

# A STEADY STREAM

Sound Global Ltd. Interim Report 2012



Stock Code: E6E.SI(SGX) 00967(SEHK)  
Co. Reg. No. 200515422C



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A scenic landscape photograph of a traditional Chinese village. In the foreground, a calm lake reflects the surrounding environment. A wooden walkway with several pavilions and bridges crosses the water. The middle ground shows traditional Chinese buildings with tiled roofs nestled among lush green trees. In the background, misty mountains rise against a soft, hazy sky. The overall atmosphere is peaceful and natural.

## CORPORATE PROFILE

Sound Global Ltd. (formerly known as Epure International Ltd.) is one of China's leading turnkey water & wastewater treatment solutions providers. Backed by extensive R&D and technical expertise, it has successfully completed many award-winning projects. The Group develops proprietary technologies and customises them into effective turnkey solutions for industrial and municipal projects. It has a strong marketing network in China, where it is much sought after for its strong design and engineering project management capabilities.

In 2006, Sound Global diversified into the management of water treatment plants. It has also invested in Build, Operate and Transfer ("BOT") projects to diversify its project portfolio. The Group acquired Beijing Hi-Standard Water Treatment Equipment Co., Ltd. ("Hi-Standard"), progressing towards its aspiration of becoming a fully integrated services provider.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Wen Yibo (Chairman)  
Wang Kai (Chief Executive Officer)  
Luo Liyang  
Jiang Anping

### Independent Non-Executive Directors

Wong See Meng (Lead Independent Non-Executive Director)  
Seow Han Chiang Winston  
Fu Tao

## COMMITTEES

### Audit Committee

Wong See Meng (Chairman)  
Seow Han Chiang Winston  
Fu Tao

### Remuneration Committee

Seow Han Chiang Winston (Chairman)  
Wong See Meng  
Fu Tao

### Nomination Committee

Wong See Meng (Chairman)  
Wen Yibo  
Seow Han Chiang Winston

## AUTHORISED REPRESENTATIVES (SGX)

Wen Yibo  
Tan Wei Shyan

## AUTHORISED REPRESENTATIVES (SEHK)

Wen Yibo  
Wong Tak Yee

## JOINT COMPANY SECRETARIES

Tan Wei Shyan (LLB)  
Wong Tak Yee (FCIS, FCS (PE))  
Yu Man To Gerald (FCPA, CPA (AUST.))

## REGISTERED OFFICE

1 Robinson Road #17-00  
AIA Tower  
Singapore 048542  
Telephone: +65 6535 1944  
Facsimile: +65 6535 8577

## OFFICES

Principal Office and Contact Details  
National Environmental Protection Industry Zone  
Tongzhou District, Beijing 101102, PRC  
Telephone: +8610 6050 4718  
Facsimile: +8610 6050 4766

## Singapore Office and Contact Details

460 Alexandra Road #14-04  
PSA Building  
Singapore 119963  
Telephone: +65 6272 6678  
Facsimile: +65 6272 1658

## Hong Kong Office and Contact Details

Level 28, Three Pacific Place  
1 Queen's Road East  
Hong Kong  
Telephone: +852 2980 1888  
Facsimile: +852 2545 1628

## CORPORATE WEBSITE

<http://www.soundglobal.com.sg>

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China  
The Hongkong and Shanghai Banking Corporation Limited  
DBS Bank Ltd.  
The Bank of East Asia, Limited

## AUDITORS

Deloitte & Touche LLP  
Certified Public Accountants  
6 Shenton Way #32-00  
DBS Building Tower Two  
Singapore 068809  
Partner-in-charge: Lim Kuan Meng  
Date of appointment: April 27, 2012

Deloitte Touche Tohmatsu  
Certified Public Accountants  
35/F., One Pacific Place  
88 Queensway  
Hong Kong

## SOLICITORS

Shook Lin & Bok LLP  
1 Robinson Road #18-00  
AIA Tower  
Singapore 048542

WongPartnership LLP  
One George Street #20-01  
Singapore 049145

# FINANCIAL HIGHLIGHTS

## CONSOLIDATED RESULTS

	6 months ended June 30, 2012 RMB'000 (Unaudited)	6 months ended June 30, 2011 RMB'000 (Unaudited)
Revenue	1,184,034	1,060,268
Gross profit	351,087	329,552
Profit before income tax	225,762	209,774
Income tax expense	(32,311)	(34,345)
Profit for the period	<u>193,451</u>	<u>175,429</u>
Profit for the period attributable to		
Owners of the company	193,451	175,429
Non-controlling interest	-	-
	<u>193,451</u>	<u>175,429</u>
Earnings per Share		
Basic (RMB cents)	<u>15.00</u>	13.60
Diluted (RMB cents)	<u>14.80</u>	13.60

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at June 30, 2012 RMB'000 (Unaudited)	As at December 31, 2011 RMB'000 (Audited)
Current assets	4,095,696	3,701,937
Non-current assets	1,327,571	1,254,247
Total assets	<u>5,423,267</u>	<u>4,956,184</u>
Current liabilities	2,433,535	2,064,145
Non-current liabilities	552,158	587,370
Total liabilities	<u>2,985,693</u>	<u>2,651,515</u>
Capital and reserves	<u>2,437,574</u>	<u>2,304,669</u>

# MANAGEMENT DISCUSSION & ANALYSIS

## REVIEW OF GROUP'S FINANCIAL PERFORMANCE

### Revenue

The Group's revenue increased by approximately RMB123.7 million or 11.7% from approximately RMB1,060.3 million for the six months ended June 30, 2011 to approximately RMB1,184.0 million for the six months ended June 30, 2012.

The increase was attributed mainly to: (1) increased contribution from the Operation and Maintenance ("O&M") segment of approximately RMB14.7 million from approximately RMB23.2 million for the six months ended June 30, 2011 to approximately RMB37.9 million for the six months ended June 30, 2012 as certain BOT projects started operations; and (2) increased contribution from the turnkey Engineering, Procurement and Construction ("EPC") services amounting of approximately RMB82.9 million from approximately RMB1,004.9 million for the six months ended June 30, 2011 to approximately RMB1,087.8 million for the six months ended June 30, 2012 as the Group continues to be awarded and fulfilling its EPC projects in China.

### Gross Profit and Gross Profit Margin

Gross profit increased by approximately RMB21.5 million or 6.5% from approximately RMB329.6 million for the six months ended June 30, 2011 to approximately RMB351.1 million for the six months ended June 30, 2012. This increase was in line with the higher revenue and the stable gross profit margin.

The gross profit margin decreased by approximately 1.4% from approximately 31.1% for the six months ended June 30, 2011 to approximately 29.7% for the six months ended June 30, 2012. Given the nature of the turnkey projects, where revenue is recognised based on the percentage of completion, the gross profit margin for engineering works would fluctuate from quarter to quarter depending on the amount of revenue recognised for the relevant projects during the relevant quarters. On a year-to-year basis, the gross profit margin remained relatively stable at around 30%.

### Other Income

Other income increased by approximately RMB6.9 million or 35.6% from approximately RMB19.5 million for the six months ended June 30, 2011 to approximately RMB26.4 million for the six months ended June 30, 2012. This increase was mainly due to the deemed interest income arising from service concession receivables as a result of the increased investments in BOT projects.

### **Other Expenses**

Other expenses decreased by approximately RMB13.9 million or 100% from approximately RMB13.9 million for the six months ended June 30, 2011 to nil for the six months ended June 30, 2012.

Other expenses incurred for the six months ended June 30, 2011 was comprised of net foreign exchange loss and allowance for doubtful debts. The foreign exchange loss resulted from US dollar denominated bank balances as US dollars weaken.

### **Distribution and Selling Expenses**

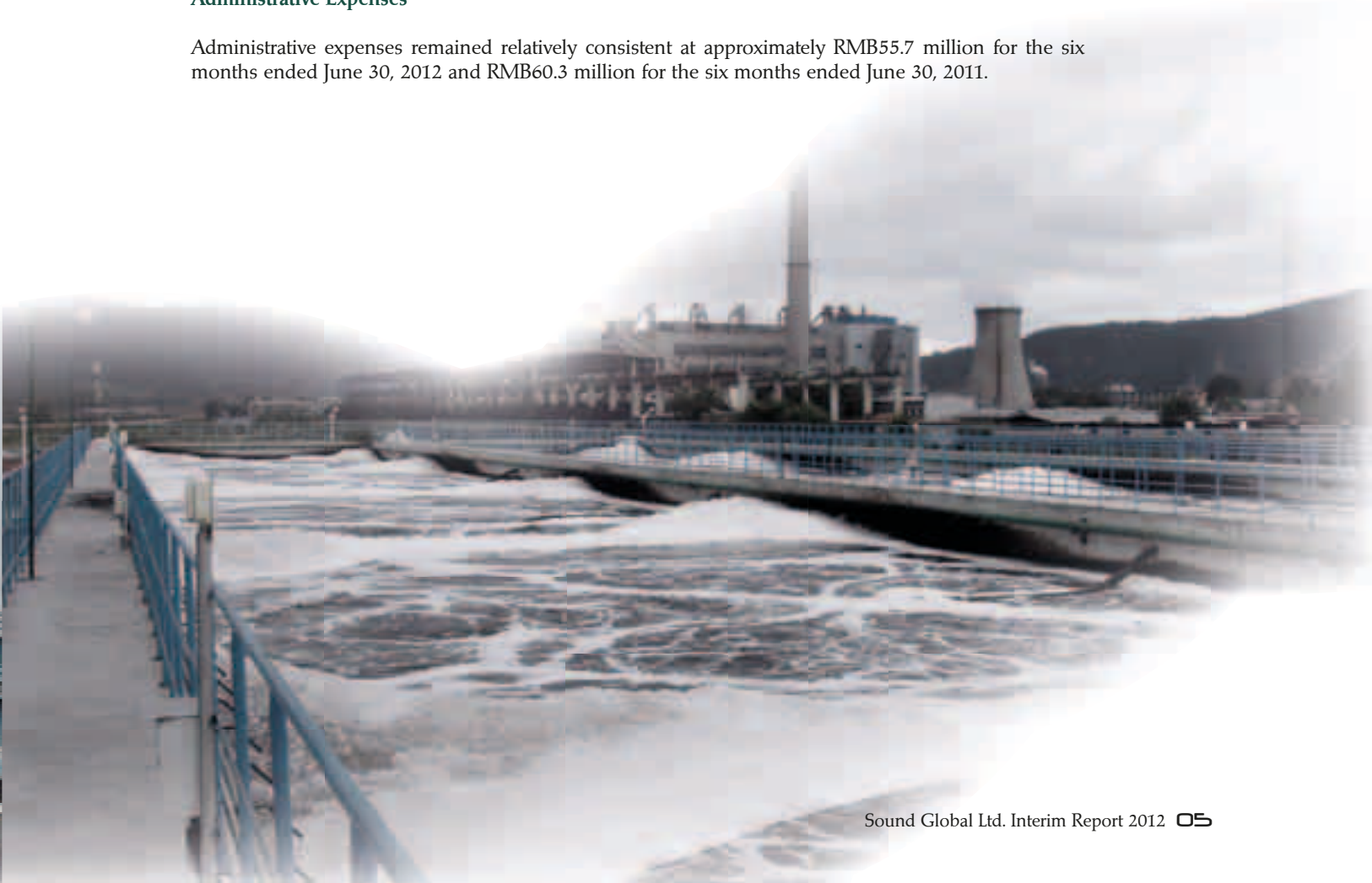
Distribution and selling expenses increased by approximately RMB11.1 million or 145.2% from approximately RMB7.6 million for the six months ended June 30, 2011 to approximately RMB18.7 million for the six months ended June 30, 2012. This was mainly due to the increase in tender fees paid to agents and staff costs.

### **Research and Development Expenses**

Research and development expenses increased by approximately RMB10.7 million or 219.7% from approximately RMB4.9 million for the six months ended June 30, 2011 to approximately RMB15.6 million for the six months ended June 30, 2012 mainly due to an increase in material costs and salaries to facilitate the increase in business operations.

### **Administrative Expenses**

Administrative expenses remained relatively consistent at approximately RMB55.7 million for the six months ended June 30, 2012 and RMB60.3 million for the six months ended June 30, 2011.



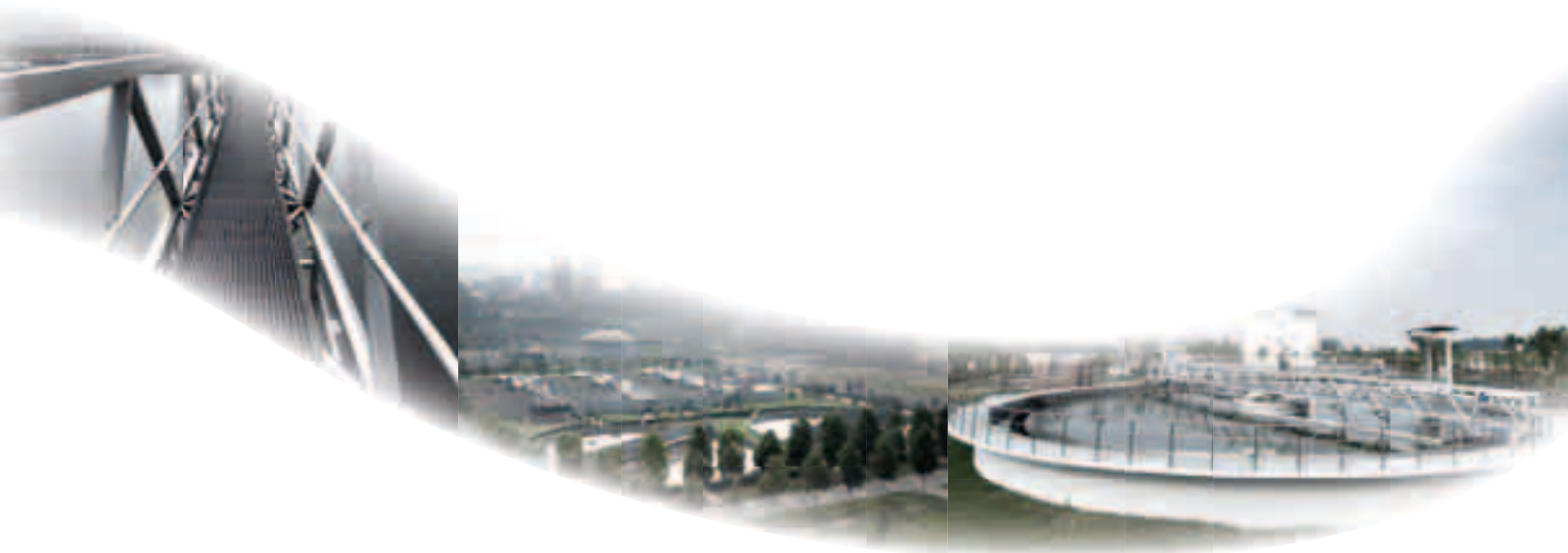
# MANAGEMENT DISCUSSION & ANALYSIS

## Finance Costs

Finance costs increased by approximately RMB10.8 million or 20.6% from approximately RMB52.4 million for the six months ended June 30, 2011 to approximately RMB63.2 million for the six months ended June 30, 2012. The increase was mainly resulted from the interest in borrowings by approximately RMB10.0 million from approximately RMB17.1 million for the six months ended June 30, 2011 to RMB27.1 million for the six months ended June 30, 2012 as the Group's borrowing increased.

## Share of Result of an Associate

This pertains to the 20% owned Shanghai Chenghuan Water Operation Co., Ltd, for which the Group's share of loss was approximately RMB81,000 for the six months ended June 30, 2011. The associate was disposed of in the third quarter of 2011.



## Income Tax Expense

Income tax expenses decreased by approximately RMB2.0 million or 5.9% from approximately RMB34.3 million for the six months ended June 30, 2011 to approximately RMB32.3 million for the six months ended June 30, 2012 as Beijing Epure International Water Co., Ltd enjoys a lower tax rate under its tax incentive scheme of 7.5% while its contribution of profit before tax increased and comprised of approximately 79% of the Group's profits.

## Profit Attributable to Owners of the Company

As a results of the above, profit attributable to owners of the Company increased by approximately RMB18.1 million or 10.3% from approximately RMB175.4 million for the six months ended June 30, 2011 to approximately RMB193.5 million for the six months ended June 30, 2012.

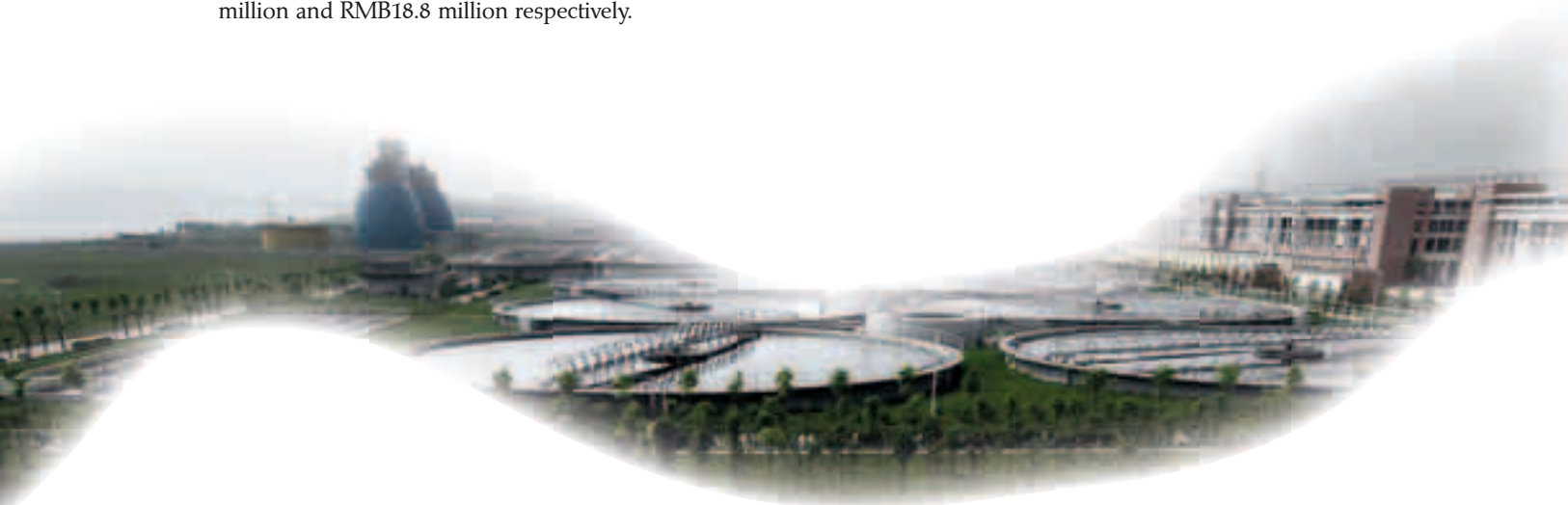


## REVIEW OF GROUP'S FINANCIAL POSITION

### Current Assets

The Group's current assets comprised of cash and bank balances, restricted bank balances, trade and other receivables, amount due from contract customers, inventories, land use rights (due within one year) and service concession receivables (due within one year).

Trade receivables, stated at net of allowance for doubtful debts, amounted to approximately RMB1,241.5 million. The cumulative allowance for doubtful debts was approximately RMB48.0 million. Service concession receivables due within one year and bill receivables amounted to approximately RMB44.1 million and RMB18.8 million respectively.



Other receivables were made up mainly of performance and tender deposits placed when we bid for projects of approximately RMB11.5 million, advance payments to suppliers and subcontractors of approximately RMB93.1 million and others of approximately RMB41.4 million.

Amount due from contract customers refers to costs incurred on the projects that have not been billed to customers.

Inventories refer to equipment components and parts. As at June 30, 2012, the overall increase in inventories was attributable mainly to Hi-Standard to facilitate the increase in revenue. Inventories from turnkey business are not expected to be material as most of the civil engineering works are subcontracted to third parties.

The increase in current assets arose mainly from the higher trade and other receivables due to increase in operations.

# MANAGEMENT DISCUSSION & ANALYSIS

## Non-Current Assets

The Group's non-current assets consisted of property, plant and equipment, land use rights, service concession receivables, deferred tax assets, and investments in subsidiaries as well as intangible assets and goodwill arising from the consolidation of Hi-Standard.

Property, plant and equipment comprised mainly building, plant and machinery, transportation vehicles, and fixtures and equipment. We depreciate our property, plant and equipment using the straight-line method over their estimated useful lives, at rates ranging between 3% and 33% per annum.

Land use rights are amortised on a straight-line basis over the period of the lease. The decrease in land use rights was due to amortisation.

Service concession receivables arose from BOT projects carried out by subsidiaries.

Deferred tax assets arose mainly from the allowance for doubtful debts.

Intangible assets pertain to patents that arose from the acquisition of Hi-Standard. The decrease was due to amortisation.

The increase in non-current assets arose mainly from the increased investment in BOT projects.



### **Current Liabilities**

The Group's current liabilities were made up mainly of borrowings, trade and other payables, amounts due to contract customers, income tax payable and convertible loan notes due within one year.

Borrowings were obtained to fund our working capital and investment in BOT projects.

Trade and other payables were made up of amounts outstanding for trade purchases of approximately RMB782.8 million, other taxes payable (including value added tax and sales tax) of approximately RMB175.3 million, performance and tender deposits received from sub-contractors and bills payables of approximately RMB47.9 million, advances received from customer of approximately RMB18.3 million as well as accruals and other payables of approximately RMB85.9 million.

Amount due to contract customers refer to progress billings made to contract customers based on contracts in excess of actual costs incurred on the projects.

Income tax payable decreased as Beijing Epure International Water Co., Ltd enjoy a lower tax rate under its tax incentive scheme while its contribution of profit before tax increased and comprised of approximately 79% of Group's profits.

Convertible loan notes represent the debt component of the bonds issued on September 15, 2010.

The increase in current liabilities was due mainly to the increased in trade and other payables and borrowings as new borrowings are raised to facilitate the increase in business operations.

### **Non-Current Liabilities**

Long term borrowings were obtained to fund our BOT projects.

Warrants were issued to International Finance Corporation ("IFC") on December 5, 2011 in relation to the additional USD36.0 million loan from IFC.

Deferred tax liabilities arose mainly from unremitted overseas dividends, upward fair value adjustments for assets upon the acquisition of Hi-Standard and deemed interest income on service concession receivables.



# MANAGEMENT DISCUSSION & ANALYSIS

## Capital And Reserves

Equity attributable to owners of the Company increased by approximately RMB132.9 million or 5.8% from approximately RMB2,294.1 million as at December 31, 2011 to approximately RMB2,427.0 million as at June 30, 2012. This increase was due mainly to retained profits of approximately RMB193.6 million, partly offset by dividends paid out of approximately RMB65.1 million.

The non-controlling interest of approximately RMB10.6 million relates to a 20% and 10% minority interest in Yantai Bihai Water Co., Ltd and Anyang Taiyuan Water Co., Ltd respectively. Both of these subsidiaries are operating BOT projects.

## Cash Flow Statement

Net cash used in operating activities was approximately RMB33.9 million for the six months ended June 30, 2012. The negative cash flow in operation is resultant mainly from the higher trade and other receivables as driven by the increased business operations.

Net cash generated from investing activities amounted to approximately RMB6.7 million for the six months ended June 30, 2012. These amounts were due mainly to a decrease in pledged deposits as certain borrowings were repaid.

Net cash used in financing activities amounted to approximately RMB56.9 million for the six months ended June 30, 2012. These amounts were due to the dividends paid, repayment of borrowings and finance costs paid, offset by the new borrowings raised.

As at June 30, 2012, the Group's cash position remained strong and stood at approximately RMB1,990.0 million.

## Gearing

	As at June 30, 2012 RMB'000	As at December 31, 2011 RMB'000
Borrowings (current)	410,734	311,838
Borrowings (non-current)	502,156	540,352
Convertible loan notes (current)	827,802	818,252
Total debt	1,740,692	1,670,442
Bank balances and cash	1,990,015	2,074,426
Total equity	2,437,574	2,304,669
Net debt	Net cash	Net cash
Total debt to equity ratio	0.71	0.72

## Loans

Aggregate amount of the Group's borrowings and debt securities:

Amount repayable in one year or less, or on demand:

As at June 30, 2012		As at December 31, 2011	
Secured RMB'000 (unaudited)	Unsecured RMB'000 (unaudited)	Secured RMB'000 (audited)	Unsecured RMB'000 (audited)
193,111	1,045,425	175,558	954,532

Amount repayable after one year:

As at June 30, 2012		As at December 31, 2011	
Secured RMB'000 (unaudited)	Unsecured RMB'000 (unaudited)	Secured RMB'000 (audited)	Unsecured RMB'000 (audited)
479,656	22,500	517,852	22,500

Details of any collateral:

The borrowings are secured by charges over the Company's assets, right under the service concession contracts and equity interest in certain subsidiaries.

# BOARD OF DIRECTORS

## WEN YIBO

### Executive Director And Chairman

Mr. Wen Yibo, aged 46, is an Executive Director and Chairman of our Company and a founder of our Group. He was appointed to our Board on November 7, 2005 and is responsible for charting our Group's strategic direction.

Mr. Wen graduated with a bachelor of environmental engineering from the Lanzhou Railway College (currently known as Lanzhou Jiaotong University) in July 1986. In December 1989, he graduated from Tsinghua University with a master degree in environmental engineering. Mr. Wen has accumulated more than 17 years of experience in the environmental protection industry. Between 1989 and 1990, Mr. Wen worked as a lecturer in the environmental engineering department of Tsinghua University. From 1990 to 1993, he was a senior engineer at the engineering division of the Planning and Design Institute of the Ministry of Chemical Engineering. In November 1993, Wen Yibo and his wife, Zhang Huiming, co-founded Beijing Sound Environmental Technology Development Company and Mr. Wen has served as its Chairman since then.

In recognition of the contributions made by Mr. Wen to the development of the environmental protection industry in the PRC, he was awarded the "China Environmental Protection Industry (Enterprises) Development Contribution Award" by the China Environmental Protection Industry Association in 2005. He is currently the legal representative of Beijing Sound Environmental Engineering Co., Ltd and is also director and legal representative of several companies including Sound Group Limited and Sound Environmental Resources Co., Ltd.

Mr. Wen was accorded a senior engineer in September 1998 by the Beijing Senior Specialized Technique Qualification Evaluation Committee and was accorded the professor engineer in September 2003. Mr. Wen is also retained as a part-time professor in Tongji University and Lanzhou Jiaotong University. Mr. Wen is also a director of Sound Water (BVI) Limited, a substantial shareholder of the Company.

## **WANG KAI**

### **Executive Director and Chief Executive Officer**

Mr. Wang Kai, aged 49, is an Executive Director and Chief Executive Officer of our Company. Mr. Wang was appointed to our Board on December 24, 2010 and he was appointed as the Chief Executive Officer on February 2, 2011.

Mr. Wang graduated with a bachelor and master degree in 1984 and 1990 respectively from the School of Environmental Science and Engineering of Tsinghua University. From 1984 to 1987, Mr. Wang was the assistant engineer of Ji'an Room, First Institute of the First Academy of Ministry of Nuclear Industry. From 1990 to 1998, Mr. Wang acted as the engineer of the Chengdu Institute of Methane Science of the Ministry of Agriculture, Second Design Institute. Mr. Wang joined Sound Group Limited in 1998 as the chief engineer. Mr. Wang was appointed as the deputy general manager of Beijing Sound Environmental Engineering Co., Ltd in August 2010 and has been appointed as its Director since October 2010.

Mr. Wang is an expert in the environmental field in China. He possesses comprehensive knowledge, skills and extensive experience in environmental engineering. Mr. Wang graduated with a master degree in Environmental Science and Engineering from Tsinghua University. He was the chief technology officer of Sound Group Limited, primarily in charge of technical development. Mr. Wang has extensive experience in environmental protection engineering applied technology research and has more than 20 years of research and practical experience. Mr. Wang is also proficient in technical economy evaluation and operations plan management. Upon the appointment as deputy general manager, Mr. Wang took charge of corporate development, encompassing the areas of new business development, mergers and its related feasibility study, operations plan management, engineering economic, quality control and management.

## **JIANG ANPING**

### **Executive Director**

Mr. Jiang Anping, aged 40, is an Executive Director and was appointed to our Board on October 3, 2011. He is the head of the design and research department of Beijing Sound Environmental Engineering Co., Ltd and the assistant to the general manager (technical) of the Company.

Mr. Jiang graduated with a bachelor of engineering from the Department of Civil Engineering of Tianjin University in July 1995, and a master of engineering from the Department of Environmental Science and Engineering of Tsinghua University in July 1998. He obtained the doctoral degree in engineering science from the Department of Biological Systems Engineering of Washington State University in U.S.A. in December 2009.

From July 1998 to December 1999, he worked as the assistant engineer in the design department of water supply and drainage under Beijing Municipal Engineering Professional Design Institute; from January 2000 to August 2000, he was the project manager of Beijing China Union Engineering Company Limited; from September 2000 to September 2002, he was the engineer of technical design of Beijing Puresino-Boda Environmental Engineering Co., Ltd.; from October 2002 to July 2005, he worked as the head of the second technology department at research and design institute of Beijing Sound Environmental Engineering Co., Ltd.; from August 2005 to June 2010, he was the assistant researcher of Washington State University; from July 2010 to the present, he has successively served as the chief engineer of the design and research institute, the deputy head of the design and research institute, the head of the design and research institute and the assistant to the general manager (technical) of the Company.

Mr. Jiang has profound professional skills and extensive experience in respect of engineering technologies. As the leader of the development projects of important technologies and key engineering design projects, Mr. Jiang will surely play an important role in the technical innovation and the improvement of the design capability in foreign engineering projects of the Company.

# BOARD OF DIRECTORS

## **LUO LIYANG**

### **Executive Director**

Mr. Luo Liyang, aged 39, is an Executive Director and was appointed to our Board on February 2, 2011. Mr. Luo has been the deputy general manager (marketing) of our Company since March 12, 2010 and the deputy general manager and manager of the marketing department in Beijing Sound Environmental Engineering Co., Ltd since he joined our Group in May 2000. He is responsible for market planning and channel exploitation, construction and management of product platform and establishment of our sales network. Mr. Luo graduated with a bachelor degree in environmental monitoring from Henan Normal University in July 1997.

From July 1997 to March 1998, he was the vice manager of the environmental protection department of Henan Xuchang Biochemical Co., Ltd. From March 1998 to May 2000, he was the vice manager of the business department of Henan Luohe Huanhaiqing Environmental Protection Co., Ltd. Mr. Luo was accorded an engineer in December 1998 by the Henan Science and Technology Committee.

## **WONG SEE MENG**

### **Lead Independent Non-Executive Director**

Mr. Wong See Meng, aged 64, is an Independent Non-Executive Director and was appointed to our Board on May 18, 2009.

Mr. Wong graduated from the University of Singapore (now known as the National University of Singapore) in business administration with honors in 1971 and was admitted as Associate of the Chartered Institute of Management Accountants (U.K.) in 1983. He also holds the membership of the Singapore Institute of Directors and the Singapore Institute of Management. Between 1971 and 1972, he worked in ESSO Singapore Pte. Ltd.. He joined ESSO Singapore Pte. Ltd. as a finance trainee in 1971 and was appointed refinery accountant and head of the refinery accounting department in 1972.

Between 1972 and 1973, he worked as a project analyst in Singapore Petroleum Co., Pte. Ltd.. He worked as assistant manager in Orient Leasing Singapore Ltd. from 1973 and worked as manager from 1976 to 1978. He joined GATX Leasing (Pacific) Ltd. as personal assistant to the general manager in 1978 and became assistant vice president and general manager in 1980.

He joined Forward Overseas Credit Ltd. as the general manager in 1981 and became the chief general manager in 1983 until 1987. From 1987 to 2001, he worked in Development Bank of Singapore Ltd.. He joined the Development Bank of Singapore Ltd. as the general manager in 1987 and became the senior vice president in 1993 and the managing director in 1997. He was the general manager of Raffles Medical Group (Hong Kong) between 2001 and 2002 and the business development manager of Sino Land Group (Hong Kong) between 2002 and 2003. From 2003 to 2007, he was the managing director of ORIX Leasing Singapore Ltd.. Mr. Wong has been appointed as a non-independent and non-executive director of Multi-Fineline Electronix, Inc., the shares of which are listed on NASDAQ, since May 2011. Currently Mr. Wong provides training on banking and finance for senior management staff from various Chinese banks.



**SEOW HAN CHIANG WINSTON**  
**Independent Non-Executive Director**

Mr. Seow Han Chiang Winston, aged 43, is an Independent Non-Executive Director and was appointed to our Board on August 24, 2006.

Mr. Seow holds a bachelor of law (honors) degree from the National University of Singapore. He was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 1995 and has been practicing law in Singapore since his admission.

Mr. Seow joined Madhavan Partnership as an associate in 1995 and became a partner in the corporate department in 1998. From 2006 to 2007, he was a corporate partner of KS Chia Gurdeep & Param. From 2007 to May 2011, he was a corporate partner of KhattarWong. He is currently a corporate partner of RHTLaw Taylor Wessing LLP (RHT Law LLP joined Taylor Wessing as RHTLaw Taylor Wessing LLP on March 16, 2012). Mr. Seow is also currently an independent non-executive director of Eucon Holding Limited and Goldtron Limited (since March 2, 2012), the shares of which are listed on Singapore Exchange Securities Trading Limited.

**FU TAO**  
**Independent Non-Executive Director**

Mr. Fu Tao, aged 44, is an Independent Non-Executive Director and was appointed to our Board on August 24, 2006.

Mr. Fu graduated from the Peking University in 1990 with a bachelor of science in applied chemistry. He obtained a master degree in environmental engineering from Tsinghua University in 1993 and also obtained a doctorate in civil engineering from the Harbin University of Civil Engineering and Architecture (currently known as Harbin Institute of Technology) in 1999.

Between 1994 and 1999, Mr. Fu worked in the department of science and technology at the Ministry of Construction ("MOC") as a project officer in charge of urban construction projects. From 1999 to 2001, he was the director of the information division at the Center of Promoting Housing Industrialization of the MOC. Between 2001 and 2002, Mr. Fu was the chief secretary of the China Housing Industry Association. He is a senior engineer and has held the position of director of the water policy research center at Tsinghua University since 2003.

Over the years, Mr. Fu has been involved in many government research projects and study programs relating to the PRC water industry. These include, amongst others, the pilot study on a benchmarking system for urban water treatment conducted by the MOC and the North China Water Quality Study program conducted jointly by the World Bank and the MOC.

# SENIOR MANAGEMENT & JOINT COMPANY SECRETARIES

## ZHOU HAO Deputy General Manager

Mr. Zhou Hao, aged 40, has been the Deputy General Manager (Operations) of our Company since March 12, 2010 and the Deputy General Manager of Beijing Sound Environmental Engineering Co., Ltd since he joined our Group in March 1998. He is responsible for the management of our EPC business, project management and engineering debug and delivery. Mr. Zhou obtained a bachelor degree of water treatment and drainage from the environmental engineering department of Xi'an Metallurgy and Architecture College (currently known as Xi'an University of Architecture and Technology) in July 1993. From August 1993 to March 1998, he worked as an assistant director of the design office of the mechanical power department of Ningxia Hengli Steel Group.

## YU MAN TO GERALD Chief Financial Officer and Joint Company Secretary

Mr. Yu Man To Gerald, aged 45, joined our Company as Chief Financial Officer on June 21, 2011. He oversees and coordinates the operation of the Group's finance department including all financial, accounting and taxation functions and financing activities of the Group. He is also one of the joint company secretaries of the Company.

Mr. Yu holds a master degree in business administration and a bachelor degree in business. He is a fellow member of the Hong Kong Institute of Certified Public Accountants (FCPA) and a certified public accountant in Australia (CPA (Aust.)). Before joining the Company, Mr. Yu worked as the chief financial officer and company secretary of Towngas China Company Limited, Wai Chun Mining Industry Group Company Limited and Wai Chun Group Holdings Limited. Mr. Yu was with Towngas China for almost 9 years and was with an international accounting firm for over 7 years prior to joining Towngas China.

**TAN WEI SHYAN**  
Joint Company Secretary

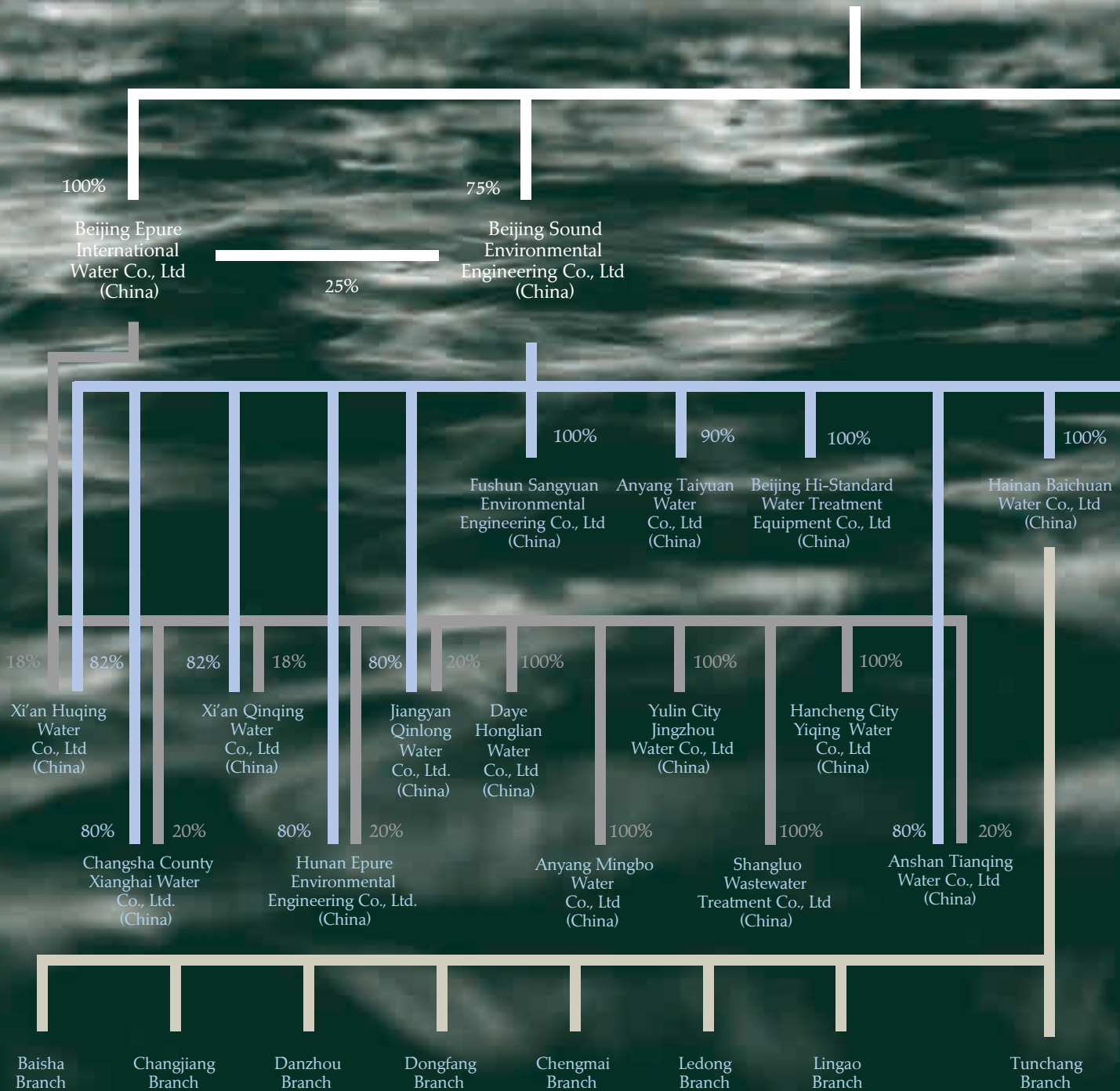
Mr. Tan Wei Shyan, aged 34, has been one of our joint company secretaries since April 2007. Mr. Tan graduated with a bachelor of laws (honors) degree from the University of Exeter in 2001. He was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 2003. Mr. Tan was engaged in general corporate work, and had experience in commercial transactions including joint ventures, commercial leases and listed companies work. Since 2005, Mr. Tan has been practicing at Shook Lin & Bok LLP in Singapore where he is currently a partner in the corporate and corporate finance department.

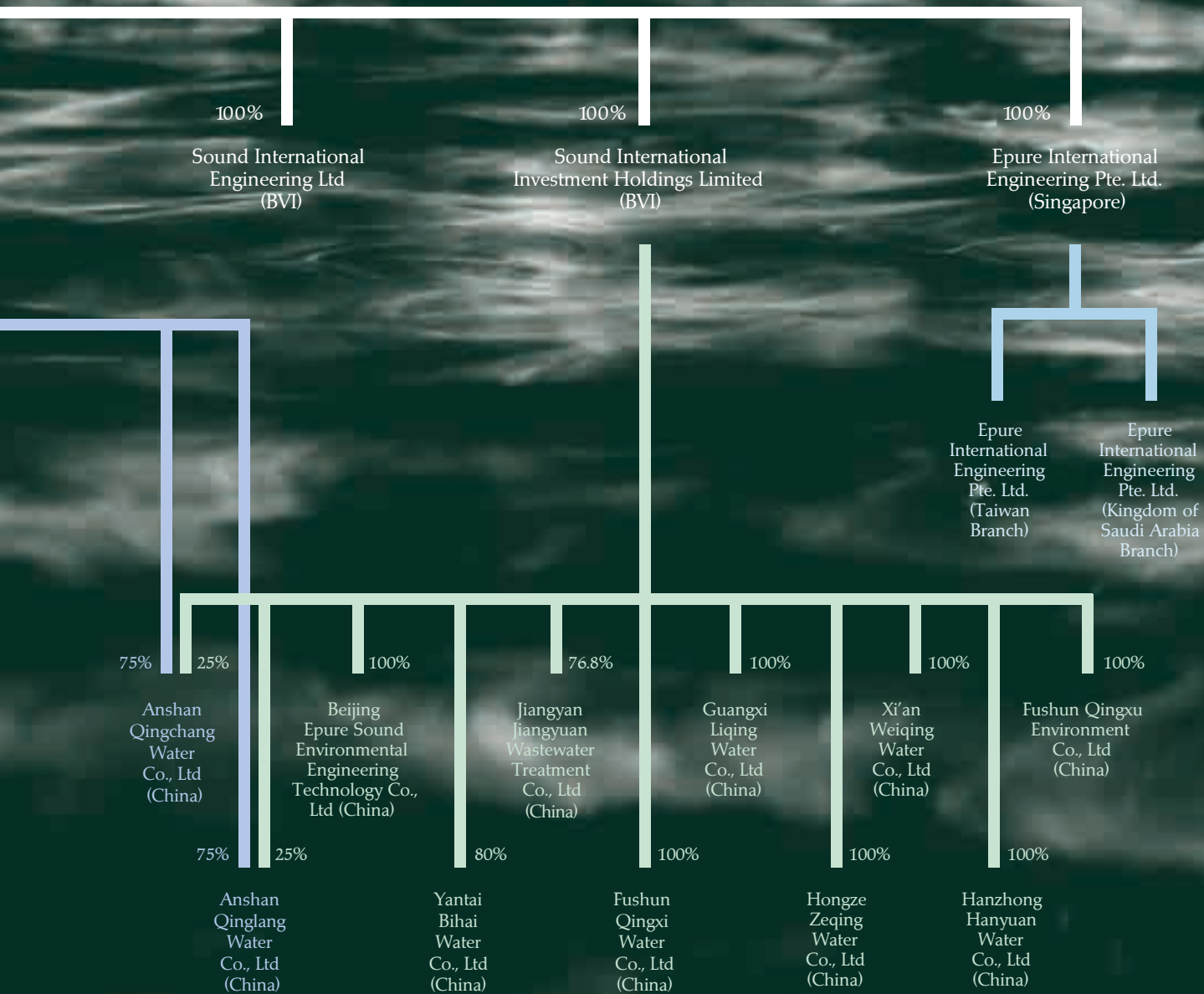
**WONG TAK YEE**  
Joint Company Secretary

Ms. Wong Tak Yee, aged 55, has been one of our joint company secretaries since June 2010. Ms. Wong graduated with a bachelor degree of arts in language and translation from The Open University of Hong Kong in 2006 and also obtained her master degree of arts in English for the professions from The Hong Kong Polytechnic University in 2009. Ms. Wong is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators in United Kingdom and The Hong Kong Institute of Chartered Secretaries (HKICS). She also holds the Practitioner's Endorsement certificate issued by HKICS. From 1997 to 2000, Ms. Wong worked at Deloitte Touche Tohmatsu in Hong Kong as a senior manager of the company secretarial services department. Since 2000, Ms. Wong has been working at Tricor Group and is currently a director of the corporate services division of Tricor Services Limited. Ms. Wong has over 25 years of experience in providing corporate secretarial services and has been providing professional services to many listed companies in Hong Kong.

# GROUP STRUCTURE

AS AT JUNE 30, 2012





# INFORMATION FOR INVESTORS

## 2012 INTERIM RESULTS ANNOUNCEMENT

August 14, 2012

## 2012 ANNUAL RESULTS ANNOUNCEMENT

February 2013

### PRINCIPAL SHARE REGISTRAR IN SINGAPORE

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

### BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### STOCK CODES

Singapore Stock Exchange: E6E.SI  
Hong Kong Stock Exchange: 00967

### INVESTOR RELATIONS

Wonderful Sky Financial Group Limited  
Unit 3102-3105 31/F., Office Tower, Convention Plaza  
1 Harbour Road, Wanchai  
Hong Kong  
Telephone: +852 2851 1038  
Facsimile: +852 2598 1588

# GENERAL INFORMATION, REVIEW REPORT AND FINANCIAL INFORMATION

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# GENERAL INFORMATION

## DIRECTORS

The Directors of the Company in office during the six months ended June 30, 2012 and up to the date of the 2012 Interim Report are:

### Executive Directors:

Wen Yibo (Chairman)  
Wang Kai (Chief Executive Officer)  
Luo Liyang  
Jiang Anping

### Independent Non-Executive Directors:

Wong See Meng  
Fu Tao  
Seow Han Chiang Winston

## DIRECTORSHIPS

Present and past directorships of our Directors in other listed companies, group and related companies and major appointments in other companies are as follows:

Name of Director	Present Directorships	Past directorships for the past 3 year
Wen Yibo	Beijing Sound Environmental Engineering Co., Ltd Beijing Lümeng Investment Co., Ltd Beijing Sanghua Environmental Technology Development Co., Ltd Beijing Xiaojiahe Wastewater Treatment Co., Ltd Sound Group Limited Sound Environmental Resources Co., Ltd Green Capital Holdings Limited Sound Water (BVI) Limited Sound Water (Hong Kong) Limited Beijing Sound Water Technology Co., Ltd Beijing Epure International Water Co., Ltd Beijing Epure Sound Environmental Engineering Technology Co., Ltd Sound International Investment Holdings Limited Sound International Engineering Ltd.	NIL
Wang Kai	Beijing Sound Environmental Engineering Co., Ltd	NIL
Luo Liyang	NIL	NIL



# GENERAL INFORMATION

Name of Director	Present Directorships	Past directorships for the past 3 year
Jiang Anping	Beijing Sound Environmental Engineering Co., Ltd	NIL
Wong See Meng	Multi-Fineline Electronix, Inc.	Lion Asiapac Ltd
Fu Tao	Beijing Jincheng Property and Technology Development Co., Ltd Beijing Capital Co., Ltd Jiangsu Jiangan Water Co., Ltd	Interchina Holdings Company Limited
Seow Han Chiang Winston	Eucon Holding Limited Goldtron Limited Boulder Group Pte Ltd Cosmo Aviation (S) Pte Ltd D&W Corporate & Consultancy Services Pte Ltd GMT Alpha Pte Ltd Intellectual Product Protection Pte Ltd Oceanexplor Logistics Pte Ltd Offshoreworks (Singapore) Pte Ltd Oils Overseas (Asia Pacific) Pte Ltd Sanwa F&B Pte Ltd Sanwa Group Pte Ltd Superiorcoat Pte Ltd Self Energy Pte Ltd Armenian Holdings Pte Ltd	Fastube Limited Petchem International Pte Ltd Petchem International Trading & Shipping Pte Ltd Sigma-Two Pte Ltd Atlantic Navigation Holdings (Singapore) Limited

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2012, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and SEHK were as follows:

# GENERAL INFORMATION

Long Position in the Ordinary Shares (“Shares”)/underlying Shares of the Company and Associated Corporation are as follows:

## (A) The Company

Name	Number of Shares/underlying Shares held, capacity and nature of interest			Total	Percentage to the issued share capital of the Company (%)
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Wen Yibo	1,907,000	-	701,784,000 (Note 1)	703,691,000	54.55
Wang Kai	3,075,000 (Note 2)	-	-	3,075,000	0.24
Luo Liyang	3,057,400 (Note 3)	-	-	3,057,400	0.24
Jiang Anping	1,140,000 (Note 4)	-	-	1,140,000	0.09

Notes:

1. These shares were held by Sound Water (BVI) Limited, a company which was owned by Mr. Wen Yibo and his wife, Ms. Zhang Huiming as to 90% and 10% respectively.
2. Mr. Wang Kai was granted share options to subscribe for 3,075,000 Shares of the Company under the Epure Share Option Scheme of the Company.
3. Mr. Luo Liyang was granted share options to subscribe for 3,057,400 Shares of the Company under the Epure Share Option Scheme of the Company.
4. Mr. Jiang Anping was granted share options to subscribe for 1,140,000 Shares of the Company under the Epure Share Option Scheme of the Company.

## (B) Associated Corporation — Sound Water (BVI) Limited

Name	Number of shares held, capacity and nature of interest			Total	Percentage to the issued share capital of the Associated Corporation (%)
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Wen Yibo	9 (Note 1)	1 (Note 1)	-	10	100

Note:

1. Sound Water (BVI) Limited was owned by Mr. Wen Yibo and his wife, Ms. Zhang Huiming as to 90% and 10% respectively.

# GENERAL INFORMATION

Save as disclosed above, as at June 30, 2012, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and SEHK.

## SHARE OPTION

### (A) Sound Global Share Option Scheme (“the Scheme”)

The Scheme is administered by the Remuneration Committee (“RC”) comprising:

Seow Han Chiang Winston (Chairman)  
Wong See Meng  
Fu Tao

Under the Scheme, an option entitles the option holder to subscribe for a specific number of new ordinary shares in the Company.

The exercise price for the Shares under the Scheme shall be the price determined by the RC and notified to the option holder which shall not be less than the higher of:

- (i) the average closing price of the Shares as stated in the SEHK’s daily quotation sheets and the average closing prices of the shares on the SGX-ST for the five market days immediately preceding the date of grant of option; and
- (ii) the closing price of the Shares as stated on the SEHK’s daily quotations sheet or the closing price of the Shares on the SGX-ST, whichever is higher, on the date of grant of the option.

The consideration for the grant of an option is S\$1.00 which should be paid within 30 days from the date of offer. Options granted with the exercise price shall only be exercised after the first anniversary but before the fifth anniversary of the date of grant of that option.

The shares under option may be exercised in whole or in part on the payment of the relevant exercise price (provided that an option may be exercised in part only in respect of 1,000 shares or any multiple thereof). Options granted will lapse when the option holder ceases to be a full-time employee of the Company or any company of the Group subject to certain exceptions at the discretion of the RC.

The Scheme was adopted pursuant to a resolution passed on April 30, 2010, for the primary purpose of providing an opportunity for employees and directors (including independent non-executive directors) of the Group to participate in the equity of the Company so as to motivate them to greater dedication and higher standards of performance, and to give recognition to past contribution and services.

## GENERAL INFORMATION

Under the Scheme, the RC may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Persons who are controlling shareholders (being persons who directly or indirectly have an interest of 15% of the Company's issued share capital) or their associates shall not participate in the Scheme unless their participation and the actual number of shares to be issued to them and the terms of any options to be granted to them, have been approved by independent shareholders of the Company in general meeting by way of a separate resolution for each such person.

No options to take up unissued shares of the Company or any subsidiary were granted under the Scheme since the date of adoption up to June 30, 2012. As at the date of this Interim Report, the total number of shares which may be issued upon exercise of all options to be granted under the Scheme is 129,000,000 shares, representing 10% of the issued share capital of the Company. The remaining life of the Scheme is approximately 8 years.

### (B) Epure Share Option Scheme ("the Epure Scheme")

The Group adopted the Epure Scheme on August 15, 2007 and the Epure Scheme was terminated upon listing on SEHK. No further options are available for issue under the Epure Scheme as at the date of this Interim Report.

As at June 30, 2012, the number of shares in respect of which options had been granted under the Epure Scheme was 64,500,000 (2011 : 64,500,000), representing 5% (2011 : 5%) of the shares of the Company in issue at that date.

The number of outstanding share options under the Epure Scheme are as follows:

Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at January 1, 2012	Forfeited	Outstanding at June 30, 2012
July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S\$0.745	42,989,200	(2,356,000)	40,633,200

In respect of options granted on July 23, 2010, 10,000,000 options were granted to the then executive directors and 54,500,000 options were granted to the then employees.

There are no options granted to any of the Company's controlling shareholders or their associates.

## GENERAL INFORMATION

The information on directors/employees of the Company participating in the Epure Scheme is as follows:

Name of director	Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at January 1, 2012	Forfeited	Outstanding at June 30, 2012
Wang Kai	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S\$0.745	3,075,000	-	3,075,000
Luo Liyang	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S\$0.745	3,057,400	-	3,057,400
Jiang Anping	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S\$0.745	1,140,000	-	1,140,000
Other employees	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S\$0.745	35,716,800	(2,356,000)	33,360,800

No employee or employee of related corporations has received 5% or more of the total options granted under the Epure Scheme.

Upon the participant ceasing to be in the full-time employment of the Group, the options shall, to the extent unexercised, immediately forfeited. The exercise of the option granted under the Epure Scheme is also subject to the following conditions:

- i) the options will be exercisable in four equal tranches, commencing one year from the date of grant and on each anniversary of the date of grant up to the fifth anniversary;
- ii) the increase in profit after tax for each of the financial years ended/ending December 31, 2010, 2011, 2012 and 2013 must be at least 15%, 15%, 10% and 10% respectively, excluding all exceptional items; and
- iii) the compounded growth rate for profit after tax, based on profit after tax for the financial year ended December 31, 2009, for each of the financial years ended/ending December 31, 2010, 2011, 2012 and 2013 must be at least 25%, 25%, 15% and 15% respectively, excluding all exceptional items.

# GENERAL INFORMATION

## SUBSTANTIAL SHAREHOLDERS

As at June 30, 2012, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO or as the Company is aware:

Name	Number of Shares/ underlying Shares	Percentage to the issued share capital of company (%)
Zhang Huiming	703,691,000 (L) (Note 1)	54.55 (L)
Sound Water (BVI) Limited	701,784,000 (L)	54.40 (L)
Morgan Stanley	144,963,415 (L)	11.24 (L)
	135,311,420 (S)	10.49 (S)
International Finance Corporation	132,104,545 (L)	10.02 (L)
Norges Bank	77,751,000 (L)	6.03 (L)
JPMorgan Chase & Co.	77,560,696 (L)	6.01 (L)
	77,536,696 (P)	6.01 (P)
Deutsche Bank Aktiengesellschaft	71,956,129 (L)	5.57 (L)
	17,145,098 (S)	1.32 (S)

(L) — Long position (S) — Short position (P) — Lending Pool

Note:

1. These shares were held by her husband, Mr. Wen Yibo (1,907,000 shares) and Sound Water (BVI) Limited (701,784,000 shares), a company which was owned by Mr. Wen Yibo and his wife, Ms. Zhang Huiming as to 90% and 10% respectively. Hence, Ms. Zhang Huiming was deemed to be interested in the 703,691,000 shares of the Company held by Mr. Wen Yibo and Sound Water (BVI) Limited.

Save as disclosed above, as at June 30, 2012, no person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The unaudited interim results for the six months ended June 30, 2012 and this interim report have been reviewed by the Audit Committee.

# GENERAL INFORMATION

## COMPLIANCE WITH ON CORPORATE GOVERNANCE CODE

The Company devotes to best practice on corporate governance, and has complied with the code provisions of the Code on Corporate Governance Practices/Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the six months ended June 30, 2012 except for the deviations from Code Provisions A.6.7 and E.1.2 whereby one of the independent non-executive directors and chairman did not attend the 2012 annual general meeting due to other work commitment.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and its amendments from time to time as its own code of conduct regarding securities transactions by the Directors. The Board confirms that, having made specific enquiries with all Directors, during the six months ended June 30, 2012, all Directors have complied with the required standards of the Model Code.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

For the six months ended June 30, 2012, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the securities of the Company.

## EMPLOYEES AND REMUNERATION POLICY

As at June 30, 2012, there were 1,180 (2011: 947) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

## SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save for those disclosed in this report, there were no significant investments held as at June 30, 2012, nor other material acquisitions and disposals of subsidiaries during the period.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Notes	Six months ended	
		June 30, 2012 RMB'000 (unaudited)	June 30, 2011 RMB'000 (unaudited)
Revenue	4	1,184,034	1,060,268
Cost of sales		(832,947)	(730,716)
Gross profit		351,087	329,552
Other income	5	26,378	19,458
Other expenses	6	-	(13,934)
Distribution and selling expenses		(18,680)	(7,617)
Research and development expenses		(15,631)	(4,889)
Administrative expenses		(55,670)	(60,271)
Share of result of an associate		-	(81)
Finance costs	7	(63,233)	(52,444)
Changes in fair value of warrants		1,511	-
Profit before income tax		225,762	209,774
Income tax expenses	8	(32,311)	(34,345)
Profit for the period		193,451	175,429
Other comprehensive income			
Exchange difference arising on translation and total other comprehensive income for the period		106	104
Total comprehensive income for the period		193,557	175,533
Profit for the period attributable to:			
Owners of the Company		193,451	175,429
Non-controlling interests		-	-
Total comprehensive income attributable to:		193,451	175,429
Owners of the Company		193,557	175,533
Non-controlling interests		-	-
Earnings per share			
Basic (RMB cents)	11	15.00	13.60
Diluted (RMB cents)	11	14.80	13.60



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2012

	Notes	June 30, 2012 RMB'000 (unaudited)	December 31, 2011 RMB'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	47,462	47,527
Land use rights		43,721	44,294
Intangible assets		25,000	30,000
Goodwill		41,395	41,395
Service concession receivables	13	1,162,621	1,083,659
Deferred tax assets		7,372	7,372
		<u>1,327,571</u>	<u>1,254,247</u>
<b>CURRENT ASSETS</b>			
Inventories		34,984	21,587
Trade and other receivables	14	1,450,365	1,120,279
Land use rights		1,158	1,158
Amounts due from customers for contract work		566,153	427,640
Restricted bank balances		53,021	56,847
Bank balances and cash		1,990,015	2,074,426
		<u>4,095,696</u>	<u>3,701,937</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	1,110,151	871,297
Tax payable		35,806	54,949
Borrowings - due within one year	16	410,734	311,838
Amounts due to customers for contract work		49,042	7,809
Convertible loan notes	17	827,802	818,252
		<u>2,433,535</u>	<u>2,064,145</u>
<b>NET CURRENT ASSETS</b>		<u>1,662,161</u>	<u>1,637,792</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,989,732</u>	<u>2,892,039</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		43,560	39,065
Borrowings - due after one year	16	502,156	540,352
Warrants		6,442	7,953
		<u>552,158</u>	<u>587,370</u>
<b>TOTAL ASSETS LESS TOTAL LIABILITIES</b>		<u>2,437,574</u>	<u>2,304,669</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	18	833,368	833,368
Reserves		1,593,606	1,460,701
Equity attributable to owners of the Company		<u>2,426,974</u>	<u>2,294,069</u>
Non-controlling interests		10,600	10,600
		<u>2,437,574</u>	<u>2,304,669</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Issued capital RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Convertible loan notes reserve RMB'000	Statutory surplus fund RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at January 1, 2011 (audited)	833,368	(88,296)	7,994	366	12,479	79,676	63,737	1,019,331	1,928,655	7,600	1,936,255
Profit for the period	-	-	-	-	-	-	-	175,429	175,429	-	175,429
Other comprehensive income for the period	-	-	-	104	-	-	-	-	104	-	104
Total comprehensive income for the period	-	-	-	104	-	-	-	175,429	175,533	-	175,533
Recognition of equity-settled share based payments	-	-	-	-	14,672	-	-	-	14,672	-	14,672
Dividends paid (Note 10)	-	-	-	-	-	-	-	(66,934)	(66,934)	-	(66,934)
Balance at June 30, 2011 (unaudited)	833,368	(88,296)	7,994	470	27,151	79,676	63,737	1,127,826	2,051,926	7,600	2,059,526
Balance at January 1, 2012 (audited)	833,368	(88,296)	7,994	1,007	30,361	79,676	139,495	1,290,464	2,294,069	10,600	2,304,669
Profit for the period	-	-	-	-	-	-	-	193,451	193,451	-	193,451
Other comprehensive income for the period	-	-	-	106	-	-	-	-	106	-	106
Total comprehensive income for the period	-	-	-	106	-	-	-	193,451	193,557	-	193,557
Recognition of equity-settled share based payments	-	-	-	-	4,468	-	-	-	4,468	-	4,468
Dividends paid (Note 10)	-	-	-	-	-	-	-	(65,120)	(65,120)	-	(65,120)
Balance at June 30, 2012 (unaudited)	833,368	(88,296)	7,994	1,113	34,829	79,676	139,495	1,418,795	2,426,974	10,600	2,437,574

Notes:

- (i) The merger reserve arose, pursuant to the reorganization in 2006, from the use of the whole proceeds of the interest free loan granted by the Company's immediate holding company, Sound Water (BVI) Limited ("Sound Water"), a company incorporated in the British Virgin Islands (the "BVI"), to finance the acquisition of a subsidiary, Beijing Sound Environmental Engineering Co., Ltd.. The amount was calculated as the difference between the loan amount of US\$18.8 million (equivalent to RMB150,896,000) and the share capital of the subsidiary acquired of RMB62,600,000.
- (ii) This reflects (a) the fair value of the 2,157,000 shares of the Company amounting to RMB34,010,000 transferred to an initial public offering consultant at a nominal value of \$51.00 during the listing on Singapore Exchange Securities Trading Limited in 2006; and (b) the difference between the consideration of RMB18,000,000 in relation to the acquisition of 40% interest in Anyang Mingbo Water Co., Ltd. by the Group and the carrying value on the non-controlling interest.
- (iii) In accordance with the Articles of Association of certain subsidiaries established in the People's Republic of China (the "PRC"), those subsidiaries are required to transfer 5% to 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(33,940)</u>	<u>(226,472)</u>
<b>NET CASH FROM INVESTING ACTIVITIES</b>		
Interest received	4,828	5,059
Purchases of property, plant and equipment	(2,152)	(2,248)
Proceeds from disposal of property, plant and equipment	59	1
Decrease in restricted bank balances	4,012	212,098
	<u>6,747</u>	<u>214,910</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
Interest paid	(52,869)	(42,495)
Payment of dividends	(65,120)	(66,934)
Borrowings raised	136,473	158,000
Repayment of borrowings	(75,372)	(273,420)
	<u>(56,888)</u>	<u>(224,849)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(84,081)	(236,411)
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	2,074,426	2,027,352
Effect of foreign exchange rate changes	(330)	(2,952)
	<u>1,990,015</u>	<u>1,787,989</u>
<b>CASH AND CASH EQUIVALENTS AT JUNE 30,</b> represented by Bank balances and cash		

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKSE") and with International Accounting Standard 34, Interim Financial Reporting.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2012 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2011.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards and interpretations ("new or revised IFRSs") issued by International Accounting Standards Board.

The application of the new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards and interpretations that have been issued but are not yet effective. The following new or revised standards and interpretations have been issued and are not yet effective.

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle <sup>1</sup>
Amendments to IFRS 1	Government Loans <sup>1</sup>
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures <sup>2</sup>
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup>
IFRS 9	Financial Instruments <sup>2</sup>
IFRS 10	Consolidated Financial Statements <sup>1</sup>
IFRS 11	Joint Arrangements <sup>1</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>1</sup>
IFRS 13	Fair Value Measurement <sup>1</sup>
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income <sup>3</sup>
IAS 19 (Revised 2011)	Employee Benefits <sup>1</sup>
IAS 27 (Revised 2011)	Separate Financial Statements <sup>1</sup>
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>1</sup>
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities <sup>4</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2015

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2014

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 2. PRINCIPAL ACCOUNTING POLICIES - continued

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") in order to allocate resources to the segments and to assess their performance.

The Group is organized into business units based on their products and services, based on which information is prepared and reported to the Group's CODM for the purposes of resource allocation and assessment of performance.

The Group is primarily engaged in three operating segments, namely (1) turnkey projects and services, (2) manufacturing (equipment fabrication), and (3) operations of water and wastewater treatment facilities ("O&M").

The accounting policies of the operating segments are the same as the Group's accounting policies describe in the Group's annual consolidated financial statements for the year ended December 31, 2011. Segment results represent the profits earned by each segment without allocation of central administration costs, directors' remuneration, share of result of an associate, interest income, foreign exchange gains and losses, finance costs at corporate level.

Segment information about the Group's operating segments is presented below.

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
<u>Six months ended June 30, 2012</u>					
Revenue					
External sales	1,087,759	58,424	37,851	-	1,184,034
Inter-segment sales	-	28,667	-	(28,667)	-
	<u>1,087,759</u>	<u>87,091</u>	<u>37,851</u>	<u>(28,667)</u>	<u>1,184,034</u>
Segment results	257,890	6,289	13,802	-	277,981
Unallocated income					7,227
Unallocated expenses					(59,446)
Profit before income tax					<u>225,762</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 3. SEGMENT INFORMATION - continued

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
<u>Six months ended June 30, 2011</u>					
Revenue					
External sales	1,004,894	32,217	23,157	-	1,060,268
Inter-segment sales	-	50,659	-	(50,659)	-
	<u>1,004,894</u>	<u>82,876</u>	<u>23,157</u>	<u>(50,659)</u>	<u>1,060,268</u>
Segment results	240,630	12,805	22,243	-	275,678
Unallocated income					1,137
Unallocated expenses					(66,960)
Share of result of an associate					(81)
Profit before income tax					<u>209,774</u>

Inter-segment sales are charged at prevailing market price.

## 4. REVENUE

	Six months ended	
	June 30, 2012 RMB'000	June 30, 2011 RMB'000
Revenue from construction contracts (including turnkey services and sales of equipment related to construction contracts)	1,081,248	1,004,488
Revenue from sale of goods	58,424	32,217
Operating and maintenance income	37,851	23,157
Design service	6,511	406
	<u>1,184,034</u>	<u>1,060,268</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 5. OTHER INCOME

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
Interest income	4,828	5,059
Imputed interest income on service concession receivables	21,172	14,399
Net foreign exchange gains	296	-
Sundry income	82	-
	<u>26,378</u>	<u>19,458</u>

## 6. OTHER EXPENSES

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
Net foreign exchange loss	-	6,977
Allowance for doubtful debts	-	6,957
	<u>-</u>	<u>13,934</u>

## 7. FINANCE COSTS

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
Interest expenses on borrowings		
- wholly repayable within five years	13,526	11,385
- not wholly repayable within five years	13,607	5,763
Interest expenses on convertible loan notes	36,100	35,296
	<u>63,233</u>	<u>52,444</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 8. INCOME TAX EXPENSES

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
The charge comprises:		
Current tax		
PRC income tax	27,816	25,150
Overseas income tax	-	5,489
	<u>27,816</u>	<u>30,639</u>
Deferred tax	4,495	3,706
	<u>32,311</u>	<u>34,345</u>

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25%.

In accordance with the Interim Measures of Beijing New Tech Industry Development Test Zone approved by the State Council on May 10, 1988 and promulgated by the People's Government of Beijing on May 20, 1988, the newly established new tech enterprise within test zone shall be entitled to an exemption from income tax for the three years commencing from its establishment, and thereafter, entitled to a 50% relief of income tax for the next three years subject to the approval from the relevant authority. A PRC subsidiary of the Company was exempted from income tax for each of the years ended December 31, 2007, 2008 and 2009, and is subject to income tax at 7.5% for each of the years ended December 31, 2010, 2011 and 2012.

According to No.88 provision of the Implementation Rules on the EIT Law of the PRC and the third item in No.27 provision of the EIT Law of the PRC, the income of companies engaged in environmental protection projects, or energy and water saving projects, which meet relevant requirements, shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations and thereafter, be entitled to a 50% reduction from enterprise income tax for the next three years. The specific conditions and scope of projects shall be jointly formulated by the competent department of finance and taxation of the State Council in collaboration with other relevant departments of the State Council and shall be publicized and implemented after being approved by the State Council. Certain subsidiaries of the Company have obtained the approval and are entitled to be exempted from enterprise income tax in the three years from the first revenue-generating year and enjoy 12.5% preferential enterprise income tax rate in the following three years.

The overseas income tax comprises of the income tax in Singapore and the Kingdom of Saudi Arabia, which are calculated at 17% and 20% respectively on the estimated profit for the periods under review.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 9. PROFIT FOR THE PERIOD

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
Amortization of intangible assets, included in cost of sales	5,000	5,000
Amortization of land use rights	573	579
Depreciation for property, plant and equipment	1,898	1,835
Loss on disposal of property, plant and equipment	256	46

## 10. DIVIDENDS

During the current interim period, a final dividend of S\$0.01 per share in respect of the year ended December 31, 2011 (2010: S\$0.01 per share) was declared and paid to the shareholders of the Company. The aggregated amount of the final dividend declared and paid in the current period amounted to RMB65,120,000 (2011: RMB66,934,000).

The directors do not recommend the payment of any interim dividend for the six months ended June 30, 2012 (six months ended June 30, 2011: Nil).

## 11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share	193,451	175,429
Effect of dilutive potential ordinary shares:		
Interest expenses on convertible loan notes	36,100	-
Earnings for the purpose of diluted earnings per share	229,551	175,429
	'000	'000
Weighted average number of ordinary shares for the the purpose of basic earnings per share	1,290,000	1,290,000
Effect of dilutive potential ordinary shares from:		
Convertible loan notes	261,513	-
Weighted average number of shares	1,551,513	1,290,000

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 11. EARNINGS PER SHARE - continued

The computation of diluted earnings per share for the six months ended June 30, 2012 does not assume the exercise of the Company's options or warrants because the exercise price of those options or warrants was higher than the average market price of shares during the period.

The computation of diluted earnings per share for the six months ended June 30, 2011 does not assume the conversion of the outstanding convertible loan notes since their exercise would result in an increase in earnings per share or the exercise of the Company's options because the exercise price of those options was higher than the average market price of shares during the period.

## 12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

In the current period, the Group spent approximately RMB2,152,000 on additions to fixtures and equipments in the PRC.

As at June 30, 2012, certain of the Group's buildings with an aggregate carrying amount of RMB30,825,000 (2011: RMB35,251,000) were pledged to secure general banking facilities granted to the Group.

## 13. SERVICE CONCESSION RECEIVABLES

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Service concession receivables	1,206,746	1,121,874
Less: Amounts due within one year shown in trade and other receivables	(44,125)	(38,215)
	1,162,621	1,083,659

Service concession receivables arose from the service concession contracts to build and operate wastewater treatment and recycling water plants. The Group is the operator under certain build-operate-transfer arrangements. With respect to the contracts, the Group has evaluated and assessed that such contracts come under the scope of IFRIC 12 Service Concession Arrangements. Service concession receivables were recognized to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 14. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing trade customers with credit normally within 90 days except for construction project for which settlement is made in accordance with the terms specified in the contracts governing the relevant transactions.

The table below is an analysis of trade receivables net of allowance for doubtful debts and bills receivables based on invoice issuance date:

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Trade receivables:		
Within 90 days	340,859	269,887
91 to 180 days	260,094	284,507
181 days to 1 year	370,936	245,520
1 to 2 years	242,326	113,886
2 to 3 years	27,285	-
	<u>1,241,500</u>	<u>913,800</u>
Bills receivables:		
Within 180 days	<u>18,794</u>	<u>22,446</u>

## 15. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables and bills payables based on invoice issuance date:

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Trade payables		
Within 90 days	405,713	223,035
91 to 180 days	76,904	166,285
181 days to 1 year	160,401	74,385
1 to 2 years	81,118	78,496
2 to 3 years	29,172	17,457
More than 3 years	29,526	28,675
	<u>782,834</u>	<u>588,333</u>
The table below is an analysis of bills payables		
Within 180 days	<u>35,309</u>	<u>10,595</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 16. BORROWINGS

During the period, the Group obtained new borrowing amounting to RMB136,473,000 and repaid borrowing of RMB75,372,000.

## 17. CONVERTIBLE LOAN NOTES

The Company issued RMB885 million, 6% convertible loan notes on September 15, 2010. The convertible loan notes entitle the holders to convert them into ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or after October 25, 2010 up to the close of business on September 8, 2015 at a conversion price (subject to adjustments) fixed in RMB. During the interim period, the conversion price was adjusted to RMB3.384 per share according to the terms of the convertible loan notes agreement. Unless previously redeemed, purchased or cancelled, the convertible loan notes will be redeemed on September 15, 2015. Interest of 6% will be paid semi-annually with the first interest payment date falling on March 15, 2011.

On or at any time after September 15, 2013, the Company may redeem all but not some of the convertible loan notes at a redemption price equivalent to RMB principal amount together with interest accrued on that date on some conditions (as defined in the Terms and Conditions of the Bonds in the Offering Circular dated September 10, 2010 (the "Offering Circular")). Meanwhile, the holders will have a right to require the Company to redeem the loan notes on September 15, 2012 or following the occurrence of relevant event (as defined in the Offering Circular) at a redemption price equivalent to RMB principal amount together with interest accrued on that date. The entire balance of convertible loan notes is classified as current liabilities as at June 30, 2012 as the Company does not have an unconditional right to defer settlement in the coming year.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible loan notes reserve". The transaction costs of RMB25,435,000 are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. The effective interest rate of the liability component is 9% per annum.

The movement of the liability component of the convertible loan notes for the period is set out below:

	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
Carrying amount as at January 1	818,252	800,366
Interest charge	36,100	70,985
Interest paid	(26,550)	(53,099)
Carrying amount at June 30, 2012 and December 31, 2011	827,802	818,252

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 18. ISSUED CAPITAL

Issued and fully paid	Number of shares	RMB'000
At January 1, 2011, December 31, 2011 and June 30, 2012	1,290,000,000	833,368

The Company has one class of ordinary shares with no par value and carry no right to fixed income.

## 19. RELATED PARTY DISCLOSURE

(a) During the period, the Group entered into the following significant transactions with related parties:

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
<u>Revenue from construction contracts</u>		
Fellow subsidiaries:		
Baotou Lucheng Water Co., Ltd ("Baotou Lucheng")	-	74
Jiayu Jiaqing Water Co., Ltd. ("Jiayu Jiaqing")	-	9,618
Linqu Yiqing Environment Energy Co., Ltd ("Linqu Yiqing")	2,590	-
Beijing Guozhong Biology Technology Co., Ltd ("Beijing Guozhong")	166	-
	2,756	9,692

The terms for the above transactions are negotiated and mutually agreed between the respective parties.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 19. RELATED PARTY DISCLOSURE - continued

(b) At the reporting date, the Group had the following balances with related parties:

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
<u>Trade receivables</u>		
Fellow subsidiaries:		
Baotou Lucheng	5,653	5,503
Daye Qingbo Water Co., Ltd	468	468
Jingmen Xiajiawan Water Co., Ltd	618	1,267
Jiayu Jiaqing	5,399	2,050
Jingzhou Jingqing Water Co., Ltd	7,734	7,734
Nanchang Xianghu Water Co., Ltd	98	98
Tongliao Bibo Water Co., Ltd ("Tongliao Bibo")	44	44
Xianning Ganyuan Water Co., Ltd	2,040	2,040
Beijing Guozhong	-	1,722
Linqu Yiqing	2,072	-
	24,126	20,926
<u>Amounts due from customers for contract work</u>		
Fellow subsidiaries:		
Baotou Lucheng	-	150
Linqu Yiqing	518	-
Jiayu Jiaqing	-	3,349
Beijing Guozhong	-	11,024
	518	14,523
<u>Amounts due to customers for contract work</u>		
Fellow subsidiary:		
Beijing Guozhong	6,667	-
	6,667	-

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 19. RELATED PARTY DISCLOSURE - continued

### (c) Compensation of key management personnel

The emoluments of key management during the period including the directors were as follows:

	Six months ended	
	June 30, 2012	June 30, 2011
	RMB'000	RMB'000
Wages and salaries	1,063	863
Performance related incentive payments	55	-
Contributions to defined contribution plan	76	90
Share-based payments	1,559	3,399
	<u>2,753</u>	<u>4,352</u>

### (d) At the reporting date, the Group had the following balances with related parties

	June 30, 2012	December 31, 2011	Maximum balances
			during the six months ended
	RMB'000	RMB'000	June 30, 2012
			RMB'000
<u>Other receivables</u>			
Directors:			
Wang Kai	3	-	3
Luo Liyang	-	17	17
	<u>3</u>	<u>17</u>	<u>20</u>

	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
<u>Other payables</u>		
Immediate holding company:		
Sound Water	<u>38,473</u>	-
Fellow Subsidiary:		
Tongliao Bibo	<u>3,076</u>	<u>3,076</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 19. RELATED PARTY DISCLOSURE - continued

### (e) Others

#### 1) Licensing of trademarks

Since 2002, the Group (previously being registered owner of certain trademarks) uses its trademarks for its water and wastewater treatment business. These trademarks are also used by Sound Group for its investments in environmental protection and its subsidiary, by Beijing Sound Water Technology Co., Ltd. for the processing of purified drinking water at no consideration before March 2006.

In March 2006, the Group agreed to transfer the trademarks for free to Sound Group pursuant to a Trademarks Transfer Agreement dated March 23, 2006. Sound Group will in return grant the Group the right to use the trademarks for a period of up to 50 years at nil consideration.

#### 2) In addition to the above transactions, the Group has entered into sub-contract arrangements with the following main contractors:

Name of main contractor	The project related to the sub-contract (the "Project")	Name of operator of the Project (the "Operator")	Relationship with the Operator
Hubei Gongye Construction Group Co., Ltd ("Hubei Gongye Construction Group")	Hubei Zhushan Wastewater Treatment Plant Construction Project	Hubei Jichu Water Co., Ltd.	Fellow Subsidiary
Jingzhou City Construction Group Co., Ltd ("Jingzhou City Construction")	Zhijiang and Hubei Jingzhou Wastewater Treatment Plant Construction Project	Jingzhou Jingqing and Zhijiang Zhiqing Water Co., Ltd.	Fellow Subsidiary

At the reporting date, the Group had the following balances with these main contractors:

	June 30, 2012 RMB'000	December 31, 2011 RMB'000
<u>Trade receivables</u>		
Jingzhou City Construction	258	258
<u>Trade payables</u>		
Hubei Gongye Construction Group	767	767
<u>Other receivables</u>		
Jingzhou City Construction	-	2

The above mentioned other receivables are interest-free, unsecured and repayable on demand.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

## 20. SUBSEQUENT EVENT

Refer to the announcement of the Company dated August 10, 2012, the Company and certain subsidiaries of the Company that on the issue date of the Notes will provide guarantees to secure the Company's obligations under the Notes entered into the purchase agreement with The Hongkong and Shanghai Banking Corporation Limited and Deutsche Bank AG, Singapore Branch in connection with the issuance and sale of US\$150 million aggregate principal amount of 11.875% senior notes due 2017 ("Notes"). The Notes have been issued on August 10, 2012 and subsequently listed on SEHK on August 13, 2012 by way of debt issues to professional investors. The net proceeds of the Notes, after deduction of the expenses, will be approximately US\$146.2 million, and the Company intends to use the proceeds of the Notes to invest in prospective BOT projects, refinance the 2010 Convertible Bonds and repay the term loan facility with Wing Lung Bank Limited and for working capital and other general and corporate purposes.