and the Share Distribution represents or warrants that AVIC Singapore's actual future results, performance or achievements will be as discussed in those statements or financial information. AVIC Singapore's actual results, performance or achievements may differ materially from those anticipated in these forward-looking statements as a result of, *inter alia*, the risks faced by them respectively.

Further, the Company, AVIC Singapore, the IFA, the Judicial Managers, the Scheme Administrators and all parties involved in the Scheme and the Share Distribution disclaim any responsibility to update any of those forward-looking statements or information or publicly announce any revisions to them to reflect future developments, events or circumstances for any reason, even if new information becomes available or other events occur in the future. However, the Company and AVIC Singapore are, or will be, as the case may be, subject to the relevant provisions of the Securities and Futures Act, Chapter 289 of Singapore, and the Listing Manual regarding corporate disclosure.

This Scheme Document may include market and industry data and information that have been obtained from, *inter alia*, internal studies, where appropriate, as well as publicly available information and industry publications. There can be no assurance as to the accuracy or completeness of such information. While the Company has taken reasonable steps to ensure that the information is extracted accurately, the Company has not independently verified any of the data from third party sources or ascertained the underlying bases or assumptions relied upon therein.

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## LETTER FROM THE JUDICIAL MANAGERS TO THE SHAREHOLDERS AND THE CREDITORS OF THE COMPANY

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10 August 2011

**To: The Shareholders and Creditors of Sino-Environment Technology Group Limited (Under Judicial Management)**

Dear Sir/Madam,

### **PROPOSED SCHEME OF COMPROMISE AND ARRANGEMENT UNDER SECTION 210 (READ WITH SECTION 227X) OF THE COMPANIES ACT, CHAPTER 50 OF SINGAPORE**

#### **1. INTRODUCTION**

- 1.1 Sino-Environment Technology Group Limited (“**the Company**”) was incorporated on 2 October 2001 and admitted to the Official List of the SGX-ST on 28 April 2006.
- 1.2 On 23 September 2009, the Company requested for its shares to be suspended from trading. It was placed under judicial management on 4 June 2010.
- 1.3 On 7 January 2011, the Company announced that it had entered into the Implementation Agreement with AVIC Kairong and the Asset Recovery Agreement with HLM.
- 1.4 This Scheme is proposed to give full effect to the Implementation Agreement.
- 1.5 An explanatory statement setting out the key terms of, the rationale for and the effect of the Scheme, and the procedures for the implementation of the Scheme accompanies this letter. The explanatory statement should be read in conjunction with the full text of the Scheme.

#### **2. RATIONALE FOR THE SCHEME**

- 2.1 The Company is currently under judicial management. Its assets are essentially its investments in subsidiaries in the PRC and the realisable value of those assets is much lower than the Company’s liabilities. The reasons for this are elaborated upon in the Explanatory Statement.
- 2.2 The Scheme provides for Shareholders to receive a *pro rata* number of AVIC Shares up to a total value of S\$680,000. The value of the AVIC Shares will be calculated by reference to the Compliance Placement Price. The AVIC Shares will be listed on the Official List of the SGX-ST and freely tradable. Accordingly, the Scheme offers a potential recovery for, and better return to, the Shareholders.
- 2.3 Creditors with Approved Scheme Claims will receive a *pro rata* number of AVIC Shares up to a value of S\$5,320,000 in consideration for the *pro rata* cancellation of their Approved Scheme Claims to such total value. The value of the AVIC Shares will be calculated by reference to the Compliance Placement Price. Creditors with Approved Scheme Claims remain creditors of the Company for the balance of their Approved Scheme Claims.

#### **3. THE SCHEME**

##### **3.1 Share Distribution, Transfer of Shares and Debt Settlement**

- 3.1.1 Pursuant to this Scheme, AVIC Kairong shall procure that AVIC Singapore allot and issue to the Scheme Administrators, on or before the Transfer Date, to hold on trust for and to distribute on the Vesting Date to the Shareholders and the Creditors with Approved Scheme Claims, in accordance with the terms of the Scheme, such number of Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$6,000,000.00 free from all Encumbrances.



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## LETTER FROM THE JUDICIAL MANAGERS TO THE SHAREHOLDERS AND THE CREDITORS OF THE COMPANY

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3.1.2 The Share Distribution shall be apportioned as follows:

- (i) Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$680,000.00 to be distributed to the Shareholders; and
- (ii) Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$5,320,000.00 to be distributed to the Creditors with Approved Scheme Claims.

### 3.2 Consideration for the Share Distribution

3.2.1 As to the Shareholders:

- (i) they will cease to be Shareholders of the Company and in consideration, they will receive a proportionate number of Consideration Shares with an aggregate value of S\$680,000.00 (calculated by reference to the Compliance Placement Price). It is estimated that Shareholders will receive 1 AVIC Share for every 250 Shares they hold based on a projected Compliance Placement Price of S\$0.50;
- (ii) all of their Shares shall be transferred to the Judicial Managers who shall receive full legal title to the Shares, fully paid, free from any Encumbrance, and who shall continue to hold the beneficial title to the Shares for and on behalf of the Shareholders; and
- (iii) on or shortly after the Transfer Date, all of the Shares shall be withdrawn from the Official List of the SGX-ST.

Please refer to Part III of the Scheme in **Appendix E** for further details.

3.2.2 As to the Creditors with Approved Scheme Claims, they will receive a proportionate number of Consideration Shares with an aggregate value of S\$5,320,000.00 (calculated by reference to the Compliance Placement Price) and in consideration, the Company shall be completely and absolutely released and discharged to the aggregate value of the Consideration Shares received by each Creditor under this Scheme in satisfaction of that Creditor's Approved Scheme Claim.

Please refer to Part IV of the Scheme in **Appendix E** for further details.

## 4. DELISTING

The Company is listed on the Official List of the SGX-ST. If the Scheme becomes effective and binding, on or shortly after the Transfer Date, the Judicial Managers will hold all the Shares in the Company and (subject to the approval of the SGX-ST) the Shares will be delisted and withdrawn from the Official List of the SGX-ST.

## 5. TRADING IN AVIC SHARES

### 5.1 Distribution of AVIC Shares

The Scheme Administrators will distribute Consideration Shares to the Shareholders and Creditors with Approved Scheme Claims on the Vesting Date in accordance with the Scheme.

### 5.2 Trading in AVIC Shares

It is envisaged that AVIC Shares will be traded on the SGX-ST in board lots of 1,000 AVIC Shares. Following the Share Distribution, the Securities Accounts of Shareholders and Creditors with Approved Scheme Claims may be credited with odd lots of AVIC Shares (i.e. lots other than board lots of 1,000 AVIC Shares).



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## LETTER FROM THE JUDICIAL MANAGERS TO THE SHAREHOLDERS AND THE CREDITORS OF THE COMPANY

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### 6. OPINION OF THE IFA

The Company has appointed Stirling Coleman Capital Limited as the IFA to advise its Shareholders in respect of the Scheme and the IFA's advice is set out in its letter dated 10 August 2011 in **Appendix D** of this Scheme Document. Having regard to the considerations as set out in its letter and the information made available to it as at the Latest Practicable Date, the IFA is of the opinion that, on balance, the financial terms of the Scheme to Shareholders, when considered in the context of the prospects of a delisting and the unlikely event that the Shareholders would be able to recover any value from their Shares in the event of a liquidation, are fair and reasonable. Accordingly, the IFA recommends that Shareholders vote in favour of the resolution to be tabled at the Court Meeting of Shareholders in relation to the Scheme to Shareholders. You are advised to read the letter from the IFA carefully in its entirety.

### 7. RECOMMENDATION OF THE JUDICIAL MANAGERS

As the Judicial Managers are deemed to be one of the joint offerors for the Shares, they will accordingly abstain from making any recommendation to the Shareholders. Notwithstanding the above, the Judicial Managers would like to refer Shareholders to the IFA's recommendation as set out in the IFA's letter as exhibited in **Appendix D**. Any Shareholder who may require advice in the context of his specific investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers immediately.

### 8. RESPONSIBILITY STATEMENT OF THE JUDICIAL MANAGERS

- 8.1 The Judicial Managers were initially appointed as interim judicial managers on 13 May 2010 and then as judicial managers on 4 June 2010. Prior to 13 May 2010, the Judicial Managers had no involvement with the affairs of the Company and its subsidiaries.
- 8.2 To the best of the Judicial Managers' knowledge and belief, having made all reasonable enquiries, this Scheme Document (other than the letter from the IFA set out in **Appendix D** of this Scheme Document, and any information relating to the AVIC Group, including but not limited to information contained in the Information Memorandum) constitutes full and true disclosure of all material facts about the Scheme, the Company and its Subsidiaries (as defined in paragraph 1.3.1 of the Explanatory Statement), and the Judicial Managers are not aware of any material facts the omission of which would make any statement in this Scheme Document misleading and they jointly and severally accept responsibility accordingly.
- 8.3 The Judicial Managers do not have management control of and have not managed the AVIC Group and have no direct or indirect involvement in the affairs of the AVIC Group. Where information relating to the AVIC Group has been extracted from the accompanying Information Memorandum or from published or otherwise publicly available sources or is otherwise based on information obtained from AVIC Singapore or other relevant persons, the sole responsibility of the Judicial Managers has been to ensure that such information has been accurately and correctly extracted from these sources or, as the case may be, reflected or reproduced in this Scheme Document. **The Judicial Managers have not undertaken any independent verification of such information.**

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**LETTER FROM THE JUDICIAL MANAGERS TO THE SHAREHOLDERS AND  
THE CREDITORS OF THE COMPANY**

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**9. MEETINGS OF SHAREHOLDERS AND CREDITORS**

- 9.1 By an order of Court dated 28 June 2011 in Originating Summons No. 453 of 2010/P, the High Court of Singapore granted leave for meetings of the Shareholders and Creditors to be convened to consider, and if thought fit, to approve (with or without modifications) the Scheme. The meeting of Creditors will be held at 9.30 a.m. on 26 August 2011 at Training Room 903, NTUC Centre, One Marina Boulevard, Singapore 018989 and the meeting of Shareholders will be held at 11.00 a.m. on 26 August 2011 at Training Room 903, NTUC Centre, One Marina Boulevard, Singapore 018989.
- 9.2 If both meetings approve the Scheme by the requisite statutory majorities, an application will be made to the High Court of Singapore to sanction the Scheme.
- 9.3 If the High Court sanctions the Scheme, it will come into effect on the lodgment of the Order of Court with the Registrar or such earlier date as the Court may specify in its Order of Court.

Yours faithfully,

Mr Seshadri Rajagopalan

Ms Ee Meng Yen Angela

Judicial Managers

**Sino-Environment Technology Group Limited**  
(Under Judicial Management)

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## **EXPLANATORY STATEMENT**

(In compliance with Section 211 of the Companies Act)

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THE ACTION REQUIRED TO BE TAKEN BY THE SHAREHOLDERS AND CREDITORS OF SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED (UNDER JUDICIAL MANAGEMENT) IS SET OUT IN SECTION 7 OF THIS EXPLANATORY STATEMENT.

THE COURT MEETING OF CREDITORS TO CONSIDER THE SCHEME WILL BE HELD ON 26 AUGUST 2011 AT 9.30 A.M. AT TRAINING ROOM 903, NTUC CENTRE, ONE MARINA BOULEVARD, SINGAPORE 018989.

THE COURT MEETING OF SHAREHOLDERS TO CONSIDER THE SCHEME WILL BE HELD ON 26 AUGUST 2011 AT 11.00 A.M. AT TRAINING ROOM 903, NTUC CENTRE, ONE MARINA BOULEVARD, SINGAPORE 018989.

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## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

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To: **Shareholders and Creditors of Sino-Environment Technology Group Limited (Under Judicial Management)**

### **PROPOSED SCHEME OF COMPROMISE AND ARRANGEMENT UNDER SECTION 210 (READ WITH SECTION 227X) OF THE COMPANIES ACT, CHAPTER 50 OF SINGAPORE**

#### **1. INTRODUCTION**

##### **1.1 Explanatory Statement**

The purpose of this Explanatory Statement is to provide Shareholders and Creditors with information on the Scheme and to explain the rationale for and effect of the Scheme. It should be read in conjunction with the full text of the Scheme as set out in **Appendix E**.

##### **1.2 What is a Scheme of Arrangement?**

1.2.1 Under Singapore law, a scheme of arrangement of the kind proposed here is a compromise or arrangement provided for under Section 210 (read with Section 227X) of the Companies Act. The arrangement becomes legally binding on all of the shareholders and creditors to whom it is intended to apply if:

(i) a majority in number representing three-fourths (75%) in value of the shareholders; and

(ii) at least three-fourths (75%) in value of the creditors,

present and voting in person or by proxy, vote in favour of it at a meeting of shareholders and meeting of creditors respectively convened with the leave of the Court; and

(iii) the Court subsequently approves the scheme of arrangement.

1.2.2 The scheme of arrangement will become effective and binding upon the date of lodgment with the Registrar of the Order of Court sanctioning the scheme of arrangement (or on such earlier date as the Court may determine and as may be specified in the Order of Court sanctioning the scheme of arrangement).

##### **1.3 Background**

1.3.1 The Company and its Subsidiaries (as defined below)

(i) The Company was incorporated in Singapore on 2 October 2001. The Company's subsidiaries are:

(a) Sino-Environment Clean Power Technology Pte Ltd (Singapore) (in liquidation);

(b) Sino-Environment Waste Management Technology Pte Ltd (Singapore) (struck off);

(c) China Energy Environment (Holdings) Limited (Hong Kong) (deregistered);

(d) Fujian Thumb Environmental Facilities Co., Ltd (PRC);

(e) Thumb Env-Tech Group (Fujian) Co., Ltd (PRC);

(f) Fujian Weidong EPT Co., Ltd (PRC);

(g) Fujian Weidong Environmental Engineering Co., Ltd (PRC);

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## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

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- (h) Chuang-Dong Energy & Env-Tech (Fujian) Co., Ltd (PRC);
  - (i) Thumb Waste Management Technology (Nanping) Co., Ltd (PRC);
  - (j) Fujian Fuda Desai Environmental Protection Co., Ltd (PRC);
  - (k) Xining Aiyuan Landfill Gas Co., Ltd (PRC); and
  - (l) Chongqing Thumb Environmental Engineering Co., Ltd (PRC)
- (the “**Subsidiaries**”).
- (ii) The Company and its Subsidiaries (collectively, the “**Group**”) principally carried on business as an environmental protection and waste recovery solutions specialist in the PRC. The Group’s business is split into the following main segments:
    - (a) industrial waste gas treatment, management and recovery of volatile organic compounds, in particular toluene;
    - (b) dust elimination;
    - (c) industrial waste gas treatment and management of sulphur dioxide and oxidised forms of nitrogen for independent power plants, in particular coal-fired power plants; and
    - (d) industrial and municipal waste water treatment and management.
  - (iii) On 28 April 2006, the Company was admitted to the Official List of the SGX-ST.

### 1.3.2 Events Leading up to the Judicial Management Order

- (i) On 17 September 2009, a request for trading halt was made by the Company pursuant to the identification of certain questionable cash transactions and matters by PwC during the course of its review of cash transactions for the three-month period ended 31 March 2009. The identification of certain questionable cash transactions and matters by PwC was announced on 12 October 2009 and a summary of the findings of PwC was announced on 4 December 2009. The announcement of 4 December 2009 setting out the summary of PwC’s findings is set out in **Appendix H** of this Scheme Document.
- (ii) On 23 September 2009, the Company requested for its shares to be suspended from trading.
- (iii) Between 10 November 2009 and 5 January 2010, there were substantial changes to the Board and management of the Company as set out below:
  - (a) Mr. Liang Wee Leong Raynauld, the Financial Controller of Sino-Environment Clean Power Technology Pte Ltd, was summarily dismissed and his employment was terminated by the Company on 10 November 2009;
  - (b) Mr. Sun Jiangrong, the Chief Executive Officer, Mr. You Shengquan, the Acting Chief Executive Officer and Chief Operating Officer, and Professor Li Shouxin, the Chief Technical Officer, resigned as Directors with effect from 2 January 2010;

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## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

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- (c) Mr. Sam Chong Keen was appointed as a Non-Executive Director with effect from 5 January 2010;
- (d) Mr. In Nany Sing Charlie and Mr. Wong Sek Choon were appointed as Independent Directors with effect from 5 January 2010; and
- (e) Mr. Liang Wee Leong Raynauld was subsequently appointed as Head of Finance of the Group with effect from 6 January 2010.

Following this, the Board took several steps to restore and turn around the Company.

- (iv) However, notwithstanding such steps, by 11 May 2010, the Board was of the view that placing the Company under judicial management would be in the best interest of all stakeholders. Pending the fixing of date of the hearing of the judicial management application, the Company applied to Court to appoint Mr. Seshadri Rajagopalan and Ms. Ee Meng Yen Angela of Ernst & Young LLP as interim judicial managers to, *inter alia*, manage the affairs, business and property of the Company.
- (v) The Company was placed under interim judicial management on 13 May 2010 and subsequently under judicial management on 4 June 2010 by the Judicial Management Order. Mr. Rajagopalan and Ms. Ee were appointed as judicial managers. As judicial managers, Mr. Rajagopalan and Ms. Ee may exercise their powers of management to do all things as may be necessary for the management of the affairs, business and property of the Company, acting in the interest of all stakeholders, which will include the Creditors and Shareholders.
- (vi) The Judicial Management Order will expire on 1 January 2012, unless otherwise extended.

### 1.3.3 The Memorandum of Understanding dated 2 August 2010, the Implementation Agreement and the Asset Recovery Agreement

- (i) The Judicial Managers have actively sought potential investors who were interested in investing in the Company and/or the Group. Of the interested parties, HLM had submitted a letter of intention setting out the interest of a consortium of strategic and/or financial investors to acquire a majority stake in the Company by way of subscribing for new ordinary shares in the capital of the Company. Subsequent to discussions with HLM, the Company had on 2 August 2010 entered into the Memorandum of Understanding with HLM. The Judicial Managers had taken into account the following main factors prior to entering into the Memorandum of Understanding with HLM:
  - (a) HLM referred AVIC Kairong to the Judicial Managers as a potential investor; and
  - (b) HLM was able and willing to assist the Judicial Managers to (1) liaise with, cooperate and work with all relevant government agencies and regulators to pursue the enforcement of rules and regulations, and; (2) regain control over and recover the Company's assets in the PRC.

Please refer to **Appendix I** for further information on HLM.

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(In compliance with Section 211 of the Companies Act)

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- (ii) Under the non-binding Memorandum Of Understanding, the Judicial Managers and HLM had agreed to cooperate exclusively and work together to regain control over and recover the Company's assets in the PRC, comprising mainly the Company's equity interests in its Subsidiaries.
- (iii) Further to the Judicial Managers' submission to the SGX-ST on 22 September 2010 for an extension of time to submit a resumption of trading proposal, the SGX-ST had on 1 October 2010 granted the Company up to 30 November 2010 to submit information to the SGX-ST for its consideration.
- (iv) On 7 December 2010, the Company announced that the SGX-ST had granted the Company an extension of up to 30 June 2011 to implement the resumption of trading proposal and resume trading.
- (v) With a view to achieving the aforementioned timeline, the Judicial Managers continued to engage in negotiations with HLM and the long-stop date under the Memorandum of Understanding was extended on several occasions, with the last extension being a long-stop date of 15 January 2011 as announced by the Company on 3 January 2011.
- (vi) On 7 January 2011, the Company announced that it had entered into:
  - (a) the Implementation Agreement with AVIC Kairong; and
  - (b) the Asset Recovery Agreement with HLM.
- (vii) Pursuant to the Implementation Agreement, the Company and AVIC Kairong have agreed that AVIC Kairong shall procure the issuance of the Consideration Shares to the Shareholders and the Creditors, subject to the compromise and settlement of a portion of the debts owing from the Company to the Creditors, the listing of AVIC Singapore by way of a transfer of the Company's listing status to AVIC Singapore and the concurrent delisting and withdrawal of shares of the Company from the Main Board of the SGX-ST, all of which are to be implemented by way of the Scheme.
- (viii) Pursuant to the Asset Recovery Agreement, HLM has agreed to render all assistance to the Company in connection with the recovery of the Company's assets in the PRC, including advising on all possible actions and methods, the formulation of plans and strategies, and recommending and appointing other third party professionals, consultants and advisers. In consideration of HLM's efforts and services to be rendered to the Company, the Company shall pay to HLM a success fee upon completion of the recovery of the Company's assets, subject to the fulfilment by HLM of all its obligations under the Asset Recovery Agreement and the approval of the Creditors. Completion of the asset recovery shall be deemed to have occurred upon the completion of the sale of the assets to be recovered, and the receipt of the proceeds of such sale by the Company from the purchaser(s).
- (ix) The SGX-ST has granted a further extension to 22 July 2011 and subsequently to 30 September 2011 to implement the resumption of trading proposal.
- (x) This Scheme is proposed to give full effect to the Implementation Agreement.

## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

### 2. RATIONALE FOR THE SCHEME AND REASONS FOR SHAREHOLDERS AND CREDITORS TO APPROVE THE SCHEME

#### 2.1 Rationale for the Scheme

2.1.1 The Company is currently under judicial management. Being an investment holding company, the Company's assets are essentially its investments in its Subsidiaries in the PRC. Based on the Statement of Affairs as at 13 May 2010 (see **Appendix C**), the assets of the Company consist primarily of:

Description	Cost / Book Value S\$	Value Estimated Realisable S\$
Cash maintained with a bank in Singapore	3,142,506	3,142,506 <sup>(1)</sup>
Cash maintained with a bank in China	14,087,143	— <sup>(2)</sup>
Investments in Subsidiaries <sup>(3)</sup>	147,104,719	— <sup>(2)</sup>
Amount owing to Company from Subsidiaries <sup>(4)</sup>	60,459,046	— <sup>(2)</sup>
Amounts due from Morgan Stanley & Co International PLC <sup>(5)</sup>	67,358,026	— <sup>(2)</sup>

**Notes:**

- (1) The amount taken over by the Judicial Managers as at 13 May 2010 is S\$3,035,652 and as at the Latest Practicable Date, this amount is S\$1,881,754.22.
- (2) The Directors are unable to provide a realisable value for these assets.
- (3) The Subsidiaries are Sino-Environment Clean Power Technology Pte Ltd, Thumb Env-Tech Group (Fujian) Co., Ltd and Fujian Thumb Environmental Facilities Co., Ltd.
- (4) The Subsidiaries are Sino-Environment Clean Power Technology Pte Ltd and Thumb Env-Tech Group (Fujian) Co., Ltd.
- (5) These amounts are due from Morgan Stanley & Co International PLC pursuant to the Swap Agreement (as defined below in paragraph 2.1.2(ii)).

#### 2.1.2 Realisable assets

- (i) The only assets of the Company that are realisable in the short term are its listing status on the Official List of the SGX-ST and cash maintained with a bank in Singapore. The cash in the PRC bank, investments in and receivables from the Subsidiaries are difficult to realise because of the complicated court and liquidation procedures in the PRC and the associated time and expense of such procedures. The control of the PRC Subsidiaries and their assets, including cash in the bank accounts in the name of the PRC Subsidiaries, are with the legal representatives of those Subsidiaries. The Judicial Managers have, since their appointment, taken active steps to replace the legal representatives. The steps have been complicated and time-consuming, and are continuing. The Judicial Managers understand that there may continue to be practical difficulties with the actual control of the Subsidiaries and their assets even after a successful replacement of legal representatives. In the event that the Company is able to recover the cash in the PRC bank, as well as the investments in and receivables from the Subsidiaries, the Company will only be entitled to 85% and 49% respectively, of the net proceeds recovered under the Asset Recovery Agreement entered into with HLM. Accordingly, it has been separately agreed with HLM that a 15% success fee is payable to it for the repatriation of the



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## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

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cash in the PRC bank, which shall be payable out of the net proceeds recovered in respect of such cash, and HLM will receive 51% of the net proceeds recovered in respect of the investments in and receivables from the Subsidiaries as the success fee related thereto. The Judicial Managers' and their lawyers' fees and expenses shall be paid out of the net proceeds received by the Judicial Managers. The quantum of such fees and expenses will depend upon the duties and services to be performed in respect of the recovery of the assets and be subject to the approval of the Creditors.

- (ii) On or about 3 June 2008, the Company entered into the Swap Agreement. The Swap Agreement evidenced a swap transaction for Shares for a value of S\$67,358,026. The Swap Agreement was entered into to facilitate the issue of the Convertible Bonds, by allowing investors in the Convertible Bonds to hedge their exposure to the Shares arising from their investment in the Convertible Bonds. The equity swap was intended to provide the Company with economic exposure to the fluctuation in the value of 36,856,000 notional Shares, and during the life of the equity swap, the Company would receive an amount equal to any dividends paid on the 36,856,000 notional Shares.
  - (iii) Since the submission of the Statement of Affairs, MSCI has served notice of termination of the Swap Agreement on the basis of the Company being under judicial management. The Judicial Managers are advised that the termination is valid.
  - (iv) The Implementation Agreement and the Scheme are means for the Company to extract value from the Company's listing status for the benefit of Shareholders and Creditors with Approved Scheme Claims.
  - (v) Given that the Shares have been suspended from trading since 23 September 2009 and that the Shareholders are unlikely to realise any value from the Shares upon a winding up of the Company as the liabilities of the Company far exceed its assets, and in light of the fact that the Company will be delisted in any event if the Implementation Agreement fails to complete, the Scheme is likely to represent the final opportunity for Shareholders to unlock the value of their investment in the Company. As at the Latest Practicable Date, the total of the proofs of debt (net of Small Creditors) received amounted to S\$311,545,972. The proofs are subject to review and assessment by the Judicial Managers (and adjudication by the Court, if any, in the event of any dispute by Creditors) but it is very likely that the liabilities will far exceed any recovery of assets.
  - (vi) In addition, in the event the Company is unable to complete the Scheme, the Company is likely to be delisted and liquidated. Any returns to the Creditors in such a situation would be from the Company's assets in the PRC, if any and if recoverable.
  - (vii) The Scheme offers a potential recovery for the Shareholders and Creditors with Approved Scheme Claims.
- 2.1.3 The total amount of liabilities of the Company as at 13 May 2010 amounts to S\$195,868,160, of which approximately S\$154.96 million is due to the holders of the Convertible Bonds.

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## EXPLANATORY STATEMENT

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### 2.2 Shareholders

In consideration of the surrender of their Shares, the Shareholders will receive a *pro rata* number of AVIC Shares up to a total value of S\$680,000.00. The value of the AVIC Shares will be calculated by reference to the Compliance Placement Price. Based on a projected Compliance Placement Price of S\$0.50, the Shareholders will receive an aggregate of 1,360,000 AVIC Shares, amounting to 0.59% of a total of 232,000,000 AVIC Shares in the capital of AVIC Singapore prior to the completion of the Compliance Placement. The AVIC Shares will be listed on the Official List of the SGX-ST and freely tradable. In the event that the Company is liquidated, it is unlikely that there will be any residual value available for distribution to the Shareholders after payment to the creditors of the Company. As such, the Scheme, offers a potential recovery for, and better return to the Shareholders.

### 2.3 Creditors

Creditors with Approved Scheme Claims will receive a *pro rata* number of AVIC Shares up to a value of S\$5,320,000.00 in consideration for the *pro rata* cancellation of their Approved Scheme Claims to such total value. The value of the AVIC Shares will be calculated by reference to the Compliance Placement Price. Creditors with Approved Scheme Claims remain creditors of the Company for the balance of their Approved Scheme Claims.

## 3. SALIENT FEATURES OF THE SCHEME

### 3.1 Share Distribution, Transfer of Shares and Debt Settlement

3.1.1 Pursuant to the Scheme, AVIC Kairong shall procure that AVIC Singapore allot and issue to the Scheme Administrators, on or before the Transfer Date, to hold on trust for and to distribute on the Vesting Date to the Shareholders and the Creditors with Approved Scheme Claims, in accordance with the terms of the Scheme, such number of Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$6,000,000.00 free from all Encumbrances.

3.1.2 The Share Distribution shall be apportioned as follows:

- (i) Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$680,000.00 to be distributed to the Shareholders; and
- (ii) Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$5,320,000.00 to be distributed to the Creditors with Approved Scheme Claims.

### 3.2 Consideration for the Share Distribution

3.2.1 As to the Shareholders:

- (i) they will cease to be Shareholders of the Company and in consideration, they will receive a proportionate number of Consideration Shares with an aggregate value of S\$680,000.00 (calculated by reference to the Compliance Placement Price). It is estimated that Shareholders will receive 1 AVIC Share for every 250 Shares they hold based on a projected Compliance Placement Price of S\$0.50;
- (ii) all of their Shares shall be transferred to the Judicial Managers who shall receive full legal title to the Shares, fully paid, free from any Encumbrance, and who shall continue to hold the beneficial title to the Shares for and on behalf of the Shareholders; and

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## EXPLANATORY STATEMENT

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- (iii) on or shortly after the Transfer Date, all of the Shares shall be withdrawn from the Official List of the SGX-ST.

Please refer to Part III of the Scheme in **Appendix E** for further details.

- 3.2.2 As to the Creditors with Approved Scheme Claims, they will receive a proportionate number of Consideration Shares with aggregate value of S\$5,320,000.00 (calculated by reference to the Compliance Placement Price) and in consideration, the Company shall be completely and absolutely released and discharged to the aggregate value of the Consideration Shares received by each Creditor under this Scheme in satisfaction of that Creditor's Approved Scheme Claim.

Please refer to Part IV of the Scheme in **Appendix E** for further details.

### 3.3 AVIC Kairong and AVIC Singapore Undertaking

AVIC Kairong and AVIC Singapore have agreed to appear by counsel at the Court hearing of the application to sanction this Scheme and to consent thereto, and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may reasonably be necessary to be executed and done by them for the purpose of giving effect to this Scheme.

### 3.4 Delisting

The Company is listed on the Official List of the SGX-ST. If the Scheme becomes effective and binding, on or shortly after the Transfer Date, the Judicial Managers will hold all the Shares in the Company and (subject to the approval of the SGX-ST) the Shares will be delisted and withdrawn from the Official List of the SGX-ST.

### 3.5 Risk Factors

In considering whether to vote in favour of the Scheme, each Shareholder and Creditor should carefully consider the terms of the Scheme. The following summary of risk factors is not exhaustive and Shareholders and Creditors should also consider all other risks relevant in the circumstances.

#### 3.5.1 Risk of Scheme not being approved by the Court

Even if the appropriate level of support is obtained from Shareholders and Creditors (which cannot be assured) at the respective Court Meetings, approval of the Scheme is at the discretion of the Court. Whilst the Company believes that the relevant statutory formalities have been complied with, the Court could determine that this Scheme is inadequate, and/or for other reasons, determine that the Scheme fails to meet various other requirements, and require amendments or modifications which might not be acceptable to the Company, its Shareholders or its Creditors or might not be able to be accomplished in a timely manner.

#### 3.5.2 AVIC Shares

Shareholders and Creditors must appreciate that no representation as to the information relating to AVIC Singapore is made by the Judicial Managers. Information on the AVIC Group is set out in full in the accompanying Information Memorandum.

- 3.6 For the avoidance of doubt, shares that are held by the Company that are in treasury shall have no rights attached to them under the Scheme.

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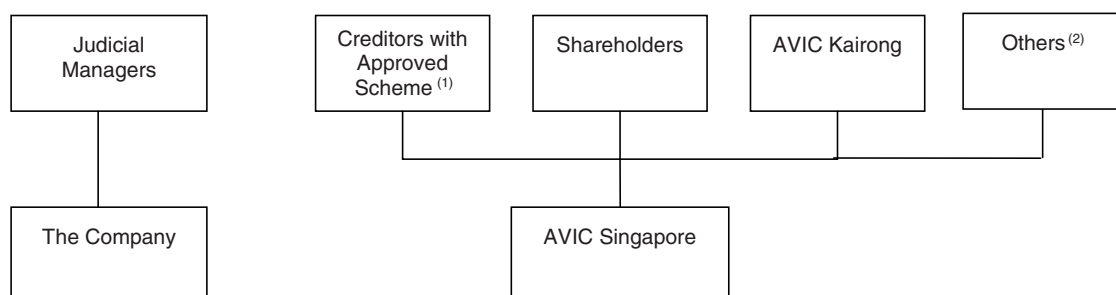
## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

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### 3.7 Further Information

The resulting shareholding structure if the Scheme becomes effective is as follows:



#### Notes

(1) Excludes Small Creditors.

(2) Persons subscribing for and allotted and issued AVIC Shares under the Compliance Placement.

### 3.8 Conditions Precedent

The implementation of the Scheme is subject, *inter alia*, to the following conditions precedent being satisfied or waived (as the case may be):

- 3.8.1 the approval of the Scheme by the Shareholders and the Creditors in compliance with the requirements of Section 210(3) (read with Section 227X) of the Companies Act;
- 3.8.2 the grant of the Order of Court pursuant to Section 210(3) (read with Section 227X) of the Companies Act, and such Order of Court having become effective;
- 3.8.3 no injunction or other order being issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Scheme or the transactions proposed herein or any part thereof;
- 3.8.4 obtaining all necessary consents, approvals, waivers, exemptions or other acts from any foreign or Singaporean government or governmental, semi-governmental, administrative, regulatory, fiscal or judicial agency, authority, body, commission, department, exchange, tribunal or entity (including without limitation, the SGX-ST, the SIC and the Monetary Authority of Singapore) as reasonably required to implement the Scheme and at the consummation, execution and completion of the Implementation Agreement, such consents and approvals having been duly authorised or obtained or otherwise completed and being in full force and effect on the Scheme Effective Date;
- 3.8.5 written confirmation by AVIC Kairong and/or AVIC Singapore to the Company that completion of any restructuring exercise is in accordance with and as described in the listing application submitted by AVIC Kairong; and
- 3.8.6 receipt of the ETL from the SGX-ST for the admission and listing and quotation of AVIC Shares on the Main Board of the SGX-ST on or before 30 June 2011 and such ETL not having been revoked or withdrawn, and all conditions to such ETL (save in respect of shareholding spread) being satisfied.

## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

### 4. FINANCIAL EFFECTS OF THE SCHEME

#### 4.1 The Judicial Managers do not propose to set out the illustrative financial effects of the Scheme for the following reasons:

4.1.1 the last audited consolidated financial statements of the Company was for the financial year ended 31 December 2008 (the “**FY2008 Audited Accounts**”), a period more than two (2) years ago. In addition, the Judicial Managers understand that the then auditors of the Company issued a disclaimer of opinion in respect of the FY2008 Audited Accounts, and also expressed concerns over the ability of the Company to continue as a going concern; and

4.1.2 the Judicial Managers had written to the Subsidiaries for information (including financial information) but had not received any response to such requests.

#### 4.2 In light of the foregoing, the Judicial Managers believe that the presentation of any financial effects of the Scheme will be misleading to Shareholders and will not serve any illustrative purposes.

### 5. TRADING IN AVIC SHARES

#### 5.1 Distribution of AVIC Shares

The Scheme Administrators will distribute Consideration Shares to the Shareholders and Creditors with Approved Scheme Claims on the Vesting Date in accordance with the Scheme.

#### 5.2 Trading in AVIC Shares

It is envisaged that AVIC Shares will be traded on the SGX-ST in board lots of 1,000 AVIC Shares. Following the Share Distribution, the Securities Accounts of Shareholders and Creditors with Approved Scheme Claims may be credited with odd lots of AVIC Shares (i.e. lots other than board lots of 1,000 AVIC Shares).

### 6. DIRECTORS' INTERESTS

#### 6.1 Interests of Directors in the Scheme

##### 6.1.1 The interests of the Directors in the Shares as at the Latest Practicable Date are set out below:

	Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%
<b>Directors</b>				
Dr In Nany Sing Charlie	—	—	—	—
Mr Sam Chong Keen	—	—	—	—
Mr Wong Sek Choon	—	—	—	—
Mr Goh Chee Wee	—	—	—	—
Dr Wong Chiang Yin	—	—	—	—

##### 6.1.2 In addition, the Judicial Managers have considered and accepted a claim for a sum of S\$300,255.73 in relation to services rendered by Mr. Sam Chong Keen in his capacity as the Chief Executive Officer of the Company from February to May 2010.

##### 6.1.3 Save as disclosed above and as far as the Company is aware, none of the Directors has any direct or indirect interests in the Scheme.

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## **EXPLANATORY STATEMENT**

(In compliance with Section 211 of the Companies Act)

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### **6.2 Effect of the Scheme on such interests**

The effect of the Scheme on such interests (if any) of the Directors does not differ from that of other Shareholders and Creditors.

## **7. ACTION TO BE TAKEN BY SHAREHOLDERS AND CREDITORS**

### **7.1 Shareholders**

#### **7.1.1 Shareholders (not being Depositors)**

Shareholders and persons with beneficial ownership of Shares (not being Depositors) who wish to have their Consideration Shares credited into their Securities Account shall take all necessary action to (i) open a Securities Account with an address in Singapore and deposit with CDP their share certificates in respect of their Shares together with the duly executed instruments of transfer in favour of CDP and (ii) notify the Judicial Managers in writing of the details of their Securities Account not later than five (5) Business Days after the Court Meeting for Shareholders.

#### **7.1.2 Shareholders (being Depositors)**

Shareholders (who are Depositors), whose Shares are deposited with CDP as at the Books Closure Date need not take any further action unless otherwise informed by the Judicial Managers and/or the Scheme Administrators. The Scheme Administrators will arrange with CDP to facilitate the debiting of the Shares from and the crediting of the relevant number of Consideration Shares into their Securities Accounts pursuant to the Scheme.

### **7.2 Court Meeting of Shareholders**

Shareholders who are unable to attend the Court Meeting of Shareholders and who wish to appoint a proxy to attend and vote on their behalf should complete, sign and return the relevant enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the office of the Judicial Managers at One Raffles Quay, North Tower Level 18, Singapore 048583 (Attention: Mr. Seshadri Rajagopalan/Ms. Ee Meng Yen Angela) not later than 5.00 p.m. on 24 August 2011. The completion and submission of the proxy form by a Shareholder will not preclude him/her from attending and voting in person at the Court Meeting of Shareholders in place of his/her proxy if he/she so wishes. In such event, the relevant proxy form will be deemed to be revoked.

### **7.3 Creditors**

7.3.1 Creditors with Approved Scheme Claims who wish to have their Consideration Shares credited into their Securities Account or securities sub-account shall take all necessary action to (i) open a Securities Account or securities sub-account with an address in Singapore and/or (ii) notify the Judicial Managers in writing of the details of their Securities Account or securities sub-account not later than five (5) Business Days after the Court Meeting of Creditors.

7.3.2 In order to vote at the Court Meeting of Creditors, each Creditor must have submitted a Proof of Debt with the Judicial Managers at the Specified Address on or before the Proof of Debt Submission Date.

7.3.3 For the purpose of the Scheme, a Creditor shall be deemed to have submitted a Proof of Debt if such Creditor had previously submitted to the Judicial Managers any Proof of Debt (in a form as may be accepted by the Judicial Managers) in the course of the judicial management of the Company. Such Proof of Debt shall constitute such Creditor's Proof of Debt for the purpose of this Scheme, save that such Creditor may submit a revised Proof of Debt on or before the Proof of Debt Submission Date to update its Scheme Claim.



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## **EXPLANATORY STATEMENT**

(In compliance with Section 211 of the Companies Act)

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- 7.3.4 If the Judicial Managers do not receive any revised Proof of Debt from such Creditor by the Proof of Debt Submission Date, the Proof of Debt submitted by that Creditor to the Judicial Managers at any time on or before the Proof of Debt Submission Date in the course of the judicial management of the Company shall be deemed to be the Proof of Debt submitted by the Creditor for the purpose of this Scheme.
- 7.3.5 A Creditor shall have no right after the Proof of Debt Submission Date to revise or amend its Proof of Debt.
- 7.3.6 A Creditor who has submitted or is deemed to have submitted a Proof of Debt under this Scheme shall forthwith notify the Judicial Managers or the Scheme Administrators of all amounts (other than that stated in the said Proof of Debt) paid to or received by such Creditor, on or after 4 June 2010 and up to and including the date the Court sanctions this Scheme, in reduction of any amount which the Company is liable or indebted as at 4 June 2010 to that Creditor.

### **7.4 Court Meeting of Creditors**

Creditors who are unable to attend the Court Meeting of Creditors and who wish to appoint a proxy to attend and vote on their behalf should complete, sign and return the relevant enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the office of the Judicial Managers at One Raffles Quay, North Tower Level 18, Singapore 048583 (Attention: Mr. Seshadri Rajagopalan/Ms. Ee Meng Yen Angela) not later than 5.00 p.m. on 24 August 2011. The completion and submission of the proxy form by a Creditor will not preclude him/her from attending and voting in person at the Court Meeting of Creditors in place of his/her proxy if he/she so wishes. In such event, the relevant proxy form will be deemed to be revoked.

### **7.5 Application to Court for Sanction**

- 7.5.1 At the Court Meetings, the Scheme must be approved by at least three-fourths (75%) in value of the Creditors with Approved Scheme Claims present and voting, either in person or by proxy, and by a majority in number of the Shareholders representing not less than three-fourths (75%) in value of Shares held by those present and voting, either in person or by proxy.
- 7.5.2 An application will be made by the Company to the Court for the sanction of the Scheme if the requisite votes are attained.

## **8. OVERSEAS SHAREHOLDERS AND OVERSEAS CREDITORS**

### **8.1 Overseas Shareholders and Overseas Creditors**

- 8.1.1 The allotment and issue and/or transfer or distribution of Consideration Shares pursuant to the Scheme will be made only to Shareholders whose addresses recorded in the register of members of the Company or in the Depository Register maintained by CDP (as the case may be) are in Singapore and Creditors with Approved Scheme Claims with registered addresses in Singapore, or such other address in Singapore as any such Creditor may notify to the Company, the Judicial Managers or the Scheme Administrators.
- 8.1.2 This Scheme Document shall not constitute an offer or an invitation in any place outside Singapore where, or to any person to whom, it would be unlawful to make such an offer or invitation. Due to such potential restrictions, this Document shall not be sent to any overseas jurisdictions. Notwithstanding this, the Scheme is proposed to all Shareholders and Creditors and applies to all Shareholders and Creditors, including those to whom this Scheme Document has not been and will not be sent. All Shareholders and Creditors (including Overseas Shareholders and Overseas Creditors) shall be bound by the Scheme if the Scheme becomes effective.

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## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

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### 8.2 Entitlement to Net Proceeds of Sale of Consideration Shares

- 8.2.1 Notwithstanding anything to the contrary in the Scheme, the Company, the Judicial Managers and/or the Scheme Administrators shall not at any time be under any obligation to allot, issue and/or transfer or procure the transfer of any Consideration Shares to Overseas Shareholders or Overseas Creditors with Approved Scheme Claims, whether by crediting their Securities Accounts (or, in the case of Overseas Creditors, securities sub-accounts) with the relevant number of Consideration Shares or by the despatch of physical share certificates for the Consideration Shares.
- 8.2.2 In any case where the Scheme Administrators are, in their sole discretion, of the view that the distribution of the Consideration Shares to any Overseas Shareholder or Overseas Creditor with an Approved Scheme Claim may infringe any relevant foreign law or necessitate compliance with conditions or requirements which they regard as onerous or impracticable by reason of costs, delay or otherwise, the Scheme Administrators may, in their sole discretion, determine that such Consideration Shares shall not be transferred to such Overseas Shareholder or Overseas Creditor (as the case may be) who would otherwise have been entitled thereto, but shall be transferred to such nominee(s) as the Scheme Administrators may, in their sole discretion, appoint, who shall sell the same as soon as practicable at the sole discretion of such persons, and thereafter distribute the aggregate amount of the net proceeds, after deducting all dealing and other expenses in connection therewith, proportionately amongst such Overseas Shareholders or Overseas Creditors as the case may be, in accordance with their respective entitlements to the Consideration Shares, in full satisfaction of their rights to the Consideration Shares to which they would otherwise have become entitled, provided that where the net proceeds to which any such Overseas Shareholder or Overseas Creditor is entitled shall be less than S\$10.00, such net proceeds shall be retained for the benefit of the Company, and no such Overseas Shareholder or Overseas Creditor shall have any claim whatsoever against the Company, the Judicial Managers, the Scheme Administrators and/or CDP in connection therewith.
- 8.2.3 Pursuant to the terms of the Scheme, if any Overseas Shareholder and/or Overseas Creditor with an Approved Scheme Claim does not claim his sale proceeds prior to the Cessation Date or if for any reason whatsoever any payment made to an Overseas Shareholder or Overseas Creditor with an Approved Scheme Claim pursuant to the Scheme is not received by that Overseas Shareholder or Overseas Creditor, such Overseas Shareholder or Overseas Creditor shall be deemed to have waived, released and discharged all his rights to such sale proceeds with effect from the Cessation Date. Accordingly, with effect from the Cessation Date, the Judicial Managers, the Scheme Administrators and the Company shall be released from any further obligation to make any payments under the Scheme and the Scheme Administrators shall retain for the benefit of the Company the balance (if any) of the sums outstanding (including any accrued interest) subject, if applicable, to the deduction of interest, tax or any withholding tax or any other deduction required by law and subject to the deduction of any expenses incurred by the Company in connection with such sale proceeds, and no Overseas Shareholder or Overseas Creditor with Approved Scheme Claims shall have any claim whatsoever against the Company, the Judicial Managers and/or the Scheme Administrators in connection therewith.

## 9. REGULATORY APPROVALS

### 9.1 SIC's Ruling

- 9.1.1 The SIC has confirmed, *inter alia*, that:
- (i) the Scheme is exempted from complying with Rules 14, 15, 16, 17, 20.1, 21, 22, 28, 29, 33.2 and Note 1(b) on Rule 19 of the Code, subject to the following conditions:



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## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

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- (a) AVIC Singapore and the Judicial Managers (the “**Relevant Parties**”) and their concert parties as well as the common substantial shareholders of the Relevant Parties and the Company (if any) abstain from voting on the Scheme;
  - (b) the Relevant Parties and their concert parties abstain from making a recommendation on the Scheme to Shareholders; and
  - (c) the Company appoints an independent financial adviser to advise Shareholders on the Scheme.
- (ii) it has no objections to the conditions precedent to the Scheme as set out in Section 3.8 of this Explanatory Statement;
- (iii) it regards the Relevant Parties to be concert parties with respect to and joint offerors for the Company;
- (iv) AVIC Singapore as one of the joint offerors should comply with Rule 23.4 of the Code;
- (v) the Board need not make a recommendation or state its views pursuant to Rule 24.1 (a) and Rule 24.2 of the Code respectively. The Judicial Managers are also exempted from making any recommendations to Shareholders as they face a conflict of interest being one of the joint offerors. The responsibility for making a recommendation to Shareholders shall reside primarily with the IFA; and
- (vi) it has no objections to the following proposed disclosures:
- (a) only the last transacted closing price of Shares on the SGX-ST prior to the suspension of trading would be required to be disclosed in the Scheme Document under Rule 23.10 of the Code;
  - (b) only the financial information of the Company in its last published accounts would be required to be disclosed in the Scheme Document under Rule 24.4 of the Code; and
  - (c) only material contracts with interested persons (not being a contract entered into in the ordinary course of business) entered into by the Company during the period beginning with the appointment of the Judicial Managers as interim judicial managers on 13 May 2010 and up to the date of the Scheme Document would be required to be disclosed in the Scheme Document under Rule 24.6 of the Code.
- 9.1.2 In respect of 9.1.1(i)(a) above, as at the Latest Practicable Date, the Judicial Managers and their concert parties, and AVIC Singapore and its concert parties, do not have any voting rights in the Company nor are the Creditors and as such will not be able to vote on the Scheme.

## 9.2 SGX-ST

- 9.2.1 The Company is listed on the Main Board of the SGX-ST. If the Scheme becomes effective and binding, on or shortly after the Transfer Date, the Judicial Managers or a person nominated by the Judicial Managers will own all the Shares in the Company and (subject to the approval of the SGX-ST) the Shares will be delisted and withdrawn from the Official List of the SGX-ST.

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## EXPLANATORY STATEMENT

(In compliance with Section 211 of the Companies Act)

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9.2.2 As stated in Part II of the Scheme, the Scheme is also conditional on the ETL for the listing of the AVIC Shares on the Main Board of the SGX-ST not having been revoked or withdrawn. The SGX-ST has by a letter dated 21 June 2011 granted ETL for the listing and quotation of the AVIC Shares.

### 10. OPINION OF THE INDEPENDENT FINANCIAL ADVISER

The Company has appointed Stirling Coleman Capital Limited as the IFA to advise its Shareholders in respect of the Scheme and the IFA's advice is set out in its letter dated 10 August 2011 in **Appendix D** of this Scheme Document. Having regard to the considerations as set out in its letter and the information made available to it as at the Latest Practicable Date, the IFA is of the opinion that, on balance, the financial terms of the Scheme to Shareholders, when considered in the context of the prospects of a delisting and the unlikely event that the Shareholders would be able to recover any value from their Shares in the event of a liquidation, are fair and reasonable. Accordingly, the IFA recommends that Shareholders vote in favour of the resolution to be tabled at the Court Meeting of Shareholders in relation to the Scheme to Shareholders. You are advised to read the letter from the IFA carefully in its entirety.

### 11. RECOMMENDATION OF THE JUDICIAL MANAGERS

As the Judicial Managers are deemed to be one of the joint offerors for the Shares, they will accordingly abstain from making any recommendation to the Shareholders. Notwithstanding the above, the Judicial Managers would like to refer Shareholders to the IFA's recommendation as set out in the IFA's letter as exhibited in **Appendix D**. Any Shareholder who may require advice in the context of his specific investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers immediately.

### 12. OTHER INFORMATION

- 12.1 Your attention is drawn to the other information in the Appendices of this Scheme Document, including the General Information on the Company in **Appendix A**. The Appendices form part of this Explanatory Statement.
- 12.2 Your attention is also drawn to the accompanying Information Memorandum prepared by AVIC Singapore for further information on the AVIC Group, including the section entitled "**Risk Factors**" of the accompanying Information Memorandum.
- 12.3 This Explanatory Statement should be read in conjunction with the full text of this Scheme Document, including the Scheme as set out on pages E-1 to E-29 of this Scheme Document, and the Information Memorandum in its entirety.

Yours faithfully

Mr Seshadri Rajagopalan

Ms Ee Meng Yen Angela

Judicial Managers  
**Sino-Environment Technology Group Limited**  
(Under Judicial Management)

## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

### 1. DIRECTORS

Based on the records maintained by ACRA, the names and addresses of the Directors of the Company are as follows:

Name	Address
Dr In Nany Sing Charlie	268B Compassvale Link #14-33 Singapore 542268
Mr Sam Chong Keen	16 Balmoral Park #01-11 The Balmoral Singapore 259847
Mr Wong Sek Choon	12 Jalan Gendang Faber Garden Singapore 578170
Mr Goh Chee Wee	28 Kew Walk Singapore 465976
Dr Wong Chiang Yin	50A Toh Tuck Road #09-12 Signature Park Singapore 596742

### 2. DIRECTORS', SUBSTANTIAL SHAREHOLDERS' AND THE COMPANY'S INTERESTS AND DEALINGS IN SHARES

The interests of the Directors and substantial Shareholders in the Shares as at the Latest Practicable Date, based on the Company's register of Directors' shareholdings and register of substantial Shareholders, are set out below:

	Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%
<b>Directors</b>				
Dr In Nany Sing Charlie	–	–	–	–
Mr Sam Chong Keen	–	–	–	–
Mr Wong Sek Choon	–	–	–	–
Mr Goh Chee Wee	–	–	–	–
Dr Wong Chiang Yin	–	–	–	–
<b>Substantial Shareholders (other than Directors)</b>				
Raffles Nominees (Pte) Ltd	22,795,300	6.73	–	–
Mitsubishi UFJ Financial Group, Inc.	–	–	21,397,771	6.31

### 3. JUDICIAL MANAGERS' INTERESTS AND DEALINGS IN SHARES

As at the Latest Practicable Date, the Judicial Managers do not own or control any Shares. The Judicial Managers have not dealt for value in any Shares during the period commencing six (6) months prior to 10 August 2011.

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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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### 4. IFA'S INTERESTS AND DEALINGS IN SHARES

- 4.1 Based on information provided by the IFA, as at the Latest Practicable Date, the IFA and funds whose investments are managed by the IFA on a discretionary basis do not own or control any Shares.
- 4.2 The IFA and funds whose investments are managed by the IFA on a discretionary basis have not dealt for value in any Shares during the period commencing six (6) months prior to 10 August 2011.

### 5. SHARE CAPITAL

As at the Latest Practicable Date, the Company has only one class of shares in the capital of the Company being the Shares.

- (a) As at the Latest Practicable Date, the issued share capital of the Company is as follows:
- (i) 338,932,180 Shares in issue (net of Shares held in treasury); and
  - (ii) based on the latest unaudited consolidated financial statements of the Company for FY2008, the share capital of the Company as at 31 December 2008 is RMB742,597,000 (net of Shares held in treasury).
- (b) The rights of Shareholders in respect of capital, dividends and voting are contained in the Company's articles of association (the "**Articles**"). For ease of reference, selected texts of the Articles relating to the rights of Shareholders in respect of capital, dividends and voting have been reproduced in Section 6 of this Appendix.
- (c) There are no changes to the number of Shares issued since 31 December 2008.
- (d) As at the Latest Practicable Date, save for S\$149,000,000 aggregate principal amount of 4.0% Convertible Bonds due 2013 issued by the Company on 8 July 2008, there are no outstanding instruments convertible into, rights to subscribe for, and options in respect of, securities being offered for or which carry voting rights affecting shares in the Company.

### 6. RIGHTS OF SHAREHOLDERS IN RESPECT OF CAPITAL, DIVIDENDS AND VOTING

The rights of Shareholders in respect of capital, dividends and voting have been extracted from the Articles of Association of the Company and are set out as follows:

#### *Rights in respect of capital*

#### **"ISSUE OF SHARES**

3. (A) Subject to the Act and these Articles, no shares may be issued by the Directors without the prior approval of the Company in General Meeting pursuant to Section 161 of the Act, but subject thereto and the terms of such approval, and to Article 5, and to any special rights attached to any shares for the time being issued, the Directors may allot (with or without conferring a right of renunciation) or grant options over or otherwise dispose of the same to such persons on such terms and conditions and for such consideration and at such time and whether or not subject to the payment of any part of the amount thereof in cash or otherwise as the Directors may think fit, and any shares may, subject to compliance with Sections 70 and 75 of the Act, be issued with such preferential, deferred, qualified or special rights, privileges, conditions or restrictions, whether as regards dividend, return of capital, participation in surplus assets and profits, voting, conversion or otherwise, as the Directors may think fit, and preference shares may be issued which are or at the option of the Company are liable to be redeemed, the terms and manner of redemption being determined by the Directors in accordance with the Act, Provided Always that no options shall be granted over unissued shares except in accordance with the Act and the Designated Stock Exchange's listing rules.

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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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(B) The Directors may, at any time after the allotment of any share but before any person has been entered in the Register of Members as the holder, recognize a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose.

(C) Except so far as otherwise provided by the conditions of issue or by these Articles, all new shares shall be issued subject to the provisions of the Statutes and of these Articles with reference to allotment, payment of calls, lien, transfer, transmission, forfeiture or otherwise.

4. The Company shall not exercise any right in respect of treasury shares other than as provided by the Act. Subject thereto, the Company may hold or deal with its treasury shares in the manner authorised by, or prescribed pursuant to, the Act.

5. (A) Subject to any direction to the contrary that may be given by the Company in General Meeting or except as permitted by the rules of the Designated Stock Exchange, all new shares shall before issue be offered to such persons who as at the date (as determined by the Directors) of the offer are entitled to receive notices from the Company of General Meetings in proportion, as far as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article 5(A).

(B) Notwithstanding Article 5(A) above, the Company may by Ordinary Resolution in General Meeting give to the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the Ordinary Resolution, to:

- (a) (i) issue shares in the capital of the Company ("shares") whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares; and
- (b) (notwithstanding the authority conferred by the Ordinary Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the Ordinary Resolution was in force,

Provided that:

- (1) the aggregate number of shares to be issued pursuant to the Ordinary Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to the Ordinary Resolution) shall be subject to such limits and manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited;
- (2) in exercising the authority conferred by the Ordinary Resolution, the Company shall comply with the provisions of the listing rules of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance is waived by the Singapore Exchange Securities Trading Limited) and these Articles; and

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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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- (3) (unless revoked or varied by the Company in General Meeting) the authority conferred by the Ordinary Resolution shall not continue in force beyond the conclusion of the Annual General Meeting of the Company next following the passing of the Ordinary Resolution, or the date by which such Annual General Meeting of the Company is required by law to be held, or the expiration of such other period as may be prescribed by the Act (whichever is the earliest).

(C) The Company may, notwithstanding Articles 5(A) and 5(B) above, authorize the Directors not to offer new shares to members to whom by reason of foreign securities laws, such offers may not be made without registration of the shares or a prospectus or other document, but to sell the entitlements to the new shares on behalf of such members on such terms and conditions as the Company may direct.

6. The Company may pay commissions or brokerage in respect of any issue of or subscription for shares at such amount or rate and in such manner as the Directors may deem fit. Such commissions or brokerage may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other.

7. Where any shares are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the Company may pay interest on so much of that share capital as is for the time being paid-up for the period and charge the same to capital as part of the cost of the construction of the works or buildings or the provision of the plant, subject to the conditions and restrictions mentioned in the Act.

8. (A) The rights attached to shares issued upon special conditions shall be clearly defined in the Memorandum of Association of the Company and these Articles and the rights attaching to shares of a class other than ordinary shares shall be expressed. Preference shares may be issued subject to such limitation thereof as may be prescribed by the Designated Stock Exchange. In the event of preference shares being issued, the total number of issued preference shares shall not at any time exceed the total number of the issued ordinary shares and preference shareholders shall have the same rights as ordinary shareholders as regards receiving of notices, reports and balance sheets and attending General Meetings of the Company, and preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing capital or winding-up or sanctioning a sale of the undertaking of the Company or where the proposal to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrear.

(B) The Company has power to issue further preference capital ranking equally with, or in priority to, preference shares already issued.

### VARIATION OF RIGHTS

9. (A) Whenever the share capital of the Company is divided into different classes of shares, the variation or abrogation of the special rights attached to any class may, subject to the provisions of the Act, be made either with the consent in writing of the holders of three-quarters of the total number of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of the class (but not otherwise) and may be so made either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate General Meeting all the provisions of these Articles relating to General Meetings of the Company and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be two or more persons holding at least one-third of the total number of the issued shares of the class present in person or by proxy or attorney and that any holder of shares of the class present in person or by proxy or attorney may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him where the class is a class of equity shares within the meaning of Section 64(1) of the Act or at least one vote for



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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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every share of the class where the class is a class of preference shares within the meaning of Section 180(2) of the Act, Provided Always that where the necessary majority for such a Special Resolution is not obtained at such General Meeting, the consent in writing, if obtained from the holders of three-quarters of the total number of the issued shares of the class concerned within two months of such General Meeting, shall be as valid and effectual as a Special Resolution carried at such General Meeting.

(B) The provisions in Article 9(A) shall *mutatis mutandis* apply to any repayment of preference capital (other than redeemable preference capital) and any variation or abrogation of the rights attached to preference shares or any class thereof.

(C) The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects *pari passu* therewith but in no respect in priority thereto.

### ALTERATION OF SHARE CAPITAL

10. The Company may by Ordinary Resolution:

- (a) consolidate and divide all or any of its shares;
- (b) subject to the provisions of the Statutes, sub-divide its shares, or any of them; so however that the proportion of the amount paid to the amount unpaid (if any) on each sub-divided share is the same as on the original share from which it was derived; and the resolution whereby any share is sub-divided being otherwise permitted to determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred, qualified or other special rights, or be subject to any such restrictions, as the Company has then the authority to attach to unissued or new shares; and/or
- (c) subject to the provisions of these Articles and the Statutes, convert or exchange any class of shares into or for any other class of shares.

11. (A) The Company may reduce its share capital or other undistributable reserve in any manner permitted, and with, and subject to, any incident authorized, and consent or confirmation required, by law. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to these Articles and the Statutes, the number of issued shares of the Company shall be diminished by the number of shares so cancelled, and, where any such cancelled share was purchased or acquired out of the capital of the Company, the amount of share capital of the Company shall be reduced accordingly.

(B) The Company may purchase or otherwise acquire its issued shares subject to and in accordance with the provisions of the Statutes and any other relevant rule, law, regulation or guidelines enacted, promulgated or issued by any relevant competent authority (including the Designated Stock Exchange (if applicable)) from time to time (hereafter, the “Relevant Laws”), on such terms and subject to such conditions as the Company may in general meeting prescribe in accordance with the Relevant Laws. Any shares purchased or acquired by the Company as aforesaid shall, unless held in treasury in accordance with the Act, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with the Relevant Laws.

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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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### VOTES OF MEMBERS

62. Subject to Article 4 and any special rights or restrictions as to voting attached by or in accordance with these Articles to any class of shares, each member entitled to vote may vote in person or by proxy. On a show of hands every member who is present in person or by proxy shall have one vote (provided that in the case of a member who is represented by two proxies, only one of the two proxies as determined by that member or, failing such determination, by the chairman of the meeting (or a person authorised by him), shall be entitled to vote on a show of hands), and on a poll every member who is present in person or by proxy shall have one vote for every share of which he holds or represents. For the purposes of determining the number of votes which a member, being a Depositor, or his proxy may cast at any General Meeting on a poll, the references to shares held or represented shall, in relation to shares of that Depositor, be the number of shares entered against his name in the CDP register as at 48 hours before the time of the relevant General Meeting as certified by CDP to the Company. A member who is bankrupt shall not, while his bankruptcy continues, be entitled to exercise his rights as a member, or attend, vote or act at any meeting of the Company.

63. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members or, as the case may be, the order in which the names appear in the Depository Register in respect of the joint holding.

64. Where in Singapore or elsewhere a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any member on the ground (however formulated) of mental disorder, the Directors may in their absolute discretion, upon or subject to production of such evidence of the appointment as the Directors may require, permit such receiver or other person on behalf of such member, to vote in person or by proxy at any General Meeting, or to exercise any other right conferred by membership in relation to meetings of the Company.

65. No member shall be entitled in respect of shares held by him to vote at a General Meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum payable by him to the Company in respect of such shares remains unpaid.

66. No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to is or may be given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the chairman of the meeting whose decision shall be final and conclusive.

67. On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

68. (A) A member shall not be entitled to appoint more than two proxies to attend and vote at the same General Meeting, Provided that if a member is a Depositor, the Company shall be entitled and bound:

- (a) to reject any instrument of proxy lodged if the Depositor, is not shown, to have any shares entered against his name in the CDP register as at 48 hours before the time of the relevant General Meeting as certified by CDP to the Company; and
- (b) to accept as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll a number which is the number of shares entered into against the name of that Depositor in the CDP register as at 48 hours before the time of the relevant General Meeting as certified by CDP to the Company, whether that number is greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor.



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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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(B) Where a member appoints more than one proxy, the member shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.

(C) A proxy need not be a member of the Company.

69. (A) An instrument appointing a proxy for any member shall be in writing in any usual or common form or in any other form which the Directors may approve and:

(a) in the case of an individual member, shall be signed by the member or his attorney duly authorized in writing; and

(b) in the case of a member which is a corporation shall be either given under its common seal or signed on its behalf by an attorney duly authorized in writing or a duly authorized officer of the corporation.

(B) The signatures on an instrument of proxy need not be witnessed. Where an instrument appointing a proxy is signed on behalf of a member by an attorney, the letter or power of attorney or a duly certified copy thereof shall (failing previous registration with the Company) be lodged with the instrument of proxy pursuant to the next following Article, failing which the instrument of proxy may be treated as invalid.

70. An instrument appointing a proxy must be left at such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified, at the Office) not less than forty-eight hours before the time appointed for the holding of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used, and in default shall not be treated as valid. The instrument shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates, Provided that an instrument of proxy relating to more than one meeting (including any adjournment thereof) having once been so delivered for the purposes of any meeting shall not require again to be delivered for the purposes of any subsequent meeting to which it relates.

71. An instrument appointing a proxy shall be deemed to include the right to demand or join in demanding a poll and to speak at the meeting.

72. A vote cast by proxy shall not be invalidated by the previous death or insanity of the principal or by the revocation of the appointment of the proxy or of the authority under which the appointment was made provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office at least one hour before the commencement of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) the time appointed for the taking of the poll at which the vote is cast.

72A. Subject to these Articles and the Statutes, the Directors may, at their sole discretion, approve and implement, subject to such security measures as may be deemed necessary or expedient, such voting methods to allow members who are unable to vote in person at any general meeting the option to vote in absentia, including but not limited to voting by mail, electronic mail or facsimile.

### DIVIDENDS

122. The Company may by Ordinary Resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.

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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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123. If and so far as in the opinion of the Directors, the profits of the Company justify such payments, the Directors may declare and pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the half-yearly or other dates prescribed for the payment thereof and may also from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.

124. Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid *pro rata* according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purposes of this Article, no amount paid on a share in advance of calls shall be treated as paid on the share.

125. No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes. Any dividend unclaimed after six (6) years from the date of declaration shall be made forfeit and revert to the Company.

126. No dividend or other monies payable on or in respect of a share shall bear interest as against the Company.

127. (A) The Directors may retain any dividend or other monies payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

(B) The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmission of shares hereinbefore contained entitled to become a member, or which any person is under those provisions entitled to transfer, until such person shall become a member in respect of such shares or shall transfer the same.

128. The waiver in whole or in part of any dividend on any share by any document (whether or not under seal) shall be effective only if such document is signed by the member (or the person entitled to the share in consequence of the death or bankruptcy of the holder) and delivered to the Company and if or to the extent that the same is accepted as such or acted upon by the Company.

129. The Company may upon the recommendation of the Directors by Ordinary Resolution direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company) and the Directors shall give effect to such resolution. Where any difficulty arises with regard to such distribution, the Directors may settle the same as they think expedient and in particular, may issue fractional certificates, may fix the value for distribution of such specific assets or any part thereof, may determine that cash payments shall be made to any member upon the footing of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees as may seem expedient to the Directors.

130. Any dividend or other moneys payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address appearing in the Register of Members or (as the case may be) the Depository Register of the member or person entitled thereto (or, if two or more persons are registered in the Register of Members or (as the case may be) entered in the Depository Register as joint holders of the share or are entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons) or to such person and such address as such member or person or persons may by writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or to such person as the holder or joint holders or person or persons entitled to the share in consequence of the death or bankruptcy of the holder may direct and payment of the cheque or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.

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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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131. If two or more persons are registered in the Register of Members or (as the case may be) the Depository Register as joint holders of any share, or are entitled jointly to a share in consequence of the death or bankruptcy of the holder, any one of them may give effectual receipts for any dividend or other moneys payable or property distributable on or in respect of the share.

132. Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in General Meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares in the Register of Members or (as the case may be) the Depository Register at the close of business on a particular date and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights *inter se* in respect of such dividend of transferors and transferees of any such shares.”

### 7. MARKET QUOTATION

The closing price of the Shares on the SGX-ST on 22 September 2009, being the last trading day prior to the suspension of trading in the Shares, was S\$0.135 per Share.

### 8. MATERIAL CONTRACTS WITH INTERESTED PERSONS

The Judicial Managers are not aware of any contracts (other than those entered into in the ordinary course of business) which have been entered into by the Company with interested persons during the period commencing 13 May 2010, being the date the Company was placed under interim judicial management, and ending on the Latest Practicable Date.

### 9. MATERIAL LITIGATION

Save for legal proceedings initiated by the Company's subsidiary, Thumb Env-Tech Group (Fujian) Co., Ltd., in the Fujian Intermediate People's Court in the PRC for unpaid capital, the Judicial Managers are not aware of any legal or arbitration proceedings against the Company as at the date hereof or in the twelve (12) months before the date of this Scheme Document.

### 10. JUDICIAL MANAGERS' INTENTIONS FOR THE COMPANY

As disclosed elsewhere in the Scheme Document, the Company has entered into the Asset Recovery Agreement on 7 January 2011 with HLM, pursuant to which, *inter alia*, HLM was appointed to assist the Company in regaining control over and the recovery of the Company's assets in the PRC. The Judicial Managers intend to continue pursuing the process of asset recovery with the assistance of HLM.

### 11. OTHER MATTERS

As far as the Judicial Managers are aware, based on the documents made available to them:

- 11.1 save as disclosed in this Scheme Document and/or the accompanying Information Memorandum, there is, as at the Latest Practicable Date, no agreement or arrangement made between the Judicial Managers and any Director or any other person in connection with or which is conditional upon the outcome of the Scheme;
- 11.2 there are no arrangements in connection with the Scheme for any payment or other benefit to be made or given to any Director or any director of any related corporation of the Company as compensation for loss of office;
- 11.3 there is no agreement, arrangement or understanding existing between the Judicial Managers and any Directors of the Company or Shareholders of the Company having any connection with or dependence upon the Scheme;

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## APPENDIX A – GENERAL INFORMATION ON THE COMPANY

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- 11.4 there are no service contracts with any Directors or proposed directors of the Company with more than twelve (12) months to run and which cannot be terminated by the employing company within the next twelve (12) months without payment of compensation. No service contracts were entered into or amended between any of the Directors or proposed directors of the Company in the six (6) months immediately preceding 10 August 2011;
- 11.5 there are no material contracts entered into by the Judicial Managers in which any Director has a material personal interest, whether direct or indirect.

### 12. CONSENTS

Stirling Coleman Capital Limited has given and has not withdrawn its consent to the issue of this Scheme Document with the inclusion herein of its name and its letter dated 10 August 2011 in relation, *inter alia*, its advice to the Shareholders in relation to the Scheme, and all references thereto to its name, in the form and context in which they appear in this Scheme Document.

### 13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at One Raffles Quay, North Tower Level 18, Singapore 048583, during normal business hours on any weekday (public holidays excepted) from the date of this Scheme Document up to the date of the Court Meetings:

- 13.1 the memorandum and articles of association of the Company;
- 13.2 the qualified consolidated audited financial statements of the Company for FY2008;
- 13.3 the Statement of Affairs of the Company;
- 13.4 the announcement of the Company on 7 January 2011 in relation to the Implementation Agreement;
- 13.5 the Implementation Agreement;
- 13.6 the letter from the IFA containing the IFA's advice in relation to the Scheme;
- 13.7 the Information Memorandum; and
- 13.8 the letter of consent referred to in Section 12 above.

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**SINO-ENVIRONMENT TECHNOLOGY  
GROUP LIMITED**

*(Incorporated in Singapore. Registration Number: 200106480Z)*

**AND ITS SUBSIDIARIES**

**ANNUAL REPORT**

*For the financial year ended 31 December 2008*

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED**  
*(Incorporated in Singapore)*  
**AND ITS SUBSIDIARIES**

**ANNUAL REPORT**

*For the financial year ended 31 December 2008*

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### DIRECTORS' REPORT

*For the financial year ended 31 December 2008*

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The directors present their report to the members together with the audited financial statements of Sino-Environment Technology Group Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2008 and the balance sheet of the Company as at 31 December 2008.

#### Directors

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

Mr Sun Jiangrong  
Mr You Shengquan  
Professor Li Shouxin  
Mr Tan Tar Wuei  
Mr Goh Chee Wee  
Dr Wong Chiang Yin  
Mr Pan Jinquan

#### Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was 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, other than as discussed under "Employee Share Option Scheme and Performance Shares Plan".

#### Directors' interests in shares or debentures

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which director is deemed to have an interest	
	At	At	At	At
	31.12.2008	1.1.2008	31.12.2008	1.1.2008
<b>Company</b>				
<u>(No. of Ordinary shares)</u>				
Mr Sun Jiangrong	-	-	190,788,000	190,638,000
Mr Tan Tar Wuei	100,000	100,000	-	-

- (b) The directors' interests in the ordinary shares of the Company as at 21 January 2009 were the same as those as at 31 December 2008.

#### 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 accompanying financial statements and in this report, and except that Mr Sun Jiangrong, Mr You Shengquan and Professor Li Shouxin have employment relationships with the Company and a subsidiary, and Mr Tan Tar Wuei has employment relationships with the Company.



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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
AND ITS SUBSIDIARIES

### DIRECTORS' REPORT

*For the financial year ended 31 December 2008*

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#### Share Option and Shares Plan

The Employee Share Option Scheme ("ESOS") and Performance Shares Plan ("PSP") for key management personnel and employees of the Group was approved by members of the Company at an Extraordinary General Meeting on 28 April 2008.

The ESOS and PSP Committee consist of:

Mr Goh Chee Wee (Chairman)  
Dr Wong Chiang Yin  
Mr Pan Jinquan  
Mr Tan Tar Wuei

#### Employee Share Option Scheme ("ESOS")

Under the ESOS, options to subscribe for the ordinary shares of the Company are granted to key management personnel and employees. The exercise price of the options is determined at the average of the closing prices of the Company's ordinary shares as quoted on the Singapore Exchange for five market days immediately preceding the date of grant. The vesting of the options is conditional on the key management personnel or employees completing at least a year of service to the Group. If options are granted at a discount, the vesting period is at least 2 years. Once the options are vested, they are exercisable for a period of ten years. The options may be exercised in full or in part in respect of 1,000 shares or a multiple thereof, on the payment of the exercise price. The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As of the date of this report, no employee share options have been granted.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### DIRECTORS' REPORT

*For the financial year ended 31 December 2008*

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#### Share Option and Shares Plan (continued)

##### Performance Shares Plan ("PSP")

Under the PSP, the Company granted 3,000,000 share awards on 20 August 2008 ("2008 PSP") representing the right to receive fully paid ordinary shares of the Company, their equivalent cash value or combinations thereof, free of charge. The closing share price of the Company's shares as of the date of grant was S\$1.25. After the end of a specific performance period, the Company shall deliver shares of the Company or pay the cash value or combinations thereof. The value of each share is determined by reference to average of the closing prices of the Company's ordinary shares as quoted on the Singapore Exchange for three market days immediately preceding the date of delivery. The 2008 PSP shares will be delivered on 20 August 2009, which is the end of the performance period for the 2008 PSP.

The aggregate number of shares over which the options may be granted on any date under the ESOS and the number of shares which may be issued pursuant to the PSP, when added to the number of shares issued and issuable in respect of all options granted under the ESOS and all shares granted under the PSP, shall not exceed 15% of the issued share capital of the Company on the day preceding that date.

No PSPs have been granted to controlling shareholders of the Company or their associates (as defined in the Listing Manual of the Singapore Exchange Securities Trading Limited). PSP shares have been granted to the following directors: Mr Goh Chee Wee, Dr Wong Chiang Yin, Mr Pan Jinquan, Mr Tan Tar Wuei, Mr You Shengquan and Professor Li Shouxin. The aggregate number of shares which have not been delivered as at 31 December 2008 amounted to 3,000,000.

PSP granted to directors and other employees of the Company as at 31 December 2008 are as follows:

	Granted in the financial year ended 31 December 2008	Aggregate outstanding as at 31 December 2008
<i>Directors</i>		
Goh Chee Wee	50,000	50,000
Wong Chiang Yin	40,000	40,000
Pan Jinquan	10,000	10,000
Tan Tar Wuei	75,000	75,000
You Shengquan	300,000	300,000
Li Shouxin	200,000	200,000
	<hr/> 675,000	<hr/> 675,000
<i>Non-directors</i>	2,325,000	2,325,000
<b>Total ordinary shares</b>	<b>3,000,000</b>	<b>3,000,000</b>

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
AND ITS SUBSIDIARIES

### DIRECTORS' REPORT

*For the financial year ended 31 December 2008*

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#### Audit Committee

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

Mr Goh Chee Wee (Chairman)  
Dr Wong Chiang Yin  
Mr Pan Jinquan

All members of the Audit Committee were non-executive directors and were independent.

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the Committee reviewed:

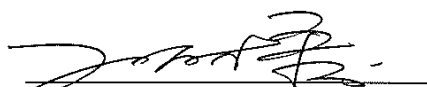
- The scope and the results of internal audit procedures with the internal auditor;
- The audit plan of the Company's independent auditor and its report on the weaknesses of internal accounting controls arising from the statutory audit;
- The assistance given by the Company's management to the independent auditor; and
- The balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2008 before their submission to the Board of Directors, as well as the independent auditor's report on the balance sheet of the Company and the consolidated financial statements of the Group.

The Audit Committee has recommended to the Board that the independent auditor, PricewaterhouseCoopers LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

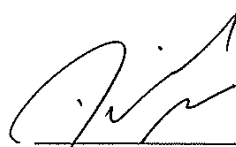
#### Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors



Sun Jiangrong  
Executive Director and  
Chief Executive Officer



Tan Tar Wuei  
Executive Director and  
Chief Financial Officer

24 March 2009

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
AND ITS SUBSIDIARIES

**STATEMENT BY DIRECTORS**

*For the financial year ended 31 December 2008*

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In the opinion of the directors,

- (a) save for any adjustments that may be required as a result of the subsequent event described in Note 38, the accompanying financial statements comprising the balance sheets, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement together with the notes thereon are drawn up in accordance with the provisions of the Companies Act, Cap. 50 and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008 and of the results, changes in equity and cash flows of the Group for the financial year ended 31 December 2008; and
- (b) at the date of this statement, subject to the successful resolution on the matters described in Note 38, 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 directors



Sun Jiangrong  
Executive Director and  
Chief Executive Officer



Tan Tar Wuei  
Executive Director and  
Chief Financial Officer

24 March 2009

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED

We were engaged to audit the accompanying financial statements of Sino-Environment Technology Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 60, which comprise the balance sheets of the Company and of the Group as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

- (a) devising and maintaining a system of internal accounting control sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### *Basis for Disclaimer of Opinion*

As set out in Note 38 to the financial statements, there may be a change in control of the Company as the Company's Controlling Shareholder may be faced with forced sale of part or all of its ordinary shares in the capital of the Company arising from the Controlling Shareholder's default of certain financial obligations. This change in control would give the Bondholders who bought the S\$149,000,000 convertible bonds issued by the Company in July 2008 the right to request for immediate conversion and/ or redemption of the outstanding S\$149,000,000 bonds existing at the balance sheet date. The Company may not be able to make payment for such unscheduled redemption by the Bondholders if called upon to do so.

The matter set out in the paragraph above indicates the existence of material uncertainties which may affect the validity of the going concern assumption on which the accompanying financial statements of the Company and the Group are prepared. In the event that the going concern assumption is inappropriate, adjustments will have to be made to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively, and to restate the carrying values of the assets to their recoverable amounts and to provide for further liabilities which may arise. No such adjustments have been made in the financial statements for the year ended 31 December 2008.

#### *Disclaimer of Opinion*

Because of the significance of the matter referred to in the preceding paragraphs, we are not in a position to, and do not, express an opinion on the accompanying financial statements of the Company and the Group.

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



PricewaterhouseCoopers LLP  
Public Accountants and Certified Public Accountants  
Singapore, 24 March 2009

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
AND ITS SUBSIDIARIES

**CONSOLIDATED INCOME STATEMENT**  
*For the financial year ended 31 December 2008*

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	Note	2008 RMB'000	2007 RMB'000
Sales	4	775,798	463,842
Cost of sales		<u>(479,568)</u>	<u>(241,666)</u>
Gross profit		296,230	222,176
Other income	7	13,114	19,511
Other losses - net	8	(227,352)	(781)
Expenses			
- Distribution and marketing		(13,415)	(9,583)
- Administrative		(65,251)	(58,495)
- Finance	9	<u>(31,969)</u>	<u>(943)</u>
(Loss) / Profit before income tax		(28,643)	171,885
Income tax expense	10(a)	<u>(16,351)</u>	<u>(681)</u>
Total (loss) / profit		<u>(44,994)</u>	<u>171,204</u>
Attributable to:			
Equity holders of the Company		(44,994)	147,150
Minority interests		-	24,054
		<u>(44,994)</u>	<u>171,204</u>
(Losses) / earnings per share for (loss) / profit attributable to equity holders of the Company (RMB per share)			
- Basic	11(a)	(0.13)	0.43
- Diluted	11(b)	<u>(0.13)</u>	<u>0.43</u>

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

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### BALANCE SHEETS

As at 31 December 2008

	Note	Group		Company	
		2008	2007	2008	2007
		RMB'000	RMB'000	RMB'000	RMB'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	12	727,883	689,157	133,817	185,703
Trade and other receivables	13	276,473	210,656	285,813	61,407
Other current assets	14	113,316	2,979	615	290
Inventories	15	5,104	4,982	-	-
		<u>1,122,776</u>	<u>907,774</u>	<u>420,245</u>	<u>247,400</u>
<b>Non-current assets</b>					
Transferable club memberships	16	354	354	354	354
Investments in subsidiaries	19	-	-	720,192	588,201
Financial assets, available-for-sale	20	1,935	-	1,935	-
Derivative financial instrument					
- Equity swap derivative	21	130,026	-	130,026	-
Long-term prepayment	22	1,889	4,609	-	-
Investment properties	23	468	485	-	-
Property, plant and equipment	24	154,319	104,193	1,229	757
Intangible assets	25	228,089	218,753	-	-
		<u>517,080</u>	<u>328,394</u>	<u>853,736</u>	<u>589,312</u>
<b>Total assets</b>		<b>1,639,856</b>	<b>1,236,168</b>	<b>1,273,981</b>	<b>836,712</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	26	116,351	76,918	12,423	8,601
Current income tax liabilities	10(b)	3,976	712	17	471
Borrowings	27	9,200	11,000	-	-
		<u>129,527</u>	<u>88,630</u>	<u>12,440</u>	<u>9,072</u>
<b>Non-current liabilities</b>					
Derivative financial instrument					
- Embedded derivative	28	112,768	-	112,768	-
Borrowings	27	622,636	1,000	622,636	-
Deferred income tax liabilities	29	23,827	11,523	-	-
		<u>759,231</u>	<u>12,523</u>	<u>735,404</u>	<u>-</u>
<b>Total liabilities</b>		<b>888,758</b>	<b>101,153</b>	<b>747,844</b>	<b>9,072</b>
<b>NET ASSETS</b>		<b>751,098</b>	<b>1,135,015</b>	<b>526,137</b>	<b>827,640</b>
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	30	793,316	793,316	793,316	793,316
Treasury shares	30	(50,719)	-	(50,719)	-
Other reserves	31	(148,042)	34,458	-	-
Retained earnings / (Accumulated loss)	32	156,543	224,337	(216,460)	34,324
		<u>751,098</u>	<u>1,052,111</u>	<u>526,137</u>	<u>827,640</u>
Minority interests		-	82,904	-	-
<b>Total equity</b>		<b>751,098</b>	<b>1,135,015</b>	<b>526,137</b>	<b>827,640</b>

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



## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the financial year ended 31 December 2008

		← Attributable to equity holders of the Company →					
Note	Share capital	Treasury shares	Other reserves	Retained Earnings	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>2008</b>							
Beginning of financial year	793,316	-	34,458	224,337	1,052,111	82,904	1,135,015
Currency translation differences	31(b)(iii)	-	-	(1)	-	(1)	(1)
Net loss		-	-	(44,994)	(44,994)	-	(44,994)
Total recognised loss		-	-	(1)	(44,995)	-	(44,995)
Increase in investment in subsidiary	31(b)(ii)	-	-	(205,299)	-	(205,299)	(82,904)
Transfer to statutory reserves	31(b)(i)	-	-	22,800	(22,800)	-	-
Purchase of treasury shares	30	-	(50,719)	-	-	(50,719)	-
End of financial year		793,316	(50,719)	(148,042)	156,543	751,098	-
<b>2007</b>							
Beginning of financial year							
- As previously reported		222,754	-	15,029	96,546	334,329	3,277
- Adjustment for prior period		-	-	336	(336)	-	-
As restated		222,754	-	15,365	96,210	334,329	3,277
Currency translation differences	31(b)(iii)	-	-	1	-	1	-
Net profit		-	-	-	147,150	147,150	24,054
Disposal of subsidiary		-	-	-	(764)	(764)	(617)
Total recognised income		-	-	1	146,386	146,387	23,437
Acquisition of subsidiary		-	-	-	-	-	59,413
Increase in investment in subsidiary	31(b)(ii)	-	-	122	711	833	(3,223)
Issue of shares	30	590,950	-	-	-	590,950	-
Share issue expenses	30	(20,388)	-	-	-	(20,388)	-
Transfer to statutory reserves	31(b)(i)	-	-	18,970	(18,970)	-	-
End of financial year		793,316	-	34,458	224,337	1,052,111	82,904

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

# APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

## SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

### CONSOLIDATED CASH FLOW STATEMENT For the financial year ended 31 December 2008

	Note	Group 2008 RMB'000	2007 RMB'000
<b>Cash flows from operating activities</b>			
Total (loss) / profit		(44,994)	171,204
Adjustments for			
- Income tax expense		16,351	681
- Amortisation and depreciation		9,263	14,799
- Fair value changes on derivative financial instruments		226,386	-
- Gain on disposals of property, plant and equipment		(2)	(4)
- Loss on write-off of property, plant and equipment		3	2
- Gain on disposal of a subsidiary		-	(5,625)
- Gain on disposal of financial assets designated as fair value through profit or loss at initial recognition		-	(156)
- Interest income – banks		(7,456)	(9,527)
- Interest expense – banks		1,106	943
- Interest expense – Convertible bonds		30,863	-
- Unrealised exchange gains		(11,753)	(63)
- Unrealised translation (gains) / losses		(1)	1
		219,766	172,255
Change in working capital, net of effects from acquisition and disposal of subsidiaries			
- Inventories		(122)	(666)
- Trade and other receivables		(62,077)	(78,164)
- Other current assets		(424)	8,701
- Trade and other payables		28,749	53,351
- Long term prepayments		2,720	(4,609)
- Restricted cash and cash equivalents		(36,803)	(2,871)
Cash generated from operations		151,809	147,997
Interest received from banks		3,866	9,527
Income tax paid		(962)	(11)
<b>Net cash provided by operating activities</b>		154,713	157,513
<b>Cash flows from investing activities</b>			
Acquisition of a subsidiary, net of cash acquired	12(a)(ii)	-	(61,817)
Increase in investment in subsidiary	12(a)(i) & (b)	(277,216)	(3,223)
Disposal of a subsidiary, net of cash disposed of	12(c)	-	(5,631)
Financial assets, available-for-sale	20	(1,935)	-
Purchases and construction of property, plant and equipment	24	(55,544)	(85,860)
Purchases of intangible assets	25(d)	(13,686)	-
Proceeds from disposal of property, plant and equipment		521	5
Payment for de-nitrogenation catalyst production plant	14	(109,943)	-
Proceeds from disposal of financial assets, available-for-sale		-	4,526
<b>Net cash used in investing activities</b>		(457,803)	(152,000)
<b>Cash flows from financing activities</b>			
Net proceeds from issuance of Convertible Bonds	28	709,373	-
Proceeds used to enter into Equity Swap	21	(338,653)	-
Purchase of treasury shares	30	(50,719)	-
Proceeds from issuance of ordinary shares		-	432,386
Repayment of borrowings		(2,800)	(500)
Interest paid		(1,106)	(943)
<b>Net cash provided by financing activities</b>		316,095	430,943
<b>Net increase in cash and cash equivalents</b>		13,005	436,456
Effect of currency translation on cash and cash equivalents		(11,082)	63
Cash and cash equivalents at beginning of financial year	12	686,286	249,767
<b>Cash and cash equivalents at end of financial year</b>	12	688,209	686,286

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

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2008*

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

#### 1. General information

Sino-Environment Technology Group Limited (the "Company") is listed on the Singapore Exchange and incorporated and domiciled in Singapore. The address of its registered office is 9 Temasek Boulevard, #32-02 Suntec Tower Two, Singapore 038989.

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are described in Note 41 of the financial statements.

#### 2. Significant accounting policies

##### 2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The 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 its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. 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 3.

##### *Interpretations and amendments to published standards effective in 2008*

On 1 January 2008, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The following are the new or amended FRS and INT FRS that are relevant to the Group:

INT FRS 111	Group and Treasury Share Transactions
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The adoption of the above INT FRS did not result in any substantial changes to the Group's accounting policies nor any significant impact on these financial statements.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.2 Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the construction of specialised equipment in the ordinary course of the Group's activities. Sales are 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, it is probable that future economic benefits will flow to the entity and when the specific criteria for each of the Group's activities are met as follows:

(a) *Construction of specialised equipment*

Please refer to the paragraph "Construction Contracts" for the accounting policy for revenue from construction contracts.

(b) *Interest income*

Interest income is recognised using the effective interest method.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(d) *Rental income*

Rental income from operating lease (net of any incentives given to the lessees) is recognised on a straight line basis over the lease term.

(e) *Government grant income*

Government grant income is recognised at fair value when there is a reasonable assurance that the grant will be received and the Group will comply with attached conditions, if any.

##### 2.3 Group accounting

(a) *Subsidiaries*

Subsidiaries are entities over which the Group has power to govern the financial and operating policies, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition, irrespective of the extent of minority interest. Please refer to the paragraph "Intangible assets - Goodwill" for the accounting policy on goodwill on acquisition of subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.3 Group accounting (continued)

###### (a) Subsidiaries (continued)

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests are that part of net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the Group. They are measured at the minorities' share of fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the minorities' share of losses in a subsidiary exceeds its interests in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minorities are attributed to the equity holders of the Company, unless the minorities have a binding obligation to, and are able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minorities' share of losses previously absorbed by the equity holders of the Company are fully recovered.

Please refer to the paragraph "Investments in subsidiaries" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

###### (b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity holders. Changes in the Group's interest in a subsidiary that do not result in a loss of control is accounted for by adjusting the carrying amount of minority interests to reflect changes in the Group's interest in the subsidiary's net assets. The difference between the amount of adjustment to minority interests and the fair value of the consideration paid or received, if any, is brought to other reserves.

##### 2.4 Property, plant and equipment

###### (a) Measurement

###### (i) Leasehold land and buildings

Leasehold land and buildings are initially recognised at cost and subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses.

Leasehold land and buildings are revalued by independent professional valuers whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

###### (ii) Other property, plant and equipment

All other 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 initially recognised 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 the manner intended by management.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

#### 2.4 Property, plant and equipment (continued)

##### (b) Depreciation

Construction in progress is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Useful lives</u>
Leasehold land	Over the lease period of 50 years
Leasehold buildings	30 years
Plant and machinery	5 - 10 years
Office equipment	1 - 5 years
Motor vehicles	5 - 10 years
Furniture and fittings	3 - 5 years

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 the income statement when the changes arise.

##### (c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expense is recognised in the income statement when incurred.

##### (d) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in the income statement.

#### 2.5 Intangible assets

##### (a) Goodwill on acquisitions

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

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold. Such goodwill was adjusted against retained earnings in the year of acquisition and not recognised in the income statement on disposal.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.5 Intangible assets (continued)

###### (b) *Patents, technical know-how, technology and customer backlog*

Patents, technical know-how, technology and customer backlog acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over the shorter of their estimated useful lives and periods of contractual rights as follows:

	<u>Useful lives</u>
Patents	10 years
Technical know-how	10 years
Technology	15 years
Customer backlog	1 year

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in the income statement when the changes arise.

##### 2.6 Borrowing costs

Borrowing costs are recognised in the income statement using the effective interest method.

##### 2.7 Contract to construct specialised equipment ("Construction contracts")

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 contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed 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 recognised as 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 for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract 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.

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 the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts within "trade and other receivables". Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts within "trade and other payables".

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



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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.8 Investment properties

Investment properties comprise leasehold buildings that are held for long-term rental yields and/or capital appreciation and are not occupied by the Group.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 30 years. The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the change arises.

Investment property is subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are written off to the income statement when incurred. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in the income statement.

##### 2.9 Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the subsidiaries are recognised in the income statement.

##### 2.10 Impairment of non-financial assets

###### (a) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") 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. 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 in the income statement and is not reversed in a subsequent period.

###### (b) Intangible assets Property, plant and equipment Investments in subsidiaries

Intangible assets, property, plant and equipment and investments in subsidiaries are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2008

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#### 2. Significant accounting policies (continued)

##### 2.10 Impairment of non-financial assets (continued)

- (b) *Intangible assets*  
*Property, plant and equipment*  
*Investments in subsidiaries (continued)*

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in the income statement.

##### 2.11 Financial assets

- (a) *Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, receivables and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The designation of financial assets at fair value through profit or loss is irrevocable.

- (i) Financial assets, at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

- (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables", "cash and cash equivalents" and "borrowings" on the balance sheet.

- (iii) Financial assets, available-for-sale

Financial assets, available-for-sale, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose off the assets within 12 months after balance sheet date.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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## 2. Significant accounting policies (continued)

### 2.11 Financial assets (continued)

#### (b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in the income statement.

#### (c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit and loss are recognised immediately in the income statement.

#### (d) *Subsequent measurement*

Financial assets, both available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets, available-for-sale, at fair value through profit or loss including the effects of currency translation, interest and dividend, are recognised in the income statement when the changes arise.

Interest and dividend income on financial assets are recognised separately in the income statement. Changes in the fair values of available for sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in the income statement and the other changes are recognised in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

#### (e) *Impairment*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

##### (i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in the income statement.

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.11 Financial assets (continued)

###### (e) Impairment (continued)

###### (i) Loans and receivables (continued)

The allowance for impairment loss account is reduced through the income statement in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

###### (ii) Financial assets, available-for-sale

Significant and prolonged declines in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

##### 2.12 Fair value estimation of financial assets and liabilities

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

##### 2.13 Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

###### (a) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

###### (b) Convertible bonds

Convertible bonds denominated in a currency other than the Group's functional currency are accounted for as a liability. On issuance of foreign currency convertible bonds, the total proceeds are allocated to the liability component and the embedded derivatives, which are separately presented on the balance sheet. At inception, the embedded derivatives are recognised as fair value, while the difference between the total proceeds and the fair value of the embedded derivatives is recognised as the convertible bond liability component within "borrowings".

The embedded derivatives are subsequently carried at its fair value with fair value changes recognised in the income statement within "other gains / losses" in the financial year in which the changes in fair value arises.

The liability component is subsequently carried at amortised cost using the effective interest method until the liability extinguished on conversion or redemption of the bonds.

When the conversion option is exercised, the carrying amounts of the embedded derivatives and the liability component are derecognised with a corresponding recognition of share capital account. When the conversion option is allowed to lapse, the carrying amount will be taken to retained earnings.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.14 Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value.

The fair values of derivative financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analyses, are also used to determine the fair values of the financial instruments.

##### 2.15 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

##### 2.16 Leases

###### (i) Lessee - Operating leases

Leases of buildings where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in the income statement on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in the income statement when incurred.

###### (ii) Lessor - Operating leases

Leases of investment properties where the Group retains substantially all risk and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of incentives given to the lessees) is recognised in the income statement on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in the income statement over the lease term on the same basis as the lease income.

Contingent rents are recognised as income in the income statement when earned.

##### 2.17 Research costs

Research costs are recognised as an expense when incurred.

##### 2.18 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average 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) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.19 Club memberships

Investment in club memberships is stated at cost less provision for diminution in value based on a review at the balance sheet date. A provision for diminution in value is made where, in the opinion of the directors, there is a decline other than temporary in the value of such investment. Where there has been a decline other than temporary in the value of such investment, such a decline is recognised as an expense in the financial period in which the decline is identified. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is taken to the income statement.

##### 2.20 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the income statement, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.



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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
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NOTES TO THE FINANCIAL STATEMENTS  
*For the financial year ended 31 December 2008*

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### 2. Significant accounting policies (continued)

#### 2.21 Employee compensation

The Group's contributions are recognised as employee compensation expense when they are due, unless they can be capitalised as an asset.

##### (a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund Scheme in Singapore and certain retirement plans stipulated by the PRC regulations on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

##### (b) *Share-based compensation*

The Group operates an equity-settled and a cash-settled share-based compensation plan.

Under the equity settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of options is recognised as an expense in the income statement with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the income statement, with a corresponding adjustment to the share option reserve over the remaining vesting period. When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital account when new ordinary shares are issued, or to the "treasury shares" account when treasury shares are re-issued to the employees.

Under the cash-settled share-based compensation plan, the fair value of the employee service received in exchange for the grant of options or awards is recognised as an expense in the income statement with the recognition of a corresponding liability over the vesting period. Until the liability is settled, it is re-measured at each reporting date with changes in fair value recognised in the income statement.

#### 2.22 Currency translation

##### (a) *Functional and presentation 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 ("functional currency"). The financial statements are presented in Chinese Renminbi ("RMB").

##### (b) *Transactions and balances*

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the income statement.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.



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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.22 Currency translation (continued)

###### (c) *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:

- (i) Assets and liabilities are translated at the closing exchange rates at the date of the balance sheet;
- (ii) Income and expenses are translated at average exchange rates (unless the 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
- (iii) All resulting currency translation differences are recognised in the currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and translated at the closing rates at the date of the balance sheet. For acquisitions prior to 1 January 2005, the exchange rates at the dates of acquisition are used.

##### 2.23 Segment reporting

A business segment is a distinguishable component of the Group engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

##### 2.24 Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value, and excludes restricted cash.

##### 2.25 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 2. Significant accounting policies (continued)

##### 2.26 Dividends to Company's shareholders

Dividends to Company's shareholders are recognised when the dividends are approved for payments.

#### 3. 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.

##### (a) Estimated impairment of goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. The recoverable amounts of goodwill have been based on value-in-use calculations. These calculations require the use of estimates Note 25(a).

If the management's estimated gross margin at 31 December 2008 is lowered by 10% (2007: 10%), the recoverable amount of goodwill will still be higher than the carrying amount of goodwill.

If the management's estimated pre-tax discount rate applied to the discounted cash flows at 31 December 2008 is raised by 1% (2007: 1%), the recoverable amount of goodwill will still be higher than the carrying amount of goodwill.

##### (b) Construction contracts

The Group uses the percentage-of-completion method to account for its contract revenue. The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total costs for the contract. Significant assumptions are required to estimate the total contract costs and the recoverable variation works that will affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience.

##### (c) Valuation of derivative financial instruments

The Group and the Company carry derivative financial instruments at fair value. The derivative financial instruments arise from the equity swap derivative, and embedded derivatives in the convertible bonds (Note 21 and Note 28). The fair values of the derivative financial instruments were determined by independent professional valuer on a market basis. In arriving at the fair values of the derivative financial instruments, extensive accounting estimates, assumptions and judgements were used. The amount of equity swap derivative, embedded derivatives and the convertible bonds liability at initial recognition and subsequent measurement would differ if the independent valuer uses a different methodology and parameter values such as volatility of the share price of the Company, dividend yield and annual risk free interest rates for their valuations. Should there be changes in the methodology and parameters used, the fair values of these embedded derivatives and the corresponding amount of the convertible bond, and the related interest expense and exchange gains/losses of the equity swap and convertible bonds would be changed accordingly, and hence, will have an impact to the Group's and the company's profitability.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 3. Critical accounting estimates, assumptions and judgements (continued)

##### (c) Valuation of derivative financial instruments (continued)

If the management's estimated interest rate at 31 December 2008 is higher or lower by 100 basis points with all other parameter values remaining constant, the Group's net profit after tax would have been RMB 23,384,000 higher and RMB 22,274,000 lower, arising mainly as a result of higher and lower market interest rate respectively in arriving at the fair value of the liability component of Convertible Bonds

If the management's estimated volatility in share price at 31 December 2008 is increased or decreased by 10% with all other parameter values remaining constant, the Group's net profit after tax would have been RMB 3,742,000 higher and RMB 4,709,000 lower.

If the management's estimated arithmetic weighted average share price at 31 December 2008 is increased or decreased by 20% with all other parameter values remaining constant, the Group's net profit after tax would have been RMB 23,513,000 higher and RMB 25,837,000 lower.

##### (d) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

##### (e) Deferred income tax liabilities

The Group follows the guidance of FRS 12 in recognising deferred income tax liabilities on all taxable temporary differences in respect of foreign-secured income not remitted to Singapore. At 31 December 2008, management expects to repatriate profits by Foreign Investment Enterprise ("FIE") based on projected cash requirements on maturity of the convertible bonds on 5 July 2013 and factoring the remote event being the early redemption of the convertible bonds on 5 July 2010. Accordingly, management assessed and provided for deferred tax liabilities on undistributed 2008 profits arising from the Group's China subsidiaries in relation to withholding tax imposed by China tax authorities on profits repatriated by FIE. To the extent the Group does not repatriate profits or repatriate profits in the foreseeable future, the deferred income tax liabilities will have to be written back accordingly.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 4. Revenue

	<u>Group</u>	
	2008	2007
	RMB'000	RMB'000
Construction revenue	775,798	463,842

#### 5. Expenses by nature

	<u>Group</u>	
	2008	2007
	RMB'000	RMB'000
Purchases of inventories	193,620	146,364
Other direct costs	81,312	685
Amortisation of intangible assets (Note 25(e))	4,350	11,083
Depreciation of property, plant and equipment (Note 24)	4,896	3,703
Depreciation of investment properties (Note 23)	17	13
Total amortisation and depreciation	9,263	14,799
Employee compensation (Note 6)	27,826	21,999
Sub-contract cost	200,577	92,713
Directors' fees (Note 36(a))	1,112	1,144
Research and development expenditure	2,971	2,832
Rental expense on operating lease	1,711	1,580
Other expenses	39,964	28,294
Changes in inventories	(122)	(666)
Total cost of sales, distribution and marketing costs and administrative expenses	558,234	309,744

#### 6. Employee compensation

	<u>Group</u>	
	2008	2007
	RMB'000	RMB'000
Wages and salaries	22,199	20,240
Employer's contribution to defined contribution plans	1,167	1,211
Share-based compensation	3,074	-
Other personnel expenses	1,386	548
	27,826	21,999

Share-based compensation relates to the Company's Performance Shares Plan. On 20 August 2008, the Company granted 3,000,000 share awards to the directors and employees of the Group (2007: Nil), representing the right to receive fully paid ordinary shares of the Company, their equivalent cash value or combinations thereof, free of charge.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

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#### 7. Other income

	2008 RMB'000	Group 2007 RMB'000
Gain on disposal of subsidiary (Note 12(c))	-	5,625
Gain on disposal of property, plant and equipment	2	4
Interest income - bank deposits	7,456	9,527
Government grant	2,884	3,900
Currency translation gain - net	2,365	-
Rental income from investment property	49	33
Other rental income	97	-
Others	261	422
	<u>13,114</u>	<u>19,511</u>

Certain subsidiaries of the Group enjoy discretionary government subsidies as support to the development and expansion of the People's Republic of China ("PRC's") industry.

In 2007, the Group disposed of its 92% interest in Fujian Thumb Env-Prot Water Works Co., Ltd. ("Fujian Water") for a cash consideration of RMB 12,880,000. According to the sale and purchase agreement, the disposal was effective 1 November 2007. The carrying value of identifiable net assets disposed of amounted to RMB 7,255,000, resulting in a gain on disposal of RMB 5,625,000. Please refer to Note 12 for the effect of the disposal on the Group's cash flows.

#### 8. Other losses - net

	2008 RMB'000	Group 2007 RMB'000
Fair value losses on equity swap (Note 21)	189,401	-
Fair value losses on embedded derivatives (Note 28)	36,985	-
Currency translation loss - net	-	699
Loss on write-off of property, plant and equipment	3	2
Others	963	80
	<u>227,352</u>	<u>781</u>

#### 9. Finance expenses

	2008 RMB'000	Group 2007 RMB'000
Interest expense on bank borrowings	1,106	943
Interest expense on convertible bonds	30,863	-
	<u>31,969</u>	<u>943</u>

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 10. Income taxes

##### (a) Income tax expense

	2008 RMB'000	Group 2007 RMB'000
Tax expense attributable to profit is made up of:		
- Profit from current financial year:		
Current income tax		
- Singapore	17	469
- PRC	4,110	252
	4,127	721
Deferred income tax (Note 10(c) and Note 29)	12,304	(42)
	16,431	679
(Over) / under provision in prior financial years:		
Current income tax (credit) / expense	(80)	2
	16,351	681

Some subsidiaries of the Group enjoy tax concession in the PRC made available to foreign investment production enterprise. Pursuant to the Income Tax Law of the PRC, these subsidiaries are exempted from taxation for the first two profitable years and a 50% relief from the normal PRC income tax applicable to the subsidiaries for the next three years. The subsidiaries are still enjoying their tax exemption or concession years and the details are set out below:

- (i) Thumb Env-Tech Group (Fujian) Co., Ltd. ("Fujian Thumb") is subjected to income tax at a rate of 12.5% (2007 : Nil) with effect from 1 January 2008 for a period of 3 years.
- (ii) Fujian Weidong EPT Co., Ltd. ("Fujian Weidong") enjoys tax-free status from 1 January 2007 for 2 years and will be subject to 12.5% tax from 2009 for a period of 3 years.
- (iii) Fujian Weidong Environmental Engineering Co., Ltd. is entitled to full exemption from income tax from 1 January 2007 to 31 December 2009.
- (iv) Fujian Thumb Environmental Facilities Co., Ltd. ("Fujian Facilities") enjoys tax-free status from 1 January 2007 for 2 years and is subjected to 12.5% tax from 2009 for a period of 3 years.
- (v) Fujian Fuda Desai Environmental Protection Co., Ltd. ("Fuda Desai") enjoys tax-free status from 1 January 2006 for 2 years and is subjected to 12.5% tax from 2008 for a period of 3 years.

The Group's operations are mainly in the PRC. The statutory tax rate applicable to entities incorporated in the PRC and the Company is 25% (2007: 33%) and 18% (2007: 18%) respectively. The tax expense on profit differs from the amount that would arise using the PRC standard rate of income tax is as explained below:

	2008 RMB'000	Group 2007 RMB'000
(Loss) / Profit before tax	(28,643)	171,885
Tax calculated at tax rate of 25% (2007: 33%)	(7,161)	56,722
Effects of		
- different tax rates in Singapore	(6)	(390)
- expenses not deductible for tax purposes	69,957	7,742
- income not subject to tax	(59,360)	(63,978)
- deferred tax not recognised	697	583
- effect of additional 10% withholding tax on interest income	2,084	-
- effect of additional 5% withholding tax on undistributed profits	10,220	-
- (Over) / under provision in prior financial years	(80)	2
Tax charge	16,351	681

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 10. Income taxes (continued)

##### (b) Movement in current income tax liabilities

	<u>Group</u>		<u>Company</u>	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of financial year	712	-	471	-
Income tax paid	(962)	(11)	(391)	-
Tax expense	4,127	721	17	469
(Over) / under provision in prior financial years	(80)	2	(80)	2
Tax recoverable	179	-	-	-
End of financial year	<u>3,976</u>	<u>712</u>	<u>17</u>	<u>471</u>

##### (c) Withholding taxes

###### (i) Withholding tax on undistributed profits

The China Tax Authority imposed a 5% withholding tax on profits repatriated by Foreign Investment Enterprise (FIE) to its foreign investors with effect 1 January 2008. The Group will incur a 5% withholding tax when its China subsidiaries declare and remit dividends back to Singapore.

###### (ii) Withholding tax on interest

Under the Double Tax Treaty (DTT) between the PRC and Singapore, interest arising in a contracting state and paid to a resident of the other contracting state may be taxed in that other state. Such interest will be subject to a 7% withholding tax if received by any bank or financial institution, or 10% of the gross amount of the interest in all other cases, effective from 1 January 2008.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 11. Earnings per share

##### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	2008	2007
Net (loss) / profit attributable to equity holders of the Company (RMB'000)	<u>(44,994)</u>	147,150
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	<u>340,549</u>	342,406
Basic (losses) / earnings per share (RMB per share)	<u>(0.13)</u>	0.43

##### (b) Diluted earnings per share

For the purposes of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares are the Convertible Bonds. Convertible bonds are assumed to have been converted into ordinary shares at issuance and the net profit is adjusted to eliminate the interest expense, fair value losses and foreign exchange gains less the tax effect.

For the year ended 31 December 2008, the convertible bonds are not included in the calculation of diluted earnings because they are anti-dilutive for the period from their issuance to 31 December 2008.

	2008	2007
Net (loss) / profit attributable to equity holders of the Company (RMB'000)	<u>(44,994)</u>	147,150
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	<u>340,549</u>	342,406
Diluted (losses) / earnings per share (RMB per share)	<u>(0.13)</u>	0.43



## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 12. Cash and cash equivalents

	<u>Group</u>		<u>Company</u>	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	633,365	506,655	39,299	3,201
Short-term bank deposits	94,518	182,502	94,518	182,502
	<u>727,883</u>	<u>689,157</u>	<u>133,817</u>	<u>185,703</u>

Short-term bank deposits at the balance sheet date had an average maturity of 11 months (2007: 4 months) from the end of the financial year with a weighted average effective interest rate of 0.56% per annum (2007: 2.95% per annum).

For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

	<u>Group</u>	
	2008	2007
	RMB'000	RMB'000
Cash and bank balances	727,883	689,157
Less: Restricted cash and cash equivalents	<u>(39,674)</u>	<u>(2,871)</u>
Cash and cash equivalents per consolidated cash flow statement	<u>688,209</u>	<u>686,286</u>

The restricted cash and cash equivalents relate to deposits as at 31 December 2008 placed for project tenders.

#### Acquisitions and disposal of subsidiaries

On 1 January 2007, the Group's wholly-owned subsidiary, Sino-Environment Clean Power Technology Pte. Ltd. ("Clean Power") acquired 60% of the issued share capital of Fujian Weidong for a consideration of RMB 265,676,000. Effective 1 January 2008, Clean Power acquired the remaining 40% of the issued share capital of Fujian Weidong for a cash consideration of RMB 288,203,000.

On 1 October 2007, the Group's wholly-owned subsidiary, Fujian Thumb acquired the remaining 21% interest in Fuda Desai for a cash consideration of RMB 3,223,000.

On 24 December 2007, the Group's wholly-owned subsidiary, Fujian Thumb disposed of its 92% interest in Fujian Water for a cash consideration of RMB 12,880,000.

The effects of the acquisition and disposal of subsidiaries on the cashflows of the Group were:

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 12. Cash and cash equivalents (continued)

##### (a) Acquisition of Fujian Weidong

- (i) Increase in investment in existing subsidiary - acquisition of remaining 40% minority interest in 2008

	Group Carrying amount in acquiree's books RMB'000
Identifiable net assets acquired	82,904
Total consideration (including direct costs)	<u>(288,203)</u>
Difference between consideration and identifiable assets – adjusted against other reserves	<u>(205,299)</u>
Total consideration per above	288,203
Less: Payable to former shareholders of subsidiary (Note 26)	<u>(10,987)</u>
Net cash outflow on acquisition	<u>277,216</u>

Effective 1 January 2008, the Group through its wholly-owned subsidiary, Clean Power, acquired the remaining 40% of Fujian Weidong. Subsequent to this acquisition, Fujian Weidong is a wholly-owned subsidiary of Clean Power and of the Group.

The total cash consideration for the acquisition is RMB 288,203,000.

The difference between the total consideration and the amount of adjustment to the minority interest, RMB 205,299,000, was brought to equity according to the Group's significant accounting policies.

On 7 August 2008, the Company completed its sale and purchase agreement with the former shareholders of Fujian Weidong.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 12. Cash and cash equivalents (continued)

##### (a) Acquisition of Fujian Weidong (continued)

##### (ii) Acquisition of 60% interest in Fujian Weidong in 2007

	Group	
	At fair values RMB'000	Carrying amounts in acquiree's books RMB'000
<i><u>Identifiable assets and liabilities</u></i>		
Cash and cash equivalents	65,683	65,683
Trade and other receivables	57,889	57,889
Inventories	2,725	2,725
Property, plant and equipment excluding leasehold land (Note 24)	13,350	10,852
Leasehold land (Note 24)	7,439	886
Intangibles - Technology (Note 25(b))	38,000	-
Intangibles - Customer backlog (Note 25(c))	7,500	-
Investment properties (Note 23)	498	420
Financial assets, available-for-sale	1,870	1,870
Other current assets	2,595	2,595
Total assets	197,549	142,920
Trade and other payables	(24,952)	(24,952)
Deferred tax liabilities (Note 29)	(11,565)	-
Borrowings	(12,500)	(12,500)
Total liabilities	(49,017)	(37,452)
Identifiable net assets	148,532	105,468
Less: Minority interests	(59,413)	(42,187)
Identifiable net assets acquired	89,119	63,281
Goodwill (Note 25(a))	176,557	
Total consideration (including direct costs)	265,676	
Less: Fair value of consideration paid via shares of the Company	(138,176)	
Cash consideration paid	127,500	
Less: Cash and cash equivalents in subsidiary acquired	(65,683)	
Net cash outflow on acquisition	61,817	

The goodwill was attributable to the earning potential of Fujian Weidong and the synergies from Fujian Weidong to aid the Group to provide one-stop environmental solutions to customers.

The acquired subsidiary contributed revenue of RMB 181,374,550 and net profit of RMB 58,727,365 to the Group for the period from 1 January 2007 to 31 December 2007. The subsidiary's assets and liabilities at 31 December 2007 were RMB 234,780,810 and RMB 70,585,055 respectively.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 12. Cash and cash equivalents (continued)

##### (b) Acquisition of remaining 21% in Fuda Desai in 2007

	Group	
	At fair values	Carrying amounts in acquiree's books
	RMB'000	RMB'000
<i><u>Identifiable assets and liabilities</u></i>		
Cash and cash equivalents	2,905	2,905
Trade and other receivables	749	749
Inventories	10	10
Property, plant and equipment	54	54
Total assets	3,718	3,718
Trade and other payables	(495)	(495)
Total liabilities	(495)	(495)
Identifiable net assets acquired	3,223	3,223
Cash consideration paid	3,223	
Net cash outflow on acquisition	3,223	

##### (c) Disposal of Fujian Water in 2007

	Group
	Disposal carrying amount
	RMB'000
<i><u>Identifiable assets and liabilities</u></i>	
Cash and cash equivalents	5,631
Trade and other receivables	7,256
Property, plant and equipment	10,564
Total assets	23,451
Trade and other payables	(15,579)
Total liabilities	(15,579)
Identifiable net assets	7,872
Less: Minority interests	(617)
Identifiable net assets disposed	7,255
Gain on disposal (Note 7)	5,625
Disposal consideration	12,880
Less: Sales proceeds receivable (Note 13)	(12,880)
	-
Less: Cash and cash equivalents in subsidiary disposed	(5,631)
Net cash outflow on disposal	(5,631)

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 13. Trade and other receivables

	<u>Group</u>		<u>Company</u>	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Trade receivables	35,713	30,336	-	-
Less : Allowance for impairment of receivables	(1,210)	-	-	-
Trade receivables – net	34,503	30,336	-	-
Construction contracts				
- Retentions	51,629	35,383	-	-
Less: Allowance for impairment	(429)	-	-	-
Retentions – net (Note 17)	51,200	35,383	-	-
- Due from customers (Note 17)	146,276	55,091	-	-
	197,476	90,474	-	-
Sales proceeds receivable (Note 12(c))	-	12,880	-	-
Staff loans (Note 18)	2,253	2,847	-	-
Advances to suppliers	21,371	28,976	-	-
Tax recoverable	179	-	-	-
Dividends receivable from a subsidiary	-	-	50,000	50,000
Due from subsidiaries (non-trade)	-	-	232,163	11,300
Tender deposits	6,990	14,551	-	-
Amount due from former subsidiary	-	15,549	-	-
Other receivables	13,701	15,043	3,650	107
	276,473	210,656	285,813	61,407

Amounts due from subsidiaries (non-trade) are unsecured, interest-free and repayable on demand.

#### 14. Other current assets

	<u>Group</u>		<u>Company</u>	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Prepayments and other assets	112,837	2,851	184	187
Other deposits	479	128	431	103
	113,316	2,979	615	290

As at 31 December 2008, included in prepayments is RMB 109,943,000 for the Group's de-nitrogenation catalyst plant (2007: Nil).

#### 15. Inventories

	<u>Group</u>	
	2008 RMB'000	2007 RMB'000
Raw materials	5,104	4,982

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB 193,497,325 (2007: RMB 145,697,390).

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 16. Transferable club memberships

	<u>Group</u>		<u>Company</u>	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Transferable club memberships at cost	354	354	354	354

#### 17. Construction contracts

	<u>Group</u>	
	2008 RMB'000	2007 RMB'000
Aggregate costs incurred and profits recognised (less losses recognised) to date	347,751	109,283
Less: Progress billings	(205,276)	(54,192)
	142,475	55,091
Presented as:		
Due from customers on construction contracts (Note 13)	146,276	55,091
Due to customers on construction contracts (Note 26)	(3,801)	-
	142,475	55,091
Advances received on construction contracts (Note 26)	21,710	38,491
Retentions on construction contracts (Note 13)	51,200	35,383

#### 18. Staff loans

	<u>Group</u>	
	2008 RMB'000	2007 RMB'000
Receivables due		
- Not later than 1 year (Note 13)	2,253	2,847

Staff loans include loans of RMB 68,000 (2007: RMB 19,000) made to key management of the Group. The loans are unsecured, interest-free and repayable within one year.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 19. Investments in subsidiaries

	<u>Company</u>	
	2008	2007
	RMB'000	RMB'000
<i>Equity investments at cost</i>		
Beginning of financial year	588,201	175,343
Acquisitions	131,991	412,858
End of financial year	720,192	588,201

Details of significant subsidiaries are included in Note 41.

#### Acquisitions of subsidiaries

On 16 July 2008, the Company made a capital injection of RMB 51 million (2007: RMB 40 million) to its wholly-owned subsidiary, Fujian Thumb.

On 21 May 2008 and 15 July 2008, the Company made a capital injection of RMB 31 million (2007: Nil) and RMB 50 million (2007: Nil) to its wholly-owned subsidiary, Fujian Facilities respectively.

In 2007, the Company made a capital injection of RMB 250 million to its wholly-owned subsidiary, Clean Power.

In 2007, the Company's wholly-owned subsidiary, Clean Power, transferred all of its 100% shareholding in Fujian Facilities to the Company for a cash consideration of RMB 117 million.

In 2007, the Company incorporated a new wholly-owned subsidiary, Sino-Environment Waste Management Technology Pte. Ltd. ("Waste Management"). The issued share capital of Waste Management is RMB 5 million.

#### 20. Financial assets, available-for-sale

	<u>Group and Company</u>	
	2008	2007
	RMB'000	RMB'000
Unlisted securities	1,935	-

In 2008, the Company invested in unlisted equity securities in Malaysia. Management believes the carrying amounts recorded at the balance sheet date approximate the corresponding fair value.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 21. Derivative financial instrument - Equity swap derivative

On 8 July 2008, concurrent with the issuance of the Convertible bonds (see Note 28), the Company entered into a cash-settled equity swap transaction ("Equity Swap") with Morgan Stanley & Co. International Plc (Equity Swap Counterparty) for the Company's shares for a value of S\$67,358,026 (equivalent to approximately RMB 338.7 million). The reference price used was set at S\$1.8276. The Equity Swap derivative will provide the Company with economic exposure to the fluctuation in the Company's share price which will result in a gain to the Company if the Company's share price rises and loss to the Company if the Company's share price falls over the life of the Equity Swap.

The movement of Equity swap derivative for the year is set out below:

	<u>Group and Company</u> 2008 RMB'000
Cash settled Equity Swap on inception date on 8 July 2008	338,653
Fair value losses on Equity Swap derivative (Note 8)	(189,401)
Currency translation losses	(19,226)
End of financial year	<u>130,026</u>

#### 22. Long-term prepayment

	<u>Group</u> 2008 RMB'000	2007 RMB'000	<u>Company</u> 2008 RMB'000	2007 RMB'000
Long-term prepayment	<u>1,889</u>	4,609	<u>-</u>	-

In 2007, the Group made a prepayment to an advertising company for advertising services to be rendered for 3 years.

#### 23. Investment properties

	<u>Group</u> 2008 RMB'000	2007 RMB'000
Beginning of financial year	485	-
Acquisition of subsidiary (Note 12(a)(ii))	-	498
Depreciation	(17)	(13)
End of financial year	<u>468</u>	485
Cost	580	580
Accumulated depreciation	(112)	(95)
Carrying amount at end of year	<u>468</u>	485
Fair value	<u>468</u>	498

Investment properties are leased to non-related parties under operating leases (Note 34(c)) and the fair values at balance sheet dates are determined by director's valuation. The following amounts are recognised in the income statement.

	<u>Group</u> 2008 RMB'000	2007 RMB'000
Rental income	49	33
Direct operating expense arising from investment properties that generated rental income	<u>16</u>	15



## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 24. Property, plant and equipment

	Leasehold land and buildings	Plant and machinery	Office equipment	Motor vehicles	Furniture and fittings	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Group</b>							
<b>2008</b>							
<i>Cost</i>							
Beginning of financial year	48,493	7,521	2,626	6,147	3,109	43,210	111,106
Additions	542	413	1,308	3,639	744	48,898	55,544
Transfer from construction in progress	90,850	-	-	-	-	(90,850)	-
Disposals and write-offs	-	-	(57)	(711)	(3)	-	(771)
End of financial year	139,885	7,934	3,877	9,075	3,850	1,258	165,879
<i>Accumulated depreciation</i>							
Beginning of financial year	573	1,202	1,038	2,079	2,021	-	6,913
Depreciation charge	1,762	862	641	820	811	-	4,896
Disposals and write offs	-	-	(55)	(192)	(2)	-	(249)
End of financial year	2,335	2,064	1,624	2,707	2,830	-	11,560
<i>Net book value</i>							
End of financial year	137,550	5,870	2,253	6,368	1,020	1,258	154,319
<b>2007</b>							
<i>Cost</i>							
Beginning of financial year	-	3,439	1,128	4,427	2,529	3,604	15,127
Additions	30,991	2,762	1,030	822	229	50,026	85,860
Acquisition of subsidiary (Note 12(a)(ii))	17,502	1,320	515	1,101	351	-	20,789
Disposal of subsidiary (Note 12)	-	-	(13)	(203)	-	(10,420)	(10,636)
Disposals and write-offs	-	-	(34)	-	-	-	(34)
End of financial year	48,493	7,521	2,626	6,147	3,109	43,210	111,106
<i>Accumulated depreciation</i>							
Beginning of financial year	-	679	479	1,576	579	-	3,313
Depreciation charge	573	523	594	571	1,442	-	3,703
Disposal of subsidiary (Note 12)	-	-	(4)	(68)	-	-	(72)
Disposals and write offs	-	-	(31)	-	-	-	(31)
End of financial year	573	1,202	1,038	2,079	2,021	-	6,913
<i>Net book value</i>							
End of financial year	47,920	6,319	1,588	4,068	1,088	43,210	104,193

As at 31 December 2007, a leasehold land of net book value RMB 7,277,000 has been pledged to secure a short-term bank loan (Note 27) of RMB 2,000,000. No assets were held as collateral as at 31 December 2008.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 24. Property, plant and equipment (continued)

	Office equipment	Motor vehicles	Furniture and fittings	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b><u>Company</u></b>				
<b>2008</b>				
<i>Cost</i>				
Beginning of financial year	159	711	69	939
Additions	56	1,199	42	1,297
Disposals and write offs	(57)	(711)	(3)	(771)
End of financial year	158	1,199	108	1,465
<i>Accumulated depreciation</i>				
Beginning of financial year	101	52	29	182
Depreciation charge	90	200	13	303
Disposals & write offs	(55)	(192)	(2)	(249)
End of financial year	136	60	40	236
<i>Net book value</i>				
End of financial year	22	1,139	68	1,229
<b>2007</b>				
<i>Cost</i>				
Beginning of financial year	95	711	69	875
Additions	98	-	-	98
Disposals and write offs	(34)	-	-	(34)
End of financial year	159	711	69	939
<i>Accumulated depreciation</i>				
Beginning of financial year	33	15	17	65
Depreciation charge	99	37	12	148
Disposals & write offs	(31)	-	-	(31)
End of financial year	101	52	29	182
<i>Net book value</i>				
End of financial year	58	659	40	757

#### 25. Intangible assets

	2008 RMB'000	Group 2007 RMB'000
<b><u>Composition:</u></b>		
Goodwill arising on consolidation (Note (a))	176,557	176,557
Technology (Note (b))	32,933	35,467
Customer backlog (Note (c))	-	-
Patents and technical know-how (Note (d))	18,599	6,729
	228,089	218,753

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 25. Intangible assets (continued)

##### (a) Goodwill arising on consolidation

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to country of operation and business segments.

	2008 RMB'000	Group 2007 RMB'000
<i>Cost</i>		
Beginning of financial year	176,557	-
Acquisition of subsidiary (Note 12(a)(ii))	-	176,557
End of financial year	176,557	176,557
<i>Accumulated impairment</i>		
Beginning of financial year	-	-
Impairment charge	-	-
End of financial year	-	-
<b>Net book value</b>	<b>176,557</b>	<b>176,557</b>

##### Impairment tests for goodwill

The recoverable amount of a CGU was determined based on value-in-use calculations. Cash flow projections used in these calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the business in which the CGU operates.

##### Key assumptions for value-in-use calculations:

	2008	2007
Gross margin <sup>1</sup>	35%	35%
Growth rate <sup>2</sup>	2.00%	2.00%
Discount rate <sup>3</sup>	18.76%	15.80%

These assumptions were used for the analysis of the CGU. Management determined budgeted gross margin based on past performance and its expectations of the market development. The weighted average growth rates used were consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments.

There is no impairment charge for the financial year ended 31 December 2008 and 31 December 2007.

<sup>1</sup> Budgeted gross margin

<sup>2</sup> Weighted average growth rate used to extrapolate cash flows beyond the budget period

<sup>3</sup> Pre-tax rate applied to the pre-tax cash flow projections

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 25. Intangible assets (continued)

##### (b) Technology

	2008 RMB'000	Group 2007 RMB'000
Beginning of financial year	35,467	-
Acquisition of subsidiary (Note 12(a)(ii))	-	38,000
Amortisation	(2,534)	(2,533)
End of financial year	<u>32,933</u>	<u>35,467</u>
Cost	38,000	38,000
Accumulated amortisation	(5,067)	(2,533)
Net book value	<u>32,933</u>	<u>35,467</u>

##### (c) Customer backlog

	2008 RMB'000	Group 2007 RMB'000
Beginning of financial year	-	-
Acquisition of subsidiary (Note 12(a)(ii))	-	7,500
Amortisation	-	(7,500)
End of financial year	<u>-</u>	<u>-</u>
Cost	7,500	7,500
Accumulated amortisation	(7,500)	(7,500)
Net book value	<u>-</u>	<u>-</u>

##### (d) Patents and technical know-how

	2008 RMB'000	Group 2007 RMB'000
Beginning of financial year	10,500	10,500
Additions	13,686	-
End of financial year	<u>24,186</u>	<u>10,500</u>
<i>Accumulated Amortisation</i>		
Beginning of financial year	3,771	2,721
Amortisation charge	1,816	1,050
End of financial year	<u>5,587</u>	<u>3,771</u>
Cost	24,186	10,500
Accumulated depreciation	(5,587)	(3,771)
Net book value	<u>18,599</u>	<u>6,729</u>

On 7 April 2008, the Group secured an agreement with Catalysts & Chemicals Industries Co., Ltd. for the transfer of technology, software and other technical know-how pertaining to the production of catalysts for deployment in de-nitrogenation of flue-gas for coal-fired power plants.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 25. Intangible assets (continued)

(e) Amortisation expense included in the income statement is analysed as follows:

	<u>Group</u>
	2008 RMB'000
	2007 RMB'000
Administrative expenses (Note 5)	4,350
	11,083

#### 26. Trade and other payables - Current

	<u>Group</u>	<u>Company</u>
	2008 RMB'000	2007 RMB'000
	2008 RMB'000	2007 RMB'000
Trade payables to non-related parties	43,008	12,156
Construction contracts		
- Advances received (Note 17)	21,710	38,491
- Due to customers (Note 17)	3,801	-
Due to a subsidiary (non-trade)	-	-
Due to former shareholders of subsidiary (Note 12(a)(i))	10,987	-
Due to related party*	135	-
Other payables	27,851	17,484
Other accruals for operating expenses	8,859	8,787
Total	116,351	76,918
	12,423	8,606

Amounts due to a subsidiary (non-trade) are unsecured, interest-free and repayable on demand.

\*Related party is a company which is related to the Company's controlling shareholder.

#### 27. Borrowings

	<u>Group</u>	<u>Company</u>
	2008 RMB'000	2007 RMB'000
	2008 RMB'000	2007 RMB'000
Current		
Bank borrowings	7,500	11,000
Government loan	700	-
Other borrowing	1,000	-
	9,200	11,000
Non-current		
Convertible bonds (Note 28)	622,636	-
Government loan	-	1,000
	622,636	1,000
Total borrowings	631,836	12,000
	622,636	-

The weighted average effective interest rates of interest-bearing borrowings at the balance sheet date are 8.55% (2007: 7.94%).

As at 31 December 2008, RMB 7,500,000 of the current borrowings had annual interest rate of 8.09% and RMB 1,000,000 had an annual interest rate of 12.00%. The remaining RMB 700,000 government loan is interest free.

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 27. Borrowings (continued)

As at 31 December 2007, RMB 2 million of the current borrowings had annual interest rate of 8.52% and the remaining RMB 9 million had an annual interest rate of 1.3 times of China bank borrowing rate, which amounted to 7.81%. The non-current borrowings was unsecured and interest free loan granted by the PRC government to Fujian Weidong, which is a newly acquired subsidiary in 2007, for a 5-year period starting from 2005.

##### (a) Security granted

Total borrowings included secured liabilities of NIL (2007: RMB 2,000,000) for the Group and the Company. Bank borrowings were secured over a leasehold land (Note 24).

The convertible bonds issued on 8 July 2008 are unsecured.

##### (b) Fair value of borrowings

The fair values of the current bank borrowings approximate their book value. There were no long term borrowings except for the convertible bonds (Note 28) as at 31 December 2008.

The fair value of the long term borrowings as at 31 December 2007 was RMB 849,000. The fair value was determined from the cash flow analysis discounted at market borrowing rate of 8.52% at 31 December 2007 which the directors expect to be available to the Group.

#### 28. Convertible bonds

On 8 July 2008, the Company issued a SGD denominated SGD settled 4% Convertible Bonds due 2013, of principal amount of S\$149 million (equivalent to approximately RMB 749.1 million) ("Convertible Bonds") (2007: Nil) to third party investors ("Bondholders"). The aggregate amount of S\$149 million, at the option of the Bondholders, can be convertible into fully paid ordinary shares of the Company at an initial conversion price of S\$2.19 up to the close of business on 24 June 2013, subject to adjustments for, among others, subdivision or consolidation of shares, bonus issues, rights issues, distribution and other dilutive events. If the Convertible Bonds have not been converted, it will be redeemed on 8 July 2013 at an amount equal to 114.5% of their principal amount plus accrued and unpaid interest.

Beginning 13 July 2011, the Company may redeem all but not part of the Convertible Bonds if the closing price of the shares for 20 out of 30 consecutive trading days, the last day of which period occurs not more than 5 trading days prior to the date upon which notice of such redemption is given, is at least 130% of the early redemption amount divided by the Conversion Ratio in effect on such trading day. The Company may also redeem all but not part of the Convertible Bonds at a redemption price equal to their Early Redemption Amount on the redemption date plus accrued and unpaid interest if at any time at least 90% in principal amount of the Convertible Bonds have been converted, redeemed or purchased and cancelled. Early Redemption Amount is the amount together with unpaid accrued interest from the immediately preceding interest payment date, or if none, the Closing Date and after taking into account any interest paid in respect of the Bonds in preceding periods, that represents on the relevant date for the determination of the Early Redemption Amount, a gross yield to maturity of 6.5% per annum. Each bondholder may require the Company to redeem in whole, or in part only (being not less than S\$250,000 in principal amount or an integral multiple thereof), the Convertible Bonds on 8 July 2010 at 105.2% of their principal amount plus accrued and unpaid interest or at the Early Redemption Amount plus accrued and unpaid interest if the shares cease to be listed in the SGX-ST or upon a change of control.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 28. Convertible bonds (continued)

As the Bonds are denominated in a currency other than the Group's functional currency, they are accounted for as liability. The fair value of the options embedded in the Bonds at inception, is recognised as derivative financial instrument on the balance sheet, while the residual amount is recognised as convertible bonds liability within "borrowings".

The carrying amount of the liability component of the convertible bonds at the balance sheet date is derived as follows:

	<u>Group and Company</u> 2008 RMB'000
Beginning of financial year	-
Face value of convertible bonds issued on 8 July 2008, net of transaction costs	709,373
Derivative financial instruments on initial recognition on 8 July 2008	(80,793)
Liability component on initial recognition on 8 July 2008	<u>628,580</u>
Interest expense (including amortisation of transaction costs)	31,714
Currency translation gains	(37,658)
Liability component at end of financial year (Note 27)	<u>622,636</u>

The convertible bonds liability is recognised at amortised cost based on an effective interest rate of 5.0%. The resulting interest expense is recognised as finance expense in the income statement.

The movement of the embedded derivatives in the Bonds during the year is as follows:

	<u>Group and Company</u> 2008 RMB'000
Beginning of financial year	-
Embedded derivatives recognised on 8 July 2008	80,793
Fair value loss (Note 8)	36,985
Currency translation gains	(5,010)
End of financial year	<u>112,768</u>

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 29. Deferred income taxes

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

	2008 RMB'000	Group 2007 RMB'000
Deferred income tax liabilities		
- to be settled within one year	42	42
- to be settled after one year	23,785	11,481
	23,827	11,523

Movement in deferred income tax account is as follows:

	Fair value gains - net RMB'000	Undistributed profits and withholding tax RMB'000	Total RMB'000
<b>2008</b>			
Beginning of financial year	11,523	-	11,523
Charged / (credited) to income statement (Note 10(a))	(42)	12,346	12,304
End of financial year	11,481	12,346	23,827
<b>2007</b>			
Beginning of financial year	-	-	-
Acquisition of subsidiary (Note 12(a) (ii))	11,565	-	11,565
Credited to income statement (Note 10(a))	(42)	-	(42)
End of financial year	11,523	-	11,523

Deferred tax assets are recognised to the extent that realisation of the related tax benefits through future taxable profits is probable. At as 31 December 2008, the subsidiaries of the Group had estimated unutilised income tax losses of approximately RMB 4,857,599 (2007: RMB 2,070,073) available for set-off against future taxable profits subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their respective countries of incorporation. The tax losses will expire between 2010 and 2011.

As at the balance sheet date, the potential tax benefits arising from the following items were not recognised in the financial statements due to uncertainty on their recoverability approximating RMB 1,214,399 (2007: RMB 5,175,518).



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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 30. Share capital and treasury shares

	No. of ordinary shares		Amount	
	Issued share capital	Treasury shares	Issued share capital	Treasury Shares
	'000	'000	RMB'000	RMB'000
<b>Group and Company</b>				
<b>2008</b>				
Beginning of financial year	346,232	-	793,316	-
Treasury shares purchase	-	(7,300)	-	(50,719)
End of financial year	<b>346,232</b>	<b>(7,300)</b>	<b>793,316</b>	<b>(50,719)</b>
<b>2007</b>				
Beginning of financial year	300,313	-	222,754	-
Share issue	45,919	-	590,950	-
Share issue expenses	-	-	(20,388)	-
End of financial year	<b>346,232</b>	<b>-</b>	<b>793,316</b>	<b>-</b>

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

The Company acquired 7,300,000 (2007: Nil) shares in the Company through purchases on the Singapore Exchange during the financial year ended 31 December 2008. The total amount paid to acquire the shares was RMB 50,719,000 (2007: Nil) and this was presented as a component within shareholders' equity.

On 1 January 2007, the Company issued 10,360,000 ordinary shares as part consideration for the acquisition of Fujian Weidong. On 19 January 2007, the Company issued 35,559,310 ordinary shares for a net consideration of RMB 433,522,488 to provide funds for the expansion of the Group's operations. The newly issued shares rank pari passu in all respects with the previously issued shares.

#### 31. Other reserves

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
(a) <b>Composition:</b>				
Statutory reserve	57,135	34,335	-	-
Other reserve	(205,177)	122	-	-
Currency translation reserve	-	1	-	-
	<b>(148,042)</b>	<b>34,458</b>	<b>-</b>	<b>-</b>

Statutory reserve consists of Statutory Surplus Reserves ("SSR") and Statutory Reserve Fund ("SRF").

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries that are incorporated in the PRC are required to transfer a portion of their net profit of each year to the statutory reserve. The transfer of this reserve must be made before the payment of dividends to shareholders. Such transfer will continue until the reserve balance reaches 50% of its registered capital. Wholly-owned subsidiaries are not required to allocate to SSR. These entities are required to allocate certain portion (not less than 10%), as determined by the Board, of their net profit after tax in accordance with PRC GAAP to the SRF until such reserve reaches 50% of its registered capital. SSR and SRF are non-distributable other than in the event of liquidation and subject to certain restrictions set in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

#### Other reserve

In 2008, other reserve of RMB 205.2 million represents the difference between purchase consideration and the carrying amount the minority interest acquired. The difference is brought to equity in accordance to the Group's accounting policy.

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#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 31. Reserves (continued)

	<u>Group</u>		<u>Company</u>	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
(b) <u>Movements:</u>				
<i>(i) Statutory reserve</i>				
Beginning of financial year	34,335	15,365	-	-
Transfer of retained earnings to statutory reserves	22,800	18,970	-	-
End of financial year	57,135	34,335	-	-
<i>(ii) Other reserve</i>				
Beginning of financial year	122	-	-	-
Increase in investment in subsidiary (Note12(a)(i))	(205,299)	122	-	-
End of financial year	(205,177)	122	-	-
<i>(iii) Currency translation reserve</i>				
End of financial year, as previously restated	-	(336)	-	-
Adjustment for prior period	-	336	-	-
Beginning of financial year	1	-	-	-
Net currency translation differences of financial statements	(1)	1	-	-
End of financial year	-	1	-	-

During 2007, the Company changed its functional currency to Renminbi. Previously, the functional currency was Singapore Dollars. The Directors are of the opinion that the change provides a more reflective and accurate information on the Group's primary economic environment. This correction of the prior year error has been accounted for retrospectively.

#### 32. (Accumulated loss) / Retained earnings

- (a) Retained earnings of the Group and of the Company are distributable.
- (b) Movement in (accumulated loss) / retained earnings for the Company is as follows:

	<u>Company</u>	
	2008 RMB'000	2007 RMB'000
Beginning of financial year	34,324	(7,789)
Net (loss) / profit	(250,784)	42,113
End of financial year	(216,460)	34,324

#### 33. Contingencies

As at 31 December 2008, the Group did not extend any corporate guarantees to unrelated party (2007: RMB 9,000,000).

#### 34. Commitments

##### (a) Capital commitments

As at 31 December 2008, capital expenditures contracted for property, plant and equipment at the balance sheet date but not recognised in the financial statements amount to RMB 153,960,263 (2007: RMB 31,708,100).

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#### 34. Commitments (continued)

##### (b) Operating lease commitments – where the Group is a lessee

The Group leases office buildings from non-related parties under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	2008 RMB'000	<u>Group</u> 2007 RMB'000
Not later than 1 year	1,589	673
Between 1 and 5 years	2,637	249
	4,226	922

##### (c) Operating lease commitments – where the Group is a lessor

The Group lease out properties to non-related parties under non-cancellable operating leases. The lessees are required to pay fixed monthly lease payments.

The future minimum lease receivables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as receivables, are as follows:

	2008 RMB'000	<u>Group</u> 2007 RMB'000
Not later than 1 year	50	11
Between 1 and 5 years	164	-
	214	11

#### 35. Financial risk management

##### *Financial risk factors*

The Group's activities may expose it to market risk (including currency risk, interest rate risk and price 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.

Financial risk management is carried out by management under policies approved by the Board of Directors.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group.

##### (a) Market risk

###### (i) Currency risk

The Group's business operates mainly in the PRC. It is exposed to certain foreign exchange risk as it maintains certain cash and cash equivalents and borrowings in foreign currencies.

Exposure to currency risk is monitored on an on-going basis and the Group endeavours to keep the net exposure at an acceptable level.

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#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 35. Financial risk management (continued)

##### (a) Market risk (continued)

##### (i) Currency risk (continued)

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

(RMB'000 )	SGD	USD	HKD	RMB	JPY	Total
<b>At 31 December 2008</b>						
<b>Financial assets</b>						
Cash and cash equivalents	167,810	11	10	560,052	-	727,883
Trade and other receivables, excluding amount due from construction contracts	3,650	-	-	756,319	-	759,969
Other financial assets	132,391	-	-	48	-	132,439
<b>Financial liabilities</b>						
Borrowings	(735,404)	-	-	(9,200)	-	(744,604)
Trade and other payables	(7,630)	-	-	(777,447)	-	(785,077)
<b>Net financial (liabilities) / assets</b>	<b>(439,183)</b>	<b>11</b>	<b>10</b>	<b>529,772</b>	<b>-</b>	<b>90,610</b>
Less: Net financial liabilities / (assets) denominated in the respective entities' functional currencies	-	-	-	(529,772)	-	(529,772)
Add: Firm commitments and highly probable forecast transactions in foreign currencies	3,937	-	-	-	143,682	147,619
<b>Currency exposure</b>	<b>(435,246)</b>	<b>11</b>	<b>10</b>	<b>-</b>	<b>143,682</b>	<b>(291,543)</b>

(RMB'000 )	SGD	USD	HKD	RMB	Total
<b>At 31 December 2007</b>					
<b>Financial assets</b>					
Cash and cash equivalents	184,654	12	1,730	502,761	689,157
Trade and other receivables, excluding amount due from construction contracts	107	-	-	120,075	120,182
Other financial assets	103	-	-	25	128
<b>Financial liabilities</b>					
Borrowings	-	-	-	(12,000)	(12,000)
Trade and other payables	(3,806)	-	(3)	(73,109)	(76,918)
<b>Net financial assets</b>	<b>181,058</b>	<b>12</b>	<b>1,727</b>	<b>537,752</b>	<b>720,549</b>
Less: Net financial liabilities / (assets) denominated in the respective entities' functional currencies	-	-	3	(537,752)	(537,749)
<b>Currency exposure</b>	<b>181,058</b>	<b>12</b>	<b>1,730</b>	<b>-</b>	<b>182,800</b>

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### 35. Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Currency risk (continued)

The Company's currency exposure based on the information provided to key management is as follows:

(RMB'000 )				
<u>At 31 December 2008</u>				
	SGD	RMB	HKD	Total
<b>Financial Assets</b>				
Cash and cash equivalents	133,809	-	8	133,817
Trade and other receivables	3,650	282,162	-	285,812
Other financial assets	132,392	-	-	132,392
<b>Financial Liabilities</b>				
Borrowings	(735,404)	-	-	(735,404)
Trade and other payables	(7,630)	(4,793)	-	(12,423)
<b>Net financial (liabilities) / assets</b>	<b>(473,183)</b>	<b>277,369</b>	<b>8</b>	<b>(195,806)</b>
Less: Net financial liabilities / (assets) denominated in the respective entities' functional currencies	-	(277,369)	-	(277,369)
Add: Firm commitments and highly probable forecast transactions in foreign currencies	3,937	-	-	3,937
<b>Currency exposure</b>	<b>(469,246)</b>	<b>-</b>	<b>8</b>	<b>(469,238)</b>

(RMB'000 )				
<u>At 31 December 2007</u>				
	SGD	RMB	HKD	Total
<b>Financial Assets</b>				
Cash and cash equivalents	183,975	-	1,728	185,703
Trade and other receivables	11,407	50,000	-	61,407
Other financial assets	103	-	-	103
<b>Financial Liabilities</b>				
Trade and other payables	(8,601)	-	-	(8,601)
<b>Net financial assets</b>	<b>186,884</b>	<b>50,000</b>	<b>1,728</b>	<b>238,612</b>
Less: Net financial liabilities / (assets) denominated in the respective entities' functional currencies	-	(50,000)	-	(50,000)
<b>Currency exposure</b>	<b>186,884</b>	<b>-</b>	<b>1,728</b>	<b>188,612</b>

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### 35. Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Currency risk (continued)

##### Sensitivity analysis for currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the SGD and JPY exchange rates against the RMB on the Group's and the Company's profit after tax. This analysis assumes that all other variables, including interest rates and income tax rates, remain constant.

	Increase / (Decrease) Profit after tax	
	2008	2007
	RMB'000	RMB'000
<u>Group</u>		
SGD against RMB		
- strengthened 6% (2007: 2%)	(25,000)	3,600
- weakened 6% (2007: 2%)	25,000	(3,600)
JPY against RMB		
- strengthened 8% (2007: NIL)	11,495	-
- weakened 8% (2007: NIL)	(11,495)	-
<u>Company</u>		
SGD against RMB		
- strengthened 6% (2007: 2%)	(27,000)	3,700
- weakened 6% (2007: 2%)	27,000	(3,700)

##### (ii) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's and the Company's exposure to cash flow interest rate risk arises primarily from short-term bank loans.

In addition, the Group and the Company are exposed to fair value interest rate risk on the liability component of the Convertible Bonds. Please refer to Note 28 for the terms of the Convertible Bonds.

The Group's exposure to interest rate risk is managed on an on-going basis with the primary objective of limiting the extent to which net interest expense could be impacted from an adverse movement in interest rates.

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SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
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35. Financial risk management (continued)

(a) Market risk (continued)

Sensitivity analysis for interest rate risk

At the balance sheet date, if interest rates have been 100 basis points higher or lower, with all other variables held constant, the Group's profit after tax would have been:

- RMB 92,000 lower/higher, arising mainly as a result of higher/lower interest expense on floating rate bank loans.
- RMB 23,384,000 higher and RMB 22,274,000 lower, arising mainly as a result of higher and lower market interest rate respectively in arriving at the fair value of the liability component of Convertible Bonds.

(iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group's price risk mainly arises from its equity swap derivative and embedded derivatives in the convertible bonds. The fair value of the these derivative financial instruments at each reporting date is determined on a market basis using Company's shares arithmetic average of 90 days volume weighted average share price and the binomial model respectively. The fair value of the derivative financial instruments would fluctuate depending on the movement in the Company's shares market price, and hence, will have an impact to the Group's and the Company's profitability.

The exposure on the price risk is not hedged. However, management monitors the exposure on a periodical basis and the Group endeavours to keep the net exposure at an acceptable level.

Sensitivity analysis for price risk

At balance sheet date, if there is a change in the volatility of the Company's share price or the Company's share price (with all other parameter values remaining constant), the impact to profit after tax would be as follows:

	Increase / (Decrease) Profit after tax 2008 RMB'000
<u>Group and Company</u>	
Volatility of share price	
- increase by 10%	3,742
- decrease by 10%	(4,709)
Share price	
- increase by 20%	23,513
- decrease by 20%	(25,837)



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#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 35. Financial risk management (continued)

##### (b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

For trade receivables, there is no significant concentration of credit risk due to the Group's large number of customers. The Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with good credit quality counterparties.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the management based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level and at the Group level by the management. Where appropriate, the Group obtains advance payments from its major customers.

As the Group and Company does not hold any material collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

The Group's and Company's major classes of financial assets are bank deposits; trade receivables and equity swap derivative (Note 21). All trade receivables of the Group are due from third parties and receivable in the PRC.

##### (i) *Financial assets that are neither past due nor impaired*

Bank deposits that are neither past due nor impaired are mainly deposits with banks with good credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group. The Group's trade receivables not past due include receivables amounting to RMB 57,081,000 (2007: RMB 45,341,000) that would have been past due or impaired if the terms were not re-negotiated during the financial year ended 31 December 2008. The Equity Swap Counterparty is one of the reputable banks in the world.

##### (ii) *Financial assets that are past due and/or impaired*

There is no other class of financial assets that is past due and/or impaired except for trade receivables. The age analysis of trade receivables past due but not impaired is as follows:

	<u>Group</u>	
	2008 RMB'000	2007 RMB'000
Past due 0 to 2 months	11,817	9,473
Past due 2 to 5 months	10,980	5,182
Past due over 5 months	5,825	5,723
	28,622	20,378

In the financial year ended 31 December 2008, RMB 1,210,000 (2007: Nil) of the trade receivables and RMB 429,000 (2007: Nil) of retentions were determined to be impaired. Movement of the allowance for impairment are as follows:

	<u>Group</u>	
	2008 RMB'000	2007 RMB'000
Beginning of financial year	-	-
Allowance for doubtful debts	1,639	-
End of financial year	1,639	-

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 35. Financial risk management (continued)

##### (c) Liquidity risk

The table below analyses the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	RMB'000	RMB'000
<b><u>Group</u></b>			
<b>At 31 December 2008</b>			
Trade and other payables	118,435	-	-
Borrowings	9,200	-	-
Convertible bonds	-	735,404	-
	127,635	735,404	-
<b>At 31 December 2007</b>			
Trade and other payables	76,918	-	-
Borrowings	11,000	-	1,000
	87,918	-	1,000
<b><u>Company</u></b>			
<b>At 31 December 2008</b>			
Trade and other payables	12,423	-	-
Convertible bonds	-	735,404	-
	12,423	735,404	-
<b>At 31 December 2007</b>			
Trade and other payables	8,601	-	-

The Group and Company manage the liquidity risk by maintaining sufficient cash to enable them to meet their normal operating commitments.

##### (d) 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 shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

In accordance with the regulations for the Implementation of the Law of the PRC on Enterprises Operated Exclusively with Foreign Capital, there is a legal requirement for the appropriation of not less than 10% of profit after income tax into the reserve fund for the PRC subsidiaries until the accumulated fund is 50% or more of their respective registered capital, where further transfers will not be required and subject to directors' recommendation (Note 31). This externally imposed capital requirement has been complied with by the PRC Subsidiaries for the financial years ended 31 December 2008 and 2007.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 36. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Key management personnel compensation is as follows:

	2008 RMB'000	<u>Group</u> 2007 RMB'000
Wages, salaries and bonuses	7,379	12,797
Employer's contribution to defined contribution plans, including Central Provident Fund	220	97
Share-based compensation	3,074	-
Directors' fee	1,112	1,144
	11,785	14,038

Included in the above is total compensation to directors of the Company amounting to RMB 5,466,000 (2007: RMB 10,210,000).

(b) Mr Sun Jiangrong, the Executive Chairman and Chief Executive Officer of the Company own 100% equity interest in Thumb (China) Holdings Group Ltd ("TCH") incorporated in British Virgin Island. TCH in turn owns 56.29% (2007: 55.06%) equity interest in the issued capital of the Company excluding treasury shares as at the balance sheet date. Hence, TCH is the immediate and ultimate holding Corporation. Mr Sun Jiangrong and TCH are together referred to as the "Controlling Shareholder" of the Company.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS For the financial year ended 31 December 2008

#### 37. Segment information

	Industrial waste gas	Industrial waste water	Dust elimination	Desulphuri- sation	Unallocated	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Group</b>							
<b>Financial year ended 31 December 2008</b>							
<b>Sales</b>							
- external sales	327,262	60,580	236,279	151,677	-	-	775,798
- inter-segment sales	295,946	3,143	-	-	2,822	-	301,911
	623,208	63,723	236,279	151,677	2,822	-	1,077,709
Elimination							(301,911)
							775,798
<b>Segment result</b>							
Other income	-	-	-	-	13,114	-	13,114
Other losses – net	-	-	-	-	(227,352)	-	(227,352)
Finance expenses	-	-	-	-	(31,969)	-	(31,969)
Profit before income tax	136,757	8,268	78,071	16,605	(268,344)	-	(28,643)
Income tax expense / (credit)	887	(1,089)	-	(3,863)	(12,286)	-	(16,351)
<b>Total profit / (loss)</b>	<b>137,644</b>	<b>7,179</b>	<b>78,071</b>	<b>12,742</b>	<b>(280,630)</b>	<b>-</b>	<b>(44,994)</b>
<b>Other segment items</b>							
Capital expenditure	45,057	256	8,427	-	15,490	-	69,230
Depreciation	3,098	251	1,221	-	343	-	4,913
Amortisation	1,089	-	2,533	-	728	-	4,350
<b>Segment assets</b>	<b>1,227,919</b>	<b>46,232</b>	<b>310,595</b>	<b>67,858</b>	<b>1,771,914</b>	<b>(1,784,662)</b>	<b>1,639,856</b>
<b>Segment liabilities</b>	<b>502,288</b>	<b>8,473</b>	<b>65,137</b>	<b>3,800</b>	<b>956,042</b>	<b>(646,982)</b>	<b>888,758</b>
<b>Financial year ended 31 December 2007</b>							
<b>Sales</b>							
- external sales	271,356	12,075	180,411	-	-	-	463,842
- inter-segment sales	232,112	-	964	-	-	-	233,076
	503,468	12,075	181,375	-	-	-	696,918
Elimination							(233,076)
							463,842
<b>Segment result</b>							
Other income	-	-	-	-	19,511	-	19,511
Other losses – net	-	-	-	-	(781)	-	(781)
Finance expenses	-	-	-	-	(943)	-	(943)
Profit before income tax	124,333	1,226	58,698	-	(12,372)	-	171,885
Income tax expense	(252)	-	-	-	(429)	-	(681)
<b>Total profit / (loss)</b>	<b>124,081</b>	<b>1,226</b>	<b>58,698</b>	<b>-</b>	<b>(12,801)</b>	<b>-</b>	<b>171,204</b>
<b>Other segment items</b>							
Capital expenditure	65,178	6,858	13,718	-	106	-	85,860
Depreciation	2,085	256	1,227	-	148	-	3,716
Amortisation	1,050	-	10,033	-	-	-	11,083
<b>Segment assets</b>	<b>556,313</b>	<b>39,344</b>	<b>273,043</b>	<b>-</b>	<b>367,468</b>	<b>-</b>	<b>1,236,168</b>
<b>Segment liabilities</b>	<b>18,327</b>	<b>922</b>	<b>54,124</b>	<b>-</b>	<b>27,780</b>	<b>-</b>	<b>101,153</b>

At 31 December 2008, the Group mainly operates in the PRC and is organised into the following main business segments:

- Industrial waste gas treatment, management and recovery;
- Industrial waste water treatment and management;
- Dust elimination;
- Desulphurisation of flue gas of independent power plants, in particular coal-fired power plants

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2008*

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**37. Segment information (continued)**

Other operations of the Group mainly comprise investment holding, which does not constitute a separately reportable segment. A significant amount of the total balance under "Other" mainly relates fair value losses arising from the equity swap derivative and convertible bonds transactions. These operations do not constitute a separable reportable segment.

Inter-segment transactions are recorded at their transacted price which is generally at fair value. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables, operating cash and investment properties and exclude deferred income tax assets and derivative financial instrument. Segment liabilities comprise payables, provisions and bank overdraft and exclude income tax liabilities, borrowings and derivative financial instruments. Capital expenditures comprise additions to property, plant and equipment and intangible assets, including those acquired through business combinations.

No segmental analysis by geographical segment is provided as the business of the Group mainly operates in PRC.

**38. Events occurring after balance sheet date**

Subsequent to the balance sheet date and as reported in the announcements of the Company on SGXNET on 5 March 2009, 6 March 2009, 12 March 2009 and 17 March 2009, the Company's Controlling Shareholder (Note 36(b)) may be faced with a forced sale of part of or all of the 190,788,000 ordinary shares (56.29%) in the capital of the Company (the "Possible Sale") arising from the default of certain financial obligations by the Controlling Shareholder. The Possible Sale may result in change of control of shareholder in the Company. This change in control would give the Bondholders the right to request for immediate conversion and/or redemption on the outstanding S\$149,000,000 bonds (Note 27 and Note 28) existing at balance sheet date. The Company may not be able to make payments for such unscheduled redemption by the Bondholders, if called upon to do so. Accordingly, the Board of Directors have appointed an independent financial advisor to the Company to carry out a review of the implications of the matter and advise appropriate measures to be adopted by the Group to safeguard its assets, continue its operations smoothly and enhance value to all its stakeholders.

These factors cast significant doubt on the ability of the Company and the Group to continue as going concerns. Hence, the validity of the going concern assumption on which the accompanying financial statements of the Company and of the Group are prepared depends on the favourable resolution with the Bondholders.

In the event that the Company and the Group are unable to arrive at such a favourable resolution, adjustments would need to be made to reflect the situation that assets would need to be realised other than in the normal course of business and at the amounts which could differ significantly from amounts at which they are currently recorded in the balance sheets. In addition, the Company and the Group may need to accrue 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 in these financial statements for the year ended 31 December 2008.

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## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

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SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
AND ITS SUBSIDIARIES

### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

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#### 39. New or revised accounting standards and interpretations

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

- (a) FRS 1(R) *Presentation of Financial Statement* (effective for annual periods beginning on or after 1 January 2009)

The revised standard requires:

- All changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income;
- Components of comprehensive income not to be included in statement of changes in equity;
- Items of income and expenses and components of other comprehensive income to be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate statement of profit and loss followed by a statement of comprehensive income);
- Presentation of restated balances sheet as at the beginning of the comparative period when entities make restatements or reclassifications of comparative information.

The revisions also include changes in the titles of some of the financial statements primary statements.

The Group will apply the revised standard from 1 January 2009 and provide comparative information that conforms to the requirements of the revised standard. The key impact of the application of the revised standard is the presentation of an additional primary statement, that is, the statement of comprehensive income.

- (b) FRS 108 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009)

FRS 108 supersedes FRS 14 *Segment Reporting* and requires the Group to report the financial performance of its operating segments based on the information used internally by management for evaluating segment performance and deciding on allocation of resources. Such information may be different from the information included in the financial statements, and the basis of its preparation and reconciliation to the amounts recognised in the financial statements shall be disclosed.

The Group will apply FRS 108 from 1 January 2009 and provide comparative information that conforms to the requirements of FRS 108. The Group does not expect the new operating segments to be significantly different from business segments currently disclosed and expects more information to be disclosed under FRS 108.

- (c) Revised FRS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009)

The revised standard removes the option to recognise immediately as an expense borrowing costs that are attributable to qualifying assets, except for those borrowing costs on qualifying assets that are measured at fair value or inventories that are manufactured or produced in large quantities on a repetitive basis.

The Group will apply the revised FRS 23 from 1 January 2009. As there have been no borrowing costs attributable to qualifying assets, the revised standard is not expected to have any impact to the Group.

## APPENDIX B – QUALIFIED AUDITED CONSOLIDATED ACCOUNTS OF THE COMPANY FOR FY2008

### SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED AND ITS SUBSIDIARIES

#### NOTES TO THE FINANCIAL STATEMENTS *For the financial year ended 31 December 2008*

#### 40. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Sino-Environment Technology Group Limited on 24 March 2009.

#### 41. Listing of significant companies in the Group

Name of companies	Principal activities	Country of business / incorporation	Effective equity holding by the Group	
			2008 %	2007 %
<u>Significant subsidiaries held by the Company</u>				
Sino-Environment Clean Power Technology Pte. Ltd. <sup>(a)</sup>	Investment holding	Singapore	100%	100%
Sino-Environment Waste Management Technology Pte. Ltd. <sup>(a)</sup>	Investment holding	Singapore	100%	100%
Thumb Env-Tech Group (Fujian) Co., Ltd. <sup>(b)</sup>	Industrial waste gas treatment, management and recovery; Industrial waste water treatment and management; desulphurisation	PRC	100%	100%
Fujian Thumb Environmental Facilities Co., Ltd. <sup>(b)</sup>	Industrial waste gas treatment, management and recovery	PRC	100%	100%
<u>Held by Thumb Env-Tech Group (Fujian) Co., Ltd.</u>				
Fujian Fuda Desai Environmental Protection Co., Ltd. <sup>(b)</sup>	Industrial waste water treatment and management	PRC	100%	100%
Chongqing Thumb Environmental Engineering Co., Ltd. <sup>(b)</sup>	Industrial waste gas treatment, management and recovery; Industrial waste water treatment and management	PRC	100%	100%
<u>Held by Sino-Environment Clean Power Technology Pte. Ltd.</u>				
Fujian Weidong EPT Co., Ltd. <sup>(b)</sup>	Dust elimination	PRC	100%	60%
Chuang-Dong Energy & Env-Tech (Fujian) Co., Ltd. <sup>(c)</sup>	Renewable energy engineering	PRC	100%	-
<u>Held by Fujian Weidong EPT Co., Ltd.</u>				
Fujian Weidong Environmental Engineering Co., Ltd. <sup>(b)</sup>	Dust elimination	PRC	100%	60%
<u>Held by Fujian Fuda Desai Environmental Protection Co., Ltd.</u>				
Thumb Waste Management Technology (Nanping) Co., Ltd. <sup>(b)</sup>	Waste management	PRC	100%	100%

(a) Audited by PricewaterhouseCoopers LLP, Singapore

(b) Audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, for the purpose of expressing an opinion on the consolidated financial statements.

(c) First year of incorporation

Accordingly, the Company has complied with Rule 716 of The Listing Manual issued by the Singapore Exchange Securities Limited.

APPENDIX C – STATEMENT OF AFFAIRS

AFFIDAVIT VERIFYING STATEMENT OF AFFAIRS  
UNDER SECTIONS 224(2), 227L(2), 270(2) &  
REGULATION 7(7)

Company Name : Sino-Environment Technology Group Ltd  
Company No: 200106480 Z

I, we Sam Chong Keen of 16 Balmoral Park  
#01-11 Spore 259847 holder of Singapore  
NRIC/Passport No S 0141198E Being \* Director make  
oath/affirm and say that the particulars contained in the statement of affairs relating  
to the abovenamed company dated 17 June 2010 and signed by me/us are  
true to the best of my / our knowledge and belief.

Sworn / Affirmed at Spore )  
this 28th day of June 2010 )

Sam

Before me

[Signature]  
Commissioner for Oaths / Notary Public



- \* Insert description sufficient to show that the person swearing the affidavit is a person referred to in Sections 224(2), 227L(2), 270(2) of the Companies Act (Cap 50) or Regulation 7(7) of the Companies Regulations.
- ☐ Delete where applicable.



## APPENDIX C – STATEMENT OF AFFAIRS

### STATEMENT OF AFFAIRS

#### SECTIONS 223(1)(c), 224(2), 227L(6)

Company Name : Sino-Environment Technology Group Limited (Under Judicial Management)  
 Company No: 2001064802

	Cost or Book Value ?	Estimated Realisable Values
<b>1 ASSETS NOT SPECIFICALLY CHARGED</b>		
(a) Real estate as detailed in Schedule A†	Nil	Nil
(b) Sundry debtors as detailed in Schedule B†	60,707,031	} 3,142,506
(c) Cash in hand	5,000	
(d) Cash at bank	17,224,649	
(e) Stock as detailed in inventory	Nil	Nil
(f) Plant and equipment as detailed in inventory	45,923	} NIL
(g) Other assets as detailed in Schedule C†	214,608,515	
<b>2 ASSETS SUBJECT TO SPECIFIC CHARGES, LIENS, MORTGAGES, BILLS OF SALE OR HIRE-PURCHASE AGREEMENTS, as detailed in Schedule D</b>	Nil	Nil
Less amounts owing as detailed in Schedule D		
<b>TOTAL ASSETS</b>	<b>292,591,118</b>	<b>3,142,506</b>

? Indicate in respect of each entry whether cost or book value.

† Where this statement of affairs is made for the purposes of section 296(4)(a) of the Companies Act, Schedule A, B, C and D are to show the method and manner in which the valuation of the assets were arrived at.

## APPENDIX C – STATEMENT OF AFFAIRS

CONTINUATION SHEET 1

Company Name: Sino-Environment Technology Group Limited (Under Judicial)  
 Company No: 200106480 Z Management

Statement of Assets and Liabilities as at 13 May 2010

	Cost or Book Value ?	Estimated Realisable Values
TOTAL ESTIMATED REALISABLE ASSETS	292,591,118	3,142,506
3 <b>Less</b> PREFERENTIAL CREDITORS ENTITLED TO PRIORITY OVER THE HOLDERS OF DEBENTURES UNDER ANY FLOATING CHARGE, as detailed in Schedule E	(518,663)	(518,663)
4 <b>Less</b> AMOUNTS OWING AND SECURED BY DEBENTURES OR FLOATING CHARGE OVER COMPANY'S ASSETS TO	Nil	Nil
5 <b>Less</b> PREFERENTIAL CREDITORS as detailed in Schedule F	( 603)	(603)
ESTIMATED AMOUNT AVAILABLE FOR UNSECURED CREDITORS	292,071,852	2,623,240

## APPENDIX C – STATEMENT OF AFFAIRS

### CONTINUATION SHEET 2

Company Name: Sino - Environment Technology Group Limited (Under  
 Company No: 2001064807 Judicial  
Management)

	Cost or Book Value ?	Estimated Realisable Values
ESTIMATED AMOUNT AVAILABLE FOR UNSECURED CREDITORS	292,071,852	2,623,240
6 CREDITORS (UNSECURED) as detailed in Schedule G (Amount claimed ( \$40 155,867,255 )	(155,867,255)	(155,867,255)
7 BALANCES OWING PARTLY SECURED CREDITORS as detailed in Schedule H		
Total claims ( Nil )	Nil	Nil
Security held ( Nil )	Nil	Nil
8 CONTINGENT ASSETS		
Estimated to produce	Nil	Nil
As detailed in Schedule I	Nil	Nil
9 CONTINGENT LIABILITIES		
Estimated to rank for		
As detailed in Schedule J	(39,481,638)	(39,481,638)
ESTIMATED * DEFICIENCY/SURPLUS (Subject to costs of *administration/liquidation)	96,722,959	(192,725,653)
SHARE CAPITAL Per Bizfile (exclude treasury)		
Issued ( 152,526,851.59 ) shares	152,526,852	
Paid-up ( 152,526,851.59 )	152,526,852	

\* Delete where applicable

## APPENDIX C – STATEMENT OF AFFAIRS

CONTINUATION SHEET 3

Company Name : Sino - Environment Technology Group Limited (Under Judicial Management)  
 Company No: 200106480 Z

REAL ESTATE: SCHEDULE A (If space is insufficient, please use Continuation Sheet)

<p>Particulars 1</p> <hr/> <p>Address and description of property:</p> <p>Cost Price or Book Value: Estimated Realisable Value:</p> <p>Valuation for rating purposes:</p> <p>Particulars for tenancy:</p> <p>Where possession of deeds may be obtained:</p> <p>Short Particulars of Title:</p>	<div style="font-size: 2em; transform: rotate(45deg); display: inline-block;">/</div> Nil
<p>Particulars 2</p> <hr/> <p>Address and description of property:</p> <p>Cost Price or Book Value: Estimated Realisable Value:</p> <p>Valuation for rating purposes:</p> <p>Particulars of tenancy:</p> <p>Where possession of deeds may be obtained:</p> <p>Short Particulars of Title:</p>	<div style="font-size: 2em; transform: rotate(45deg); display: inline-block;">/</div> Nil

## APPENDIX C – STATEMENT OF AFFAIRS

### CONTINUATION SHEET 4

Company Name : Sino - Environment Technology Group Limited (Under  
Company No: 200106480Z Judicial  
Management)

#### SCHEDULE B (If space is insufficient, please use Continuation Sheet) SUNDRY DEBTORS (INCLUDING LOAN DEBTORS)

Particulars 1	
Name of Debtor:	Sino - Environment Clean Power Technology Pte. Ltd.
Address of Debtor:	9 Temasek Boulevard, #32-02 Suntec Tower Two,
Amount owing:	(S) 038989
Amount Realisable:	SGD 24,275,328.20
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	
Particulars 2	
Name of Debtor:	Thumb Env-Tech Group (Fujian) Co., Ltd.
Address of Debtor:	No. 611 Industrial Road, Mawei District, Fujian Advanced & New Technologies Development Park, Fuzhou, Fujian Province,
Amount owing:	SGD 36,183,717.98 P.R.C. 350015.
Amount Realisable:	
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	

## APPENDIX C – STATEMENT OF AFFAIRS

### CONTINUATION SHEET 4

Company Name : Sine - Environment Technology Group Limited (Under  
Judicial  
Management)  
 Company No: 200106480Z

#### SCHEDULE B (If space is insufficient, please use Continuation Sheet) SUNDRY DEBTORS (INCLUDING LOAN DEBTORS)

Particulars 1	
Name of Debtor:	Straits Law Practice LLC
Address of Debtor:	36 Robinson Road, 18 <sup>th</sup> Floor, City House, (S) 068877
Amount owing:	SGD 20,000.00
Amount Realisable:	
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	
Particulars 2	
Name of Debtor:	Stamford Law Corporation
Address of Debtor:	9 Raffles Place, #32-00 Republic Plaza, (S) 048619
Amount owing:	SGD 100,000.00
Amount Realisable:	
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	

## APPENDIX C – STATEMENT OF AFFAIRS

### CONTINUATION SHEET 4

Company Name : Singapore Environment Technology Group Limited (Under  
Company No: 200106480Z Judicial  
Management)

#### SCHEDULE B (If space is insufficient, please use Continuation Sheet) SUNDRY DEBTORS (INCLUDING LOAN DEBTORS)

Particulars 1	
Name of Debtor:	Orix Capital Limited
Address of Debtor:	30 Bukit Batok Crescent, (S) 658075
Amount owing:	SGD 850.65
Amount Realisable:	
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	
Particulars 2	
Name of Debtor:	SP Services Ltd
Address of Debtor:	(1) Main office : TripleOne Somerset, 111 Somerset Road #06-05, (S) 238164
Amount owing:	(2) Mailing address : Orchard P.O. Box 341, (S) 912312
Amount Realisable:	SGD 1,318.73
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	

## APPENDIX C – STATEMENT OF AFFAIRS

CONTINUATION SHEET 4

Company Name: Sino-Environment Technology Group Limited (Under  
 Company No: 200106480 Z Judicial  
Management)

### SCHEDULE B (If space is insufficient, please use Continuation Sheet) SUNDRY DEBTORS (INCLUDING LOAN DEBTORS)

Particulars 1	
Name of Debtor:	Toshiba Data Dynamics Pte Ltd
Address of Debtor:	10, Kallang Sector, Data Dynamics Building, (S) 349280
Amount owing:	SGD 1,850.93
Amount Realisable:	
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	
Particulars 2	
Name of Debtor:	Tricor Singapore Pte Ltd
Address of Debtor:	8 Cross Street, # 11-00 PWC Building, (S) 048424
Amount owing:	SGD 1,902.84
Amount Realisable:	
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	



## APPENDIX C – STATEMENT OF AFFAIRS

### CONTINUATION SHEET 4

Company Name : Sing - Environment Technology Group Limited (Under

Company No: 2001064802

Judicial  
Management)

#### SCHEDULE B (If space is insufficient, please use Continuation Sheet) SUNDRY DEBTORS (INCLUDING LOAN DEBTORS)

Particulars 1	
Name of Debtor:	Tan Tar Wuei
Address of Debtor:	21 Lincoln Road, #21-05, (S) 308353
Amount owing:	SGD 16,133.00
Amount Realisable:	
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	
Particulars 2	
Name of Debtor:	Inland Revenue Authority of Singapore
Address of Debtor:	55 Newton Road, Revenue House, (S) 307987
Amount owing:	SGD 105,928.56
Amount Realisable:	
Deficiency:	
Particulars of security (if any) held:	Nil
Explanation of deficiency:	

## APPENDIX C – STATEMENT OF AFFAIRS

CONTINUATION SHEET 5

Company Name : Sino - Environment Technology Group Limited (Under  
Company No: 200106480E Judicial  
Management)

SCHEDULE C (If space is insufficient, please use Continuation Sheet)  
OTHER ASSETS (DEPOSITS OR INVESTMENTS)

Description of deposit or investment	Cost	Amount Realisable
Deposits –		
(1) Sun Venture Invesco Pte Ltd - 3 month security deposit for office unit at 9 Temasek Boulevard, #32-02 Suntec Tower Two, (S) 038989	69,240.00	
(2) SP Services Ltd - utilities deposit for office unit at 9 Temasek Boulevard, #32-02 Suntec Tower Two, (S) 038989	1,350.00	
Sub-total	70,770.00	
Investments –		
Subsidiaries:		
(1) Sino - Environment Clean Power Technology Pte. Ltd. (100% direct holding)	50,000,000.00	
(2) Thumb Env - Tech Group (Fujian) Co., Ltd. (100% direct holding)	53,313,039.38	
(3) Fujian Thumb Environmental Facilities Co., Ltd. (100% direct holding)	43,791,679.80	
Sub-total	147,104,719.18	

## APPENDIX C – STATEMENT OF AFFAIRS

CONTINUATION SHEET 5

Company Name Sino - Environment Technology Group Limited (Under  
 Company No: 200106480Z Judicial  
 Management)

SCHEDULE C (If space is insufficient, please use Continuation Sheet)  
 OTHER ASSETS (DEPOSITS OR INVESTMENTS)

Description of deposit or investment	Cost	Amount Realisable
Deposits –		
Investments –		
<u>Transferable Club Memberships</u>		
ONE IS Marina Club Corporate Membership With 3 nominees	75,000.00	
<u>Equity Swap</u>		
Entered into with Morgan Stanley & Co. International PLC.	67,358,026.00	

## APPENDIX C – STATEMENT OF AFFAIRS

CONTINUATION SHEET 6

Company Name : Sino - Environment Technology Group Limited (Under Judicial Management)  
 Company No: 200106480 Z

SCHEDULE D (If space is insufficient, please use Continuation Sheet)  
 ASSETS SUBJECT TO SPECIFIC CHARGES, LIENS, MORTGAGES, BILLS OF  
 SALE OR HIRE PURCHASE AGREEMENTS

Particulars 1	
Description of Asset:	Nil
Date charge given:	
Description of Charge:	
Holder of Charge:	
Terms of Repayment:	
Cost or book Value:	
Estimated Realisable Value:	
Amount owing under Charge:	

Particulars 2	
Description of Asset:	Nil
Date charge given:	
Description of Charge:	
Holder of Charge:	
Terms of Repayment:	
Cost or book Value:	
Estimated Realisable Value:	
Amount owing under Charge:	

## APPENDIX C – STATEMENT OF AFFAIRS

### CONTINUATION SHEET 7

Company Name : Sino - Environment Technology Group Limited (Under  
Company No : 200106480 Z Judicial  
Management)

SCHEDULE E (If space is insufficient, please use Continuation Sheet)  
PREFERENTIAL CREDITORS ENTITLED TO PRIORITY OVER THE HOLDERS  
OF DEBENTURES UNDER ANY FLOATING CHARGE

- 1 Employee's name: Phooi Bok Lan  
Address: 48 EWE Boon Road, # 13-02, (S) 259342  
Wages:
  - Notice or leave pay
  - Gratuity or retrenchment benefits
  - Other service benefits = SGD 13,304.00Estimated Liability: SGD 13,304.00
- 2 Employee's name: Guo Xiaofeng  
Address: 9 Temasek Boulevard, # 32-02, Suntec Tower Two, (S) 038989  
Wages:
  - Notice or leave pay = SGD 8,410.72
  - Gratuity or retrenchment benefits
  - Other service benefits = SGD 15,277.52Estimated Liability: SGD 23,688.24
- 3 Employee's name: Neo Sock Peng  
Address: 9 Temasek Boulevard, # 32-02, Suntec Tower Two, (S) 038989  
Wages:
  - Notice or leave pay = SGD 3,887.59
  - Gratuity or retrenchment benefits
  - Other service benefits = SGD 8,099.38Estimated Liability: SGD 11,986.97
- 4 Employee's name: Liang Wee Leong Raynauld  
Address: 9B Pasir Ris DR4, # 06-26, (S) 519464  
Wages:
  - Notice or leave pay = SGD 5,714.29
  - Gratuity or retrenchment benefits
  - Other service benefits = SGD 17,999.96Estimated Liability: SGD 23,714.25

## APPENDIX C – STATEMENT OF AFFAIRS

### CONTINUATION SHEET 7

Company Name: *Sino-Environment Technology Group Limited (Under Judicial Management)*  
Company No: *200106480Z*

#### SCHEDULE E (If space is insufficient, please use Continuation Sheet) PREFERENTIAL CREDITORS ENTITLED TO PRIORITY OVER THE HOLDERS OF DEBENTURES UNDER ANY FLOATING CHARGE

- 1 Employee's name: *You Shengquan*  
Address: *No. 611 Industrial Road, Mawei District, Fujian Advanced & New Technologies Development Park, Fuzhou City, Fujian Province, P.R.C. 350015*  
Wages:
  - Notice or leave pay = *SGD 145,714.29*
  - Gratuity or retrenchment benefits
  - Other service benefitsEstimated Liability: *SGD 145,714.29*
- 2 Employee's name: *Sam Chong Keen*  
Address: *16 Balmoral Park, #01-11, (S) 259847*  
Wages:
  - Notice or leave pay : *SGD 300,000.00*
  - Gratuity or retrenchment benefits
  - Other service benefits : *SGD 255.73*Estimated Liability: *SGD 300,255.73*
- 3 Employee's name:  
Address:  
Wages:
  - Notice or leave pay
  - Gratuity or retrenchment benefits
  - Other service benefitsEstimated Liability:
- 4 Employee's name:  
Address:  
Wages:
  - Notice or leave pay
  - Gratuity or retrenchment benefits
  - Other service benefitsEstimated Liability:

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## APPENDIX C – STATEMENT OF AFFAIRS

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CONTINUATION SHEET 8

Company Name: *Sino-Environment Technology Group Limited (Under*  
Company No: *200106480Z* *Judicial*  
*Management)*

SCHEDULE F (If space is insufficient, please use Continuation Sheet)  
PREFERENTIAL CREDITORS (OTHER THAN THOSE DETAILED IN  
SCHEDULE E)

- 1 Name: *Central Provident Fund Board*  
Address: *CPF Building, 79 Robinson Road, (S) 068897*  
Description of amount owing: *CPF contribution (Employer portion) for the unpaid*  
*Staff remuneration for the period from 1 May 2010 to 12 May 2010*  
Amount owing: *SGD 603.00*
- 2 Name:  
Address:  
Description of amount owing:  
  
Amount owing:
- 3 Name:  
Address:  
Description of amount owing:  
  
Amount owing:
- 4 Name:  
Address:  
Description of amount owing:  
  
Amount owing:

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## APPENDIX C – STATEMENT OF AFFAIRS

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### CONTINUATION SHEET 9

Company Name: Sino - Environment Technology Group Limited (Under  
Company No: 200106480 Z Judicial  
Management)

SCHEDULE G (If space is insufficient, please use Continuation Sheet)  
UNSECURED CREDITORS

- 1 Name: BMI Appraisals Limited  
Address: Suites 11-18, 31/F Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.  
Amount claimed: SGD 45,700.00 (HKD 250,000.00)  
Amount admitted:  
Reason for disputed amount (if any):
- 2 Name: Deloitte & Touche Financial Advisory Services Pte Ltd  
Address: 6 Shenton Way, #32-00 DBS Building Tower Two, (S) 068809  
Amount claimed: SGD 26,850.34  
Amount admitted:  
Reason for disputed amount (if any):
- 3 Name: Korda Mentha Pte Ltd  
Address: 30 Robinson Road, Robinson Tower, #12-01, (S) 048546  
Amount claimed: SGD 20,048.22  
Amount admitted:  
Reason for disputed amount (if any):
- 4 Name: Norton Rose Australia (Formerly known as Deacons)  
Address: Grosvenor Place, 225 George Street, Sydney NSW 2000, Australia.  
Amount claimed: SGD 28,347.29 (AUD 22,031.00)  
Amount admitted:  
Reason for disputed amount (if any):



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## APPENDIX C – STATEMENT OF AFFAIRS

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### CONTINUATION SHEET 9

Company Name : Sino-Environment Technology Group Limited (Under Judicial Management)  
Company No: 200106480 Z

SCHEDULE G (If space is insufficient, please use Continuation Sheet)  
UNSECURED CREDITORS

- 1 Name: PricewaterhouseCoopers LLP  
Address: 8 Cross Street, # 17-00 PWC Building, (S) 048424  
Amount claimed: SGD 445,803.03  
Amount admitted:  
Reason for disputed amount (if any):
- 2 Name: Shook Lin & Bok LLP  
Address: 1 Robinson Road, # 18-00 AIA Tower, (S) 048542  
Amount claimed: SGD 88,756.50  
Amount admitted:  
Reason for disputed amount (if any):
- 3 Name: Sun Jiangrong  
Address: Tower 15-2D, Zone Two, Rongqiao Garden, Gulou District, Fuzhou City, Fujian Province, P.R.C. 350002  
Amount claimed: SGD 45,700.00 (HKD 250,000.00)  
Amount admitted:  
Reason for disputed amount (if any):
- 4 Name: The Bank of New York Mellon  
Address: One Temasek Avenue, # 03-01 Millenia Tower, (S) 039192  
Amount claimed: SGD 77,605.27 (USD 54,950.00)  
Amount admitted:  
Reason for disputed amount (if any):

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## APPENDIX C – STATEMENT OF AFFAIRS

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### CONTINUATION SHEET 9

Company Name: Sino-Environment Technology Group Limited (Under  
Company No: 200106480Z Judicial  
Management)

SCHEDULE G (If space is insufficient, please use Continuation Sheet)  
UNSECURED CREDITORS

- 1 Name: A.W. Worldwide Enterprise Pte Ltd  
Address: 2 Alexandra Road, #07-07 Delta House, (S) 159919  
Amount claimed: SGD 88,113.57  
Amount admitted: SGD 88,113.57  
Reason for disputed amount (if any):
- 2 Name: Sun Venture Invesco Pte Ltd  
Address: 50 Scotts Road, #01-02, (S) 228242  
Amount claimed: SGD 37,139.70  
Amount admitted: SGD 37,139.70  
Reason for disputed amount (if any):
- 3 Name: ONE 15 Marina Club  
Address: #01-01, 11 Cove Drive, Sentosa Cove, (S) 098497  
Amount claimed: SGD 422.65  
Amount admitted:  
Reason for disputed amount (if any):
- 4 Name: Boardroom Corporate & Advisory Services Pte Ltd  
Address: 50 Raffles Place, #32-01 Singapore Land Tower, (S) 048623  
Amount claimed: SGD 1,769.78  
Amount admitted: SGD 1,769.78  
Reason for disputed amount (if any):

## APPENDIX C – STATEMENT OF AFFAIRS

### CONTINUATION SHEET 9

Company Name: Sino-Environment Technology Group Limited (Under  
Company No: 200106480Z Judicial  
Management)

#### SCHEDULE G (If space is insufficient, please use Continuation Sheet) UNSECURED CREDITORS

- 1 Name: The Roadmaster Courier  
Address: 342 - C King George's Ave, King George's Building, (S) 208575  
Amount claimed: SGD 43.00  
Amount admitted: SGD 43.00  
Reason for disputed amount (if any):
- 2 Name: The Central Depository (Pte) Limited  
Address: 2 Shenton Way, #19-00 SGX Centre 1, (S) 068804  
Amount claimed: SGD 150.01  
Amount admitted: SGD 150.01  
Reason for disputed amount (if any):
- 3 Name: StarHub Ltd  
Address: 67 Ubi Avenue 1, #05-01 StarHub Green, (S) 408942  
Amount claimed: SGD 805.83  
Amount admitted: SGD 805.83  
Reason for disputed amount (if any):
- 4 Name: SGD 149,000,000 Convertible Bonds Due 2013 (Bondholders)  
Address:  
Amount claimed: SGD 154,960,000.00 (Principal of SGD 149,000,000 + interest of SGD 5,960,000)  
Amount admitted: SGD 154,960,000.00 (Principal of SGD 149,000,000)  
Reason for disputed amount (if any):

## APPENDIX C – STATEMENT OF AFFAIRS

CONTINUATION SHEET 10

Company Name : Sino-Environment Technology Group Limited (Under  
 Company No: 2001064807 Judicial  
Management)

SCHEDULE H (If space is insufficient, please use Continuation Sheet)  
 PARTLY SECURED CREDITORS

Particulars 1	Nil
Name:	
Address:	
Particulars of security held:	
Nature of security:	
Estimated value of security held:	
Amount owing to creditor:	
Amount estimated to rank as unsecured:	

Particulars 2	Nil
Name:	
Address:	
Particulars of security held:	
Nature of security:	
Estimated value of security held:	
Amount owing to creditors:	
Amount estimated to rank as unsecured:	

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## APPENDIX C – STATEMENT OF AFFAIRS

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CONTINUATION SHEET 11

Company Name : Sino-Environment Technology Group Limited (Under

Company No: 200106480 Z

Judicial  
Management)

SCHEDULE I (If space is insufficient, please use Continuation Sheet)  
CONTINGENT ASSETS

1 Description of Asset:

Gross Asset  
Estimated to produce:

2 Description of Asset:

Gross Asset  
Estimated to produce:

Nil

3 Description of Asset:

Gross Asset  
Estimated to produce:

4 Description of Asset:

Gross Asset  
Estimated to produce:

5 Description of Asset:

Gross Asset  
Estimated to produce:

## APPENDIX C – STATEMENT OF AFFAIRS

CONTINUATION SHEET 13

Company Name : Sino-Environment Technology Group Limited (Under  
Company No: 200106480Z Judicial  
Management)

SCHEDULE J (If space is insufficient, please use Continuation Sheet)  
CONTINGENT LIABILITIES

- 5 Name: Thumb Env-Tech Group (Fujian) Co., Ltd.  
Address: No. 611 Industrial Road, Mawei District, Fujian Advanced & New  
Technologies Development Park, Fuzhou City, Fujian Province, P.R.C. 350015  
Nature of Liability: Rest of unpaid registered capital should be paid off for the  
completion of registered capital and fulfillment of the Government  
Gross Liability SGD 39,481,638.23 (RMB 194,778,679) requirement.  
Estimated to rank for: Unsecured creditor
- 6 Name:  
Address:  
Nature of Liability:  
Gross Liability:  
Estimated to rank for:
- 7 Name:  
Address:  
Nature of Liability:  
Gross Liability:  
Estimated to rank for:

I hereby certify that the particulars contained in the above statement of affairs  
are true to the best of my knowledge and belief.

Dated this 17th day of June 2010

Signature: [Signature]

Name of Director

SAM CHONG KEEN

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## APPENDIX D – LETTER FROM STIRLING COLEMAN CAPITAL LIMITED

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### LETTER FROM STIRLING COLEMAN CAPITAL LIMITED TO THE SHAREHOLDERS OF SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED

#### STIRLING COLEMAN CAPITAL LIMITED

(Company registration no.:200105040N)  
4 Shenton Way #07-03  
SGX Centre 2  
Singapore 068807

10 August 2011

**To : The Shareholders of Sino-Environment Technology Group Limited (under Judicial Management)**

Dear Sirs

#### **PROPOSED SCHEME OF COMPROMISE AND ARRANGEMENT (THE “SCHEME”) UNDER SECTION 210 (READ WITH SECTION 227X) OF THE COMPANIES ACT, CHAPTER 50 OF SINGAPORE**

*Unless otherwise defined or the context otherwise requires, all terms defined in the scheme document dated 10 August 2011 (the “**Scheme Document**”) issued by Sino-Environment Technology Group Limited (under Judicial Management) (“**SET**” or the “**Company**”), providing, inter alia, the details of the Scheme shall have the same meanings herein.*

#### **1. INTRODUCTION**

##### **1.1 Background**

The Company was incorporated in Singapore under the Companies Act on 2 October 2001. It was admitted to the Official List of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) SGX-ST on 28 April 2006. Its subsidiaries are:

- (a) Sino-Environment Clean Power Technology Pte Ltd (Singapore)(in liquidation);
- (b) Sino-Environment Waste Management Technology Pte Ltd (Singapore)(struck off);
- (c) China Energy Environment (Holdings) Limited (Hong Kong)(deregistered);
- (d) Fujian Thumb Environmental Facilities Co., Ltd (PRC);
- (e) Thumb Env-Tech Group (Fujian) Co., Ltd (PRC);
- (f) Fujian Weidong EPT Co., Ltd (PRC);
- (g) Fujian Weidong Environmental Engineering Co., Ltd (PRC);
- (h) Chuang-Dong Energy & Env-Tech (Fujian) Co., Ltd (PRC);
- (i) Thumb Waste Management Technology (Nanping) Co., Ltd (PRC);
- (j) Fujian Fuda Desai Environmental Protection Co., Ltd (PRC);
- (k) Xining Aiyuan Landfill Gas Co., Ltd (PRC); and

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## APPENDIX D – LETTER FROM STIRLING COLEMAN CAPITAL LIMITED

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(l) Chongqing Thumb Environmental Engineering Co., Ltd (PRC)

(the “**Subsidiaries**”).

The Company and its Subsidiaries (collectively, the “**Group**”) principally carried on business as an environmental protection and waste recovery solutions specialist in the PRC. The Group’s business is split into the following main segments: (i) industrial waste gas treatment, management and recovery of volatile organic compounds, in particular toluene; (ii) dust elimination; (iii) industrial waste gas treatment and management of sulphur dioxide and oxidised forms of nitrogen for independent power plants, in particular coal-fired power plants; and (iv) industrial and municipal waste water treatment and management.

The Company was placed under judicial management on 4 June 2010 under an order of Court whereby Mr Seshadri Rajagopalan and Ms. Ee Meng Yen Angela of Ernst & Young LLP were appointed as the Judicial Managers. As at the date of this letter (the “**Letter**”), the High Court has granted an extension of the Judicial Management Order to 1 January 2012.

As at the date of this Letter, the Judicial Managers have stated that they have no control over the PRC Subsidiaries and the cash in the PRC bank, investments in and receivables from the PRC Subsidiaries are difficult to realise because of the complicated court and liquidation procedures in the PRC and the associated time and expense of such procedures. In addition, based on the Statement of Affairs as at 13 May 2010 submitted by one of the directors of the Company (the “**Statement of Affairs**”), the aggregate liabilities far exceed the estimated net realisable value of its assets.

The SGX-ST had granted an extension of up to 30 September 2011 (the “**Trading Resumption Deadline**”) to implement the resumption of trading proposal. The Judicial Managers have advised that if the Company is unable to complete the implementation of the resumption of trading proposal and to resume trading by the Trading Resumption Deadline (unless further extension is granted), the SGX-ST will delist the Company from the Official List of the SGX-ST.

### 1.2 Events leading up to the Shares being suspended from trading on the SGX-ST and the Judicial Management Order

On 17 September 2009, a request for trading halt was made by the Company pursuant to the identification of certain questionable cash transactions and matters by its auditors, PricewaterhouseCoopers LLP (“**PwC**”), during the course of its review of cash transactions for the three-month period ended 31 March 2009. The identification of certain questionable cash transactions and matters by PwC was announced on 12 October 2009 and a summary of the findings of PwC was announced on 4 December 2009. The announcement of 4 December 2009 setting out the summary of PwC’s findings is set out in **Appendix H** of the Scheme Document. Prior to the trading halt, the Company’s then Controlling Shareholder and Chairman and CEO of the Company, Sun Jiangrong, had lost control over the Company after the hedge funds to whom he had pledged all his shares enforced their security interests over those shares.

On 23 September 2009, the Company requested for its shares to be suspended from trading.

Between 10 November 2009 and 5 January 2010, there were substantial changes to the Board and management of the Company as set out below:

- (a) Mr. Liang Wee Leong Raynauld, the Financial Controller of Sino-Environment Clean Power Technology Pte Ltd, was summarily dismissed and his employment was terminated by the Company on 10 November 2009;



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## APPENDIX D – LETTER FROM STIRLING COLEMAN CAPITAL LIMITED

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- (b) Mr. Sun Jiangrong, the Chief Executive Officer, Mr. You Shengquan, the Acting Chief Executive Officer and Chief Operating Officer, and Professor Li Shouxin, the Chief Technical Officer, resigned as Directors with effect from 2 January 2010;
- (c) Mr. Sam Chong Keen was appointed as a Non-Executive Director with effect from 5 January 2010;
- (d) Mr. In Nany Sing Charlie and Mr. Wong Sek Choon were appointed as independent Directors with effect from 5 January 2010; and
- (e) Mr. Liang Wee Leong Raynauld was subsequently appointed as Head of Finance of the Group with effect from 6 January 2010.

Following this, the Board took several steps to restore and turn around the Company.

On 23 February 2010, the Company announced that a visit by the Company's new directors and bondholders to the Company's main subsidiary in Fuzhou showed that all the business operations at the subsidiary had ceased and the equipment were sitting idle.

On 17 March 2010, the Board announced that it visited the Group's plant in Fuzhou on 8 and 9 March 2010, to discuss the restoration of the Group's business operations. The key management led by Deputy GM Mr Tian Yuan pledged their support to help restart business operations in return for the opportunity to subscribe for 20% or more of new shares.

On 5 May 2010, the Company announced that the proposed subscription of shares by the key management would not proceed.

The Company was placed under interim judicial management on 13 May 2010 and subsequently in judicial management on 4 June 2010 by the Judicial Management Order.

### 1.3 Key events subsequent to the Company being placed under judicial management

On 2 August 2010, the Judicial Managers entered into a non-binding Memorandum of Understanding with HLM Consulting Company Limited ("**HLM**"), a company incorporated in Hong Kong and representing a consortium of strategic and/or financial investors, in relation to their interest to acquire a majority stake in the Company by way of subscribing for new ordinary shares in the capital of the Company. According to the Judicial Managers, the following main factors were taken into account prior to entering into the Memorandum of Understanding with HLM:

- (a) HLM referred AVIC International Kairong Limited, a company incorporated in Hong Kong ("**AVIC Kairong**"), to the Judicial Managers as a potential investor; and
- (b) HLM was able and willing to assist the Judicial Managers to (1) liaise with, cooperate and work with all relevant government agencies and regulators to pursue the enforcement of rules and regulations, and (2) regain control over and recover the Company's assets in the PRC.

Please refer to **Appendix I** for further information on HLM.

Under the non-binding Memorandum of Understanding, the Judicial Managers and HLM had agreed to cooperate exclusively and work together to regain control over and recover the Company's assets in the PRC, comprising mainly the Company's equity interests in its Subsidiaries.

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## APPENDIX D – LETTER FROM STIRLING COLEMAN CAPITAL LIMITED

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On 21 September 2010, the Judicial Managers received a notification from the Fuzhou Intermediate People's Court ("**Fuzhou Court**") in the PRC regarding proceedings initiated by the Company's wholly-owned subsidiary, Thumb Env-Tech Group (Fujian) Co., Ltd. ("**Thumb**") for unpaid capital. Thumb had obtained a judgement from the Fuzhou Court to freeze the Company's PRC bank account containing S\$14 million.

Further to the Judicial Managers' submission to the SGX-ST on 22 September 2010 for an extension of time to submit a resumption of trading proposal, the SGX-ST had on 1 October 2010 granted the Company up to 30 November 2010 to submit information to the SGX-ST for its consideration.

On 7 December 2010, the Company announced that the SGX-ST had granted the Company an extension of up to 30 June 2011 to implement the resumption of trading proposal and resume trading.

With a view to achieving the aforementioned timeline, the Judicial Managers continued to engage in negotiations with HLM and the long-stop date under the Memorandum of Understanding was extended on several occasions, with the last extension being a long-stop date of 15 January 2011 as announced by the Company on 3 January 2011.

On 7 January 2011, the Company announced that it had entered into an implementation agreement with AVIC Kairong (the "**Implementation Agreement**").

Pursuant to the Implementation Agreement, the Company and AVIC Kairong have agreed, *inter alia*, that AVIC Kairong shall procure the issuance of the Consideration Shares to the Shareholders and the Creditors, subject to the compromise and settlement of a portion of the debts owing from the Company to the Creditors, the listing of AVIC International Investments Limited ("**AVIC Singapore**"), a subsidiary of AVIC Kairong, by way of a transfer of the Company's listing status to AVIC Singapore and the concurrent delisting and withdrawal of shares of the Company from the Main Board of the SGX-ST, all of which are to be implemented by way of the Scheme.

On 7 January 2011, the Company also entered into the Asset Recovery Agreement with HLM whereby the Company appointed HLM to assist it in regaining control and recovery of the Company's assets in PRC.

Pursuant to the Asset Recovery Agreement, HLM has agreed to render all assistance to the Company in connection with the recovery of the Company's assets in the PRC, including but not limited to, advising on all possible actions and methods, the formulation of plans and strategies, and recommending and appointing other third party professionals, consultants and advisors. In consideration of HLM's efforts and services to be rendered to the Company, the Company shall pay to HLM a success fee upon completion of the recovery of the Company's assets, subject to the fulfilment by HLM of all its obligations under the Asset Recovery Agreement and the approval of the Creditors. Completion of the asset recovery shall be deemed to have occurred upon the completion of the sale of the assets to be recovered, and the receipt of the proceeds of such sale by the Company from the purchaser(s).

The SGX-ST has granted a further extension to 22 July 2011 and subsequently to 30 September 2011 to implement the resumption of trading proposal.

### 1.4 Appointment of Stirling Coleman Capital Limited

Stirling Coleman Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise its Shareholders on the Scheme to Shareholders, further details of which are detailed in paragraph 3 of the letter (the "**Scheme**"). This letter sets out, *inter alia*, our evaluation and assessment of the financial terms of the Scheme to Shareholders and our recommendation thereon, and forms part of the Scheme Document providing, *inter alia*, the details of the Scheme.

### 2 TERMS OF REFERENCE

We have been appointed by the Company to act as Independent Financial Advisors to the Shareholders and to advise the Shareholders on the Scheme to Shareholders. We have confined our evaluation to the financial terms of the Scheme to Shareholders and our terms of reference do not require us to evaluate or comment on the strategic merits, long term or otherwise, and/or the commercial risks and/or commercial merits (if any) of the Scheme to Shareholders or the listing status or future prospects of the Company or the Group and of AVIC Singapore or AVIC Singapore and its subsidiaries (the “**AVIC Singapore Group**”) or of the industry in which the Company or the Group and AVIC Singapore or the AVIC Singapore Group operates, and we have not made such evaluation or comment. However, we may draw upon the views of the Judicial Managers or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter.

We were not privy to the negotiations in relation to the Scheme being proposed to Shareholders, including, *inter alia*, the Share Exchange Ratio and the Agreed Apportionment of the Share Distribution between the Shareholders and the Creditors as set out under the Scheme. We were also not involved in the deliberations leading up to the decision by the Judicial Managers to put forth the Scheme to Shareholders. We have not been requested to, and we do not express any opinion on the relative merits of the Scheme to Shareholders as compared to any other alternative proposals or transactions previously considered by the Company or that may otherwise be available to the Company in the future. We have not been instructed or authorised to solicit, and we have not solicited, any indications of interest from any third party with respect to the Scheme.

In evaluating the financial terms of the Scheme to Shareholders, we have held discussions with the Judicial Managers in connection with the Scheme to Shareholders. We would like to highlight that all material information relating to the Company or the Group and AVIC Singapore or the AVIC Singapore Group that we have relied on in arriving at our opinion in this Letter has been obtained from published or otherwise publicly available sources and/or from information provided and representations made by the Judicial Managers in the Scheme Document, and by the directors and/or management of AVIC Singapore in the Information Memorandum. We have not independently verified such information or representations made by them and therefore cannot and do not make any representation or warranty, expressed or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or representations. In particular, we have not conducted a comprehensive review of the business operations and financial condition of the Company or the Group and AVIC Singapore or the AVIC Singapore Group, nor have we independently assessed whether or not such information represents a true and fair position of the financial, operating and business affairs of the Company or the Group and AVIC Singapore or the AVIC Singapore Group at any time or as at the Latest Practicable Date, being 3 August 2011. However, we have made such enquiries and exercised our judgment, as we deemed necessary and have found no reason to doubt the reliability of such information and representations made to us.

The Judicial Managers have in the Scheme Document confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, the statements and opinions expressed in the Scheme Document (other than this Letter, and any information relating to the AVIC Singapore Group, including but not limited to information contained in the Information Memorandum) constitutes full and true disclosure of all material facts about the Scheme, the Company and its Subsidiaries, and the Judicial Managers are not aware of any material facts the omission of which would make any statement in the Scheme Document misleading and they jointly and severally accept responsibility accordingly. The Judicial Managers do not have management control of and have not managed the AVIC Singapore Group and have no direct or indirect involvement in the affairs of the AVIC Singapore Group. Where information relating to the AVIC Singapore Group has been extracted from the accompanying Information Memorandum or from published or otherwise publicly available sources or is otherwise based on information obtained from AVIC Singapore or

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## APPENDIX D – LETTER FROM STIRLING COLEMAN CAPITAL LIMITED

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other relevant persons, the sole responsibility of the Judicial Managers has been to ensure that such information has been accurately and correctly extracted from these sources or, as the case may be, reflected or reproduced in the Scheme Document. The Judicial Managers have not undertaken any independent verification of such information. We have also made reasonable enquiries and used our judgement in assessing such information and have found no reason to doubt the reliability of such information. Accordingly, no representation or warranty, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of such information. Whilst care has been exercised by us in reviewing the information, representations and statements in the Scheme Document and the Information Memorandum which we have relied on, we have not independently verified the information, representations and statements but have nevertheless made such inquiry and judgement as we deemed necessary and have found no reason to doubt the reliability of the information, representations and statements.

In evaluating the financial terms of the Scheme to Shareholders and in arriving at our opinion thereon, we have not relied upon any financial projections or forecasts in respect of the Company or the Group or AVIC Singapore or the AVIC Singapore Group. We are not required to express and we do not express any view on the future growth prospects, financial position and earnings potential of the Company or the Group or AVIC Singapore or the AVIC Singapore Group in connection with our opinion herein. Accordingly, we are not expressing any view herein as to the prices at which the Shares (if the Shares are not suspended) or the AVIC Shares (upon admission to the Official List of the SGX-ST and the successful completion of the Compliance Placement) may trade in the absence of the Scheme or if the Scheme is not effected or upon the implementation of the Scheme.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Company or the Group or AVIC Singapore or the AVIC Singapore Group (including without limitation, property, plant and equipment) and we have not been furnished with any such evaluation or appraisal.

Our opinion as set out in this Letter is based upon market, economic, political, industry, monetary, regulatory and other conditions prevailing as at the Latest Practicable Date and the information provided and representations made available to us in the Scheme Document and the Information Memorandum as at the Latest Practicable Date. Such conditions may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should take note of any announcements relevant to their consideration of the Scheme, which may be released by the Company, Judicial Managers on behalf of the Company and/or the directors of AVIC Singapore after the Latest Practicable Date.

In rendering our opinion, we have not considered the number of Shares held (which constitutes one of the bases for the calculation of Shareholders' entitlements to the Consideration Shares pursuant to the Scheme) by any individual Shareholder. We have also not considered the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, we recommend that any individual Shareholder who may require specific advice in relation to his investment portfolio or objectives consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Judicial Managers have been separately advised by its own professional advisers in the preparation of the Scheme Document (other than this Letter). We have no role or involvement and have not provided any advice, financial or otherwise, whatsoever in the preparation, review and verification of the Scheme Document (other than this Letter). Accordingly we take no responsibility for and express no views, express or implied, on the contents of the Scheme Document (other than this Letter).

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Our recommendation in relation to the Scheme should be considered in the context of the entirety of this Letter and the Scheme Document.

### 3 THE SCHEME

The terms of the Scheme are set out in Section 3 of the Letter from the Judicial Managers to the Shareholders and the Creditors of the Company (the “**Letter from the Judicial Managers**”), Section 3 of the Explanatory Statement and **Appendix E** of the Scheme Document. We recommend that the Shareholders read these sections of the Scheme Document carefully.

A summary of the key terms of the Scheme is set out below.

#### 3.1 Share Distribution, transfer of Shares and debt settlement

Pursuant to the Scheme, AVIC Kairong shall procure that AVIC Singapore allot and issue to the Scheme Administrators, on or before the Transfer Date, to hold on trust for and to distribute on the Vesting Date to the Shareholders and the Creditors with Approved Scheme Claims, in accordance with the terms of the Scheme, such number of Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$6,000,000 free from all Encumbrances.

The Share Distribution shall be apportioned as follows:

- (i) Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$680,000 to be distributed to the Shareholders; and
- (ii) Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$5,320,000 to be distributed to the Creditors with Approved Scheme Claims.

The Shareholders and the Creditors will be entitled to such number of Consideration Shares, subject at all times to the Agreed Apportionment, determined based on the formula as follows:

$$\text{Number of Consideration Shares} = \frac{\text{S\$6 million}}{\text{Compliance Placement Price}}$$

For the purpose of the Scheme illustration, the Compliance Placement Price is assumed to be S\$0.50 (the “**Projected Compliance Placement Price**”) and accordingly, the preliminary number of Consideration Shares will be 12,000,000.

The final total number of Consideration Shares, subject at all times to the Agreed Apportionment, will be determined based on the Actual Compliance Placement Price. For illustrative purposes only, please refer to Section 3.2 of this Letter for details of the adjustment to the preliminary number of Consideration Shares.

#### 3.2 Adjustment to the Consideration Shares

For illustrative purposes only, where the Actual Compliance Placement Price is less than the Projected Compliance Placement Price, AVIC Kairong shall transfer to the Scheme Administrators at least three (3) Business Days prior to the Vesting Date, to hold on trust for and to distribute on the Vesting Date to the Shareholders and the Creditors, such number of additional shares in AVIC Singapore (the “**Additional Consideration Shares**”), free from any Encumbrance in the Agreed Apportionment, determined as follows:

$$\text{Number of Additional Consideration Shares} = \frac{\text{Shortfall Amount}}{\text{Actual Compliance Placement Price}}$$



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Where the “**Shortfall Amount**” is the difference between (1) S\$6 million and (2) the Actual Value of the Consideration Shares. The “**Actual Value of the Consideration Shares**” will be determined by multiplying the Actual Compliance Placement Price by the preliminary number of Consideration Shares allotted and issued pursuant to Section 3.1 above.

Where the Actual Compliance Placement Price is more than the Projected Compliance Placement Price, the Scheme Administrators shall transfer back to AVIC Kairong on or before the Vesting Date, such number of Consideration Shares, free from any Encumbrance, being the difference between (1) 12,000,000 and (2) the number of Consideration Shares determined based on the formula set out above in Section 3.1.

### 3.3 The Scheme Proposed to all Shareholders

Pursuant to the terms of the Scheme, the following shall be effected:

- (i) AVIC Kairong shall procure that AVIC Singapore allot and issue to the Scheme Administrators on or before the Transfer Date, to hold on trust for and to distribute on the Vesting Date to the Shareholders Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$680,000, free from any Encumbrance;
- (ii) in consideration for the Shareholders’ proportionate entitlement to the Consideration Shares, the Shareholders agree that they will cease to be shareholders of the Company and all of their Shares shall be transferred to the Judicial Managers who shall receive full legal title to the Shares, fully paid, free from any Encumbrance and who shall continue to hold the beneficial title to the Shares for and on behalf of the Shareholders; and
- (iii) in consideration for the Shareholders’ proportionate entitlement to the Consideration Shares, the Shareholders agree that on or shortly after the Transfer Date, all of their Shares shall be withdrawn from the Official List of the SGX-ST.

The entitlements of the Shareholders to the Consideration Shares shall be determined on the basis of the number of Shares standing to the credit of the respective Securities Account (in the case of Depositors) or their holdings of Shares appearing in the register of members of the Company (in the case of Shareholders who are not Depositors) on the Books Closure Date, fractional share entitlements are to be disregarded and retained by the Scheme Administrators (and/or sold by the Scheme Administrators or their nominee) for the benefit of the Company. Shareholders should note Paragraph 5 of **Appendix E** of the Scheme Document for details of the action to be taken by them in relation to their entitlements.

It is envisaged that the AVIC Shares will be traded on the SGX-ST in board lots of 1,000 AVIC Shares. Following the Share Distribution, the Securities Accounts of Shareholders and Creditors with Approved Scheme Claims may be credited with odd lots of AVIC Shares (i.e. other than board lots of 1,000 AVIC Shares).

### 3.4 Share Exchange Ratio

Based on the Projected Compliance Placement Price of S\$0.50, the Shareholders will be entitled to 1,360,000 Consideration Shares. For illustrative purposes only, the Share Exchange Ratio, assuming there is no further adjustment to the Consideration Shares, will be approximately one Consideration Share for every 250 Shares held by or standing to the credit of the Securities Account of each Shareholder, fractional share entitlements to be disregarded. The Share Exchange Ratio is subject to the final number of Consideration Shares to be issued based on the Actual Compliance Placement Price.

**3.5 The Scheme proposed to all Creditors**

The Scheme is also proposed to all Creditors with Approved Scheme Claims. They will receive a proportionate number of Consideration Shares with aggregate value of S\$5,320,000 (calculated by reference to the Compliance Placement Price) and in consideration, the Company shall be completely and absolutely released and discharged from debt to the aggregate value of the Consideration Shares received by each Creditor under the Scheme in satisfaction of that Creditor's Approved Scheme Claim. They remain creditors of the Company for the balance of their Approved Scheme Claims. Further details of the terms of the Scheme proposed to the Creditors are set out in Paragraph 6 of **Appendix E** of the Scheme Document.

**3.6 AVIC Kairong and AVIC Singapore Undertaking**

AVIC Kairong and AVIC Singapore have agreed to appear by counsel at the Court hearing of the application to sanction the Scheme and to consent thereto, and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may reasonably be necessary to be executed and done by them for the purpose of giving effect to the Scheme.

**3.7 Delisting**

The Company is listed on the Official List of the SGX-ST. If the Scheme becomes effective and binding, on or shortly after the Transfer Date, the Judicial Managers will hold all the Shares in the Company and (subject to the approval of the SGX-ST) the Shares will be delisted and withdrawn from the Official List of the SGX-ST.

**3.8 Judicial Managers' Fees and Expenses**

The Judicial Managers and their solicitors shall be entitled to such remuneration, fees and disbursements for their performance of their duties and services for taking any action that they are requested, authorised, or empowered to take under or in respect of the Scheme as may be approved (i) by a meeting of the Company's creditors summoned under Part V of the Companies Regulations; or (ii) by Court.

**3.9 Conditions Precedent**

The implementation of the Scheme is subject, *inter alia*, to the following conditions precedent being satisfied or waived (as the case may be):-

- (i) The approval of the Scheme by the Shareholders and the Creditors in compliance with the requirements of Section 210(3) (read with Section 227X) of the Companies Act;
- (ii) The grant of the Order of Court pursuant to Section 210(3) (read with Section 227X) of the Companies Act, and such Scheme Court Order having become effective;
- (iii) No injunction or other order being issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Scheme or the transactions proposed herein or any part thereof;
- (iv) Obtaining all necessary consents, approvals, waivers, exemptions or other acts from any foreign or Singaporean government or governmental, semi-governmental, administrative, regulatory, fiscal or judicial agency, authority, body, commission, department, exchange, tribunal or entity (including without limitation, the SGX-ST, the SIC and the Monetary Authority of Singapore) as reasonably required to implement the Scheme and at the consummation, execution and completion of the Implementation Agreement, such consents and approvals having been duly authorised or obtained or otherwise completed and being in full force and effect on the Scheme Effective Date;

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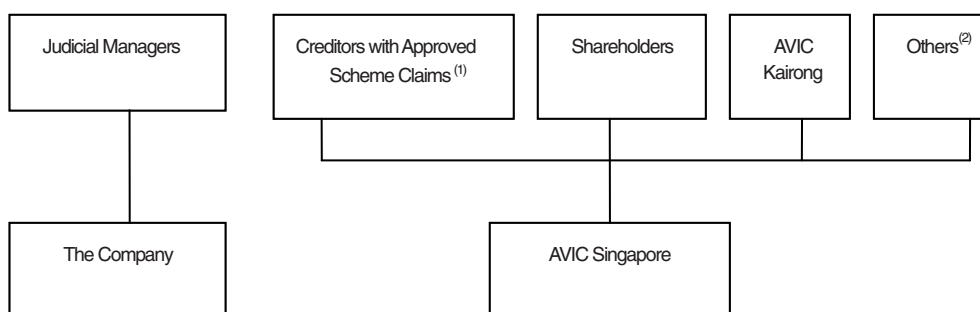
- (v) Written confirmation by AVIC Kairong and/or AVIC Singapore to the Company that completion of any restructuring exercise is in accordance with and as described in the listing application submitted by AVIC Kairong; and
- (vi) Receipt of Eligibility to List (“**ETL**”) for the admission and listing and quotation of the shares of AVIC Singapore on the Main Board of the SGX-ST on or before 30 June 2011 and such ETL not having been revoked or withdrawn, and all conditions to such ETL (save in respect of shareholding spread) being satisfied.

### 3.10 Treasury Shares

For the avoidance of doubt, shares that are held by the Company that are in Treasury shall have no rights attached to them under the Scheme.

### 3.11 Shareholding Structure

The resulting shareholding structure if the Scheme becomes effective is as follows:



Notes:

(1) Exclude Small Creditors.

(2) Persons subscribing for and allotted and issued AVIC Shares under the Compliance Placement.

## 4 EVALUATION OF THE SCHEME TO SHAREHOLDERS

The Shareholders and Creditors with Approved Scheme Claims will each receive Consideration Shares in accordance with Sections 3.1 and 3.2 of this Letter.

In our analysis of the financial terms of the Scheme to the Shareholders, we note that for the Consideration Shares valued at S\$6,000,000 when calculated by reference to the Projected Compliance Placement Price of S\$0.50, the Shareholders and the Creditors are entitled to approximately 5.9% of the issued share capital of AVIC Singapore immediately before the Compliance Placement. Accordingly, the implied valuation of AVIC Kairong's equity stake of 94.1% in AVIC Singapore will amount to approximately S\$110,000,000, equivalent to S\$0.50 per AVIC Singapore Share (the “**AVIC Share Transfer Price**”). It should be noted that under the Implementation Agreement, there is a provision for adjustment to the number of Consideration Shares in the event that the Actual Compliance Placement Price differs from the Projected Compliance Placement Price. In such an event, the proportionate shareholding of AVIC Kairong and the Shareholders/Creditors in AVIC Singapore will be subject to change.



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### Methodology

In the course of our evaluation of the Scheme to Shareholders, we have taken into consideration the following pertinent factors:

- Rationale for the Scheme;
- Alternatives to the Scheme;
- Liquidation value of the Company;
- Reasonableness of the Share Exchange Ratio;
- Evaluation of the AVIC Singapore Group;
- Valuation ratios of AVIC Singapore implied by the AVIC Share Transfer Price against those of comparable companies;
- Comparison with selected comparable transactions;
- Financial effects of the Scheme; and
- Other relevant considerations in relation to the Scheme.

### 4.1 Rationale for the Scheme

The rationale for the Scheme is set out in Section 2.1 of the Explanatory Statement and is reproduced below. We recommend that the Shareholders read this section in conjunction with the Scheme Document and the Explanatory Statement carefully.

#### “ 2.1 Rationale for the Scheme

2.1.1 *The Company is currently under judicial management. Being an investment holding company, the Company's assets are essentially its investments in its Subsidiaries in the PRC. Based on the Statement of Affairs as at 13 May 2010 (see **Appendix C**), the assets of the Company consist primarily of:*

<i>Description</i>	<i>Cost / Book Value S\$</i>	<i>Estimated Realisable Value S\$</i>
<i>Cash maintained with a bank in Singapore</i>	<i>3,142,506</i>	<i>3,142,506<sup>(1)</sup></i>
<i>Cash maintained with a bank in China</i>	<i>14,087,143</i>	<i>(2)</i>
<i>Investments in Subsidiaries<sup>(3)</sup></i>	<i>147,104,719</i>	<i>(2)</i>
<i>Amount owing to Company from Subsidiaries<sup>(4)</sup></i>	<i>60,459,046</i>	<i>(2)</i>
<i>Amounts due from Morgan Stanley &amp; Co International PLC<sup>(5)</sup></i>	<i>67,358,026</i>	<i>(2)</i>

#### **Notes:**

- (1) *The amount taken over by the JMs as at 13 May 2010 is \$3,035,652. As at the Latest Practicable Date, this amount is S\$1,881,754.22.*
- (2) *The Directors are unable to provide a realizable value for these assets.*
- (3) *The Subsidiaries are Sino-Environment Clean Power Technology Pte Ltd, Thumb Env-Tech Group (Fujian) Co., Ltd and Fujian Thumb Environmental Facilities Co., Ltd.*
- (4) *The Subsidiaries are Sino-Environment Clean Power Technology Pte Ltd and Thumb Env-Tech Group (Fujian) Co., Ltd.*
- (5) *These amounts are due from Morgan Stanley & Co International PLC pursuant to the Swap Agreement (as defined below in paragraph 2.1.2(ii)).*

### *2.1.2 Realisable assets*

- (i) *The only assets of the Company that are realisable in the short term are its listing status on the Official List of the SGX-ST and cash maintained with a bank in Singapore. The cash in the PRC bank, investments in and receivables from the Subsidiaries are difficult to realise because of the complicated Court and liquidation procedures in the PRC and the associated time and expense of such procedures. The control of the PRC Subsidiaries and their assets, including cash in the bank accounts in the name of the PRC Subsidiaries, are with the legal representatives of those Subsidiaries. The Judicial Managers have, since their appointment, taken active steps to replace the legal representatives. The steps have been complicated and time-consuming, and are continuing. The Judicial Managers understand that there may continue to be practical difficulties with the actual control of the Subsidiaries and their assets even after a successful replacement of legal representatives. In the event if we are able to recover the cash in the PRC bank, as well as the investments in and receivables from the Subsidiaries, the Company will only be entitled to 85% and 49% respectively of the net proceeds recovered under the Asset Recovery Agreement entered into with HLM. Accordingly, it has been separately agreed with HLM that a 15% success fee is payable to it for the repatriation of the cash in the PRC bank, which shall be payable out of the net proceeds recovered in respect of such cash, and HLM will receive 51% of the net proceeds recovered in respect of the investments in and receivables from the Subsidiaries as the success fee related thereto. The Judicial Managers' and their lawyers' fees and expenses shall be paid out of the net proceeds received by the Judicial Managers. The quantum of such fees and expenses will depend upon the duties and services to be performed in respect of the recovery of the assets and be subject to the approval of the Creditors.*
- (ii) *On or about 3 June 2008, the Company entered into the Swap Agreement. The Swap Agreement evidenced a swap transaction for Shares for a value of S\$67,358,026. The Swap Agreement was entered into to facilitate the issue of the Convertible Bonds, by allowing investors in the Convertible Bonds to hedge their exposure to the Shares arising from their investment in the Convertible Bonds. The equity swap was intended to provide the Company with economic exposure to the fluctuation in the value of 36,856,000 notional Shares, and during the life of the equity swap, the Company would receive an amount equal to any dividends paid on the 36,856,000 notional Shares. Since the submission of the Statement of Affairs, MSCI has served notice of termination of the Swap Agreement on the basis of the Company being under judicial management. The Judicial Managers are advised that the termination is valid.*
- (iii) *The Implementation Agreement and the Scheme are means for the Company to extract value from the Company's listing status for the benefit of Shareholders and Creditors with Approved Scheme Claims.*
- (iv) *Given that the Shares have been suspended from trading since 23 September 2009 and that the Shareholders are unlikely to realise any value from the Shares upon a winding up of the Company as the liabilities of the Company far exceed its assets, and in light of the fact that the Company will be delisted in any event if the Implementation Agreement fails to complete, the Scheme is likely to represent the final opportunity for Shareholders to unlock the value of their investment in the Company. As at the Latest Practicable Date, the total of the proofs of debt (net of Small Creditors) received amounted to*

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*S\$311,545,972. The proofs are subject to review and assessment by the Judicial Managers (and adjudication by the Court, if any, in the event of any dispute by Creditors) but it is very likely that the liabilities will far exceed any recovery of assets.*

- (v) In addition, in the event the Company is unable to complete the Scheme, the Company is likely to be delisted and liquidated. Any returns to the Creditors in such a situation would be from the Company's assets in the PRC, if any and if recoverable.*
- (vi) The Scheme offers a potential recovery for the Shareholders and Creditors with Approved Scheme Claims.*

*2.1.3 The total amount of liabilities of the Company as at 13 May 2010 amounts to S\$195,868,160, of which approximately S\$154.96 million is due to the holders of the Convertible Bonds.*

### 2.2 Shareholders

*In consideration of the surrender of their Shares, the Shareholders will receive a pro rata number of AVIC Shares to a total value of S\$680,000.00. The value of the AVIC Shares will be calculated by reference to the Compliance Placement Price. Based on a projected Compliance Placement Price of S\$0.50, the Shareholders will receive an aggregate of 1,360,000 AVIC Shares, amounting to 0.59% of a total of 232,000,000 AVIC Shares in the capital of AVIC Singapore prior to the completion of the Compliance Placement. The AVIC Shares will be listed on the Official List of the SGX-ST and freely tradable. In the event that the Company is liquidated, it is unlikely that there will be any residual value available for distribution to the Shareholders after payment to the creditors of the Company. As such, the Scheme, offers a potential recovery for, and better return to the Shareholders.*

### 2.3 Creditors

*Creditors with Approved Scheme Claims will receive a pro rata number of AVIC Shares up to a value of S\$5,320,000.00 in consideration for the pro rata cancellation of their Approved Scheme Claims to such total value. The value of the AVIC Shares will be calculated by reference to the Compliance Placement Price. Creditors with Approved Scheme Claims remain creditors of the Company for the balance of their Approved Scheme Claims."*

We have reviewed the rationale for the Scheme and wish to highlight the following points in support of the Scheme:

- (i) We note that the Company is currently under judicial management and, based on our discussion with the Judicial Managers and in the light of the developments concerning the Company including but not limited to the findings of PwC and the Statement of Affairs, any assets recovered would not have been sufficient to settle the outstanding debt of the Creditors and as such Shareholders are unlikely to derive any value from the Company's assets and investments. Please refer to Section 4.3 of this Letter for more details.*
- (ii) The only assets of the Company that are realisable in the short term are its listing status on the Official List of the SGX-ST and cash maintained with a bank in Singapore amounting to S\$3,142,506 as at 13 May 2010. As at the Latest Practicable Date, this amount is S\$1,881,754.22.*

- (iii) Given that the Shares have been suspended from trading since 23 September 2009 and that the Shareholders are unlikely to realise any value from the Shares upon a winding-up of the Company as the aggregate liabilities far exceed the net estimated realisable value of the assets of the Company, and in light of the fact that the Company will be delisted in any event if the Implementation Agreement fails to complete, the Scheme is likely to represent the final opportunity for Shareholders to unlock some value of their investment in the Company.
- (iv) The Scheme therefore offers partial potential recovery for the Shareholders, especially when viewed in the light of the AVIC Singapore Group's business operations and prospects.

### 4.2 Alternatives to the Scheme

Prior to the appointment of the Judicial Managers, and as announced by the Company on 17 March 2010, the key management led by Deputy GM Mr Tian Yuan pledged their support to help restart the business operations in return for the opportunity to subscribe for 20% or more of new shares in the Company. However, on 5 May 2010, the Company announced that the subscription by the key management would no longer proceed.

We understand from the Judicial Managers that after their appointment on 4 June 2010, they have actively sought potential investors who were interested in investing in the Company and/or the Group. They have also considered various alternatives which included issuance of debt or equity securities, reverse takeovers via asset injection or share swap, sale of assets of the Company to third parties and liquidation of the Company. However, in view of the Trading Resumption Deadline imposed by the SGX-ST, which if the Company is unable to meet will inevitably lead to a delisting of the Company from the SGX-ST, compounded by the fact that the Judicial Managers do not have control over the PRC Subsidiaries, the Judicial Managers are of the opinion that the Scheme represents the only viable option currently available to the Company in offering the Shareholders partial potential recovery of their investment in the Shares and offering the Creditors an improved recovery of their debts. The Judicial Managers have confirmed that as at the date of this Letter they have not received any other proposal after the Company entered into the Implementation Agreement.

### 4.3 Liquidation Value of the Company

The last set of audited consolidated financial statements of the Group was for the financial year ended 31 December 2008. To date, the Company has not released any financial results for the subsequent financial periods. We noted that the Company's auditors, PwC had stated in its audit report in respect of FY2008 that *"there may be a change in control of the Company as the Company's Controlling Shareholder may be faced with forced sale of part or all of its ordinary shares in the capital of the Company arising from the Controlling Shareholder's default of certain financial obligations. This change in control would give the Bondholders who bought the S\$149,000,000 convertible bonds issued by the Company in July 2008 the right to request for immediate conversion and/or redemption of the outstanding S\$149,000,000 bonds existing at the balance sheet date. **The Company may not be able to make payment for such unscheduled redemption by the Bondholders if called upon to do so (emphasis ours).**"*

In addition, we wish to highlight the findings of PwC as announced by the Independent Directors of the Company on 4 December 2009. PwC was commissioned by the Audit Committee of the Company to look into matters concerning the Company's affairs, in particular, the significant cash transactions of the Company.

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The key findings which are set out below have cast doubts as to the actual realisable values of the assets as reflected in the balance sheet of the Company as at 31 December 2008.

- (i) China Energy Environment Holdings (“**China Energy**”), one of the Company’s wholly-owned subsidiaries, made a payment of approximately JPY 920 million (approximately S\$14 million or RMB 66 million) on 22 May 2009 allegedly to a Japanese company known as JGC Catalysts and Chemicals (“**JGCCC**”), for the purchase of Denox raw materials. However, as at 26 August 2009, no raw materials relating to the purchase contract (the “**Purchase Contract**”) had been received. JGCCC confirmed with PwC on 15 September 2009 that it had not entered into the Purchase Contract and that it had not received any payment of JPY 920 million from China Energy. JGCCC also informed PwC that there was no employee in JGCCC bearing the name of the alleged JGCCC representative who signed the alleged Purchase Contract.
- (ii) Fujian Fuda Desai Environmental Protection Co Ltd (“**Desai**”), a wholly-owned subsidiary of the Company, paid a total of approximately RMB 230 million (approximately S\$50 million) to various parties from 1 January 2009 to 30 June 2009 to invest in four separate waste power plant projects. Although monies had been paid by Desai for the acquisition of the Dumpsite Rights, PwC did not see any documents indicating that the legal and beneficial ownership of such Dumpsite Rights had been transferred to Desai. The PRC management also informed PwC that no significant work has been carried out on any of the projects as at 26 August 2009, despite significant outflow of funds.
- (iii) Fujian Thumb Environmental Facilities Co Ltd made installment payments between 1 January 2009 and 30 June 2009 amounting to RMB 46.5 million (approximately S\$10 million) to purchase “fixed assets” for the Denox Catalysts Manufacturing Plant. PwC was unable to conclude if the “fixed assets” they sighted were the “fixed assets” for the Denox Catalysts Manufacturing Plant nor were they able to comment on the reasonableness of the cost of these “fixed assets”.
- (iv) Fujian Weidong EPT Co Ltd, a wholly-owned subsidiary of the Company, made two interest free loans amounting to RMB 50.0 million (approximately S\$10 million) and RMB 5.0 million (approximately S\$1 million) respectively to two parties that do not appear to be related to the Company.
- (v) Unauthorised payments post-11 May 2009 amounting to approximately RMB190 million (approximately S\$41 million) were made without prior approval of the Company’s Board.

Based on the Statement of Affairs, stating *inter alia*, the assets, debts and liabilities of the Company as at 13 May 2010, only the cash maintained with a bank in Singapore amounting to S\$3,142,506 is estimated to be realisable. The total liabilities of the Company as at 13 May 2010, before taking into account the costs of the Judicial Managers and before factoring in liquidation costs, amount to S\$195,868,160.

The Judicial Managers have advised that they do not have control over the PRC Subsidiaries and therefore have not been able to verify if the PRC Subsidiaries are operating. Neither are they able to verify or express any view as to whether or not the accounting and other records of the Group are complete, accurate and reliable. The Judicial Managers have reason to doubt the reliability of the Group’s records and financial position in the light of the findings of PwC. The Judicial Managers are of the view that the only assets of the Company that are realisable in the short term are its listing status on the Official List of the SGX-ST and cash maintained with a bank in Singapore amounting to S\$3,142,506 as at 13 May 2010, which as at the Latest Practicable Date is S\$1,881,754.22. For reasons mentioned under Section 2.1.2 of the Explanatory Statement and reproduced in Section 4.1 of this Letter, the cash in the PRC bank, investments in and receivables from the PRC Subsidiaries are difficult to realise.



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Nevertheless, to recover whatever remains of the PRC Subsidiaries, the Judicial Managers have entered into the Asset Recovery Agreement with HLM on 7 January 2011. Pursuant to the agreement, HLM will be entitled to 51% of any proceeds recovered under the agreement. Hence, only 49% of such proceeds will be available to the Company. In addition, it has been separately agreed with HLM that a 15% success fee payable to it for the repatriation of the cash maintained with a bank in PRC to Singapore. Based on the list of Approved Scheme Claims by Creditors as of 3 August 2011, the total proof of debt (net of Small Creditors) received from creditors of SET amounted to S\$170,822,900.69. In view of the significant amount of Approved Scheme Claims, the Judicial Managers are of the view that it is unlikely that the net proceeds recovered will be sufficient to pay off the Creditors and hence there will be no residual value for the Shareholders.

In view of the events leading to the appointment of the Judicial Managers, the developments after the Company came under Judicial Management, the findings of PwC and the Statement of Affairs submitted by one of the Directors, it is unlikely that the Shareholders will receive any distribution from the Company in the event of a liquidation. As such, the only asset of the Company that is likely to be realisable to the Shareholders in the short term is its listing status on the Official List of the SGX-ST. On this premise, the Scheme offers the Shareholders an opportunity to recover some of their investment values in the Shares.

### 4.4 Reasonableness of the Share Exchange Ratio

Pursuant to the Scheme, the Shareholders are entitled to Consideration Shares valued at S\$680,000 (calculated by reference to the Compliance Placement Price), representing 11.3% of the aggregate value of the Consideration Shares of S\$6,000,000 (calculated by reference to the Compliance Placement Price). Based on the Projected Compliance Placement Price of S\$0.50, the Shareholders are entitled to a total of 1,360,000 Consideration Shares.

Pursuant to the Share Distribution and assuming no further adjustment to the Consideration Shares:

- (i) the Share Exchange Ratio based on the Projected Compliance Placement Price of S\$0.50; and
- (ii) the implied price per Share based on the AVIC Share Transfer Price of S\$0.50, are as follows:-

#### For illustrative purposes only

Projected Compliance Placement Price (cents)	Total number of Consideration Shares which Shareholders will be entitled to	Share Exchange Ratio (Number of Shares per Consideration Share)	Implied price per Share based on the AVIC Share Transfer Price (cents)
50	1,360,000	250	0.2

Based on the above, we note that:-

- (i) Shareholders who hold less than 250 Shares as at the Books Closure Date will not be entitled to any Consideration Share pursuant to the Scheme; and
- (ii) the implied price per Share based on the AVIC Share Transfer Price is 0.2 cents.

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We wish to highlight that the abovementioned implied price per Share should be regarded for illustrative purposes only. The implied price per Share of 0.2 cents based on the AVIC Share Transfer Price represents a 98.5% discount to the last transacted price of the Share of S\$0.135 on 17 September 2009, being the last market day before the trading suspension of the Share. However, it should be noted that the historical traded price of the Share before the trading suspension is not reflective of the market value of the Company.

In our evaluation of whether the Share Exchange Ratio is fair and reasonable, we have also considered the following:-

- (i) the Company has been in judicial management since 4 June 2010;
- (ii) trading of the Shares has been suspended since 23 September 2009;
- (iii) the Company is faced with the time constraint imposed by the SGX-ST as to the Trading Resumption Deadline;
- (iv) the Scheme represents the only viable option available to the Company; and
- (v) the Scheme allows the Shareholders to have a share in a part of the AVIC Singapore Group which rides on the fundamentals of the AVIC Group and whose businesses are mainly in the PRC and in the shipbuilding management and ship trading business (please refer to Section 4.5 of this Letter for more details about the AVIC Singapore Group).

We further note that the Judicial Managers are, as at the Latest Practicable Date, of the view that if the Company is unable to complete the Scheme, the Company will be delisted and liquidated and in the event of a liquidation of the Company, the Shareholders are unlikely to receive any distribution from the Company. Therefore, in light of the Trading Resumption Deadline, the Scheme would likely be the final opportunity for Shareholders to receive Consideration Shares to recover some value of their investment in the Shares.

In view of the above, and taking into consideration the rationale for the Scheme as set out in Section 4.1 of this Letter, we are of the view that the Share Exchange Ratio is not unreasonable from the perspective of the Shareholders. However, the Shareholders should note that the controlling shareholder of AVIC Singapore owns 94.83% and 74.07% of the enlarged share capital of AVIC Singapore immediately before and after the Compliance Placement, respectively. In view of the significant portion of the AVIC Shares held by the controlling shareholder, there is no assurance on the liquidity of the market for the AVIC Shares or whether an active trading market for the AVIC Shares will develop.

### 4.5 Evaluation of the AVIC Singapore Group

Details of the AVIC Singapore Group are contained in the Information Memorandum. We recommend that the Shareholders read the relevant sections of the Information Memorandum carefully. In particular, they should take note of the sections under **“Overview of our Group and Business Activities”**, **“Risk Factors”**, **“Management’s Discussion and Analysis of Financial Condition and Results of Operations”**, **“History and Business”** and **“Industry Overview”**.

#### 4.5.1 History and background of the AVIC Singapore Group

We note that AVIC Singapore is a company incorporated under the Companies Act on 11 November 2010 as an investment holding company. AVIC Singapore is the ship-trading and shipbuilding management arm, and an indirect subsidiary, of AVIC (中国航空工业集团公司), AVIC International (中国航空技术国际控股有限公司) and AVIC International Beijing (中国航空技术北京有限公司). Prior to the restructuring exercise undertaken in connection with the proposed listing on the SGX-ST, the business activities of AVIC Singapore was a division of AVIC International Beijing, which is in turn a subsidiary of AVIC International. AVIC International Beijing and AVIC International are part of the AVIC Group under AVIC.

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According to the Information Memorandum, AVIC is a large state-owned enterprise and an investment institution that is authorised and managed by the Central Government of the PRC. Its key business units are Defense, Transport Aircraft, Aviation Engine, Helicopters, Avionics, General Aviation Aircraft, Aviation Research and Development, Flight Test, Trade and Logistics, and Asset Management. AVIC International's predecessor, China National Aero-Technology Import and Export Corporation was established in January 1979. As an important part of the aviation industry, AVIC International has become a comprehensive platform that leads the rapid development of world sectors like world aviation, trade and logistics, real estate and service and industrial investment. AVIC International owns seven listed companies and 60 overseas offices, and its business covers over 180 countries and regions. The business assets of AVIC International have a collective value of more than RMB100 billion.

AVIC International Beijing was established in 1992 in the PRC, and is a state-owned enterprise which mainly focuses on trading and manufacturing of ships, EPC services of machinery and equipment and investment-holding.

The AVIC Singapore Group is principally involved in the provision of project management and consultancy services relating to shipbuilding, which cover ship design, construction (both of which are outsourced to third parties), procurement, newbuilding management and marine finance arrangement. The AVIC Singapore Group also provides marketing and consultancy services to the shipyards in the PRC to help promote their corporate profiles in the overseas markets, seek out shipowners and secure shipbuilding contracts, including negotiating on behalf of shipyards with shipowners on the terms and other details of the shipbuilding contracts, amongst others.

Currently, the AVIC Singapore Group does not own any production facilities or properties.

### 4.5.2 Financial highlights of the AVIC Singapore Group

A summary of the selected items of the proforma Statements of Comprehensive Income of the AVIC Singapore Group for FY 2008, FY2009 and FY2010 is set out below and should be read together with the full text of the Information Memorandum.

RMB'000	← Unaudited →		
	FY2008	FY2009	FY2010
Revenue	42,367	24,566	76,495
Other operating income	11,967	8,506	8,718
Profit before income tax	47,913	25,005	74,934
Profit for the year, representing total comprehensive income for the year	35,893	18,629	56,146

During the financial years under review, the revenue of the AVIC Singapore Group decreased from RMB42.4 million in FY2008 to RMB24.6 million in FY2009 and subsequently increased to RMB76.5 million in FY2010. The significant decrease in revenue from FY2008 to FY2009 was due mainly to the slowdown in shipbuilding activities and ship delivery during FY2009 as a result of the global financial crisis that began in the second half of FY2008. Consequently, some customers ceased to order new vessels or delayed the delivery of vessels. The group derived fee income from the commencement of steel cutting for three vessels in FY2009 as compared with eight vessels in FY2008.



The significant increase in revenue in FY2010 was driven mainly by the gradual recovery of the world economy from the global financial crisis. The group derived higher fee income from the commencement of steel cutting for nine vessels in FY2010. The group also received significant one-off service fee for project management services and arrangement of certain banking facilities. In addition, the group was engaged by a customer, Taizhou CATIC Shipbuilding Heavy Industry Limited (泰州中航船舶重工有限公司), to provide project management and marketing services for which the group was paid a fixed management service fee. The group also derived service fee income from the same customer for rendering services in securing two shipbuilding contracts and the arrangement of certain banking facilities. AVIC International Beijing owns 45% of the equity interest of Taizhou CATIC.

#### **4.5.3 Prospects and future plans of the AVIC Singapore Group**

We note that the directors of AVIC Singapore are cautiously optimistic about the prospects of the AVIC Singapore Group based on the following considerations and its competitive strengths.

- (i) The Executive Directors of AVIC Singapore has disclosed in the Information Memorandum that in 2009, the volume of vessels built in the PRC amounted to an aggregate of 36.0 million Deadweight Tonnage (“DWT”)¹. The PRC’s market share for ships in the global order book by compensated gross tonnage amounted to 37.7%, ahead of Japan¹. In 2010, the volume of vessels completed in the PRC amounted to 61.2 million DWT, an increase of 70% compared to 2009¹ and is expected to become the world’s largest shipbuilding country.
- (ii) The Executive Directors of AVIC Singapore expect that international trade could decline following the global financial crisis, resulting in a corresponding decrease in the need for vessels. Financial institutions may reduce the amount of shipping loans, restricting the ability of shipowners to construct new vessels. Shipowners may also order fewer vessels if the future development of the economy is not clear, and there is a risk that shipowners may abandon their vessels, thereby adversely affecting orders already in hand.
- (iii) Although there may be a decline in orders in the market, the Executive Directors of AVIC Singapore expect that the AVIC Singapore Group may be able to take advantage of AVIC International Beijing’s existing network, its financing capabilities and lower costs of expansion to compete against smaller and less efficient players in the industry.

In addition, we note that:-

- (iv) The AVIC Singapore Group has an order book of 19 vessels for delivery from 2011 to 2013.
- (v) AVIC Singapore plans to use a significant portion of the gross proceeds (representing approximately 76.9%) from the Compliance Placement to partly finance the acquisition of a shipyard. AVIC Singapore believes that the expansion into shipbuilding will complement AVIC Singapore’s existing businesses and broaden their revenue streams. AVIC International Beijing intends to position AVIC Singapore as an investment-holding vehicle in the ship-trading and shipbuilding industry. The intention is to make long term strategic investments and acquisitions in the industry globally through AVIC Singapore. After AVIC Singapore has been successfully listed on the SGX-ST, AVIC Singapore intends to acquire shipbuilding and related facilities from AVIC International and its subsidiaries, including AVIC International Beijing in the near future. This is expected to contribute to the growth of AVIC Singapore.

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- (vi) AVIC Singapore intends to acquire or form strategic alliances with design houses and other business partners in order to develop new vessels to differentiate themselves from their competitors.
- (vii) AVIC Singapore will also be expanding their business activities globally through leveraging on AVIC International's existing network. AVIC International has already established over 60 overseas offices across the world, and its business covers over 180 countries and regions.

Notwithstanding the above, Shareholders are advised to note that AVIC Singapore expects its revenue and results of operations in FY2011 to be affected by the following principal considerations:-

- (i) The volume of international trade following the global financial crisis is subject to uncertainty and may be likely to decline, resulting in a corresponding drop in demand for vessels. The amount of loans from financial institutions may also be reduced, restricting the ability of shipowners to purchase new ships. This would adversely affect AVIC Singapore's ability to secure new orders and expand internationally.
- (ii) The value of the RMB relative to the USD as at the beginning of 2011 has strengthened as compared to the beginning of 2010. Any increase in the value of the RMB relative to the USD will reduce the value of its USD denominated revenue, as reported in RMB, thereby adversely affecting its operating results.
- (iii) Its operating expenses are expected to increase due mainly to salary adjustments, additional headcount to the sales and marketing team and increased marketing activities.

Note:

- (1) Clarkson Research Services Limited, *World Shipyard Monitor Vol 18. No. 1, January 2011*. Clarkson Research Services Limited has not consented for the purposes of Sections 249 and 277 of the Securities and Futures Act to the inclusion of the information referred to above and is thereby not liable for such information under Sections 253 and 254 of the Securities and Futures Act. AVIC Singapore has included the above information in its proper form and context and has not verified the accuracy of such information.

### 4.6 Valuation Ratios of AVIC Singapore implied by the AVIC Share Transfer Price against those of Comparable Companies

We note that the AVIC Singapore Group is engaged in shipbuilding project management and is unlike some of the listed shipbuilding companies which operate their own shipyards for the provision of shipbuilding and ship repair activities. Nevertheless, for the purposes of assessing the AVIC Share Transfer Price, we have compared the various valuation ratios of AVIC Singapore implied by the AVIC Share Transfer Price with those of selected companies listed in the PRC and Singapore which are principally engaged in, *inter alia*, the shipbuilding industry and which are, in our opinion, broadly comparable to the AVIC Singapore Group (the "**Comparable Companies**"), as set out in Section 4.6.1 of this Letter.

We wish to highlight that the Comparable Companies are not exhaustive, we understand that there are no closely identical and comparable listed companies to the AVIC Singapore Group in terms of, *inter alia*, market capitalisation, size of operations, clientele base, composition of business activities, asset base, geographical spread, track record, operating and financial leverage, risk profile, liquidity, accounting policies, future prospects and other relevant criteria. We also wish to highlight that there may be significant differences between valuations that investors may accord to shares trading on the SGX-ST and other exchanges. Such cross border valuation statistics are subject to differing macroeconomic variables and hence may not be directly comparable to the

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AVIC Singapore Group. In addition to this, it should also be noted that the market prices of these Comparable Companies may be inflated or depressed due to market speculation, pressures and/or trading activity as opposed to the AVIC Shares which are not yet publicly listed as at the Latest Practicable Date.

As such, any comparison made with regard to the valuation ratios of the Comparable Companies is necessarily limited and merely serves only as an illustrative guide.

### 4.6.1 Description of the Comparable Companies

The following is a brief description of the Comparable Companies:

Comparable Company	Company Principal Business	Primary Exchange
China CSSC Holdings Ltd (“CSSC”)	China CSSC Holdings Ltd. offers shipbuilding, ship components, ship repairing and diesel engines manufacturing. The company distributes its products within the domestic market and to overseas markets.	Shanghai, China
Marco Polo Marine Limited (“MPM”)	Marco Polo Marine Limited is an integrated shipping company. The company provides services that include ship chartering, shipbuilding and repair, and brokering services.	Singapore
ASL Marine Holdings Limited (“ASL”)	ASL Marine Holdings Limited is an integrated marine company. The company’s operations include shipbuilding, ship repair, and other marine-related services. The company also provides other marine-related services such as logistical support, general engineering services, and sales and repairing of marine equipment.	Singapore
JES International Holdings Limited (“JES”)	JES International Holdings Limited operates a shipyard in China. The company builds bulk carriers, containerships and ocean engineering vessels, mainly crane barges for offshore oil sector and offshore construction building works.	Singapore
Jaya Holdings Limited (“JHL”)	Jaya Holdings Limited owns, builds, repairs, manages, and charters ships. The group’s core activities include offshore marine chartering, containerised vessel transportation, and shipbuilding and ship repair.	Singapore
Otto Marine Limited (“OML”)	Otto Marine Limited provides shipbuilding, ship repair and conversion and ship chartering.	Singapore

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Comparable Company	Company Principal Business	Primary Exchange
STX OSV Holdings Ltd (“STX”)	STX OSV Holdings Ltd. is a global shipbuilder of offshore support vessels (“OSV”) used in the offshore oil and gas exploration and production and oil services industries. The company's core business is design and construction of customized OSVs, including platform supply vessels (“PSV”), anchor handling tug supply vessels (“AHTS”) and advanced offshore subsea construction vessels.	Singapore
Cosco Corp (Singapore) Limited (“CCS”)	Cosco Corp (Singapore) Limited is an investment holding company. The company owns and operates ships, and provides shipping agency, marine engineering, ship repair, and container depot services. CCS also trades and invests in properties as well as provides property management and services.	Singapore
Yangzijiang Shipbuilding Holdings Limited (“YSH”)	Yangzijiang Shipbuilding Holdings Limited builds a wide range of ships. The company produces a wide range of commercial vessels, mini bulk carriers, multi-purpose cargo vessels, containerships, chemical tankers, offshore supply vessels, rescue and salvage vessels, and lifting vessels.	Singapore
SembCorp Marine Limited (“SCM”)	SembCorp Marine Limited operates ship building, ship owning, ship repair and conversion. Through its subsidiaries, the company provides equipment rental, cleaning and maintenance services, marine, general electronic, and electrical works. SCM also trades copper slag, processes copper slag for grit blasting and building, as well as fabricates metal structures.	Singapore

Source: Bloomberg

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### 4.6.2 Comparison of key financial ratios of AVIC Singapore with those of the Comparable Companies

The key financial ratios of AVIC Singapore and the Comparable Companies are set out as follows:

Comparable Company	Market Capitalisation as at the Latest Practicable Date (S\$m)	Net Profit Margin% <sup>(2)</sup>	Total Liabilities/Equity (times)	Total Borrowings/Equity (times)
CSSC	8,885	8.76	1.94	0.77
MPM	135	29.75	0.97	0.59
ASL	257	7.96	1.28	0.65
JES	280	2.99	2.04	0.77
JHL	420	29.05	1.10	0.75
OML	359	7.01	2.27	1.37
STX	1,746	8.68	4.07	1.95
CCS	3,336	6.44	2.37	0.55
YSH	5,238	22.87	1.60	0.13
SCM	10,884	18.89	0.96	0.00
High	10,884	29.75	4.07	1.95
Low	135	2.99	0.96	0.00
Mean	3,154	14.24	1.86	0.75
Median	1,083	8.72	1.77	0.70
<b>AVIC Singapore</b>	<b>148.50<sup>(1)</sup></b>	<b>73.40</b>	n.m.	n.m.

Source: Bloomberg and the Information Memorandum in relation to AVIC Singapore.

n.m.: not meaningful.

Notes:

- (1) The market capitalisation of AVIC Singapore has been computed based on the enlarged share capital of the company after the Compliance Placement and the Projected Compliance Placement Price.
- (2) Net Profit Margin is based on the ratio of the net profits attributable to shareholders to the revenue of the respective companies.
- (3) The figures above are based on the relevant audited financial statements for the companies as at their respective financial year end dates.

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Based on the above, we note that:

- (i) the Net Profit Margin of AVIC Singapore of 73.40% is higher than the range of Net Profit Margins of the Comparable Companies of between 2.99% and 29.75% and is higher than the mean and median Net Profit Margin of the Comparable Companies of 14.24% and 8.72% respectively. This could be due to AVIC Singapore's business model of deriving fee income from services and, unlike the Comparable Companies, AVIC Singapore does not operate a shipyard. The high Net Profit Margin may not be sustainable in the future when AVIC Singapore diversifies into shipbuilding with the acquisition of a shipyard;
- (ii) AVIC Singapore has not prepared proforma statements of financial position and proforma statements of cashflows of the AVIC Singapore Group for the last three financial years ended 31 December 2010 as its business operations when undertaken as a division of AVIC International Beijing does not maintain a divisional bank account or have divisional assets or liabilities. Accordingly, AVIC Singapore is of the view that the preparation of the proforma statements of financial position and proforma cashflows of the AVIC Singapore Group are not meaningful. AVIC Singapore has prepared a proforma statement of financial position of the AVIC Singapore Group immediately after the issue of the Consideration Shares which contains only cash and bank balances, being the capital injection of AVIC Kairong of S\$6 million pursuant to the restructuring exercise carried out by AVIC Singapore in preparation for its listing on the SGX-ST. However, note that the comparisons of the Total Liabilities to Equity ratio and Total Borrowings to Equity ratio are not meaningful given that the proforma financial position statement of the AVIC Singapore Group immediately after the issue of the Consideration Shares does not reflect the financial effects of the operations of the AVIC Singapore Group. Nevertheless, the relevant financial ratios of the Comparable Companies are provided here for information purposes.

### 4.6.3 Comparison to valuation ratios implied by the AVIC Share Transfer Price with those of Comparable Companies

In our comparison of valuation ratios implied by the AVIC Share Transfer Price with those of the Comparable Companies, we have taken into account the following:

Valuation Ratio	General Description
Historical PER	PER or Price to Earnings Ratio is the ratio of market price of a company's shares relative to its earnings per share. The PER is an earnings-based valuation methodology and is calculated based on the net earnings attributable to shareholders after interest, taxation, depreciation and amortisation expenses. As such, it is affected by the capital structure of a company, its tax position as well as its accounting policies relating to depreciation and intangible assets.
Historical Price/ EBITDA	EBITDA stands for earnings before interest, tax, depreciation and amortisation expenses. The historical P/EBITDA ratio compares the current market value of the business to its historical pre-tax operating cashflow performance. The P/EBITDA multiple is an earnings-based valuation methodology. However, unlike the PER, it does not take into account its interest, taxation, depreciation and amortisation charges.

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### Valuation Ratio

### General Description

Historical Price/  
NAV

P/NAV or Price to Net Asset Value is the ratio of the market price of a company's shares relative to its asset backing. The NAV of a company provides an estimate of its value assuming a hypothetical sale of all its assets and repayment of its liabilities and obligations, with the balance being available for distribution to its shareholders. It is an asset-based valuation methodology and this approach is meaningful to the extent that it measures the value of each share that is attached to the net assets of the company.

Comparable Company	Share Price as at Latest Practicable Date (S\$)	Historical PER	Historical Price/EBITDA	Historical Price/NAV
CSSC	8.38	10.57	12.47	2.61
MPM	0.40	6.27	7.65	1.46
ASL	0.61	4.90	3.00	0.79
JES	0.24	20.59	12.16	0.85
JHL	0.55	4.06	3.39	0.88
OML	0.19	8.76	6.58	0.76
STX	1.48	6.49	5.87	3.28
CCS	1.49	13.41	5.37	1.86
YSH	1.37	8.49	9.09	2.67
SCM	5.22	12.56	10.80	4.05
High		20.59	12.47	4.05
Low		4.06	3.00	0.76
Mean		9.61	7.64	1.92
Median		8.62	7.12	1.66
<b>AVIC Share Transfer Price</b>		<b>10.2</b>	<b>n.m.</b>	<b>n.m.</b>

Source: Bloomberg and the Information Memorandum in relation to AVIC Singapore.

n.m.: not meaningful

Based on the above, we note that:

- (i) the historical PER of 10.2 times implied by the AVIC Share Transfer Price is within the range of historical PER of the Comparable Companies of between 4.06 times and 20.59 times and is higher than the mean and median historical PER of the Comparable Companies of 9.61 times and 8.62 times respectively; and
- (ii) AVIC Singapore has not prepared proforma statements of financial position and proforma statements of cashflows of the AVIC Singapore Group for the last three financial years ended 31 December 2010 as its business operations when undertaken as a division of AVIC International Beijing does not maintain a divisional bank account or have divisional assets or liabilities. Accordingly, AVIC Singapore is of the view that the preparation of the proforma statements of financial position and proforma cashflows of the AVIC Singapore Group are not meaningful. Nevertheless, we have set out the relevant ratios of P/EBITDA and P/NAV of the Comparable Companies for information purposes.

#### **4.7 Comparison with Selected Comparable Transactions**

We have considered companies that had proposed schemes involving a transfer of the listing status of a listed company to another company as part of the process of a restructuring scheme. Shareholders should note that the circumstances of each company that entered into a scheme are unique, and the scheme companies are not identical to the Group in terms of business activities, size of operations, market capitalisation, asset base, risk profile, track record, future prospects, size of debt and other circumstances surrounding these companies. Accordingly, the comparison serves as an illustrative guide only. The table showing the details of schemes of selected companies and the relevant information relating to them are set out in the following pages.



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Company	Date of Scheme Document	Shareholders Apportionment			Creditors Apportionment				Apportionment between Shareholders and Creditors
		No. of Consideration Shares entitled	% of share capital	Share Exchange Ratio (No. of Shares per Consideration Share)	Proof of Debt (\$m)	Value of Debt represented by Consideration Shares (\$m)	No. of Consideration Shares entitled	% of share capital	
Alliance Technology and Development Limited (under Judicial Management) <sup>(1)</sup>	29.04.06	8,253,168	0.34%	10	112.6	8.4	16,800,000	0.70%	33:67
Zhongguo Jilong Limited (under Judicial Management) <sup>(2)</sup>	28.08.09	939,000	0.31%	570	9.4	2.4	6,948,600	2.32%	12:88 <sup>(3)</sup>
Sino-Environment Technology Group Limited (under Judicial Management)		1,360,000	0.59%	250	171	5.32	10,640,000	4.62%	11:89

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Notes:

- (1) The scheme by Alliance Technology and Development Limited (under Judicial Management) (“ATD”) involves, *inter alia*, an exchange of shares in ATD with shares in Gallant Venture Ltd. (“Gallant Venture”) and a transfer of the listing status of ATD to Gallant Venture. The scheme did not provide for any value assurance share distribution.
- (2) The scheme by Zhongguo Jilong Limited (under Judicial Management) (“ZGJL”) involves, *inter alia*, an exchange of shares in ZGJL with shares in Changjiang Fertiliser Holdings Company Limited (“CJFH”) and a transfer of the listing status of ZGJL to CJFH. As similar to the Scheme, the scheme by ZGJL also provides for value assurance share distribution whereby additional CJFH shares may be issued and allotted and/or transferred to the scheme administrators to hold on trust for and to distribute to the shareholders in the event that the value of the consideration shares is less than \$320,000 (by reference to the actual compliance placement price) which in the case of the Scheme is \$680,000. However, in the case of ZGJL’s scheme, the shareholder shortfall amount was limited to a maximum of \$80,000 whereas there is no such maximum limit in the case of the Scheme. This means that the Shareholders will be assured of the full sum of \$680,000 under the Scheme.
- (3) In addition to the consideration shares allotted to the shareholders and creditors, 1,502,400 consideration shares were distributed to the judicial managers as settlement for the judicial managers’ fees and expenses. Had this been included in the computation, the ratio of apportionment among shareholders, creditors and judicial managers was 10:74:16.

We note the following:-

- (i) The Scheme will result in a shareholding interest dilution of 99.41% for the Shareholders as compared with the shareholding interest dilution of 99.66% and 99.69% for the shareholders under the schemes by ATD and ZGJL, respectively. This significant dilution for existing shareholders is typical for companies, especially for companies that are likely to be delisted and liquidated and are unlikely to have any residual value available for distribution to the shareholders after payment to the creditors of the companies.
- (ii) The Agreed Apportionment, between Shareholders and Creditors for the Consideration Shares, does not seem to be unreasonable to the Shareholders in comparison to the selected Comparable Transactions, when considered in the context of the proportion of the value represented by the consideration shares to the proof of debt of 7.5%, 25.5% and 3.1% of ATD, ZGJL and the Company, respectively.

### 4.8 Financial effects of the Scheme

We note that the Judicial Managers do not propose to set out the illustrative financial effects of the Scheme for the reasons set out in Section 4 of the Explanatory Statement.

The Scheme, if it becomes effective, involves, *inter alia*, the transfer of all the Shares from the Shareholders to the Judicial Managers and distribution to the Shareholders of Consideration Shares in accordance with the Agreed Apportionment, as well as the release and discharge to the aggregate value of the Consideration Shares received by the Creditors under the Scheme in satisfaction of the Approved Scheme Claims. Accordingly, the Scheme will reduce the liabilities of the Company to its Creditors in the amount of S\$5,320,000.

We wish to highlight that pursuant to the Scheme, **Shareholders will cease to hold any Shares** and will instead become shareholders of AVIC Singapore after the completion of the Scheme. As such, we wish to draw the attention of the Shareholders that the financial effects of the Scheme on the Company will be irrelevant to the Shareholders. **The Shareholders should therefore take note of the financial information of the AVIC Singapore Group and the AVIC Singapore Group’s prospects and future plans which are outlined in Sections 4.5.2 and 4.5.3 of this Letter respectively and which should be read in conjunction with the full text of the relevant sections of the Information Memorandum, including Appendix A of the Information Memorandum containing the Independent Auditors’ Report on the Unaudited Pro Forma Financial Information for the years ended 31 December 2008, 2009 and 2010.** In particular, the

Shareholders should note that neither the Company nor the Judicial Managers have conducted an independent valuation or due diligence in respect of the AVIC Singapore Group or the AVIC Shares. Notwithstanding, the Judicial Managers understand that a due diligence has been conducted by the financial adviser appointed by AVIC Singapore for the purposes of the application by AVIC Singapore for listing on the SGX-ST.

**Shareholders should note that, pursuant to the Scheme, the Group will not constitute part of the AVIC Singapore Group and the Judicial Managers shall continue to hold the beneficial title to the Shares for and on behalf of the Shareholders. The Judicial Managers intend to continue pursuing the process of asset recovery with HLM under the Asset Recovery Agreement signed with HLM mentioned earlier. However, the Judicial Managers are of the view that it is unlikely that proceeds of the winding-up or asset recovery, or profits, if any, of the Group is sufficient to pay off the Creditors and as such there will be no residual value for the Shareholders.** Please refer to Section 4.1 of this Letter and Section 2.1 of the Explanatory Statement for the Judicial Managers' view in relation to the realisation of the assets of the Company.

### 4.9 Other relevant considerations in relation to the Scheme

#### 4.9.1 Risk factors relating to the AVIC Shares

The full text of the risk factors relating to the AVIC Shares is set out in the section entitled **"Risk Factors"** of the Information Memorandum. Shareholders are advised to read the relevant sections of the Information Memorandum carefully. In particular, we wish to highlight the following risk factors:

- (i) AVIC Singapore had benefitted from the recent boom in the PRC shipbuilding industry. The future growth of the group in the industry will depend on a number of factors, many of which are beyond its control, including the growth of the world economy, demand for new vessels, the macroeconomic and monetary policies of the PRC government, the level of competition in the PRC and international shipbuilding industry. Hence, there can be no assurance that the group will be able to maintain its historical rate of growth or track record.
- (ii) The AVIC Singapore Group intends to diversify its business into shipbuilding in the near future. As it may not have sufficient experience and expertise in managing the shipbuilding business, it may encounter greater risks of cost overruns and delays in delivery of shipbuilding contracts. AVIC Singapore may not have adequate technology or intellectual property rights in building certain types of vessels and may have to invest a substantial amount of capital and other resources in conducting research and designing and building prototypes. The group's business model and risk profile are expected to change. Hence, the historical results of the AVIC Singapore Group may not be reflective of its future performance.
- (iii) The global capital and credit markets have recently been experiencing periods of extreme volatility and disruption. Due to the global financial crisis, its customers have been reluctant or lack sufficient financing or funds to place orders for new vessels. The global economy may further deteriorate, causing further decline in the economies of the PRC and other countries where its customers are located and in seaborne trade in particular. If that happens the AVIC Singapore Group may not experience a sufficient number of new orders in the future. In addition, during the global financial crisis, the value of vessels and prices which its suppliers can charge for vessels they build have declined, leading to a corresponding drop in its fees.

- (iv) AVIC Singapore has entered into a Management Agreement with AVIC International Beijing to manage certain shipbuilding contracts that had been entered into by AVIC International Beijing, for a management fee of RMB28 million per annum. The terms of the Management Agreement may be subject to modification and the management fee of RMB28 million is also subject to adjustments depending on the progress of the construction of the vessels. There can be no assurance that AVIC Singapore will be able to successfully receive the full management fee or that the terms of the Management Agreement will not be amended.

We further note that in the event that the Scheme becomes effective and binding, it is envisaged that on or shortly after the Transfer Date:

- (i) the Company will be delisted and withdrawn from the Official List of the SGX-ST; and
- (ii) AVIC Singapore will be listed on the Official List of the SGX-ST. However, trading of the AVIC Shares will be suspended pending completion of the Compliance Placement.

**Shareholders should note that they would effectively be exchanging their Shares (which are currently suspended from trading on the SGX-ST) for the Consideration Shares (which will upon listing on the Official List of the SGX-ST, be suspended until AVIC Singapore is able to successfully complete the Compliance Placement and meet the spread requirements of the Listing Manual). In addition, Shareholders should also note that in the event that AVIC Singapore is unable to successfully complete the Compliance Placement and meet the spread requirements of the Listing Manual, the AVIC Shares will continue to be suspended and cannot be traded, until such time as AVIC Singapore successfully completes the Compliance Placement. Further, in the event that AVIC Singapore is unable to successfully complete the Compliance Placement within any time period stipulated by the SGX-ST, the AVIC Shares may be delisted and withdrawn from the Official List of the SGX-ST.**

#### **4.9.2 Shareholding effects of the Scheme**

The shareholders of AVIC Singapore and their respective shareholdings in AVIC Singapore immediately before and after the Compliance Placement is set out under the section “**General Information on Our Group - Shareholders**” of the Information Memorandum. We note that Shareholders will collectively hold 0.4% of the issued AVIC Shares immediately after the Compliance Placement and, as minority shareholders of AVIC Singapore, Shareholders will thus be unable to exercise any significant voting rights in future shareholders’ meetings of AVIC Singapore. However, we wish to highlight that in the event that the Compliance Placement is successfully completed, the Shareholders will be receiving shares of a listed entity as opposed to the Shares which are currently suspended and which may be delisted by the SGX-ST in the event that the Company fails to complete the Scheme by the Trading Resumption Deadline or within such further time as may be allowed by the SGX-ST.

**In this respect, we wish to highlight that on an illustrative basis of a Compliance Placement Price of S\$0.50, Shareholders who hold less than 250 Shares as at the Books Closure Date will not be entitled to any Consideration Share pursuant to the Scheme.**

**4.9.3 Moratorium in respect of Shareholdings in AVIC Singapore**

To demonstrate its commitment to the AVIC Singapore Group, AVIC Kairong, which (assuming that the Compliance Placement is undertaken with 65,000,000 Compliance Placement Shares at the Projected Compliance Placement Price of S\$0.50 per Compliance Placement Share) will directly own 220,000,000 Shares, representing approximately 74.1% of the issued share capital of AVIC Singapore immediately after the Compliance Placement, has undertaken not to sell, realise, transfer or otherwise dispose of any part of its interest in the issued share capital of AVIC Singapore immediately after the Compliance Placement for a period of 24 months from the date on which the AVIC Shares will commence trading following the completion of the Compliance Placement (“**First Trading Date**”).

In addition, the sole shareholder of AVIC Kairong, being AVIC International Beijing, has undertaken that it shall not sell, realise, transfer or otherwise dispose of any part of its interest in the issued share capital of AVIC Kairong for a period of 24 months from the First Trading Date.

**4.9.4 Condition of the Scheme**

The Scheme is conditional on, *inter alia*, the approval of the Shareholders and the Creditors in compliance with the requirements of Section 210(3) (read with Section 227X) of the Companies Act. The Scheme must be approved by a majority in number representing three-fourths (75%) in value of the Shareholders and at least three-fourths (75%) in value of the Creditors, present and voting in person or by proxy, at the Court Meeting of Shareholders and the Court Meeting of Creditors respectively.

We would like to draw the attention of the Shareholders to Section 3.5 of the Explanatory Statement where the Judicial Managers highlighted the risks of the Scheme not being approved by the Court. These include:-

- (i) Even if the appropriate level of support is obtained from the Shareholders and Creditors (which cannot be assured) at the respective Court Meeting, approval of the Scheme is at the discretion of the Court. Whilst the Company believes the relevant statutory formalities have been complied with, the Court could determine that the Scheme is inadequate, or for other reasons, and/or could determine that the Scheme fails to meet various other requirements, and require amendments or modifications which might not be acceptable to the Company, its Shareholders or its Creditors or might not be able to be accomplished in a timely manner.
- (ii) Shareholders and Creditors must appreciate that no representation as to the information relating to AVIC Singapore is made by the Judicial Managers.

**5 RECOMMENDATION**

In arriving at our opinion in respect of the Scheme to the Shareholders, we have taken into account, reviewed and examined the factors which we consider to be pertinent and to have a bearing on our assessment, including the views and representations by the Judicial Managers and also the following factors summarised below. Shareholders should be advised to read the following in conjunction with, and in the context of the full text of this Letter. We have taken into account the following:-

- (i) the rationale for the Scheme;
- (ii) the Judicial Managers are of the opinion that the Scheme represents the only viable option currently available to the Company;

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## APPENDIX D – LETTER FROM STIRLING COLEMAN CAPITAL LIMITED

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- (iii) the Judicial Managers are, as at the Latest Practicable Date, of the view that the Shareholders are unlikely to receive any value for their Shares from the liquidation of the Company;
- (iv) the Company has been in judicial management since 4 June 2010, and the trading of the Shares has been suspended since 23 September 2009. The Company is also faced with the time constraint imposed by the SGX-ST as to the Trading Resumption Deadline and the Scheme represents the only viable option available to the Company. As such, in light of the Trading Resumption Deadline, the Scheme would likely be the final opportunity for the Shareholders who receive Consideration Shares to unlock some value of their investment in the Shares;
- (v) the established operating and profit track record of the AVIC Singapore Group and its prospects and future plan, riding on the strong fundamentals of the AVIC Group;
- (vi) the key financial and valuation ratios of AVIC Singapore are favourable as compared with those of the Comparable Companies as follows:
  - (a) the Net Profit Margin of AVIC Singapore of 73.40% is higher than the range of Net Profit Margins of the Comparable Companies of between 2.99% and 29.75%, the mean and median Net Profit Margin of the Comparable Companies of 14.24% and 8.72% respectively; and
  - (b) the historical PER of 10.2 times implied by the AVIC Share Transfer Price is within the range of historical PER of the Comparable Companies of between 4.06 times and 20.59 times and is higher than the mean and median historical PER of the Comparable Companies of 9.61 times and 8.62 times respectively; and
- (vii) the Agreed Apportionment, between Shareholders and Creditors for the Consideration Shares, is not unreasonable to the Shareholders in comparison to the selected Comparable Transactions.

However, we also note:-

- (i) as highlighted in Section 4.9.1 of this Letter and under the section “**Risk Factors**” in the Information Memorandum, the AVIC Singapore Group may be exposed to a number of possible risks that may have an adverse impact on its future performance, in particular, the impact of the global crisis and possible new challenges in relation to its future plan to diversify into shipbuilding;
- (ii) the significant dilution in shareholdings of the Shareholders after the Scheme becomes effective; and
- (iii) it is unlikely that proceeds of the winding-up or asset recovery or the profits, if any, of the Group will be sufficient to pay off the Creditors and as such there will be no residual value for the Shareholders.

**Having regard to the considerations as set out in this Letter and the information made available to us as at the Latest Practicable Date, we are of the opinion that, on balance, the financial terms of the Scheme to Shareholders, when considered in the context of the prospects of a delisting and that it is unlikely the Shareholders would be able to recover any value from their Shares in the event of a liquidation, are fair and reasonable. Accordingly, we recommend that Shareholders vote in favour of the resolution to be tabled at the Court Meeting of Shareholders in relation to the Scheme to Shareholders.**

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## **APPENDIX D – LETTER FROM STIRLING COLEMAN CAPITAL LIMITED**

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This Letter may only be reproduced, disseminated or quoted in the form and context in which it appears in the Explanatory Statement or with the prior written consent of Stirling Coleman Capital Limited. This Letter and its entire content is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter. Our recommendation may not be used and/or relied on by any other person for any other purpose at any time and in any manner except with our written consent.

Yours faithfully  
For and on behalf of  
**STIRLING COLEMAN CAPITAL LIMITED**

ANG KAY TIONG  
CEO

YAP YEONG KEEN  
DIRECTOR,  
CORPORATE FINANCE ADVISORY

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## APPENDIX E – THE SCHEME

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### IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE

Originating Summons                     )  
No. 453 of 2010 / P                        )

In the Matter of the Companies Act, Chapter 50 of Singapore

And

In the Matter of **SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED (Under Judicial Management)** a company incorporated in Singapore (RC No: 200106480Z)

### **SCHEME OF COMPROMISE AND ARRANGEMENT** Under Section 210 (read with Section 227X) of the Companies Act, Chapter 50 of Singapore

Between

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED**  
**(UNDER JUDICIAL MANAGEMENT)**  
(RC No: 200106480Z)

And

**ITS SHAREHOLDERS AND CREDITORS**  
**(AS DEFINED HEREIN)**



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## APPENDIX E – THE SCHEME

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### **PART I: GENERAL**

#### **1. Preamble**

- 1.1 The Company was incorporated in Singapore on 2 October 2001 under the Companies Act and listed on the SGX-ST on 28 April 2006. The Company and its group of companies specialise in environmental protection and waste recovery in the PRC.
- 1.2 By an Order of Court dated 13 May 2010, the Company was placed under interim judicial management and the Interim Judicial Managers were appointed. On 4 June 2010, the Court granted the Judicial Management Order pursuant to which the Company was placed under judicial management, and the Judicial Managers were appointed. The Judicial Management Order has since been extended from time to time. On 26 July 2011, the Court extended the Judicial Management Order until 1 January 2012.
- 1.3 On 7 January 2011, the Company entered into the Implementation Agreement with AVIC Kairong. Further to the Implementation Agreement, the Company proposes and agrees, subject to acceptance by the requisite majority of Creditors and Shareholders at the Court Meetings and approval by the Court of this Scheme pursuant to Section 210 of the Companies Act, to implement this Scheme.

#### **2. Definitions and Interpretation**

##### **2.1 Definitions**

- 2.1.1 In this Scheme, unless otherwise defined herein or except where the context or subject matter otherwise indicates or requires, words shall have the same meaning ascribed to them by the Companies Act.
- 2.1.2 The following words and phrases in this Scheme shall have the meanings set out opposite them:

**Approved Scheme Claim** : The Scheme Claim of any Creditor that has been:

- (i) determined for the purpose of this Scheme in accordance with the provisions of Clause 6.1.10; or
- (ii) in the event of a Disputed Claim, determined by the Court in accordance with the provisions of Clause 6.1.12

and exceeds zero

**AVIC Singapore** : AVIC International Investments Limited (Company Registration Number 201024137N), a company incorporated in Singapore on 11 November 2010 as a wholly-owned subsidiary of AVIC Kairong

**AVIC Kairong** : AVIC International Kairong Limited (Company Registration Number 1493834), a limited company incorporated under the laws of the Hong Kong Special Administrative Region of the PRC

**AVIC Shares** : Ordinary shares in the share capital of AVIC Singapore

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<b>Books Closure Date</b>	: The date and time to be determined by the Judicial Managers that the share transfer books and the register of members of the Company will be closed to determine the entitlements of Shareholders to the Shares for the purposes of calculating entitlements to AVIC Shares under this Scheme which is expected to be not less than three (3) days and not more than ten (10) days after the Court sanction of the Scheme
<b>Business Day</b>	: A day (other than a Saturday or Sunday or public holiday) on which banks are generally open for business in Singapore
<b>CDP</b>	: The Central Depository (Pte) Limited
<b>Cessation Date</b>	The day following the expiry of six (6) calendar months after the date of the cheque payment of the net proceeds from the sale of Consideration Shares pursuant to Clauses 5.2.1(ii) and 6.2.4(i)
<b>Code</b>	: The Singapore Code on Take-overs and Mergers
<b>Companies Act</b>	: The Companies Act, Chapter 50 of Singapore
<b>Companies Regulations</b>	: The regulations promulgated under the Companies Act
<b>Company</b>	: Sino-Environment Technology Group Limited (Company Registration Number 200106480Z), a company incorporated in Singapore which is under judicial management pursuant to the Judicial Management Order
<b>Compliance Placement Price</b>	: The issue price for each AVIC Share to be issued pursuant to the compliance placement to be undertaken by AVIC Singapore in connection with the listing and quotation of AVIC Shares on the Main Board of the SGX-ST
<b>Consideration Shares</b>	: The AVIC Shares to be allotted and issued and/or transferred by AVIC Singapore to the Scheme Administrators, pursuant to this Scheme and the Implementation Agreement, as described under Clause 3.1 of this Scheme
<b>Court</b>	: The High Court or the Court of Appeal (as the case may be) of the Republic of Singapore
<b>Court Meeting of Creditors</b>	: The meeting of Creditors to be convened and held under the directions of the Court, and any adjournment thereof
<b>Court Meeting of Shareholders</b>	: The meeting of Shareholders to be convened and held under the directions of the Court, and any adjournment thereof

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<b>Court Meetings</b>	: The Court Meeting of Creditors and the Court Meeting of Shareholders collectively
<b>CPF</b>	: The Central Provident Fund
<b>CPF Agent Bank Account</b>	: A CPF investment account held by a CPFIS investor with a CPF Agent Bank under the CPFIS
<b>CPF Agent Banks</b>	: Agent banks included under the CPFIS
<b>CPFIS</b>	: The Central Provident Fund Investment Scheme
<b>Creditor</b>	: Any person who has or who purports to have a Scheme Claim against the Company
<b>Depositor</b>	: Has the meaning ascribed to it in Section 130A of the Companies Act and for the avoidance of doubt for the purposes of this Scheme shall exclude persons holding Shares through CPF Agent Banks
<b>Depository Register</b>	: Has the meaning ascribed to it in Section 130A of the Companies Act
<b>Disputed Claim</b>	: Has the meaning ascribed to it in Clause 6.1.12 of this Scheme
<b>Encumbrance</b>	: Any legal, equitable or security interest, including but not limited to any mortgage, charge (whether fixed or floating), pledge, lien (including without limitation any unpaid vendor's lien or similar lien), assignment of rights and receivables, debenture, right of first refusal, option, hypothecation, title retention or conditional sale agreement, lease, hire or hire purchase agreement, restriction as to transfer, use or possession, easement, subordination to any right of any other person, and any other encumbrance or security interest
<b>ETL</b>	: The eligibility-to-list
<b>Implementation Agreement</b>	: The conditional implementation agreement dated 7 January 2011, entered into between the Judicial Managers, for and on behalf of the Company, and AVIC Kairong relating to, <i>inter alia</i> , this Scheme
<b>Interim Judicial Managers</b>	: The interim judicial managers of the Company, namely Mr Seshadri Rajagopalan and Ms Ee Meng Yen Angela of Ernst & Young LLP, who were appointed interim judicial managers of the Company pursuant to an Order of Court dated 13 May 2010, until their appointment as Judicial Managers pursuant to the Judicial Management Order
<b>Judicial Management Order</b>	: The Order of Court dated 4 June 2010 placing the Company under judicial management and as extended thereafter from time to time

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<b>Judicial Managers</b>	: The judicial managers of the Company, namely Mr Seshadri Rajagopalan and Ms Ee Meng Yen Angela of Ernst & Young LLP, who were appointed judicial managers of the Company pursuant to the Judicial Management Order
<b>Liability</b>	: Any obligation, liability or indebtedness of a person whether it is present, future, prospective or contingent, whether its amount is fixed or unliquidated, whether it arises in contract, tort, restitution or otherwise, whether or not it involves the payment of money, which arises at common law, in equity, by statute (in Singapore or in any other jurisdiction) or which arises pursuant to a valid assignment or a valid authority to pay any amount on behalf of a person or in any other manner whatsoever provided that such expression does not include any obligation or liability which is barred by statute or one for which no remedy may be granted or is otherwise unenforceable. For the avoidance of doubt, where any obligation or liability under a contract or policy is void or, being voidable, has been duly avoided, no obligation or liability shall arise in respect of such obligation or liability
<b>Order of Court</b>	: An order made by the High Court or the Court of Appeal (as the case may be) of the Republic of Singapore
<b>Overseas Creditors</b>	: Creditors whose addresses according to the records of the Company are outside Singapore and/or who have not notified the Company, the Judicial Managers or the Scheme Administrators of addresses in Singapore
<b>Overseas Shareholders</b>	: Shareholders whose addresses are recorded in the register of members of the Company or in the Depository Register maintained by CDP as being outside Singapore
<b>Per cent or %</b>	: Percentage or per centum
<b>PRC</b>	: The People's Republic of China
<b>Proof of Debt</b>	: The form executed or to be executed by a person who has or purports to have a Scheme Claim against the Company in respect of a claim arising out of or having its origin in any matter occurring on or prior to 4 June 2010, stating the amount and particulars of its claim against the Company as at 4 June 2010 in the form annexed as Schedule 1, submitted to the Judicial Managers at the Specified Address on or before the Proof of Debt Submission Date; or submitted to the Judicial Managers at the Specified Address after the Proof of Debt Submission Date and admitted by the Judicial Managers pursuant to Clause 6.1.1; or an equivalent proof of debt form which is admitted by the Judicial Managers pursuant to Clause 6.1.2

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<b>Proof of Debt Submission Date</b>	: 5.00 p.m. on 15 August 2011, being the latest date for submission of Proof of Debt by the Creditors for the purposes of voting at the Court Meeting of Creditors and participating in the Scheme
<b>Registrar</b>	: The Accounting and Corporate Regulatory Authority of Singapore
<b>Scheme</b>	: This scheme of compromise and arrangement as set out herein
<b>Scheme Administrators</b>	: The Judicial Managers or any persons appointed by the Court to be the administrators of this Scheme whether in addition to or in replacement of any person as administrators of this Scheme provided nevertheless that in the event of the termination of the judicial management of the Company, then the persons who held appointment as Scheme Administrators immediately on or before the termination of the judicial management of the Company shall continue to be Scheme Administrators unless and until replaced by the Court, and subject to the provisions of Clause 13 of this Scheme
<b>Scheme Claim</b>	: In relation to any Creditor means the total amount of Liabilities (including any Liabilities that had been agreed between the Company and the respective Creditor but remained unpaid as at 4 June 2010), if any, as at 4 June 2010 for which the Company is or may be liable to that Creditor (whether contingently or otherwise) in respect of or arising from any and all acts, omissions, agreements, transactions, dealings, matters and events whatsoever effected, occurring or otherwise taking place at any time prior to 4 June 2010, and which determination shall be subject to the provisions of this Scheme
<b>Scheme Effective Date</b>	: The date on which this Scheme becomes effective in accordance with the terms of this Scheme, being the date on which a copy of the Order of Court sanctioning this Scheme is lodged with the Registrar pursuant to the Companies Act or such earlier date as the Court may determine and as may be specified in the Order of Court sanctioning this Scheme
<b>Scheme Meeting</b>	: Has the meaning ascribed to it in Part VIII of this Scheme
<b>Securities Account</b>	: Securities account maintained by a Depositor with CDP, but does not include a securities sub-account or a CPF Agent Bank Account
<b>SGXNET</b>	: A system network used by listed companies to send information and announcements to the SGX-ST or any other system network prescribed by the SGX-ST

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<b>SGX-ST</b>	: Singapore Exchange Securities Trading Limited
<b>Share Distribution</b>	: The proposed allotment and issuance and/or transfer by AVIC Singapore of the Consideration Shares valued at the aggregate sum of S\$6,000,000.00 to the Scheme Administrators to hold on trust for the Shareholders and the Creditors with Approved Scheme Claims under this Scheme
<b>Shareholders</b>	: Persons who are registered as holders of Shares in the register of members of the Company as at the Books Closure Date or, where CDP is the registered holder, the term Shareholders shall, in relation to such Shares, mean the Depositors whose Securities Accounts are credited with Shares as at the Books Closure Date
<b>Shares</b>	: Ordinary shares in the share capital of the Company
<b>SIC</b>	: The Securities Industry Council of Singapore
<b>Small Creditor</b>	: A Creditor with an Approved Scheme Claim of less than S\$2,000.00
<b>Specified Address</b>	: The office of the Judicial Managers in Singapore at One Raffles Quay, North Tower Level 18, Singapore 048583
<b>Transfer Date</b>	: The date falling one (1) Business Day after the Scheme Effective Date
<b>Singapore Dollars or S\$ and cents</b>	: Singapore dollars and cents, respectively, being the lawful currency of the Republic of Singapore
<b>Vesting Date</b>	: The date falling ten (10) Business Days after the Scheme Effective Date and at least two (2) Business Days before the trading of AVIC Shares on the SGX-ST commences, or such other period as the Scheme Administrators may determine

### 3. The Scheme

#### 3.1 Share Distribution, Transfer of Shares and Debt Settlement

3.1.1 Pursuant to this Scheme, AVIC Kairong shall procure that AVIC Singapore allot and issue to the Scheme Administrators, on or before the Transfer Date, to hold on trust for and to distribute on the Vesting Date to the Shareholders and the Creditors with Approved Scheme Claims, in accordance with the terms of the Scheme, such number of Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$6,000,000.00 free from all Encumbrances.

3.1.2 The Share Distribution shall be apportioned as follows:

- (i) Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$680,000.00 to be distributed to the Shareholders; and
- (ii) Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$5,320,000.00 to be distributed to the Creditors with Approved Scheme Claims.

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## APPENDIX E – THE SCHEME

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### **3.2 Consideration for the Share Distribution**

- 3.2.1 As to the Shareholders, as detailed below in this Scheme, they will cease to be Shareholders of the Company and in consideration, they will receive a proportionate number of Consideration Shares with aggregate value of S\$680,000.00.
- 3.2.2 As to the Creditors with Approved Scheme Claims, as detailed below in this Scheme, they will receive a proportionate number of Consideration Shares with aggregate value of S\$5,320,000.00 and in consideration, the Company shall be completely and absolutely released and discharged to the aggregate value of the Consideration Shares received by each Creditor under this Scheme in satisfaction of that Creditor's Approved Scheme Claim.

### **3.3 AVIC Kairong and AVIC Singapore Undertaking**

AVIC Kairong and AVIC Singapore have agreed to appear by counsel at the Court hearing of the application to sanction this Scheme and to consent thereto, and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may reasonably be necessary to be executed and done by them for the purpose of giving effect to this Scheme.



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## APPENDIX E – THE SCHEME

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### **PART II: CONDITIONS PRECEDENT**

#### **4. Conditions Precedent**

The implementation of the Scheme is subject, *inter alia*, to the following conditions precedent being satisfied or waived (as the case may be):

- 4.1 the approval of the Scheme by the Shareholders and the Creditors in compliance with the requirements of Section 210(3) (read with Section 227X) of the Companies Act;
- 4.2 the grant of the Order of Court pursuant to Section 210(3) (read with Section 227X) of the Companies Act, and such order having become effective;
- 4.3 no injunction or other order being issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Scheme or the transactions proposed herein or any part thereof;
- 4.4 obtaining all necessary consents, approvals, waivers, exemptions or other acts from any foreign or Singaporean government or governmental, semi-governmental, administrative, regulatory, fiscal or judicial agency, authority, body, commission, department, exchange, tribunal or entity (including without limitation, the SGX-ST, the SIC and the Monetary Authority of Singapore) as reasonably required to implement the Scheme and at the consummation, execution and completion of the Implementation Agreement, such consents and approvals having been duly authorised or obtained or otherwise completed and being in full force and effect on the Scheme Effective Date;
- 4.5 written confirmation by AVIC Kairong and/or AVIC Singapore to the Company that completion of any restructuring exercise is in accordance with and as described in the listing application submitted by AVIC Kairong; and
- 4.6 receipt of the ETL from the SGX-ST for the admission and listing and quotation of AVIC Shares on the Main Board of the SGX-ST on or before 30 June 2011 and such ETL not having been revoked or withdrawn, and all conditions to such ETL (save in respect of shareholding spread) being satisfied.

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## APPENDIX E – THE SCHEME

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### **PART III: SHAREHOLDERS' SCHEME**

#### **5. Shareholders**

5.1 Pursuant to the terms of this Scheme, the following shall be effected:

5.1.1 AVIC Kairong shall procure that AVIC Singapore allot and issue to the Scheme Administrators on or before the Transfer Date, to hold on trust for and to distribute on the Vesting Date to the Shareholders Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$680,000.00, free from any Encumbrance;

5.1.2 in consideration for the Shareholders' entitlement to the Consideration Shares, each Shareholder agrees that on or shortly after the Transfer Date, all of his Shares shall be transferred to the Judicial Managers who shall receive full legal title to the Shares, fully paid, free from any Encumbrance, and who shall continue to hold the beneficial title to the Shares for and on behalf of the Shareholders; and

5.1.3 in consideration for the Shareholders' entitlement to the Consideration Shares, each Shareholder agrees that on or shortly after the Transfer Date, all of his Shares shall be withdrawn from the Official List of the SGX-ST.

5.2 Shareholders and persons with beneficial ownership of Shares (not being Depositors) who wish to have their Consideration Shares credited into their Securities Account shall take all necessary action to (i) open a Securities Account with an address in Singapore and deposit with CDP their share certificates in respect of their Shares together with the duly executed instruments of transfer in favour of CDP and (ii) notify the Judicial Managers in writing of the details of their Securities Account not later than five (5) Business Days after the Court Meeting for Shareholders.

5.2.1 In respect of Shareholders who are not Depositors and who have not taken the steps set out in Clause 5.2:

- (i) the entitlements of such Shareholders to the Consideration Shares shall be determined on the basis of their holdings of Shares appearing in the register of members of the Company on the Books Closure Date;
- (ii) the Scheme Administrators may, as soon as practicable and in their sole and absolute discretion, sell the relevant Consideration Shares, and distribute the net proceeds (if any) thereof, after deducting all dealing and other expenses in connection with the sale, to the relevant Shareholder, provided that where the net proceeds to which any Shareholder is entitled shall be less than S\$10.00, such net proceeds shall be retained for the benefit of the Company. Payment under this Clause shall be made by sending a cheque for such sum payable to the relevant Shareholder by post to his address in the register of members of the Company, at the sole risk of that Shareholder. Fractional entitlements are to be disregarded and retained by the Scheme Administrators (and/or sold by the Scheme Administrators or their nominee) for the benefit of the Company; and
- (iii) If a Shareholder does not claim his sale proceeds prior to the Cessation Date or if for any reason whatsoever any payment made to a Shareholder pursuant to Clause 5.2.1(ii) is not received by that Shareholder, such Shareholder shall be deemed to have waived, released and discharged all his rights to such sale proceeds with effect from the Cessation Date. Accordingly, with effect from the Cessation Date, the Judicial Managers, Scheme Administrators and the Company shall be released from any further obligation to make any payments under this Scheme and the Scheme Administrators shall retain, for the benefit of the Company, the balance (if any) of the sale proceeds.

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## APPENDIX E – THE SCHEME

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- 5.2.2 In respect of Shareholders who are Depositors and whose Shares are deposited with CDP as at the Books Closure Date;
- (i) the entitlements of such Shareholders to the Consideration Shares shall be determined on the basis of the number of Shares standing to the credit of the respective Securities Account on the Books Closure Date; and
  - (ii) the Scheme Administrators shall, on or before the Vesting Date, provide instructions to CDP to debit the relevant number of Consideration Shares standing to the credit of the Scheme Administrators' Securities Account and thereafter credit the same into the respective Securities Accounts of the relevant Shareholders. Fractional entitlements are to be disregarded and retained by the Scheme Administrators (and/or sold by the Scheme Administrators or their nominee) for the benefit of the Company.
- 5.2.3 In the event that any Shareholder (in the case of an individual) is deceased or (in the case of a corporation or other legal entity) has been liquidated, wound up, struck off or been the subject of analogous proceedings in any relevant jurisdiction, the Judicial Managers may in their sole and absolute discretion disregard such Shareholder's entitlement to Consideration Shares for the purposes of calculating entitlements to Consideration Shares under this Scheme.
- 5.3 For the purpose of giving effect to the transfer of the Shares to the Judicial Managers referred to in Clause 5.1.2:
- 5.3.1 each Shareholder agrees to:
- (i) the transfer of the Shares to the Judicial Managers;
  - (ii) the cancellation of all the existing share certificates in respect of the total aggregate of the issued Shares held by the Shareholders;
  - (iii) the issue of two (2) new share certificates (or such other number of share certificates as may be appropriate) in respect of the total aggregate of the Shares, credited as fully paid up, to the Judicial Managers; and
  - (iv) the withdrawal of the Shares from the Official List of the SGX-ST.
- 5.3.2 On and from the Scheme Effective Date, each Shareholder hereby irrevocably agrees and authorises the Scheme Administrators to, or procure a person nominated by the Scheme Administrators to, execute and deliver all such documents, instruments and assurances and carry out all acts and/or things as shall be necessary or as the Scheme Administrators may reasonably require to give effect to the transfer of the Shares to the Judicial Managers or to give effect to this Scheme, including but not limited to executing any share transfer instrument or instruction forms in relation to the transfer of the Shares.
- 5.3.3 In respect of Shareholders who are Depositors and whose Shares are deposited with CDP as at the Books Closure Date, the Scheme Administrators shall, on or before the Transfer Date, provide instructions to CDP to debit the relevant number of Shares standing to the credit of the Securities Account of such relevant Shareholders and thereafter credit the same Shares into the Securities Account of the Judicial Managers.
- 5.3.4 In respect of Shareholders who are not Depositors and such Shareholders who have not already opened a Securities Account in their names and deposited their Shares with CDP and/or notified the Judicial Managers in writing of the details of their Securities Account not later than five (5) Business Days after the Court Meeting for Shareholders:

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## APPENDIX E – THE SCHEME

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- (i) such Shareholders who have not already registered their holdings of the Shares in the register of members of the Company shall take all necessary action to register their holdings of the Shares by the Books Closure Date in the register of members of the Company; and
  - (ii) the Scheme Administrators shall, on or before the Transfer Date, execute such instrument(s) or instruction(s) of transfer for the transfer of the Shares of such Shareholders to the Judicial Managers.
- 5.3.5 Upon the transfer of the Shares to the Judicial Managers referred to in Clause 5.1.2 above, without prejudice to Clause 5.3.6(i) below, CDP and the Shareholders who are not Depositors are to forward their existing share certificates relating to their Shares to the Company at the request of the Company for cancellation.
- 5.3.6 Pursuant to the transfer of Shares to the Judicial Managers referred to in Clause 5.1.2 above:
  - (i) each existing share certificate in respect of the issued Shares held by the Shareholders who are not Depositors, save for two (2) new share certificates (or such other number of share certificates as may be appropriate) issued to the Judicial Managers, will cease to be evidence of title to the Shares represented thereby and shall be deemed cancelled with effect from the Transfer Date, and cease to be valid for any purpose whatsoever, whether or not such share certificates are returned to the Company for cancellation;
  - (ii) the Company shall issue two (2) new certificates (or such other number of share certificates as may be appropriate) in respect of the total aggregate of the Shares, credited as fully paid up, to the Judicial Managers; and
  - (iii) thereafter the Shares (subject to the approval of the SGX-ST) be delisted and withdrawn from the Official List of the SGX-ST.
- 5.3.7 The Judicial Managers shall hold all Shares transferred to them pursuant to this Scheme in their capacity as judicial managers of the Company for the benefit of the Shareholders.

### 5.4 Overseas Shareholders

Notwithstanding anything to the contrary in this Scheme, the Company, the Judicial Managers and/or the Scheme Administrators shall not at any time be under any obligation to allot, issue and/or transfer or procure the transfer of any Consideration Shares to Overseas Shareholders whether by crediting their Securities Accounts with the relevant number of Consideration Shares or by the despatch of physical share certificates for the Consideration Shares. In any case where the Scheme Administrators are, in their sole discretion, of the view that the distribution of the Consideration Shares to any Overseas Shareholder may infringe any relevant foreign law or necessitate compliance with conditions or requirements which they regard as onerous or impracticable by reason of costs, delay or otherwise, the Scheme Administrators may, in their sole discretion, determine that such Consideration Shares shall not be transferred to such Overseas Shareholder who would otherwise have been entitled thereto, but shall be transferred to such nominee(s) as the Scheme Administrators may, in their sole discretion, appoint, who shall sell the same as soon as practicable at the sole discretion of such persons, and thereafter distribute the aggregate amount of the net proceeds, after deducting all dealing and other expenses in connection therewith, proportionately amongst such Overseas Shareholders, in accordance with their respective entitlements to the Consideration Shares, in full satisfaction of their rights to the Consideration Shares to which they would otherwise have become entitled, provided that where the net proceeds to which any Overseas Shareholder is entitled shall be less than S\$10.00, such net proceeds shall be retained for the benefit of the Company, and no Overseas Shareholder shall have any claim whatsoever against the Company, the Judicial Managers, the Scheme Administrators and/or CDP in connection therewith.

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## APPENDIX E – THE SCHEME

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### **PART IV: CREDITORS' SCHEME**

#### **6. Creditors**

##### **6.1 Creditors' Scheme Claims and Proofs of Debt**

- 6.1.1 In order to vote at the Court Meeting of Creditors, each Creditor must have submitted a Proof of Debt with the Judicial Managers at the Specified Address on or before the Proof of Debt Submission Date. The Judicial Managers have sole and absolute discretion to admit a Proof of Debt notwithstanding that it has been submitted after the Proof of Debt Submission Date.
- 6.1.2 For the purpose of this Scheme, a Creditor shall be deemed to have submitted a Proof of Debt if such Creditor had previously submitted to the Judicial Managers: (a) any Proof of Debt (in a form as may be accepted by the Judicial Managers) in the course of the judicial management of the Company, or (b) pursuant to such notice as the Judicial Managers may have given prior to leave to convene the Court Meeting being granted by the Court. Such Proof of Debt shall constitute such Creditor's Proof of Debt for the purpose of this Scheme, save that such Creditor may submit a revised Proof of Debt on or before the Proof of Debt Submission Date to update its Scheme Claim.
- 6.1.3 If the Judicial Managers do not receive any revised Proof of Debt from such Creditor by the Proof of Debt Submission Date, the Proof of Debt submitted by that Creditor to the Judicial Managers at any time on or before the Proof of Debt Submission Date in the course of the judicial management of the Company shall be deemed to be the Proof of Debt submitted by the Creditor for the purpose of this Scheme.
- 6.1.4 A Creditor shall have no right after the Proof of Debt Submission Date to revise or amend its Proof of Debt.
- 6.1.5 A Creditor who has submitted or is deemed to have submitted a Proof of Debt under this Scheme shall forthwith notify the Judicial Managers of all amounts (other than that stated in the said Proof of Debt) paid to or received by such Creditor, on or after 4 June 2010 and up to and including the date the Court sanctions this Scheme, in reduction of any amount which the Company is liable or indebted as at 4 June 2010 to that Creditor.
- 6.1.6 Where a Creditor has submitted a Proof of Debt (other than a revised Proof of Debt submitted pursuant to Clause 6.1.2 above) in respect of more than one claim by virtue of which it claims to be a Creditor, that Creditor and its respective claims shall, for the purposes of this Scheme, be treated as if each of such claims was due to one and the same person or entity.
- 6.1.7 Insofar as any Scheme Claim included in any Proof of Debt is stated in a currency other than Singapore Dollars, the amount of such Scheme Claim shall be converted by the Scheme Administrators to Singapore Dollars at the interbank cross rate published in the Business Times on 4 June 2010.
- 6.1.8 For the purposes of the Scheme, a Creditor shall not be entitled to interest in respect of any Scheme Claim, except that where a Creditor is entitled to interest under any statute, contract or court order, he shall to that extent be entitled to claim interest, for the period up to 4 June 2010.
- 6.1.9 The Proofs of Debt, whether submitted pursuant to Clause 6.1.1 or deemed to have been submitted under Clause 6.1.2, shall be reviewed and assessed by the Judicial Managers for the purposes of determining the Approved Scheme Claims. The Judicial Managers shall take into account any mutual credits, mutual debits or other mutual dealings between the Company and any of the Creditors prior to 4 June 2010 in determining the

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## APPENDIX E – THE SCHEME

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Approved Scheme Claims. The Judicial Managers may, in dealing with any Proof of Debt deemed submitted under Clause 6.1.2, reject the deemed Proof of Debt before the Proof of Debt Submission Date.

6.1.10 With regard to each Creditor's Proof of Debt, the Judicial Managers may, in their sole and absolute discretion:-

- (i) admit in whole or in part any Scheme Claim stated therein; or
- (ii) require the Creditor to give further evidence by way of a statutory declaration or otherwise in support of the Scheme Claim as the Judicial Managers think fit; or
- (iii) whether or not the Judicial Managers call for such evidence or further evidence and whether or not such evidence or further evidence is made available to the Creditor, reject any such Scheme Claim in whole or in part.

6.1.11 Subject to the Court's adjudication (if any) under the procedure in Clause 6.1.12, the Judicial Managers' assessment shall be final and binding, and the Scheme Administrators shall be bound by the same.

### 6.1.12 Court Proceedings and Disputed Claims

- (i) If the Judicial Managers reject any Proof of Debt or dispute the claim in the Proof of Debt in whole or in part whether before or after the Proof of Debt Submission Date, they shall notify the Creditor in writing of the rejection or dispute (as the case may be) and in the event that the Creditor wishes to dispute such rejection or dispute of the claim in the Proof of Debt, the Creditor must commence proceedings against the Company in Court within twenty-one (21) days from the date of delivery of the notice to determine whether the debt or claim in dispute is payable by the Company. Such Creditor shall bear all costs and expenses incurred by the Creditor in relation to or arising from such proceedings and shall not seek any order for costs to be paid to the Creditor regardless of the outcome of the proceedings in Court and none of the Company and the Judicial Managers shall be liable to the Creditor for any and all costs, fees and expenses incurred by the Creditor in disputing the determination of the Judicial Managers in relation to or arising from the proceedings in Court.
- (ii) Any Creditor who fails to commence such proceedings within twenty-one (21) days from the date of delivery of the notice shall be deemed to have accepted the rejection of or dispute of the claim in the Proof of Debt by the Judicial Managers. Such Creditor will not be entitled to receive any benefits under this Scheme to the extent of such rejected or disputed claim(s).
- (iii) In respect of any Creditor whose claim stated in a Proof of Debt, whether in whole or in part, is rejected and/or disputed by the Judicial Managers and is the subject of proceedings in Court commenced by the relevant Creditor in accordance with Clause 6.1.12(i) ("**Disputed Claim**") which is pending adjudication, the Scheme Administrators shall hold the relevant portion of the Consideration Shares to be distributed to that Creditor based on the Disputed Claim, pending the adjudication of the Disputed Claim by the Court.
- (iv) If the adjudication of the Court is in favour of the Creditor or if there is a settlement reached on behalf of the Company with the Creditor where amounts are payable to such Creditor, the Scheme Administrators shall cause the relevant number of Consideration Shares so held to be distributed to the relevant Creditor to the extent of the amount adjudicated or agreed to be due and owing to him by the Company and such Creditor shall be deemed to be a Creditor with an Approved Scheme



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## APPENDIX E – THE SCHEME

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Claim to the extent of such amounts for the purposes of the provisions of this Scheme relating to entitlements to Consideration Shares and distributions of Consideration Shares.

- (v) The Consideration Shares held by the Scheme Administrators which are not required to be distributed pursuant to Clause 6.1.12(iii) shall, at the sole and absolute discretion of the Scheme Administrators be:
  - (a) distributed to the Creditors with Approved Scheme Claims (fractional entitlements to be disregarded and retained by the Scheme Administrators (and/or sold by the Scheme Administrators or their nominee) for the benefit of the Company) after the resolution of all Disputed Claims; or
  - (b) sold by the Scheme Administrators at any time, and the net proceeds (if any) thereof, after deducting all dealing and other expenses in connection with the sale, distributed to the Creditors with Approved Scheme Claims after the resolution of all Disputed Claims (provided that where the net proceeds to which any Creditor with an Approved Scheme Claim is entitled shall be less than S\$10.00, such net proceeds shall be retained for the benefit of the Company),

and no Creditor shall have any claim whatsoever against AVIC Singapore, AVIC Kairong, the Company, the Judicial Managers and/or the Scheme Administrators in connection therewith.

6.1.13 Where a Scheme Claim subsequently becomes the subject of Court proceedings pursuant to Clause 6.1.12(i), for the purposes only of voting at the Court Meeting, the Creditor shall be entitled to vote only to the extent of the Scheme Claim determined by the Judicial Managers, and the admission of that Scheme Claim:

- (i) shall be purely for the purposes of voting at the Court Meeting of Creditors;
- (ii) shall be deemed at all times prior to the approval of the Scheme by the requisite majority of the Creditors and Shareholders and the sanction of the Scheme by the Court to be an offer of compromise made by the Company to the Creditors without prejudice to the Company's rights in such litigation;
- (iii) shall be entitled to all privileges which attaches to such an offer whether under Section 23 of the Evidence Act, Chapter 97 of Singapore, at common law or otherwise; and
- (iv) shall on no account constitute, be construed as or relied upon as an admission or acknowledgment of any sort by the Creditor for any purpose should the Scheme fail to secure the requisite approval or sanction as aforesaid.

### 6.1.14 No further action or proceedings

Save as consistent with the judicial management regime that the Company is under, no Creditor shall take any action or commence or continue any proceedings against the Company in any jurisdiction for the recovery of any sum in respect of that Creditor's Scheme Claim or any other sum for which the Company is liable under or arising from or in respect of any and all agreements, transactions, dealings and matters effected or entered into with the Company or occurring on or prior to 4 June 2010.

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## APPENDIX E – THE SCHEME

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### 6.2 Entitlement of Creditors with Approved Scheme Claims

6.2.1 Pursuant to the terms of this Scheme, the following shall be effected:

- (i) AVIC Kairong shall procure AVIC Singapore to allot and issue and/or transfer to the Scheme Administrators on or before the Transfer Date, to hold on trust for and to distribute on the Vesting Date to the Creditors with Approved Scheme Claims Consideration Shares valued (by reference to the Compliance Placement Price) at the aggregate sum of S\$5,320,000.00, free from any Encumbrance; and
- (ii) in consideration for the issue and allotment and/or transfer of the Consideration Shares, the Company shall be completely and absolutely released and discharged to the aggregate value of the Consideration Shares received by each Creditor under this Scheme in satisfaction of that Creditor's Approved Scheme Claim.

6.2.2 The Consideration Shares to be issued and allocated pursuant to Clause 6.2.1(i), less the Consideration Shares held by the Scheme Administrators pursuant to Clause 6.1.12(iii), shall be distributed, on the basis of the Compliance Placement Price, to each Creditor with an Approved Scheme Claim on a pari passu and pro rata basis of their respective Approved Scheme Claim. Fractional entitlements are to be disregarded and retained by the Scheme Administrators (and/or sold by the Scheme Administrators or their nominee) for the benefit of the Company.

6.2.3 Creditors with Approved Scheme Claims who wish to have their Consideration Shares credited into their Securities Account or securities sub-account shall take all necessary action to (i) open a Securities Account or securities sub-account with an address in Singapore and/or (ii) notify the Judicial Managers in writing of the details of their Securities Account or securities sub-account not later than five (5) Business Days after the Court Meeting of Creditors.

6.2.4 In respect of (i) Creditors with Approved Scheme Claims who are not Depositors and who have not taken the steps set out in Clause 6.2.3 above, and (ii) Creditors with Approved Scheme Claims who are Depositors and who have not taken the steps set out in Clause 6.2.3:

- (i) the Scheme Administrators may, as soon as practicable and in their sole and absolute discretion, sell the relevant Consideration Shares, and distribute the net proceeds (if any) thereof, after deducting all dealing and other expenses in connection with the sale, to the relevant Creditors, provided that where the net proceeds to which any Creditor is entitled shall be less than S\$10.00, such net proceeds shall be retained for the benefit of the Company. Payment under this Clause shall be made by sending a cheque for such sum payable to the relevant Creditor by post to the registered address of such Creditor or the address of such Creditor last known to the Company, at the sole risk of that Creditor. Fractional entitlements are to be disregarded and retained by the Scheme Administrators (and/or sold by the Scheme Administrators or their nominee) for the benefit of the Company; and
- (ii) if such a Creditor does not claim his sale proceeds prior to the Cessation Date or if for any reason whatsoever any payment made to such a Creditor pursuant to Clause 6.2.4(i) is not received by that Creditor, such Creditor shall be deemed to have waived, released and discharged all his rights to such sale proceeds with effect from the Cessation Date. Accordingly, with effect from the Cessation Date, the Judicial Managers, Scheme Administrators and the Company shall be released from any further obligation to make any payments under this Scheme and the Scheme Administrators shall retain, for the benefit of the Company, the balance (if any) of the sale proceeds.



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- 6.2.5 In respect of Creditors with Approved Scheme Claims who are Depositors and who have taken all necessary steps to notify the Judicial Managers in writing of the details of their Securities Account or securities sub-account pursuant to Clause 6.2.3 above:
- (i) on and from the Scheme Effective Date, each such Creditor hereby irrevocably agrees and authorises the Scheme Administrators to execute or effect on behalf of each such Creditor any and all instrument(s), document(s) or instruction(s) as shall be necessary or as the Scheme Administrators may reasonably require to give effect to this Scheme, and every such instrument, document or instruction so executed by the Scheme Administrators shall be effective as if it had been executed by the relevant Creditor; and
  - (ii) the Scheme Administrators shall, on or before the Vesting Date or in accordance with Clause 6.1.11 of this Scheme, provide instructions to CDP to debit the relevant number of Consideration Shares standing to the credit of the Scheme Administrators' Securities Account and thereafter credit the Consideration Shares notified to CDP by the Scheme Administrators into the Securities Account or securities sub-accounts of the relevant Creditors. Fractional entitlements are to be disregarded and retained by the Scheme Administrators (and/or sold by the Scheme Administrators or their nominee) for the benefit of the Company.
- 6.2.6 Notwithstanding Clauses 6.2.1 to 6.2.5 above, the Company shall pay, as soon as practicable and in any event, after the Vesting Date, all Small Creditors their Approved Scheme Claims in full. Upon such payment to the Small Creditors, the Company shall be completely and absolutely released and discharged from all claims relating to and in connection with the Small Creditors' Scheme Claims. For the avoidance of doubt, the Small Creditors shall not be entitled to any Consideration Shares under this Scheme.
- 6.2.7 In the event that any Creditor with an Approved Scheme Claim (in the case of an individual) is deceased or (in the case of a corporation or other legal entity) has been liquidated, wound up, struck off or been the subject of analogous proceedings in any relevant jurisdiction, the Scheme Administrators may in their sole and absolute discretion disregard such Creditors' Consideration Shares for the purposes of this Scheme.

### 6.3 Overseas Creditors

Notwithstanding anything to the contrary in this Scheme, the Company, the Judicial Managers and/or the Scheme Administrators shall not at any time be under any obligation to issue, allot and/or transfer or procure the transfer of any Consideration Shares to Overseas Creditors with Approved Scheme Claims whether by crediting their Securities Accounts or securities sub-accounts with the relevant number of Consideration Shares or by the despatch of physical share certificates for the Consideration Shares. In any case where the Scheme Administrators are, in their sole discretion, of the view that the distribution of the Consideration Shares to any Overseas Creditor with an Approved Scheme Claim may infringe any relevant foreign law or necessitate compliance with conditions or requirements which they regard as onerous or impracticable by reason of costs, delay or otherwise, the Scheme Administrators may, in their sole discretion, determine that such Consideration Shares shall not be transferred to such Overseas Creditor who would otherwise have been entitled thereto, but shall be transferred to such nominee(s) as the Scheme Administrators may, in their sole discretion, appoint, who shall sell the same as soon as practicable at the sole discretion of such persons, and thereafter distribute the aggregate amount of the net proceeds, after deducting all dealing and other expenses in connection therewith, proportionately amongst such Overseas Creditors, in accordance with their respective entitlements to the Consideration Shares, in full satisfaction of their rights to the Consideration Shares to which they would otherwise have become entitled, provided that where the net proceeds to which any such Overseas Creditor is entitled shall be less than S\$10.00, such net proceeds shall be retained for the benefit of the Company, and no such Overseas Creditor shall have any claim whatsoever against the Company, the Judicial Managers, the Scheme Administrators and/or CDP in connection therewith.

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## APPENDIX E – THE SCHEME

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### **PART V: EFFECT, TERMINATION AND COMPLETION OF SCHEME**

#### **7. Effect of the Scheme**

- 7.1 This Scheme shall become effective, subject to the conditions precedent set out in Part II herein, upon the date of lodgment with the Registrar of a copy of the Order of Court sanctioning this Scheme under Section 210(5) of the Companies Act or such earlier date as the Court may determine and as may be specified in the Order of Court.

#### **8. Termination of the Scheme**

- 8.1 Notwithstanding anything to the contrary herein, this Scheme shall terminate and shall cease to have any effect at all upon written notice from the Judicial Managers and/or the Scheme Administrators to AVIC Singapore in the event of any of the following:

- 8.1.1 AVIC Singapore and/or AVIC Kairong fails to perform and discharge any of its obligations under this Scheme; or
- 8.1.2 the ETL granted by the SGX-ST for the listing of the AVIC Shares on the Main Board of the SGX-ST having been revoked or withdrawn.

- 8.2 Without prejudice to any rights of the Company and/or AVIC Kairong in the Implementation Agreement, in law or at equity, upon termination of this Scheme pursuant to Clause 8.1 above, the parties to this Scheme shall revert to the position as if this Scheme had not been effected.

#### **9. Completion of the Scheme by Performance**

Subject to the terms of this Scheme, this Scheme shall be completed and concluded absolutely and immediately by performance on the occurrence of all the following:

- 9.1.1 All relevant Consideration Shares under this Scheme have been allotted and issued and/or transferred to the Shareholders in accordance with the terms of this Scheme.
- 9.1.2 All relevant Consideration Shares under this Scheme having been issued and allotted and/or transferred to the Creditors with Approved Scheme Claims in accordance with the terms of this Scheme, and all Disputed Claims (if any) have been fully adjudicated and either fully discharged and satisfied or determined in favour of the Company.
- 9.1.3 All proceeds of relevant Consideration Shares have been distributed to the relevant Shareholders and Creditors with Approved Scheme Claims in accordance with the terms of this Scheme, or the Cessation Date has passed, whichever is earlier.
- 9.1.4 The transfer of the Shares to the Judicial Managers has been duly effected.
- 9.1.5 The Company's Shares have been delisted and withdrawn from the Official List of the SGX-ST.

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## APPENDIX E – THE SCHEME

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### **PART VI: THE JUDICIAL MANAGERS**

#### **10. The Judicial Managers**

- 10.1 Nothing in this Scheme should be construed as limiting the powers conferred on the Judicial Managers pursuant to the Companies Act.
- 10.2 For the purposes of implementing this Scheme, the Judicial Managers shall not require the consent or approval of the Shareholders or the Creditors (as the case may be) for any action under this Scheme, and such consent or approval where required by law shall be deemed to have been given.

#### **11. Remuneration, Fees and Disbursements**

- 11.1 The Judicial Managers and their solicitors shall be entitled to such remuneration, fees and disbursements for their performance of their duties and services for taking any action that they are requested, authorised, or empowered to take under or in respect of this Scheme as may be approved: (i) by a meeting of the Company's creditors summoned under Part V of the Companies Regulations; or (ii) by Court.

#### **12. Exclusion of Liability and Indemnity**

- 12.1 The Judicial Managers make no representation or warranty as to and/or shall not be responsible to the Company or any Shareholder or Creditor or AVIC Singapore or AVIC Kairong for:

12.1.1 the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Judicial Managers, the Company or any other person given in or in connection with this Scheme; or

12.1.2 the legality, validity, effectiveness, adequacy or enforceability of this Scheme or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with this Scheme

unless caused by fraud, gross negligence or wilful misconduct on their part.

- 12.2 The Judicial Managers shall not be liable to any Shareholder or Creditor for any and all losses, damages, charges, costs and expenses of whatever nature which such Shareholder or Creditor may sustain, incur or suffer in connection with or arising from any act or omission on his part in relation to the implementation of this Scheme unless caused by gross negligence, fraud, or wilful misconduct on their part.
- 12.3 The Judicial Managers shall not be responsible for the legality, validity, effectiveness, adequacy or enforceability of or any delay (or any related consequences) in the allotment and issue or transfer of Consideration Shares or distribution of the proceeds thereof to any Shareholder or Creditor under this Scheme, unless caused by gross negligence, fraud, or wilful misconduct on their part.
- 12.4 The Judicial Managers shall not be responsible for any delay (or any related consequences) in the cancellation of all the share certificates in respect of the total aggregate of the issued Shares representing a holding of the Shares by the Shareholders under this Scheme.
- 12.5 The Judicial Managers shall at all times be indemnified and held harmless by the Company from and against any and all losses, damages, charges, costs and expenses of whatever nature which may at any time and from time to time sustain, incur or suffer in connection with the exercise of any powers or the performance of any duties under this Scheme unless losses, damages, charges, costs and expenses arise out of any fraud, dishonesty or wilful default on their part.

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## **APPENDIX E – THE SCHEME**

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- 12.6 The Judicial Managers shall not be liable to the Company in any way for any loss, damage or liability incurred or suffered by the Company as a result of or arising in any way from any claim made against any person in the name and/or on behalf of the Company by or at the request or direction of the Judicial Managers and in either case, in the exercise of any right, power or discretion conferred on the Judicial Managers under this Scheme.
- 12.7 The Company, the Creditors and the Shareholders hereby acknowledge and confirm that the Judicial Managers are acting as agents for and on behalf of the Company in relation to this Scheme and all matters in connection herewith and that none of the Judicial Managers assumes personal responsibility in relation to this Scheme or any matter in connection herewith.

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## APPENDIX E – THE SCHEME

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### **PART VII: THE SCHEME ADMINISTRATORS**

#### **13. The Scheme Administrators**

- 13.1 The Scheme Administrators shall through their personnel or agents implement this Scheme in accordance with the terms of this Scheme. Save as expressly provided in this Scheme, the Scheme Administrators shall not be deemed to act as agents for the Shareholders or the Creditors or the Judicial Managers collectively or individually or as agents for the Company or AVIC Singapore or AVIC Kairong and/or CDP but merely as coordinators of this Scheme.
- 13.2 The rights, powers and duties of the Scheme Administrators shall be as follows:
- 13.2.1 to exercise all powers necessary to administer, implement and perform their obligations under this Scheme, including if necessary taking steps to enforce the terms of this Scheme;
  - 13.2.2 to, if they think fit, at any time summon a meeting of Shareholders and/or Creditors with Approved Scheme Claims as described below; and
  - 13.2.3 to, in their sole and absolute discretion, sell, or appoint such nominee(s) to sell, such Consideration Shares as detailed above in this Scheme.
- 13.3 Either or both of the Scheme Administrator(s) may resign at any time upon giving at least thirty (30) days' notice to the Company, the Shareholders and the Creditors with Approved Scheme Claims.
- 13.4 In the event that either or both of the Scheme Administrator(s) resigns, or is incapacitated and unable to discharge his responsibilities as Scheme Administrator(s), such other person(s) from Ernst & Young Solutions LLP with the capacity and experience to undertake the duties of the Scheme Administrator(s), shall be appointed as the replacement Scheme Administrator(s).
- 13.5 In the event that any of the Shareholders or Creditors with Approved Scheme Claims wishes to appoint a scheme administrator of its choice, then that Shareholder or Creditor with an Approved Scheme Claim may put forward a nominee to be considered and approved by three-fourths in value of the Shareholders and Creditors with Approved Scheme Claims at a meeting of Shareholders and a meeting of Creditors with Approved Scheme Claims, both to be convened with no less than fourteen (14) days' notice in writing. Where such nomination of replacement scheme administrator takes place after the Vesting Date, only the aforesaid meeting of Creditors with Approved Scheme Claims shall be required to be convened. The costs of convening such meetings of Shareholders (if required) and Creditors with Approved Scheme Claims, and the fees and expenses of such scheme administrator nominated by the Shareholder or Creditor with Approved Scheme Claim shall be borne by that party nominating such proposed replacement scheme administrator.
- 13.6 Any appointment of a successor Scheme Administrator must be in writing, signed by the person(s) appointing that successor and delivered to that successor. Any acceptance of such appointment must be in writing, signed by the person appointed and delivered to the person(s) appointing that successor. The other parties to this Scheme shall be promptly informed of the acceptance by a successor Scheme Administrator. Upon the successor accepting his appointment, the resigning Scheme Administrator shall be automatically discharged from any further obligation under this Scheme and his successor and each of the other parties to this Scheme shall have the same rights and obligations among themselves as they would have had if the successor had been the original Scheme Administrator to this Scheme. The resigning Scheme Administrator shall provide his successor with (or with copies of) such records as his successor requires to carry out his duties under this Scheme.

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## APPENDIX E – THE SCHEME

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- 13.7 For the purposes of implementing this Scheme, the Scheme Administrators shall not require the consent or approval of the Creditors or the Shareholders (as the case may be) for any action under this Scheme, and such consent or approval where required by law shall be deemed to have been given.
- 13.8 The Scheme Administrators shall have the power to do everything reasonably necessary to implement the provisions of this Scheme.
- 13.9 The appointment of any person as Scheme Administrator shall be terminated pursuant to the provisions of this Scheme or by his death or bankruptcy.
- 13.10 The Company shall do everything that is necessary to give effect to the directions and instructions of the Scheme Administrators, to the extent reasonably necessary to enable the Scheme Administrators to carry out their functions under this Scheme, and the Company shall further procure that the directors of the Company shall not prevent, frustrate, object to or otherwise prejudice the carrying out by the Scheme Administrators of its functions under this Scheme.
- 13.11 The Scheme Administrators shall at all times be indemnified and held harmless by the Company from and against any and all losses, damages, charges, costs and expenses of whatever nature which they may at any time and from time to time reasonably sustain, incur or suffer in connection with the exercise of its powers or the performance of its duties under this Scheme unless such losses, damages, charges, costs and expenses arise out of the gross negligence, fraud or wilful default of the Scheme Administrators.
- 13.12 To the extent that, in the Scheme Administrators' reasonable opinion, there is any doubt as to whether the Scheme Administrators may execute, perform or do any act, matter or thing under the powers conferred upon them under this Scheme then that act, matter or thing may be executed, performed or done with the written approval of the Judicial Managers.
- 13.13 The Scheme Administrators may apply to the Court for directions in relation to any particular matter arising in connection with the carrying out of their powers or functions under this Scheme or the interpretation of any specific provision of this Scheme and shall do all such things as the Court may by order, sanction or direct.
- 13.14 The Scheme Administrators may engage and pay solicitors, accountants, financial and other professional advisors and consultants to advise and assist the Scheme Administrators in the exercise of their rights and the performance and discharge of their duties as Scheme Administrators.
- 13.15 Save as may be expressly stated to the contrary, nothing in this Scheme shall constitute the Scheme Administrators as an agent of any Shareholder, Creditor or the Company.
- 13.16 The action or decision of any person holding appointment as the Scheme Administrators in relation to the Scheme or in the discharge or purported discharge of their duties as Scheme Administrators shall constitute the action or decision of all the persons holding appointment as the Scheme Administrators at that time and each of such persons shall be jointly and severally liable for the action or decision of the other at that time.

### **14. Remuneration, Fees and Disbursements**

The Scheme Administrators and their solicitors shall be entitled to such remuneration, fees and disbursements for their performance of their duties and services for taking any action that they are requested, authorised, or empowered to take under or in respect of this Scheme as may be approved: (i) at the Court Meetings; (ii) at a Scheme Meeting; or (iii) by the Court.

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## APPENDIX E – THE SCHEME

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### 15. Exclusion of Liability and Indemnity

- 15.1 The Scheme Administrators make no representation or warranty as to and/or shall not be responsible to the Company or any Shareholder or Creditor or AVIC Singapore or AVIC Kairong for:
- 15.1.1 the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Scheme Administrators, the Company or any other person given in or in connection with this Scheme; or
  - 15.1.2 the legality, validity, effectiveness, adequacy or enforceability of this Scheme or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with this Scheme
- unless caused by fraud, gross negligence or wilful misconduct on their part.
- 15.2 The Scheme Administrators shall not be liable to any Shareholder or Creditor for any and all losses, damages, charges, costs and expenses of whatever nature which such Shareholder or Creditor may sustain, incur or suffer in connection with or arising from any act or omission on his part in relation to the implementation of this Scheme unless caused by gross negligence, fraud, or wilful misconduct on their part.
- 15.3 The Scheme Administrators shall not be responsible for the legality, validity, effectiveness, adequacy or enforceability of or any delay (or any related consequences) in the allotment and issue or transfer of Consideration Shares or distribution of the proceeds thereof to any Shareholder or Creditor under this Scheme, unless caused by gross negligence, fraud, or wilful misconduct on their part.
- 15.4 The Scheme Administrators shall not be responsible for any delay (or any related consequences) in the cancellation of all the share certificates in respect of the total aggregate of the issued Shares representing a holding of the Shares by the Shareholders under this Scheme.
- 15.5 The Scheme Administrators shall at all times be indemnified and held harmless by the Company from and against any and all losses, damages, charges, costs and expenses of whatever nature which may at any time and from time to time sustain, incur or suffer in connection with the exercise of any powers or the performance of any duties under this Scheme unless losses, damages, charges, costs and expenses arise out of any fraud, dishonesty or wilful default on their part.
- 15.6 The Scheme Administrators shall not be liable to the Company in any way for any loss, damage or liability incurred or suffered by the Company as a result of or arising in any way from any claim made against any person in the name and/or on behalf of the Company by or at the request or direction of the Scheme Administrators and in either case, in the exercise of any right, power or discretion conferred on the Scheme Administrators under this Scheme.



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## APPENDIX E – THE SCHEME

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### **PART VIII – SCHEME MEETINGS**

#### **16. Scheme Meetings**

- 16.1 The Scheme Administrators may at any time convene a meeting of the Shareholders and/or meeting of Creditors with Approved Scheme Claims ("**Scheme Meeting**").
- 16.2 The Scheme Administrators shall have sole and absolute power to convene a meeting of Shareholders, a meeting of Creditors with Approved Scheme Claims, or both, under this Scheme.
- 16.3 All Scheme Meetings shall be held in Singapore.
- 16.4 At least ten (10) days prior written notice of the Scheme Meeting (exclusive of the day on which the notice is served or deemed to be served but inclusive of the day for which the notice is given) shall be given to each and all the Shareholders and/or Creditors with Approved Scheme Claims. The notice convening any Scheme Meeting shall specify the time and venue of the Scheme Meeting and shall state the resolutions proposed to be passed or the matters proposed to be discussed and resolved at the Scheme Meeting.
- 16.5 No resolution shall be passed and no matters shall be discussed or resolved at any Scheme Meeting unless a quorum of Shareholders and/or Creditors with Approved Scheme Claims is present at the time appointed for the Scheme Meeting.
- 16.6 The quorum for any meeting of Shareholders shall be any two Shareholders. If a quorum is not present by the time appointed for any meeting of Shareholders, then the meeting shall be dissolved.
- 16.7 The quorum for any meeting of Creditors with Approved Scheme Claims shall be any two Creditors who have Approved Scheme Claims subsisting at the time. If a quorum is not present by the time appointed for any meeting of Creditors with Approved Scheme Claims, then the meeting shall be dissolved.
- 16.8 The chairman of every Scheme Meeting shall be one of the Scheme Administrators.
- 16.9 The chairman may, adjourn the Scheme Meeting from time to time and from place to place, but no matter shall be discussed, dealt with or resolved upon at the adjourned meeting other than those which remain unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Except as aforesaid, it shall not be necessary to give any notice of any adjournment or of the matters to be discussed or resolved at an adjourned meeting.
- 16.10 Every resolution of the Shareholders on any matter before a meeting of Shareholders shall be passed only with the support of a majority in number and value of Shareholders present and voting (whether in person or by proxy) on the resolution.
- 16.11 Every resolution of the Creditors with Approved Scheme Claims on any matter before a meeting of such creditors shall be passed only with the support of a majority in number and value of the total Approved Scheme Claims of all creditors present and voting (whether in person or by proxy) on the resolution.



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## **APPENDIX E – THE SCHEME**

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- 16.12 Any Shareholder or Creditor with an Approved Scheme Claim which is not a natural person must appoint a proxy to attend and vote on its behalf at any or all Scheme Meetings and any Shareholder or Creditor with Approved Scheme Claim may appoint any natural person to be his proxy or attorney to attend and vote on his behalf at any or all Scheme Meetings. No Shareholder or Creditor with Approved Scheme Claim shall be entitled to appoint more than one proxy or attorney to attend and vote at any Scheme Meeting and the proxy or attorney shall not be allowed to attend and vote at any Scheme Meeting except in the absence of his appointor. A Shareholder or Creditor with Approved Scheme Claim may revoke the appointment of any person as his proxy or attorney by giving written notice thereof to the Scheme Administrators.
- 16.13 Any instrument or document appointing any person as proxy or attorney of any Shareholder or Creditor with an Approved Scheme Claim must be in the form and terms prescribed or approved by the Scheme Administrators from time to time and shall be delivered to the Scheme Administrators at such address as they may specify not less than forty-eight (48) hours before the time appointed for any Scheme Meeting. The Scheme Administrators shall be entitled to reject and disregard whether for any particular Scheme Meeting or for all Scheme Meetings any instrument or document submitted or delivered in contravention of this Clause.

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## **APPENDIX E – THE SCHEME**

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### **PART IX: MISCELLANEOUS**

#### **17. Modifications or Amendments to the Scheme**

The Company may, for and on behalf of all persons concerned (including without limitation the Shareholders and the Creditors), consent to any modification of, or amendment to, this Scheme if such modification or amendment is, in the opinion of the Judicial Managers and/or the Scheme Administrators, not prejudicial to the rights and interests of the Creditors and Shareholders whether under this Scheme or otherwise, and subject to the Court sanctioning such modification or amendment.

#### **18. Notices**

18.1 Every notice to be given to a Creditor or Shareholder in connection with any matter under this Scheme shall be duly served if:

18.1.1 (in the case of a Creditor) left or sent by ordinary post to such Creditor at the registered address of such Creditor or the address of such Creditor last known to the Company, provided that such address is in Singapore. Where such Creditor has not provided to the Judicial Managers and/or the Scheme Administrators an address in Singapore, such notice shall be duly served if announced via SGXNET or paid advertisement in a daily newspaper published and circulated in Singapore, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any Creditor to receive or see such announcement via SGXNET or advertisement; or

18.1.2 (in the case of a Shareholder) by announcement via SGXNET or paid advertisement in a daily newspaper published and circulated in Singapore, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any Shareholder to receive or see such announcement via SGXNET or advertisement. For the avoidance of doubt, for as long as the Company remains listed on the SGX-ST, it will continue to notify all Shareholders of any matter relating to this Scheme by announcement via SGXNET.

18.2 For the avoidance of doubt, every notice served shall be deemed received by the Creditor or Shareholder, regardless of whether the said notice be actually received and whether the notice is returned to the Company.

#### **19. Proper Law and Jurisdiction**

19.1 This Scheme shall be governed by and construed in accordance with the laws of the Republic of Singapore.

19.2 The parties to this Scheme hereby irrevocably submit to the exclusive jurisdiction of the courts of the Republic of Singapore in relation to any legal actions or proceedings arising out of or in connection with this Scheme.

19.3 If any one or more provisions contained in this Scheme shall, for any reason, be held to be invalid, illegal or unenforceable in any respect under the laws of any jurisdiction, then such invalidity, illegality or unenforceability shall not affect any other provision of this Scheme and the parties to the Scheme agree to carry out this Scheme so as to as nearly as possible give effect to the original intention of the invalid, illegal or unenforceable provision.

#### **20. Contracts (Rights of Third Parties) Act**

Save for the Judicial Managers and the Scheme Administrators, a person who is not a party to this Scheme has no right under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any term of this Scheme.

## APPENDIX E – THE SCHEME

### COMPANIES ACT (CHAPTER 50)

### SCHEDULE 1

#### PROOF OF DEBT FORM (This form will take about 15 minutes to complete)

1 <b>ORIGINATING SUMMONS 453 of 2010/P</b>	2 <b>Name of Company under Judicial Management</b>
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	Sino-Environment Technology Group Limited
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#### 3     **Particulars Of Creditor Claiming Debt**

**Name of Creditor:**

**IC/Passport No/Company/Business Registration No.:**

**Postal Address** *(Please see note a):*

**Contact Nos. (Tel/Pager/HP):**

**Fax No.:**

**Email Address:**

**Creditor's Reference No.** *(Please see note b):*

#### 4     **Particulars Of Debt**

Date Debt	Details of Debt <i>(Please see notes c, d &amp; e)</i>	Currency	Amount (\$)
<b>Total Amount of Debt Claimed (In Figures):</b>			
<b>Total Amount of Debt Claimed (In Words):</b> _____			
_____			

#### 5     **Security Held** *(Please indicate "NIL" if no securities are held by creditor)*

**Brief Description & Value of Securities:**

## APPENDIX E – THE SCHEME

### 6 Particulars Of Person Authorised To Complete This Proof of Debt Form

(If same as in box 3 above, please indicate "see box 3 above")

Name: _____
NRIC No./Passport No.: _____
Relationship to Creditor: _____ <small>(State whether director/employee/solicitors/accountant, etc)</small>
Name of Company/Firm: _____ <small>(Where applicable)</small>
Contact Nos: (Tel/pager/HP): _____
Fax No.: _____ E-mail address: _____

### 7 Signature of Creditor/Person Authorised to Complete This Proof of Debt Form

- 7.1** I declare that to the best of my knowledge and belief, the company owes the creditor the amount claimed in box 4.
- 7.2** I declare that I am duly authorised, by the creditor/under the seal of the creditor company, to complete this proof of debt form.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_  
(Day) (Month) (Year)

### **WARNING**

**Lodging a false proof of debt is a criminal offence punishable with fine or imprisonment or both.**

**Note:**

- a. Please inform the Judicial Managers / Scheme Administrators of any change in address.
- b. Please indicate the reference number that will be quoted in future correspondences with the Judicial Managers / Scheme Administrators.
- c. Examples of Debts are:
 

- Goods Supplied	- Services Rendered	- GST	- Others (please specify)
- Wages and Salaries	- Personal Loan	- Overdraft facilities	
- Income Tax	- Property Tax	- CPF	
- d. Please attach copies of documents substantiating the debt. The onus is upon the creditor to prove the debt.
- e. For claims made by an authorised person on behalf of a group of workmen and others employed by the company, please provide a schedule reflecting the name, identification/passport no., address, debt description, period for which wages are due and the amount due, for each individual workman/employee.

### **For Official Use Only**

**Adjudicated on** \_\_\_\_\_ **day of** \_\_\_\_\_ **year** \_\_\_\_\_

**Admitted as follows:**

Preferential	\$ _____
Ordinary	\$ _____
Total Admitted	\$ _____
Amount Rejected	\$ _____
Total amount of Debt claimed	\$ _____

\_\_\_\_\_  
*Signature of Judicial Manager*

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**APPENDIX F – NOTICES OF COURT MEETINGS**

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**NOTICE OF COURT MEETING OF CREDITORS**

**IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE**

Originating Summons    )  
No. 453 of 2010/ P        )

**In the Matter of SINO-ENVIRONMENT  
TECHNOLOGY GROUP LIMITED (Under Judicial  
Management)  
(RC No. 200106480Z)**

**And**

**In the Matter of Section 210 (read with Section  
227X) of the Companies Act, Chapter 50 of  
Singapore**

**SCHEME OF COMPROMISE AND ARRANGEMENT**

**Under Section 210 (read with Section 227X) of the Companies Act,  
Chapter 50 of Singapore**

**Between**

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
(UNDER JUDICIAL MANAGEMENT)  
(RC No. 200106480Z)**

**And**

**ITS SHAREHOLDERS AND CREDITORS  
(as defined in the Scheme)**

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## APPENDIX F – NOTICES OF COURT MEETINGS

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### NOTICE OF COURT MEETING OF CREDITORS

**NOTICE IS HEREBY GIVEN** that pursuant to leave granted by the High Court of Singapore by order dated 28 June 2011 in Summons No. 2435 of 2011/Z in Originating Summons No. 453 of 2010/P, a meeting of the Creditors of Sino-Environment Technology Group Limited (Under Judicial Management) (the “**Company**”) will be held at Training Room 903, NTUC Centre, One Marina Boulevard, Singapore 018989 on **26 August 2011, 9.30 a.m.**, for the purposes of considering and, if thought fit, approving (with or without modification) the Scheme of Compromise and Arrangement (the “**Scheme**”) dated 10 August 2011 proposed to be made pursuant to Section 210 (read with Section 227X) of the Companies Act (Cap. 50) (the “**Act**”) between (1) the Company and (2) its Shareholders and Creditors (as defined in the Scheme), and any other incidental matters.

The Scheme, the Explanatory Statement (in compliance with Section 211 of the Act) and related documents (collectively, the “**Scheme Document**”) will be sent by ordinary post to Creditors with local addresses and who have provided the Judicial Managers with these addresses.

Creditors with overseas addresses will not be provided with a copy of the Scheme Document. They should provide a local address to the Judicial Managers should they wish to have a copy of the Scheme Document delivered to them.

Creditors can also obtain copies of the Scheme Document from One Raffles Quay, North Tower Level 18, Singapore 048583 during normal business hours on any day (other than a Saturday, a Sunday or a public holiday) prior to the day appointed for the Court Meeting of Creditors. Persons who wish to obtain copies of such documents are requested to contact Louis Goh or Kevin Wang at 6309 6470 and 6309 8492 before attending at the above mentioned address.

In addition, it is proposed that a resolution approving the Judicial Managers’ fees and expenses be voted upon by the Creditors at the aforementioned meeting.

The instructions for the submission of the Proof of Debt for the purpose of participating and voting at the Court Meeting of Creditors are set out in the Scheme. If the Judicial Managers do not receive a Proof of Debt from a Creditor by 5.00 p.m. on 15 August 2011, such Creditor may, at the discretion of the Judicial Managers, not be entitled to vote at the Court Meeting of Creditors.

Creditors may vote in person at the Court Meeting of Creditors or may appoint another person as his proxy to attend and vote in his stead. A form of proxy applicable for the Court Meeting of Creditors is enclosed in the Scheme Document.

Forms appointing proxies must be lodged at One Raffles Quay, North Tower Level 18, Singapore 048583 not later than 5.00 p.m. on 24 August 2011.

Dated this 10 August 2011

STAMFORD LAW CORPORATION  
10 Collyer Quay #27-00  
Ocean Financial Centre  
Singapore 049315  
Solicitors for the Company

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**APPENDIX F – NOTICES OF COURT MEETINGS**

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**NOTICE OF COURT MEETING OF SHAREHOLDERS**

**IN THE HIGH COURT OF THE REPUBLIC OF SINGAPORE**

Originating Summons    )  
No. 453 of 2010/ P        )

**In the Matter of SINO-ENVIRONMENT  
TECHNOLOGY GROUP LIMITED (Under Judicial  
Management)  
(RC No. 200106480Z)**

**And**

**In the Matter of Section 210 (read with Section  
227X) of the Companies Act, Chapter 50 of  
Singapore**

**SCHEME OF COMPROMISE AND ARRANGEMENT**

**Under Section 210 (read with Section 227X) of the Companies Act,  
Chapter 50 of Singapore**

**Between**

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED  
(UNDER JUDICIAL MANAGEMENT)  
(RC No. 200106480Z)**

**And**

**ITS SHAREHOLDERS AND CREDITORS  
(as defined in the Scheme)**

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## APPENDIX F – NOTICES OF COURT MEETINGS

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### NOTICE OF COURT MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN** that that pursuant to leave granted by the High Court of Singapore by order dated 28 June 2011 in Summons No. 2435 of 2011/Z in Originating Summons No. 453 of 2010/P, a meeting of the Shareholders of Sino-Environment Technology Group Limited (Under Judicial Management)(the “**Company**”) will be held at Training Room 903, NTUC Centre, One Marina Boulevard, Singapore 018989 on **26 August 2011 at 11.00 a.m.**, for the purposes of considering and, if thought fit, approving (with or without modification) the Scheme of Compromise and Arrangement (the “**Scheme**”) dated 10 August 2011 proposed to be made pursuant to Section 210 (read with Section 227X) of the Companies Act (Cap. 50) (the “**Act**”) between (1) the Company and (2) its Shareholders and Creditors (as defined in the Scheme), and any other incidental matters.

The Scheme, the Explanatory Statement (in compliance with Section 211 of the Act) and related documents (collectively, the “**Scheme Document**”) will be sent by ordinary post to Shareholders with local addresses and who have provided the Judicial Managers with these addresses.

Shareholders with overseas addresses will not be provided with a copy of the Scheme Document. They should provide a local address to the Judicial Managers should they wish to have a copy of the Scheme Document delivered to them.

Any person entitled to attend the Court Meeting of Shareholders can also obtain copies of the Scheme Document from One Raffles Quay, North Tower Level 18, Singapore 048583 during normal business hours on any day (other than a Saturday, a Sunday or a public holiday) prior to the day appointed for the Court Meeting of Shareholders. Persons who wish to obtain copies of such documents are requested to contact Louis Goh or Kevin Wang at 6309 6470 and 6309 8492 before attending at the above mentioned address.

Shareholders may vote in person at the Court Meeting of Shareholders or may appoint another person, whether a member of the Company or not as his proxy to attend and vote in his stead. A form of proxy applicable for the Court Meeting of Shareholders is enclosed in the Scheme Document. Forms appointing proxies must be lodged at One Raffles Quay, North Tower Level 18, Singapore 048583 not later than 5.00 p.m. on 24 August 2011.

In the case of joint Shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder or holders. For this purpose, seniority will be determined by the order in which the names stand in the Registry of Members of the Company.

Dated this 10 August 2011

STAMFORD LAW CORPORATION  
10 Collyer Quay #27-00  
Ocean Financial Centre  
Singapore 049315  
Solicitors for the Company



## APPENDIX G – PROXY FORMS

### PROXY FORM FOR COURT MEETING OF CREDITORS

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED**  
(UNDER JUDICIAL MANAGEMENT)  
(Incorporated in the Republic of Singapore)

### FORM OF PROXY FOR USE AT THE COURT MEETING OF CREDITORS (OR AT ANY ADJOURNMENT THEREOF)

Originating Summons )  
No. 453 of 2010/P )

**In the Matter of SINO-ENVIRONMENT TECHNOLOGY  
GROUP LIMITED (Under Judicial Management)**  
(RC No: 200106480Z)

And

**In the Matter of Section 210 (read with Section 227X) of  
the Companies Act, Chapter 50 of Singapore**

### SCHEME OF COMPROMISE AND ARRANGEMENT

Under Section 210 (read with Section 227X) of the Companies Act,  
Chapter 50 of Singapore

Between

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED**  
(UNDER JUDICIAL MANAGEMENT)  
(RC No.: 200106480Z)

And

**ITS SHAREHOLDERS AND CREDITORS**  
(as defined in this Scheme of Compromise and Arrangement)

I/We, \_\_\_\_\_

of \_\_\_\_\_

being a Creditor of Sino-Environment Technology Group Limited (Under Judicial Management) hereby appoint:

Name	Address	NRIC/Passport Number

or failing him:

Name	Address	NRIC/Passport Number

or failing him/them, the Chairman of the Court Meeting of Creditors (“**Court Meeting**”) convened on the directions of the High Court of the Republic of Singapore as my/our proxy, to attend and vote for me/us on my/our behalf at the Court Meeting to be held at Training Room 903, NTUC Centre, One Marina Boulevard, Singapore 018989 on 26 August 2011, 9.30 a.m, and at any adjournment thereof, for the purpose of considering and, if thought fit, approving (with or without modification) the Scheme referred to in the Notice convening the Court Meeting of Creditors (the “**Notice**”).



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## APPENDIX G – PROXY FORMS

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I/We direct my/our proxy to vote at such Court Meeting for me/us in my/our name(s) for the said Scheme (either with or without modification, as my/our proxy may approve) or against the said Scheme as hereunder indicated. If no specific direction as to the manner of voting is given, the proxy will vote or abstain from voting at his/their discretion.

FOR the said Scheme (✓)	AGAINST the said Scheme (✓)

\* If you wish to vote “**for**” the Scheme, tick (✓) in the box marked “**FOR** the said Scheme”. If you wish to vote “**against**” the Scheme, tick (✓) in the box marked “**AGAINST** the said Scheme”. **DO NOT TICK BOTH BOXES.**

In addition, I/we direct my/our proxy to vote at the meeting for me/us in my/our name(s) for the approval of the Judicial Managers’ fees and expenses as hereunder indicated. If no specific direction as to the manner of voting is given, the proxy will vote or abstain from voting at his/their discretion.

FOR the approval of the Judicial Managers’ fees and expenses (✓)	AGAINST the approval of the Judicial Managers’ fees and expenses (✓)

\* If you wish to vote “**for**” the approval of the Judicial Managers’ fees and expenses, tick (✓) in the box marked “**FOR** the approval of the Judicial Managers’ fees and expenses”. If you wish to vote “**against**” the approval of the Judicial Managers’ fees and expenses, tick (✓) in the box marked “**AGAINST** the approval of the Judicial Managers’ fees and expenses”. **DO NOT TICK BOTH BOXES.**

Dated this \_\_\_\_\_ 2011

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**Signature of Individual Member or Common Seal of Corporate Member**

**Notes:**

1. All capitalised terms used herein and defined in the Notice shall, unless otherwise defined herein, bear the respective meanings ascribed thereto in the said Notice.
2. Full name(s) of person, full name of Creditor, and address(es) are to be inserted in BLOCK CAPITALS.
3. If no person is named as proxy, the Chairman of the Court Meeting shall, by default be appointed proxy for the purposes of this form of proxy.
4. You are requested to lodge this form of proxy with the Judicial Managers of the Company at One Raffles Quay, North Tower Level 18, Singapore 048583 (Attention: Ee Meng Yen Angela) not later than 5.00 p.m. on 24 August 2011.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, if you are a corporation, must either be executed under seal or under the hand of an officer or attorney duly authorised (in which event, the authority of such officer or attorney must accompany this Proxy Form). The signature need not be witnessed.
6. Any alteration made to this form of proxy should be initialled by the person who signs it.
7. The proxy must attend the Court Meeting in person to represent you, failing which the Chairman of the Court Meeting will by default be appointed proxy for the purposes of this form of proxy.
8. **The Judicial Managers and/or the Company shall be entitled to reject the instrument appointing the proxy if it is incomplete, illegal or altered without authentication or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing the proxy.** Please ensure that you fill out and execute this proxy form correctly.

## APPENDIX G – PROXY FORMS

### PROXY FORM FOR COURT MEETING OF SHAREHOLDERS

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED**  
**(UNDER JUDICIAL MANAGEMENT)**  
**(Incorporated in the Republic of Singapore)**

**FORM OF PROXY FOR USE AT THE COURT MEETING OF SHAREHOLDERS (OR AT ANY ADJOURNMENT THEREOF)**

**IMPORTANT**

For investors who have used their CPF monies to buy Shares in the capital of the Company, this Scheme Document is forwarded to them at the request of their CPF Approved Nominee and is sent solely FOR INFORMATION ONLY.

This Proxy form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

Originating Summons       )  
No. 453 of 2010/P        )

**In the Matter of SINO-ENVIRONMENT TECHNOLOGY  
GROUP LIMITED (Under Judicial Management)**  
**(RC No: 200106480Z)**

**And**

**In the Matter of Section 210 (read with Section 227X) of  
the Companies Act, Chapter 50 of Singapore**

**SCHEME OF COMPROMISE AND ARRANGEMENT**

Under Section 210 (read with Section 227X) of the Companies Act,  
Chapter 50 of Singapore

Between

**SINO-ENVIRONMENT TECHNOLOGY GROUP LIMITED**  
**(UNDER JUDICIAL MANAGEMENT)**  
**(RC No.: 200106480Z)**

**And**

**ITS SHAREHOLDERS AND CREDITORS**

(as defined in this Scheme of Compromise and Arrangement)

I/We, \_\_\_\_\_ of

being a Shareholder of Sino-Environment Technology Group Limited (Under Judicial Management) hereby appoint:

Name	Address	NRIC/Passport Number

or failing him:

Name	Address	NRIC/Passport Number



## APPENDIX G – PROXY FORMS

or failing him/them, the Chairman of the Court Meeting of Shareholders (“**Court Meeting**”) convened on the directions of the High Court of the Republic of Singapore as my/our proxy, to attend and vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Court Meeting to be held at Training Room 903, NTUC Centre, One Marina Boulevard, Singapore 018989 on 26 August 2011, 11.00 a.m, and at any adjournment thereof, for the purpose of considering and, if thought fit, approving (with or without modification) the Scheme referred to in the Notice convening the Court Meeting of Shareholders (the “**Notice**”).

I/We direct my/our proxy to vote in the manner indicated below. If no specific direction as to the manner of voting is given, the proxy will vote or abstain from voting at his discretion.

FOR the said Scheme (✓)	AGAINST the said Scheme (✓)

\* If you wish to vote “**for**” the Scheme, tick (✓) in the box marked “**FOR** the said Scheme”. If you wish to vote “**against**” the Scheme, tick (✓) in the box marked “**AGAINST** the said Scheme”. **DO NOT TICK BOTH BOXES.**

Dated this \_\_\_\_\_ 2011

Total Number of Shares held

\_\_\_\_\_  
**Signature of Individual Member or Common Seal of Corporate Member**

**Notes:**

1. All capitalised terms used herein and defined in the Notice shall, unless otherwise defined herein, bear the respective meanings ascribed thereto in the said Notice.
2. Full name(s) of person, full name of Shareholder, and address(es) are to be inserted in BLOCK CAPITALS.
3. If no person is named as proxy, the Chairman of the Court Meeting shall, by default be appointed proxy for the purposes of this form of proxy.
4. You are requested to lodge this form of proxy with the Judicial Managers of the Company at One Raffles Quay, North Tower Level 18, Singapore 048583 (Attention: Ee Meng Yen Angela) not later than 5.00 p.m. on 24 August 2011.
5. In the space provided for “**Total Number of Shares held**”, please write the total number of Shares held by you. If you only have Shares entered against you name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should write that number of Shares. If you only have Shares registered in your name in the Company’s register of members, then you should write that number of Shares. However, if you have Shares entered against your name both in the Depository Register and the register of members, you should write the total number of your Shares in these Registers.
6. This form of proxy must be signed by you or your attorney duly authorised in writing or, if you are a corporation, must either be executed under seal or under the hand of an officer or attorney duly authorised (in which event, the authority of such officer or attorney must accompany this Proxy Form). The signature need not be witnessed.
7. A corporation which is a Shareholder may authorise by resolution, its directors or other governing body or such person as it thinks fit to act as its representative at the meeting in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
8. Any alteration made to this form of proxy should be initialled by the person who signs it.
9. The proxy must attend the Court Meeting in person to represent you, failing which the Chairman of the Court Meeting will by default be appointed proxy for the purposes of this form of proxy.
10. **The Judicial Managers and/or the Company shall be entitled to reject the instrument appointing the proxy if it is incomplete, illegal or altered without authentication or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing the proxy.** Please ensure that you fill out and execute this proxy form correctly. In addition, the Judicial Managers and/or the Company may reject any instrument appointing the proxy if the appointor is not shown to have Shares entered against his name in the registry of members of the Company or in the Depository Register as certified by the Central Depository (Pte) Limited to the Company at 5.00 p.m. on 24 August 2011.



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RELEASE OF PRICEWATERHOUSECOOPERS REPORT

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1. The Independent Directors of the Company, Mr Goh Chee Wee and Dr Wong Chiang Yin, refer to the announcement released on 27 November 2009 by the Executive Directors of the Company (the **"27 November 2009 Announcement"**).
2. The Independent Directors' responses to the allegations made by the Executive Directors in the 27 November 2009 Announcement have already been set out in the announcements made by the Independent Directors on 13 November 2009 and 23 November 2009 and in any event, the Independent Directors consider these allegations as being baseless. The Independent Directors see no merit in repeating their earlier responses.
3. The Independent Directors have, in their capacity as the Audit Committee of the Company, received a report issued by PricewaterhouseCoopers ("**PwC**") concerning the Company's affairs, in particular, the recent significant cash transactions of the Company ("**PwC Report**"). The PwC Report raises matters of grave and immediate concern.
4. The Independent Directors set out below a summary of the key findings contained in the PwC Report for the attention of the Company's shareholders.

**Executive summary of PwC findings to date**

(A) Payment for alleged purchase of Denox raw materials

5. Based on documents provided to PwC by the management of the Company's subsidiaries in the People's Republic of China ("**PRC Management**"), China Energy Environment Holdings ("**China Energy**"), one of the Company's wholly-owned subsidiaries, made a payment of approximately **JPY 920 million (approx. SGD 14 million or approx. RMB 66 million)** on 22 May 2009 allegedly to a Japanese company known as JGC Catalysts and Chemicals ("**JGCCC**").
6. The PRC Management informed PwC that the Xiamen International Bank ("**XIB**") account from which the **JPY 920 million** was purportedly paid



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required only a single signatory – Mr Sun Jiangrong, the Chairman and Chief Executive Officer ("CEO") of the Company.

7. The PRC Management informed PwC that this payment was made by China Energy on behalf of another wholly-owned subsidiary of the Company, Fujian Thumb Environmental Facilities Co Ltd ("**Thumb Facilities**"), for the purchase of Denox raw materials from JGCCC. The PRC Management provided PwC with a copy of the purchase contract which was purportedly signed by the authorised signatories of Thumb Facilities and JGCCC ("**Purchase Contract**").
8. The PRC Management informed PwC that no raw materials relating to the Purchase Contract had been received as at 26 August 2009. Neither was there any acknowledgement by JGCCC of the **JPY 920 million** it received from China Energy, nor any document retained by China Energy evidencing the payment to JGCCC.
9. After PwC approached JGCCC to enquire into the alleged transaction, JGCCC replied on 15 September 2009 to say that it had not entered into the Purchase Contract and that it had not received any payment of **JPY 920 million** from China Energy. JGCCC also informed PwC that there was no employee in JGCCC bearing the name of the alleged JGCCC representative who signed the alleged Purchase Contract.
10. PwC had previously requested the PRC Management to provide them with the necessary authorisation letter to allow them to liaise directly and independently with the bank from which the payment of **JPY 920 million** had been purportedly made so that PwC could, amongst other things, verify the bank documents as part of PwC's bank confirmation exercise. The PRC Management refused to provide such an authorisation letter and instead claimed that they (the PRC Management) had already provided an authorisation letter to the relevant personnel in the bank directly to expedite PwC's bank confirmation exercise. No other explanation was provided by the PRC Management for refusing to provide PwC with the requested authorisation letter.
11. Subsequently, the PRC Management arranged for PwC to visit the XIB Quanzhou representative office, although the bank document provided to



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PwC by the PRC Management suggests that the bank account from the which the payment of approximately **JPY 920 million** had purportedly been made was with XIB, Xiamen Branch. The PRC Management also accompanied PwC on their visit to the XIB Quanzhou representative office.

12. On arriving at the XIB Quanzhou representative office:
  - a. PwC discovered that a specific bank officer had been pre-arranged to meet with them and this officer already had bank statements and documents prepared for PwC to examine. PwC was unable to verify the information contained in these statements and documents with the bank's IT systems;
  - b. The officer refused to provide his name to PwC or answer any of PwC's questions relating to his identity or the statements and documents provided;
  - c. There appeared to be only three staff in the entire representative office at the time of PwC's visit – the "branch manager" (as he introduced himself), the receptionist and the officer who assisted PwC; and
  - d. The "branch manager" was not willing to answer any of PwC's questions relating to China Energy's bank account with XIB and subsequently forced PwC off the premises, pulling down the roller-shutter.
13. Despite PwC's repeated requests to the PRC Management and the Company's CEO, neither the PRC Management nor the Company CEO agreed to provide or provided PwC with the necessary authorisation letter to obtain information directly and independently from XIB.
14. PwC did not see any formal approval by the Company's Board for the payment of **JPY 920 million** although the Independent Directors had instructed the Executive Directors on 11 May 2009 that all payments above SGD 500,000 had to be properly authorised. PwC understands also that the Independent Directors were only informed of the **JPY 920 million** payment after it had been made.





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- (B) Payments for investments in waste power projects
15. Based on the bank documents provided to PwC by the PRC Management, Fujian Fuda Desai Environmental Protection Co Ltd ("**Desai**"), a wholly owned subsidiary of the Company, paid a total of approximately **RMB 230 million (approx. SGD 50 million)** to various parties from 1 January 2009 to 30 June 2009 to invest in four separate waste power plant projects. These payments were made from Desai's bank account with Bank of Communications, Fuzhou branch.
16. PwC understands that any payments from the Bank of Communications require approvals in the form of two seals on the relevant bank instructions before the payments can be processed. The PRC Management informed PwC that one of these two seals was held by the Accountant of Desai and the other by a member of the PRC Management. However, the PRC Management also informed PwC that the CEO is the Legal Representative of Desai and that all payments require his prior approval.
17. Based on the documents provided to PwC and their discussions with the PRC Management, PwC understands that these waste power plant projects involved:
- a. Obtaining rights from rubbish dumpsite operators to harvest methane gas from the rubbish dumpsites ("**Dumpsite Rights**"); and
  - b. Constructing plant facilities on the dumpsite to extract, purify and convert the harvested methane gas into electricity for sale.
18. Based on PwC's review, the **payments post-11 May 2009** amounted to approximately **RMB 190 million (approx. SGD 41 million)**. These payments appear to have been made without the prior formal approval of the Company's Board and despite the Independent Directors' instruction that all major payments (above SGD 500,000) had to be properly authorised. PwC further understands that the Independent Directors only came to be aware of these payments in the course of PwC's review.
19. Based on the documents provided to PwC by the PRC Management, Desai does not appear to have commissioned a full and independent financial due diligence exercise before entering into these investments. The PRC





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Management was also not able to provide PwC with detailed plans of the total projected costs of these investments, or whether the Company and its subsidiaries have sufficient funds to complete the projects. PwC also did not come across any evidence that a legal due diligence exercise had been carried out by Desai or the PRC Management.

20. Although monies had been paid by Desai for the acquisition of the Dumpsite Rights, PwC did not see any documents indicating that the legal and beneficial ownership of such Dumpsite Rights had been transferred to Desai.
21. According to the documents provided to PwC by the PRC Management, it appears that the construction for certain projects was supposed to have been completed by April/May 2009. However, the PRC Management informed PwC that no significant work had been carried out on any of the projects as at 26 August 2009. This is despite the significant outflow of funds from Desai, purportedly for the acquisition of the Dumpsite Rights and to construct the plant facilities.
22. Further, there does not appear to have been any formal supplier tender process undertaken for these projects. PwC discovered that the power generator contracts and subcontracting work contracts for these projects had purportedly been awarded to contractors with asset sizes and operation levels significantly lower than the stipulated contract sums. PwC was not provided with any documents or analysis to support the basis of selection of these contractors.
23. In this regard, the PRC Management informed PwC that the power generators had not been delivered as at 26 August 2009, although 70% of the contract sums had been paid some months ago. PwC was also unable to locate any documentary acknowledgements of receipt of such payments from the sub-contractors.
24. PwC attempted to independently verify the bank documents which were provided to them by the PRC Management by visiting Bank of Communications, Fuzhou branch. During both their visits, PwC was accompanied by members of the PRC Management.
25. On arriving at Bank of Communications, Fuzhou branch:



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- a. PwC discovered that a specific bank officer had been pre-arranged to meet with them. This officer's name card identified him as a personal banking relationship manager, and not a corporate banking relationship manager;
  - b. The bank officer did not provide PwC with the bank statements and documents immediately, but only provided them with these documents on the following day; and
  - c. The bank officer refused to allow PwC permission to approach other bank staff to confirm that the documents provided to PwC had indeed been printed from the bank's IT system.
26. Accordingly, PwC is unable to determine whether the payments made by Desai were indeed paid to the rightful parties, as represented by the PRC Management, and in accordance with the various contracts which had been provided to PwC.
27. Despite PwC's subsequent request, the PRC Management refused to provide PwC with the necessary authorisation letter to enable PwC to perform a fresh confirmation exercise with Bank of Communication.
- (C) Other findings
28. Thumb Facilities made instalment payments between **1<sup>st</sup> January 2009 and 30<sup>th</sup> June 2009** amounting to **RMB 46.50 million (approx. SGD 10 million)** to purchase "fixed assets" for the Denox Catalysts Manufacturing Plant.
29. On both the site visits by PwC, PwC was unable to inspect up close the fixed assets. As a result, PwC could not conclusively determine if the fixed assets indicated to them by the technical personnel were indeed the Denox "fixed assets". PwC were not provided with any documentation or analysis to suggest why certain of the purchase contracts for fixed assets were awarded to a contractor with asset size and operation level that is significantly lower than the stipulated contract sum. PwC were not able to review any competitive tenders. PwC are therefore unable to comment on the reasonableness of the costs of the Denox "fixed assets" purchased.



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30. Fujian Weidong EPT Co Ltd, a wholly-owned subsidiary of the Company, made two interest free loans amounting to **RMB 50 million (approx. SGD 10 million) and RMB 5 million (approx. SGD 1 million)** respectively to two parties that do not appear to be related to the Company.
31. PwC did not come across any documentation evidencing that the Company's Board had been informed of or approved these loans.

(D) Caveats by PwC

32. PwC qualified its findings to date by stating that where findings, conclusions or inferences (adverse or otherwise) had been drawn against persons and/or entities, such findings, conclusions or inferences were not made known to the persons and/or entities implicated, and such persons and/or entities have therefore not had the opportunity to comment on and address these findings, conclusions or inferences.
33. PwC explained that such an opportunity had not been given to the persons/entities implicated because:
- a. They (PwC) had been hampered in the performance of their work and were unable to complete their work as they were not able to independently obtain bank statements from a number of banks in a manner that was satisfactory to them. Further, despite repeated requests, **the CEO**, who is the authorised signatory for the accounts in the relevant banks, **declined to provide PwC with the necessary authorisation letters** to obtain the bank statements directly and independently from the banks. Given the **lack of forthright cooperation on the part of the PRC Management and CEO**, PwC is of the view that the value of undertaking the further step of distributing its findings to the relevant persons is limited.; and
  - b. The authorities in several countries have been informed of PwC's findings and PwC understands that investigations by those authorities are still on-going.
34. PwC further commented in its letter setting out the findings to date that its findings are primarily based on the results of the work it carried out in accordance with the scope as set out in its engagement letters with the



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Company. The findings, drawn primarily on interviews and review of documents, are based on information made available to PwC up to 15 September 2009. New information, if they come to light, may have a bearing on the findings to date. PwC has also not commented on, reviewed or assessed the validity/enforceability of documents provided to them.

35. The Independent Directors are extremely concerned with the findings contained in the PwC Report. The Independent Directors note in this regard that the findings in the PwC Report call into question the conduct of the Executive Directors, and in particular the conduct of Mr Sun Jiangrong, the Chairman and CEO of the Company.
36. The Independent Directors will take all necessary and available steps to safeguard the Company's assets in light of PwC's findings and keep the Company's stakeholders apprised of all material developments in this regard.

**Company's money in the People's Republic of China**

37. The Executive Directors had, in their announcements on 18 and 27 November 2009, assured the Independent Directors and the shareholders of the Company that they were willing and prepared to transfer the Company's cash reserves amounting to approximately **SGD 14 million** from XIB to the Company's Singapore account with HSBC ("**Singapore Account**") on certain conditions.
38. To avoid further debate on this issue, the Independent Directors have agreed to these conditions. In the circumstances, the Independent Directors fully expect the Executive Directors to remit the **SGD 14 million** from XIB to the Company's Singapore Account without any further delay.
39. The Independent Directors also note that Mr Sun Jiangrong had assured Mr David Gerald, the President of the Securities Investor Association (Singapore), that a sum of **SGD 40 million** is being held on behalf of the Company in the People's Republic of China. In their latest announcement on 3 December 2009, the Executive Directors appear to have changed their position with regards to what Mr Sun Jiangrong had told Mr David Gerald. In particular, the Executive Directors said:

*"The EDs can confirm that the Group has at least RMB70 million [approx. SGD 14 million] in its various bank accounts in the People's Republic of China ("PRC"). The EDs are not able at this time to confirm the exact amount of cash in RMB and the details of the bank accounts in which these RMB funds are deposited.*



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*The EDs wish to clarify that when the Chairman mentioned the sum of S\$40 million in his unscheduled telephone conversation with Mr David Gerald of SIAS, he spoke without reference to specific records and meant to refer to an estimated aggregate amount which included trade and other receivables."*

40. The Independent Directors are surprised and troubled by the Executive Directors' abrupt change in position and urge the Executive Directors to immediately inform the Company and its shareholders of the exact amount of cash held by the Company and its subsidiaries in the People's Republic of China (with all relevant documentary proof) and, in any event, remit these monies immediately to the Company's Singapore Account.
41. Finally, in view of the serious findings contained in the PwC Report which call into question the conduct of the Executive Directors, and the sudden shift in the Executive Directors' position, the Independent Directors repeat and reiterate their earlier request that the Executive Directors resign immediately from all positions in the Board and the Company.

This announcement is made by the Independent Directors of the Company.

The Independent Directors are also the sole members of the Audit Committee of the Company. Mr Goh Chee Wee is the Audit Committee Chairman and Dr Wong Chiang Yin is presently the only other member of the Audit Committee.

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## APPENDIX I – FURTHER INFORMATION ON HLM

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HLM is a consulting firm based in the PRC and Hong Kong. HLM was established in 2001 by Mr. Clement Leung and Ms. Eliza Yuen. They are assisted by a team of professionals, including accountants and engineers, as well as personnel with other specialized skills. HLM has a strong network in the PRC and has close working relationships with affiliates in different parts of the PRC. Mr. Clement Leung, a founder and director, has extensive working experience in the PRC ever since its “open-door” policy in the 1970s including serving as an economic advisor to several provinces and cities in the PRC.

HLM specializes in the field of corporate finance and restructuring project management, mergers and acquisitions, initial public offerings, fund raising, corporate restructuring, asset recovery, and other consulting projects.

HLM has been directly involved with several asset recovery cases, including:

1. successfully assisting a major international gold mining company from Africa (“the **Principal**”) to secure its investment in a gold mine in Gansu Province, the PRC. The investment deal involved contribution of cash by the Principal and injection of mining assets by the PRC party to form a joint venture. The Principal had invested money into the joint venture but the PRC party failed to inject its mining asset. The HLM team represented the Principal to negotiate with the PRC party and local government officials, which resulted in enforcement of the agreement and the mining assets registered under the name of the joint venture.
2. advising a Hong Kong listed company which had provided a pre-listing loan of HKD200 million to a PRC individual who was supposed to use the loan to acquire certain coal mine assets in Shanxi Province, the PRC for injection into the Hong Kong listed company. The transaction was not completed. HLM provided advice to the principal to recover the loan as the acquisition was not successful.

On corporate restructuring, HLM (i) assists in rescuing companies in financial difficulties, (ii) assists in business or debts restructuring, (iii) provides accounting support in the debt restructuring process, and (iv) provides advice on liquidation procedures.

On mergers and acquisitions, HLM (i) identifies appropriate merger and acquisition targets for investors, (ii) assists clients to formulate proposals for optimum schemes of merger and acquisition, (iii) assists clients in the merger and acquisition negotiation process, (iv) assists to resolve problems encountered in the merger and acquisition process relating to financial, accounting or taxation aspects, (v) performs due diligence on merger and acquisition targets, and (vi) provides accounting support in the merger and acquisition process.