

Sound Global Ltd. Interim Report 2014

expanding our *Tributaries*



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

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corporate profile

Listed on The Hong Kong Stock Exchange, Sound Global Ltd. is one of the leading turnkey water and wastewater treatment solutions providers in China.

As a turnkey solutions provider, Sound Global combines investment, design, construction, operations management and equipment manufacture into one proposal for its customers. Backed by extensive R&D and technical expertise, the Group is highly sought after for its superior design and operations management capabilities. As a result, Sound Global has won the accolade as one of China's top-ten most influential companies in the water industry continuously for the past few years. Sound Global strives to provide integrated environment protection solutions with international standards and aspires to lead the development of China's green industries -- a true standard bearer in the water industry.

corporate information

BOARD OF DIRECTORS

Executive Directors

Wen Yibo (Chairman)
Zhang Jingzhi (Chief Executive Officer)
Wang Kai (Chief Financial 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 (SEHK)

Wen Yibo
Wong Tak Yee

JOINT COMPANY SECRETARIES

Tan Wei Shyan (LLB)
Wong Tak Yee (FCIS, FCS (PE))

REGISTERED OFFICE

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AIA Tower
Singapore 048542
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OFFICES

Our Principal Office and Contact Details

National Environmental Protection Industry Zone
Tongzhou District, Beijing 101102, PRC
Telephone: +8610 6050 4718
Facsimile: +8610 6050 4766

Our Singapore Office and Contact Details

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

Our Hong Kong Office and Contact Details

Level 54, Hopewell Centre
183 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
The Bank of East Asia, Limited

AUDITORS

Deloitte & Touche LLP
Public Accountants and Chartered Accountants
6 Shenton Way
OUE Downtown 2
#32-00
Singapore 068809

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
12 Marina Boulevard Level 28
Marina Bay Financial Centre Tower 3
Singapore 018982

Li & Partners
22/F., World-Wide House
Central
Hong Kong

financial highlights

CONSOLIDATED RESULTS

	6 months ended June 30, 2014 RMB'000 (Unaudited)	6 months ended June 30, 2013 RMB'000 (Unaudited)
Revenue	1,634,740	1,474,638
Gross profit	500,470	444,199
Profit before income tax	304,433	229,768
Income tax expense	(64,368)	(55,166)
Profit for the period	<u>240,065</u>	<u>174,602</u>
Profit for the period attributable to		
Owners of the company	239,610	173,413
Non-controlling interest	455	1,189
	<u>240,065</u>	<u>174,602</u>
Earnings per Share		
Basic (RMB cents)	<u>17.29</u>	13.44
Diluted (RMB cents)	<u>16.97</u>	13.44

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Current assets	6,797,996	6,337,750
Non-current assets	2,696,502	2,459,531
Total assets	<u>9,494,498</u>	<u>8,797,281</u>
Current liabilities	2,891,416	2,568,597
Non-current liabilities	2,705,691	3,154,393
Total liabilities	<u>5,597,107</u>	<u>5,722,990</u>
Capital and reserves	<u>3,897,391</u>	3,074,291

management discussion & analysis



SIGNIFICANT TRENDS, CONDITIONS AND EVENTS

To consolidate its leading market position, the Company will continuously focus on the Engineering, Procurement and Construction (“EPC”) market in municipal and industrial fields and strengthen the management. With the improvement of China’s environmental standards, the sewage treatment plants constructed previously are required to achieve Grade 1A of the state standards or regional standards being at higher level than such a state standard through enhancement and renovation. In the new round of enhancement and renovation process, the Company has proactively sought the enhancement and renovation as well as expansion and reformation projects on the technology and equipment of municipal and industrial sewage treatment plant.

In addition, the state, according to the distribution of Chinese energy and chemical industries as well as the formation of the new urban function features, makes mandatory provisions on the recycling of industrial wastewater treatment. Thus, there will be renovation and expansion projects as well as new projects generated in the field of industrial wastewater treatment. While further consolidating the leading position of the Company in the coking wastewater area, the Company made breakthrough in the shale oil wastewater treatment (頁岩油廢水處理) and coal chemical industry wastewater treatment (煤化工廢水處理) as well as their comprehensive application in the industrial field, which established the Company’s leading role in implementation of planning, design and construction of industrial parks water environment system. In the future, shale oil and shale gas will form a new energy sector which might have great market potential.

The Company will actively seek out projects with relatively good return, development potential and controllable risk in a cautious manner. The rapid pace of development of urbanization of the PRC and the zonation development for industrial and corporate enterprises help to create investment opportunities which provide the Company with investment options with more favorable returns and therefore the Company will increase its efforts to develop investment projects. China’s environmental protection industry market has entered a consolidation stage of development, which provides mergers and acquisitions opportunities for the Company. The Company has selectively conducted mergers and acquisitions activities with reasonable price of mergers and acquisitions, and favorable return on investment. The Company has successfully acquired three Beijing municipal sewage treatment projects in 2013 and two Dongguan sewage treatment projects in second quarter of 2014. The Company will further increase mergers and acquisitions activities to enhance economies of scale and expand market shares in the future.



With the advancement of marketization of environmental service industry, the environmental service market, mainly under the mode of entrusted operations of third-party environment facilities in municipal and industrial areas in China, becomes mature, the weightings of water enterprises transforming into environmental service company has increased year by year. The Company has established the environmental services business division, which is positioned as an important strategic business direction of the Company and has laid a solid foundation for the Company to carry out the business of trust operations. The Company will continue to increase Operation and Maintenance (“O&M”) market expansion efforts.

The Company will steadily expand its international business, including equipment sales and EPC, further expansion of business in the emerging market areas, mainly in the Middle East, Southeast Asia and Africa and other developing countries, and the establishment of marketing channels and institutions in the respective regions. The Company has gained competitive edges as an international business in the areas such as technological services, equipment packages, EPC and the whole industry chain of investment business. The Company will select overseas projects with controllable risk and relatively good return for long-term investment operation, to realize its international operation development.

Urban sewage has been one of the main sources of regional pollution in the PRC. The sewage treatment market for small towns is still in its beginning stage, which will be a new strategic target in the PRC following the sewage treatment projects for large and middle-sized cities. In the future, a rapid growth in the construction of sewage treatment plants for small-sized cities is expected. By fully leveraging on our strengths in the technology, management and integrated industrial chain, as well as developing and applying the state-of-art patent technology similar to SMART* patent technology, the Company, through centralized, modularized and clustered management, will step up its effort in developing its sewage treatment business in small-sized cities in the PRC to the fullest, according to the requirement of the “Plan for Facilities Construction for Urban Wastewater Treatment and Recycling under the 12th Five-Year Plan” (“十二五”全國城鎮污水處理及再生利用設施建設規劃). To formulate an economically viable solution for the environmental management in the towns and rural areas in the PRC, the Company has developed business in more than one-third of the cities in the PRC, further established its leading position in the industry.

** Small & Skillful, Multiple & Modular, Active & Automatic, Rapid and Technologic*

management discussion & analysis

REVIEW OF GROUP'S FINANCIAL PERFORMANCE

Revenue

The Group's revenue increased by approximately RMB160.1 million or 10.9% from approximately RMB1,474.6 million for the six months ended June 30, 2013 to approximately RMB1,634.7 million for the six months ended June 30, 2014.

The increase was attributed mainly to: (1) increased contribution from the O&M segment of approximately RMB56.4 million from approximately RMB72.2 million for the six months ended June 30, 2013 to approximately RMB128.6 million for the six months ended June 30, 2014 as certain BOT projects started operations; and (2) increased contribution from the turnkey EPC services of approximately RMB134.2 million from approximately RMB1,364.1 million for the six months ended June 30, 2013 to approximately RMB1,498.3 million for the six months ended June 30, 2014 as the Group continues to be awarded and fulfilling its EPC projects in China. These increases were partly offset by the decreased external sales from Hi-Standard by approximately RMB30.4 million from RMB38.3 million for the six months ended June 30, 2013 to RMB7.9 million for the six months ended June 30, 2014 as Beijing Hi-Standard Water Treatment Equipment Co., Ltd ("Hi-Standard") service inter-segment.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately RMB56.3 million or 12.7% from approximately RMB444.2 million for the six months ended June 30, 2013 to approximately RMB500.5 million for the six months ended June 30, 2014. This increase was in line with the higher revenue and the stable gross profit margin.

The gross profit margin increased by approximately 0.5% from approximately 30.1% for the six months ended June 30, 2013 to approximately 30.6% for the six months ended June 30, 2014. 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 RMB15.1 million or 34.1% from approximately RMB44.2 million for the six months ended June 30, 2013 to approximately RMB59.3 million for the six months ended June 30, 2014. This increase was mainly due to the deemed interest income arising from service concession receivables as the Group continues to invest in Build, Operate and Transfer (“BOT”) projects.

Other Gains and Losses

Other gains and losses decreased by approximately RMB15.3 million or 54.2% from RMB28.3 million for the six months ended June 30, 2013 to RMB13.0 million for the six months ended June 30, 2014.

Other gains and losses include the fair value changes in various derivative financial instruments, the net effect of which are not significant. Other losses incurred for the six months ended June 30, 2014 include foreign exchange loss resulted from US Dollar denominated borrowings as US Dollar strengthened against Renminbi.

Distribution and Selling Expenses

Distribution and selling expenses remained relatively consistent at approximately 0.9% of revenue, approximately RMB14.8 million for the six months ended June 30, 2014 and approximately RMB12.9 million for the six months ended June 30, 2013.

Research and Development Expenses

Research and development expenses decreased by approximately RMB2.2 million or 18.8% from approximately RMB11.5 million for the six months ended June 30, 2013 to approximately RMB9.3 million for the six months ended June 30, 2014. The research and development expenses are depending on the development of its dynamic technological trends of water treatment industry and the Company’s needs in market development. There is no clear identifiable trend.



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Administrative Expenses

Administrative expenses remained relatively consistent at approximately 4.4% of revenue, at approximately RMB72.7 million for the six months ended June 30, 2014 and approximately RMB62.8 million for the six months ended June 30, 2013.

Finance Costs

Finance costs remained relatively consistent at approximately RMB145.6 million for the six months ended June 30, 2014 and approximately RMB143.1 million for the six months ended June 30, 2013.

Income Tax Expenses

Income tax expenses increased by approximately RMB9.2 million or 16.7% from approximately RMB55.2 million for the six months ended June 30, 2013 to approximately RMB64.4 million for the six months ended June 30, 2014. Income tax expenses increased as a result of an increase in the Group's profit.

Profit Attributable to Owners of the Company

As a result of the above, profit attributable to owners of the Company increased by approximately RMB66.2 million or 38.2% from approximately RMB173.4 million for the six months ended June 30, 2013 to approximately RMB239.6 million for the six months ended June 30, 2014.

REVIEW OF GROUP'S FINANCIAL POSITION

Current Assets

Current assets increased by approximately RMB460.2 million or 7.3% from approximately RMB6,337.8 million as at December 31, 2013 to approximately RMB6,798.0 million as at June 30, 2014 mainly due to the higher trade and other receivables resulted from the increase in operations and higher bank balances and cash as new borrowings were raised in 2014.

Inventories refer to equipment components and parts. As at June 30, 2014, 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.

Non-Current Assets

Non-current assets increased by approximately RMB237.0 million or 9.6% from approximately RMB2,459.5 million as at December 31, 2013 to approximately RMB2,696.5 million as at June 30, 2014 mainly arose from increased service concession receivables as investment in BOT projects increased.

Current Liabilities

Current liabilities increased by approximately RMB322.8 million or 12.6% from approximately RMB2,568.6 million as at December 31, 2013 to approximately RMB2,891.4 million as at June 30, 2014 mainly arose from new borrowings raised and higher trade and other payables resulted from the increased operations.

Non-Current Liabilities

Non-current liabilities decreased by approximately RMB448.7 million or 14.2% from approximately RMB3,154.4 million as at December 31, 2013 to approximately RMB2,705.7 million as at June 30, 2014 mainly due to the conversion of the outstanding convertible bonds.



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Capital and Reserves

Equity attributable to owners of the Company increased by approximately RMB822.6 million or 26.8% from approximately RMB3,070.4 million as at December 31, 2013 to approximately RMB3,893.0 million as at June 30, 2014 mainly due to the outstanding convertible bonds have been fully converted into ordinary shares and the retained profits of approximately RMB239.6 million.

The non-controlling interest of approximately RMB4.4 million relates to a 10% minority interest in Anyang Taiyuan Water Co., Ltd. This subsidiary is operating BOT projects.

Cash Flow Statement

Net cash used in operating activities was approximately RMB66.5 million for the six months ended June 30, 2014. The negative cash flow was mainly arose from the increase in trade and other receivables and amount due from customers for contract work as driven by the increased business operations.

The Group generated positive cash flow of RMB39.1 million for the six months ended June 30, 2014 from investing activities. This was mainly due to the release of pledged deposits for certain bank facilities.

Net cash generated from financing activities amounted to approximately RMB243.9 million for the six months ended June 30, 2014. These amounts were due to the new borrowings raised, offset by the repayment of borrowings and interest paid.

As at June 30, 2014, the Group's cash position remained strong and stood at approximately RMB3,753.3 million.



FINANCIAL REVIEW

Gearing

	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Borrowings (current)	1,020,123	763,624
Borrowings (non-current)	1,615,228	1,517,554
Convertible loan notes (non-current)	-	573,147
Senior notes (non-current)	908,365	898,695
Total debt	3,543,716	3,753,020
Bank balances and cash	3,753,271	3,533,547
Equity attributable to owners of the Company	3,893,023	3,070,378
Net debt	Net cash	Net debt
Total debt to equity ratio	0.91	1.22



board of directors

WEN YIBO

Executive Director and Chairman

Mr. Wen Yibo, aged 48, is the founder of our Group. He was appointed to our Board on November 7, 2005 and is currently the Executive Director and Chairman of the Company.

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. In 2012, he began his PhD studies in engineering in Tsinghua University. 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 Planning and Design Institute of the Ministry of Chemical Engineering.

Mr. Wen was accorded a senior engineer in September 1998 by the Beijing Senior Specialized Technique Qualification Evaluation Committee and was accorded status of professor engineer in September 2003. Mr. Wen was and is retained as a part-time professor in Tongji University, Tianjin University and Lanzhou Jiaotong University, a part-time researcher in Tianjin University and a mentor of Sound Post-Doctoral Research Centre.

Mr. Wen has accumulated more than 20 years of experience in the environmental protection industry. Over the years, Mr. Wen is committed to development and research on environmental pollution treatment technology and has received various technological advancement awards and prominent design awards at ministerial and national levels. Mr. Wen served as the advocate and principal officer in over 30 national patents, two national new products and two national torch projects approved by the State Intellectual Property Office.

Apart from achievements in technology research, Mr. Wen also contributed to exploration in the environmental protection industry through the innovative projects by Sound. Sound pioneered the “turnkey engineering” mode in China which in turn promoted the development of waste water treatment in the country. The “China Clear Water Project” (中華碧水計畫) by Sound introduced the “Build-Operate-Turn (BOT)” mode to the water treatment industry in China, allowing for private enterprises in China to explore a viable commercial model to enter the construction of large scale waste water treatment projects. Mr. Wen proposed to establish the National Environmental Protection Industry Zone in Beijing, which became the model for promoting regional economic development, industry development and enhancing international co-operation. Sound built its first “Venous Industrial Park” (靜脈產業園) and technology research and development center in Hunan, enabling continuous recycling of resources in the Changzhutan area in China. Mr. Wen advocated the establishment of the Environmental Service Industry Association to promote steady and standardized development of the environmental services industry.

Mr. Wen’s dedication to environmental protection industry was well recognized. In recognition of the contributions made by Mr. Wen to the development of the environmental industry in China, he was awarded the “China Environmental Protection Development Contribution Award” by the China Environmental Protection Industry 2005. In October 2009, Mr. Wen was awarded the title of “Excellent Entrepreneur in Environmental Protection Industry of China” by China Environmental Protection Industry. In November 2011, he was awarded the “Entrepreneur of the Year 2011 China” by Ernst & Young. In August 2012, Mr. Wen was elected to serve as Chairman again after holding the office of first Chairman of Environmental Service Industry Association in 2007. Mr Wen was also honoured the “Top 10 Person in Zhongguancun” in 2013.

ZHANG JINGZHI

Executive Director and Chief Executive Officer

Mr. Zhang Jingzhi, aged 43, was appointed as the Executive Director and Chief Executive Officer of Sound Global on March 4, 2013, and is responsible for the overall management of the Company. He is a senior engineer (professor level) with a master degree.

Mr. Zhang graduated with a bachelor degree in management information system from University of Science and Technology Beijing, School of Management in June 1993 and a master degree in business administration from School of Business, Renmin University of China in April 2001.

In his early years, Mr. Zhang served at the University of Science and Technology Beijing, School of Management and Ministry of Metallurgical Industry. He joined Sound Group Limited in April 2001 and successively served as an assistant to the president and vice president. From January 2004 to March 2011, he served as a director and successively as a general manager and an executive general manager of Sound Environmental Resources Co., Ltd, the shares of which are listed on Shenzhen Stock Exchange. From April 2011 to February 2013, he served as the executive chairman of Beijing Environment Sanitation Investment Co., Ltd.

Mr. Zhang was the general manager of Sound Environmental Resources Co., Ltd., and was responsible for the overall operation of the company. He was in charge and completed the investment, funding and implementation of nearly twenty solid waste treatment projects by the company. He published over 20 technical articles in various publications and received second technological advancement awards at ministerial level. Mr. Zhang was awarded the title of “Excellent Entrepreneur in Environment Protection Industry of China” in 2009 and ranked 11th in the “2009 Forbes Best CEO of China Listed Company” list. As an expert in the environment protection industry, Mr. Zhang was also invited to attend and present industry analysis reports at several industry forums.

WANG KAI

Executive Director and Chief Financial Officer

Mr. Wang Kai, aged 51, is a senior engineer, certified investment adviser and certified level-one constructor (municipal engineering) with a master degree. Mr. Wang was appointed to our Board on December 24, 2010, and is currently the Chief Financial Officer and general manager of the Company.

From 1979 to 1984, Mr. Wang studied environmental engineering at the School of Environmental Science and Engineering of Tsinghua University and obtained a bachelor degree. From 1987 to 1989, he studied radioactive waste management at the School of Environmental Science and Engineering of Tsinghua University and obtained a master degree.

From 1984 and 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.

Devoted to his work on sewage treatment and water pollution control for more than 20 years, Mr. Wang is an expert in the environmental field in China with extensive practical experience in water pollution control and treatment as well as construction management. His vast professional knowledge and extensive practical experience include leading, organizing and participating in numerous design, construction and management projects.

Mr. Wang is currently the instructor of six post-graduate students at Lanzhou Jiaotong University. With over 10 patent applications pending for approval, Mr. Wang has published more than 10 academic dissertations and won the Second Prize of Environmental Protection Science & Technology Award and the Second Prize of All-China Federation of Industry and Commerce's Science and Technology Progress Award (中華全國工商業聯合會科技進步獎).

board of directors

JIANG ANPING Executive Director

Mr. Jiang Anping, aged 42, was appointed to the Board on October 3, 2011. He has a PhD and is currently the chief engineer and deputy general manager of the Company.

Mr. Jiang graduated with a bachelor degree of engineering from the Department of Civil Engineering of Tianjin University in July 1995 and a master degree of engineering from the Department of Environmental Science and Engineering of Tsinghua University in July 1998. He obtained his 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, Mr. Jiang 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 September 2002, he successively worked in Beijing China Union Engineering Company Limited and 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.; in August 2005, he pursue his PhD at Washington State University and at the same time, he was the assistant researcher in the university; from July 2010 to 2013, he 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 chief engineer of Sound Global; since March 2014, he is the deputy general manager and chief engineer of Sound Global.

Mr. Jiang has extensive professional knowledge and experience in engineering technologies. As the leader of key technological development and engineering design projects, Mr. Jiang plays an important role in the innovation and design improvement of foreign engineering projects by the Company.

Mr. Jiang is currently in charge of a Beijing Municipal Science and Technology project and is a key participant of three “water special projects” under the National 12th Five-Year Plan and a Beijing Municipal Science and Technology project. He has published four theses, with three academic dissertations on Science Citation Index and one on Engineering Index. Mr. Jiang has four patent applications, one patent for utility model, all of which are currently under public review. He has also filed two patent applications in the U.S.A., one approved and the other under public review. Mr. Jiang Anping was one of the nominees in the first group of 2012 Zhongguancun Science and Technology Innovative High-end Leading Talent (2012年第一批中關村科技創新類高端領軍人才).

LUO LIYANG
Executive Director

Mr. Luo Liyang, aged 41, was appointed to our Board on February 2, 2011. Mr. Luo currently acts as deputy general manager (Marketing) of our Company.

Mr. Luo graduated with a bachelor degree in Environmental Monitoring from Henan Normal University in July 1997. Mr. Luo was accorded an engineer in December 1998 by the Henan Science and Technology Committee.

From July 1997 to March 1998, Mr. Luo 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. In May 2000, he joined Beijing Sound Environmental Engineering Co., Ltd and has held management position in the marketing department of the company to this present day. Since March 12, 2010, he has served as deputy general manager (marketing) of our Company, responsible for marketing, market planning and channel exploitation, construction and management of product platforms. He has successfully established market networks and platforms with more than 20 domestic and overseas marketing organizations for the Company, laying a solid foundation for expanding market network of the Company.

Mr. Luo has innovative thinking and pioneering spirit in the marketing area. He combines specific demands of the market and customers to flexibly apply various business models to the market, thereby introducing new solutions and investment practices.

WONG SEE MENG
Lead Independent Non-Executive Director

Mr. Wong See Meng, aged 66, 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. 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 was an independent non-executive director of Singapore-listed Lion Asiapac Ltd from August 2008 to September 2010 and a non-independent and non-executive director of NASDAQ-listed Multi-Fineline Electronix, Inc. from May 2011 to October 2012.

board of directors

SEOW HAN CHIANG WINSTON Independent Non-Executive Director

Mr. Seow Han Chiang Winston, aged 45, is an Independent Non-Executive Director and was appointed to our Board on August 24, 2006. Mr Seow is also the Chairman of the Remuneration Committee and a member of both the Audit Committee and Nomination Committee of the Company.

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 2012, he was successively a corporate partner of KS Chia Gurdeep & Param, Ho & Wee and RHTLaw Taylor Wessing LLP. He is currently a corporate partner of KhattarWong. Mr. Seow is also currently an independent non-executive director of Eucon Holding Limited (“Eucon”) and ICP Ltd. (“ICP”). From June 2005 to August 2011, he was an independent director of Atlantic Navigation Holdings (Singapore) Limited (“Atlantic”). The shares of Eucon, ICP and Atlantic are listed on Singapore Exchange Securities Trading Limited (“SGX-ST”).

FU TAO Independent Non-Executive Director

Mr. Fu Tao, aged 46, 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.

Mr. Fu is currently an independent director of Jiangsu Jiangnan Water Co., Ltd and Beijing Capital Co., Ltd, the shares of which are listed on Shanghai Stock Exchange. He is also an independent director of Shanghai Safbon Water Service Co., Ltd and Yonker Environmental Protection Co., Ltd, the shares of which are listed on Shenzhen Stock Exchange.

joint company secretaries

TAN WEI SHYAN

Joint Company Secretary

Mr. Tan Wei Shyan, aged 36, 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.

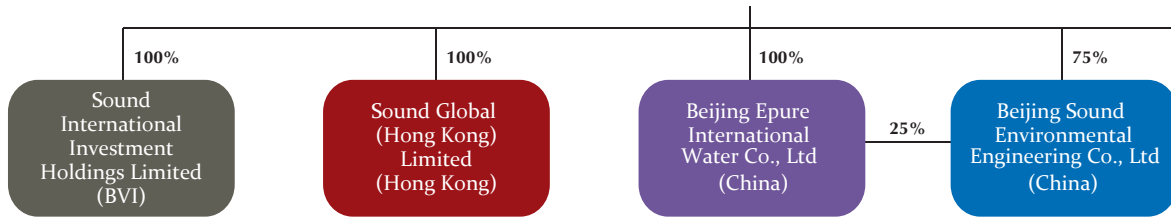
WONG TAK YEE

Joint Company Secretary

Ms. Wong Tak Yee, aged 57, 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, 2014

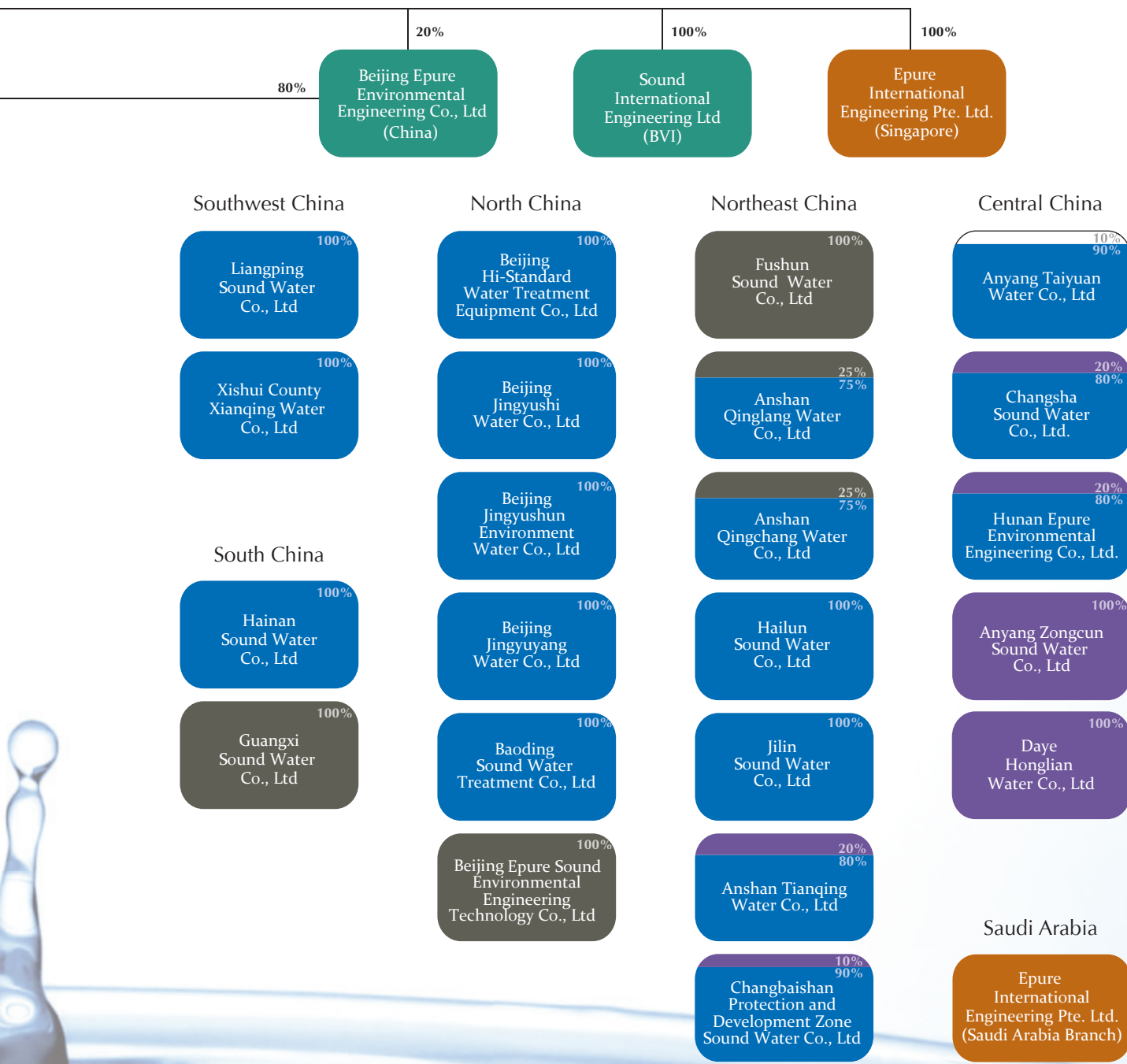


Northwest China



East China





information for investors

2014 INTERIM RESULTS ANNOUNCEMENT
August 20, 2014

BRANCH SHARE REGISTRAR IN HONG KONG
Tricor Investor Services Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE
Hong Kong Stock Exchange: 00967

INVESTOR RELATIONS
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general information

DIRECTORS

The Directors of the Company in office during the six months ended June 30, 2014 and up to the date of the 2014 Interim Report are:

Executive Directors:

Wen Yibo (Chairman)
Zhang Jingzhi (Chief Executive Officer)
Wang Kai (Chief Financial 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 years
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 Beijing Sound Water 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. Sound Global (Hong Kong) Limited Sound (HK) Limited Sound Enviroment (Hong Kong) Limited Beijing Sound Environmental Technology Development Co., Ltd Hunan Sound Venous Industry Development Co., Ltd Hunan Sounddon New Energy Co., Ltd Epure International Engineering Pte Ltd Beijing Jingyushun Environment Co., Ltd Beijing Jingyushi Water Co., Ltd Beijing Jingyuyang Water Co., Ltd Beijing Sound Lanqing Environment Technology Co., Ltd Beijing Epure Environmental Engineering Co., Ltd Sound Water Holdings Ltd	NIL

Name of Director	Present Directorships	Past directorships for the past 3 years
Zhang Jingzhi	NIL	Sound Environmental Resources Co., Ltd Beijing Environment Sanitation Investment Co., Ltd
Wang Kai	Beijing Sound Environmental Engineering Co., Ltd Beijing Epure Environmental Engineering Co., Ltd	NIL
Luo Liyang	NIL	NIL
Jiang Anping	Beijing Sound Environmental Engineering Co., Ltd Beijing Epure Environmental Engineering Co., Ltd	NIL
Wong See Meng	NIL	Multi-Fineline Electronix, Inc.
Fu Tao	Beijing Jincheng Property and Technology Development Co., Ltd Beijing Capital Co., Ltd Jiangsu Jiangan Water Co., Ltd Yonker Environmental Protection Co., Ltd Shanghai Safbon Water Service Co., Ltd	EverChina Int'l Holdings Company Limited
Seow Han Chiang Winston	Eucon Holding Limited ICP Ltd. Boulder Group 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 Self Energy Pte Ltd Superiorcoat Private Limited Armenian Holdings Pte Ltd Anzeco Perdana Pte Ltd Ampco Meat Group Pte Ltd Emerging Asia Capital Partners Pte Ltd GMT Bravo Pte Ltd GMT Charlie Pte Ltd ICP Marine Pte Ltd Italian Investments Holding Pte Ltd Keji Holding Pte Ltd Paragon Holdings Pte Ltd Puricarb Pte Ltd Sibuglemet Trading Pte Ltd Great Wall Capital Limited Fourward Health and Fitness Singapore Pte Ltd AOS SE Asia Pte Ltd Aboitizpower International Pte Ltd Encore Capital Group Singapore Pte Ltd SPAN Infotech SG Pte Ltd AEV International Pte Ltd Pilmico International Pte Ltd	Atlantic Navigation Holdings (Singapore) Limited Thaioil Marine International Pte Ltd Accel Corporate Solutions Pte Ltd BAFCO Singapore Pte Ltd Yanmar International Singapore Pte Ltd Fassmer Singapore Pte Ltd Credit Saison Asia Pacific Pte Ltd Henley Fit Pte Ltd Ashba Pte Ltd

general information

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2014, 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 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:

Long Position in the Ordinary Shares ("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	15,333,000	-	726,513,944 ^{#1}	741,846,944	50.56
Zhang Jingzhi	100,000	-	-	100,000	0.01
Wang Kai	3,075,000 ^{#2}	-	-	3,075,000	0.21
Luo Liyang	3,057,400 ^{#2}	-	-	3,057,400	0.21
Jiang Anping	1,140,000 ^{#2}	-	-	1,140,000	0.08

Notes:

#1 This includes 703,784,000 Shares held by Sound Water (BVI) Limited and 22,729,944 Shares held by Sound (HK) Limited. Beijing Sanghua Environmental Technology Development Co., Ltd was 22.2% owned by Mr. Wen Yibo and 77.8% owned by his wife, Ms. Zhang Huiming. Beijing Sanghua Environmental Technology Development Co., Ltd was deemed to own 22,729,944 Shares in the Company through its controlled corporation, Sound Group Limited, which owned 100% of the Shares in Sound (HK) Limited. Mr. Wen Yibo also owned an interest of 9.67% in the Shares of Sound Group Limited. Sound (HK) Limited in turn owned 22,729,944 Shares in the Company. Therefore, Mr. Wen Yibo was deemed to own 726,513,944 Shares of the Company through controlled corporations.

#2 Shares options granted under the Epure Share Option Scheme of the Company.

(B) **Associated Corporation — Sound Water (BVI) Limited** ^{#3}

Name	Number of Shares/underlying 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	1	-	10	100

Notes:

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

Save as disclosed above, as at June 30, 2014, 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 the 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 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 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 on the date of grant of the option.

The consideration for the grant of an option is \$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.

general information

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.

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, 2014. 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 shares in issue immediately following completion of the listing on SEHK. The remaining life of the Scheme is approximately 6 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 the SEHK. No further options are available for issue under the Epure Scheme as at the date of this Interim Report.

As at June 30, 2014, the number of shares in respect of which options had been granted under the Epure Scheme was 64,500,000 (2013: 64,500,000), representing 5% (2013: 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, 2014	Forfeited	Outstanding at June 30, 2014
July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	\$0.745	32,504,400	-	32,504,400

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.

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

Name	Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at January 1, 2014	Outstanding Forfeited at June 30, 2014	Outstanding at June 30, 2014
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	25,232,000	-	25,232,000

No employees 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 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 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, 2014, 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 interests or short positions 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	Percentage to the issued share capital of Company (%)
Zhang Huiming	741,846,944 (L) [#]	50.56 (L)
Sound Water (BVI) Limited	703,784,000 (L)	47.96 (L)
Central Huijin Investment Ltd	297,069,767 (L)	20.25 (L)
China Construction Bank Corporation	297,069,767 (L)	20.25 (L)
International Finance Corporation	132,104,545 (L)	9.00 (L)
Schroders Plc	104,154,000 (L)	7.10 (L)
JP Morgan Chase & Co.	103,641,260 (L)	7.06 (L)
	17,005,000 (S)	1.16 (S)
	69,619,000 (P)	4.74 (P)
Prudence Investment Management (Hong Kong) Limited	81,172,497 (L)	5.53 (L)

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

Note:

These Shares were held by her husband, Mr. Wen Yibo (15,333,000 Shares), Sound Water (BVI) Limited (703,784,000 Shares), and Sound (HK) Limited (22,729,944 Shares). Sound Water (BVI) Limited was owned by Mr. Wen Yibo and Ms. Zhang Huiming as to 90% and 10% respectively. Hence, Ms. Zhang Huiming was deemed to be interested in the 741,846,944 Shares of the Company held by Mr. Wen Yibo, Sound Water (BVI) Limited and Sound (HK) Limited.

Save as disclosed above, as at June 30, 2014, 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, 2014 have been reviewed by the Audit Committee.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company devotes to the best practice on corporate governance, and has complied with the Code Provisions of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 of the Listing Rules for the six months ended June 30, 2014 except for the deviations from the following Code Provisions:

- a) Code Provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election. Although the independent non-executive directors are not appointed for a specific term, all directors shall submit themselves for re-election at least once every three years pursuant to the Company’s Articles of Association. Under the Company’s Articles of Association, any new director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall be then eligible for re-election at the meeting.
- b) Code Provision E.1.2 of the CG Code stipulates that the chairman should attend the annual general meeting. The chairman of the Company did not attend the 2014 annual general meeting on May 22, 2014 due to other work commitment. He will use his best endeavours to attend all future shareholders’ meetings of the Company.

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 of the Company, during the six months ended June 30, 2014, all directors of the Company have complied with the required standards of the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended June 30, 2014, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

EMPLOYEES AND REMUNERATION POLICY

As at June 30, 2014, there were 1,846 (2013: 1,575) 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company, or the laws of the Singapore, which will oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

general information

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On May 30, 2014, a wholly-owned subsidiary of the Company, Beijing Sound Environmental Engineering Co., Ltd (“Beijing Sound”), entered into the equity transfer agreement with Sound Group Limited to acquire 97.8% of the equity interest of Tongliao Sound Water Co., Ltd (“Tongliao Sound”) at the consideration of RMB192,426,131. Beijing Sound has also entered into another equity transfer agreement with an independent third party for the purchase of the remaining 2.2% of the equity interest in Tongliao Sound on May 30, 2014. Upon completion of the two equity transfer agreements, Beijing Sound will hold 100% of the equity interest in Tongliao Sound.

Save for those disclosed above and in this report, there were no other significant investments held as at June 30, 2014, nor other material acquisitions and disposals of subsidiaries during the period.

condensed consolidated statement of profit or loss and other comprehensive income

for the six months ended june 30, 2014

	Notes	Six months ended	
		June 30, 2014 RMB'000 (unaudited)	June 30, 2013 RMB'000 (unaudited)
Revenue	4	1,634,740	1,474,638
Cost of sales		(1,134,270)	(1,030,439)
Gross profit		500,470	444,199
Other income	5	59,335	44,247
Other gains and losses	6	(12,992)	(28,344)
Distribution and selling expenses		(14,753)	(12,928)
Research and development expenses		(9,298)	(11,450)
Administrative expenses		(72,701)	(62,827)
Finance costs	7	(145,628)	(143,129)
Profit before income tax		304,433	229,768
Income tax expenses	8	(64,368)	(55,166)
Profit for the period	9	240,065	174,602
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of financial statements of foreign operations		(396)	550
Total comprehensive income for the period (net of tax)		239,669	175,152
Profit for the period attributable to:			
Owners of the Company		239,610	173,413
Non-controlling interests		455	1,189
		240,065	174,602
Total comprehensive income attributable to:			
Owners of the Company		239,214	173,963
Non-controlling interests		455	1,189
		239,669	175,152
Earnings per share			
Basic (RMB cents)	11	17.29	13.44
Diluted (RMB cents)	11	16.97	13.44

condensed consolidated statement of financial position

at June 30, 2014

	Notes	June 30, 2014 RMB'000 (unaudited)	December 31, 2013 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	51,775	49,907
Intangible assets	13	70,752	77,548
Land use rights		41,400	41,978
Goodwill		41,395	41,395
Service concession receivables	14	2,460,948	2,237,138
Deferred tax assets		7,748	8,181
Derivative financial instruments	15	22,484	3,384
		2,696,502	2,459,531
CURRENT ASSETS			
Inventories		37,774	27,960
Trade and other receivables	16	1,785,184	1,569,025
Land use rights		1,158	1,158
Amounts due from customers for contract work		1,142,549	1,096,568
Derivative financial instruments	15	653	-
Restricted bank balances		77,407	109,492
Bank balances and cash		3,753,271	3,533,547
		6,797,996	6,337,750
CURRENT LIABILITIES			
Trade and other payables	17	1,751,342	1,653,991
Warrants		22,081	1,647
Tax payable		73,073	107,968
Borrowings - due within one year	18	1,020,123	763,624
Amounts due to customers for contract work		24,797	41,367
		2,891,416	2,568,597
NET CURRENT ASSETS			
		3,906,580	3,769,153
TOTAL ASSETS LESS CURRENT LIABILITIES			
		6,603,082	6,228,684
NON-CURRENT LIABILITIES			
Deferred tax liabilities		124,892	111,019
Borrowings - due after one year	18	1,615,228	1,517,554
Convertible loan notes		-	573,147
Derivative financial instruments	15	57,206	53,978
Senior notes		908,365	898,695
		2,705,691	3,154,393
TOTAL ASSETS LESS TOTAL LIABILITIES			
		3,897,391	3,074,291
CAPITAL AND RESERVES			
Issued capital		1,415,667	833,368
Reserves		2,477,356	2,237,010
Equity attributable to owners of the Company		3,893,023	3,070,378
Non-controlling interests		4,368	3,913
		3,897,391	3,074,291

condensed consolidated statement of changes in equity

for the six months ended June 30, 2014

	Share capital	Merger reserve	Capital reserve	Translation reserve	Share option reserve	Convertible loan notes reserve	Statutory surplus fund	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2013	833,368	(88,296)	7,994	1,108	31,493	58,026	142,600	1,657,619	2,643,912	10,600	2,654,512
Profit for the period	-	-	-	-	-	-	-	173,413	173,413	1,189	174,602
Other comprehensive income for the period	-	-	-	550	-	-	-	-	550	-	550
Total comprehensive income for the period	-	-	-	550	-	-	-	173,413	173,963	1,189	175,152
Recognition of equity-settled share based payments	-	-	-	-	1,499	-	-	-	1,499	-	1,499
Balance at June 30, 2013 (unaudited)	833,368	(88,296)	7,994	1,658	32,992	58,026	142,600	1,831,032	2,819,374	11,789	2,831,163
Balance at January 1, 2014	833,368	(88,296)	7,138	2,327	34,249	58,026	145,007	2,078,559	3,070,378	3,913	3,074,291
Profit for the period	-	-	-	-	-	-	-	239,610	239,610	455	240,065
Other comprehensive income for the period	-	-	-	(396)	-	-	-	-	(396)	-	(396)
Total comprehensive income for the period	-	-	-	(396)	-	-	-	239,610	239,214	455	239,669
Conversion of convertible bonds	582,299	-	58,026	-	-	(58,026)	-	-	582,299	-	582,299
Recognition of equity-settled share based payments	-	-	-	-	1,132	-	-	-	1,132	-	1,132
Balance at June 30, 2014 (unaudited)	1,415,667	(88,296)	65,164	1,931	35,381	-	145,007	2,318,169	3,893,023	4,368	3,897,391

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. ("Beijing Sound"). The amount was calculated as the difference between the loan amount of US\$18.8 million (equivalent to RMB150,896,000) and the issued capital of the subsidiary acquired of RMB62,600,000.
- (ii) This balance reflects (a) the fair value of the 2,157,000 shares of the Company transferred to an initial public offering consultant at a nominal value of \$81.00 during the listing on Singapore Exchange Securities Trading Limited (the "SGX") in 2006; (b) the difference between the consideration of RMB18,000,000 in relation to the acquisition of 40% interest in Anyang Zongcun Sound Water Co., Ltd. ("Anyang Zongcun"), a subsidiary, by the Group and the carrying amount on the non-controlling interest, (c) the deemed distribution to the ultimate holding company arose upon the acquisition of Anyang Zongcun in January 2010, with 60% interest acquired from Sound Group Limited ("Sound Group", formerly known as Beijing Sound Environment Group Co., Ltd.), a fellow subsidiary of the Company, for consideration of RMB27,000,000 by the Group, (d) the difference between the consideration RMB9,573,000 in relation to the acquisition of 20% interest in Yantai Bihai Water Co., Ltd. ("Yantai Bihai"), a subsidiary, by the Group and carrying amount on the non-controlling interest, and (e) the equity portion of the convertible bonds converted during the six months ended June 30, 2014.
- (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 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, 2014

	Six months ended	
	June 30, 2014	June 30, 2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(66,466)	(262,736)
NET CASH FROM INVESTING ACTIVITIES		
Interest received	11,494	5,711
Purchases of property, plant and equipment	(5,204)	(3,209)
Proceeds from disposal of property, plant and equipment	157	6
Increase in restricted bank balances	(37,399)	(15,695)
Decrease in restricted bank balances	70,078	35,170
	39,126	21,983
NET CASH FROM (USED IN) FINANCING ACTIVITIES		
Interest paid	(145,247)	(126,492)
Borrowings raised	682,048	195,000
Repayment of borrowings	(292,853)	(152,406)
	243,948	(83,898)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	216,608	(324,651)
CASH AND CASH EQUIVALENTS AT JANUARY 1	3,533,547	2,912,077
Effect of foreign exchange rate changes	3,116	(2,890)
CASH AND CASH EQUIVALENTS AT JUNE 30 represented by Bank balances and cash	3,753,271	2,584,536

notes to the condensed consolidated financial statements

for the six months ended June 30, 2014

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 (“SEHK”) 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 except for certain financial instruments which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2014 are the same as those followed in the preparation of the Group’s annual audited consolidated financial statements for the year ended December 31, 2013.

Except the amendments to IAS 36 Impairment of Financial Assets: Recoverable Amount Disclosures for Non-Financial Assets which had been early adopted for the year ended December 31, 2013, 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 that are mandatorily effective for the current interim period.

The application of the new or revised IFRSs in the current interim period has had no material impact on the Group’s financial performance and positions and/or on the disclosures set out in these condensed consolidated financial statements.

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 fabrications”), 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 described in the Group’s annual consolidated financial statements for the year ended December 31, 2013. Segment results represent the profits earned by each segment without allocation of central administration costs, directors’ remuneration, other income and finance costs at corporate level.

notes to the condensed consolidated financial statements

for the six months ended June 30, 2014

3. SEGMENT INFORMATION - continued

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

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
<u>For the six months ended June 30, 2014</u>						
Revenue						
External sales	1,498,296	7,887	128,557	1,634,740	-	1,634,740
Inter-segment sales	-	85,520	-	85,520	(85,520)	-
Total revenue	<u>1,498,296</u>	<u>93,407</u>	<u>128,557</u>	<u>1,720,260</u>	<u>(85,520)</u>	<u>1,634,740</u>
Segment results	354,187	2,935	69,664	426,786	-	426,786
Unallocated income						352
Unallocated other gains and losses						(11,586)
Finance costs						(102,204)
Unallocated expenses						(8,915)
Profit before income tax						<u>304,433</u>

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
<u>For the six months ended June 30, 2013</u>						
Revenue						
External sales	1,364,080	38,330	72,228	1,474,638	-	1,474,638
Inter-segment sales	-	57,443	-	57,443	(57,443)	-
Total revenue	<u>1,364,080</u>	<u>95,773</u>	<u>72,228</u>	<u>1,532,081</u>	<u>(57,443)</u>	<u>1,474,638</u>
Segment results	331,168	3,188	47,014	381,370	-	381,370
Unallocated income and other gains						12,199
Finance costs						(108,418)
Unallocated expenses and other losses						(55,383)
Profit before income tax						<u>229,768</u>

4. REVENUE

	Six months ended	
	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Revenue from construction contracts		
- Turnkey services	1,359,342	1,236,396
- Sale of equipments	103,926	98,081
Revenue from sale of goods	7,887	38,330
Operating and maintenance income	128,557	72,228
Design service	35,028	29,603
	1,634,740	1,474,638

5. OTHER INCOME

	Six months ended	
	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Interest income	6,918	5,711
Imputed interest income on service concession receivables	52,179	37,703
Sundry income	238	58
Government grant	-	775
	59,335	44,247

6. OTHER GAINS AND LOSSES

	Six months ended	
	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Allowance for doubtful debts written back	2,883	-
Change in fair value of redeemable option embedded in senior notes	22,484	-
Change in fair value of warrants	(20,434)	-
Changes in fair value of a swap contract	(2,240)	(44,431)
Changes in fair value of foreign currency forward contract	(2,732)	(888)
Loss on disposal of property, plant and equipment	(51)	(54)
Net foreign exchange (losses) gains	(12,776)	17,029
Others	(126)	-
	(12,992)	(28,344)

notes to the condensed consolidated financial statements

for the six months ended June 30, 2014

7. FINANCE COSTS

	Six months ended	
	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Interest expenses on borrowings		
- wholly repayable within five years	40,237	18,176
- not wholly repayable within five years	27,483	23,822
Interest expenses on convertible loan notes	11,654	25,526
Interest expenses on senior notes	66,254	75,605
	145,628	143,129

8. INCOME TAX EXPENSES

	Six months ended	
	June 30, 2014 RMB'000	June 30, 2013 RMB'000
The charge comprises:		
Current tax		
PRC income tax	58,856	51,421
Over provision in prior year:		
PRC income tax	(8,793)	(2,657)
Deferred tax	14,305	6,402
	64,368	55,166

The Singapore income tax represents income tax in Singapore which is calculated at the prevailing tax rate on the taxable income of companies established in Singapore. For current interim period, the tax rate was 17% (2013: 17%).

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%. For the six months ended June 30, 2014, certain PRC subsidiaries enjoy preferential income tax rates at 12.5% or 15%, or tax exempted (2013: 12.5% or 15%, or tax exempted).

The EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a withholding tax under the tax treaty or the domestic law.

9. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended	
	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Amortization of intangible assets	6,796	5,000
Amortization of land use rights	578	584
Depreciation for property, plant and equipment	3,135	2,163
Loss on disposal of property, plant and equipment	51	54

10. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period. The directors of the Company have determined that no interim dividend will be proposed in respect of the six months ended June 30, 2014 (2013: 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, 2014 RMB'000	June 30, 2013 RMB'000
Earnings for the purpose of basic earnings per share	239,610	173,413
Effect of dilutive potential ordinary shares		
Interest on convertible loan notes	11,654	-
Earnings for the purpose of diluted earnings per share	251,264	173,413
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,385,939	1,290,000
Effect of dilutive potential ordinary shares from:		
Share options	11,717	-
Warrants	1,867	-
Convertible loan notes	81,358	-
Weighted average number of shares	1,480,881	1,290,000

notes to the condensed consolidated financial statements

for the six months ended June 30, 2014

11. EARNINGS PER SHARE - continued

	RMB cents	RMB cents
Earnings per share		
Basic	17.29	13.44
Diluted	16.97	13.44

The computation of diluted earnings per share for the six months ended June 30, 2013 did not assume the exercise of Company's options or warrants since the exercise price of those options or warrants were higher than the average market price of shares during the period. It also did not assume the conversion of the outstanding convertible loan notes since their exercise would result in an increase in earnings per share. Hence, there was no potential dilutive ordinary shares for the six months ended June 30, 2013.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The additions during the six months ended June 30, 2014 was RMB5,204,000 (2013:RMB 3,209,000).

As at June 30, 2014, certain buildings with an aggregate carrying amount of RMB28,332,000 (2013: RMB29,578,000) were pledged to secure general banking facilities granted to the Group.

13. INTANGIBLE ASSETS

	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Patents	5,000	10,000
Operating concessions	65,752	67,548
	<u>70,752</u>	<u>77,548</u>

The patents represent various patents which protect the design and specification in the manufacturing of wastewater treatment equipment. Amortization for the patents is provided on a straight-line basis over their estimated useful lives ranging from 4.5 to 9.5 years.

Operating concessions represent the rights to operate sewage and water treatment plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on straight-line basis over the respective periods of the operating concessions granted to the Group of 23 to 27 years. Details of these operating concessions are set out in Note 14.

14. SERVICE CONCESSION RECEIVABLES

	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Service concession receivables	2,591,803	2,363,029
Less: Amounts due within one year shown in trade and other receivables	(130,855)	(125,891)
	<u>2,460,948</u>	<u>2,237,138</u>

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. Those arrangements entitle the Group concession rights for periods ranging from 20 to 30 years with minimum guaranteed tonnage and tariff per ton defined in the agreements. Consideration to be received from the grantor for a service concession arrangement is accounted for as an intangible asset (operating concession) or financial asset (service concession receivables) or a combination of both, as appropriate. The intangible asset component is detailed in note 13, and the financial asset component is as above.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Financial assets (non-current)		
Fair value of foreign currency forward contracts	-	3,384
Fair value of redeemable option embedded in senior notes	22,484	-
	<u>22,484</u>	<u>3,384</u>
Financial assets (current)		
Fair value of foreign currency forward contracts	653	-
Financial liabilities (non-current)		
Fair value of a swap contract	57,206	53,978

notes to the condensed consolidated financial statements

for the six months ended June 30, 2014

16. 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 following is an aged analysis of trade receivables net of allowance for doubtful debts presented, based on the billing date of construction service or delivery of goods, as appropriate.

	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Trade receivables:		
Within 90 days	410,423	409,975
91 to 180 days	261,666	223,083
181 days to 1 year	401,763	269,207
1 to 2 years	242,003	343,710
2 to 3 years	88,267	3,592
More than 3 years	2,675	-
	<u>1,406,797</u>	<u>1,249,567</u>
Bills receivables:		
Within 180 days	<u>29,510</u>	<u>23,328</u>

17. TRADE AND OTHER PAYABLES

The credit terms of trade payables vary according to the terms agreed with different suppliers. The following is an aged analysis of trade payables based on invoice issuance date.

	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Trade payables		
Within 90 days	554,486	640,180
91 days to 180 days	148,447	150,711
181 days to 1 year	196,842	103,898
1 to 2 years	185,507	131,252
2 to 3 years	59,002	85,667
More than 3 years	77,693	57,901
	<u>1,221,977</u>	<u>1,169,609</u>
Bills payables		
Within 180 days	<u>36,974</u>	<u>55,117</u>

18. BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB682,048,000 (2013: RMB195,000,000) and repaid bank borrowings of RMB292,853,000 (2013: RMB152,406,000).

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's derivatives are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at (RMB '000)		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	June 30, 2014	December 31, 2013				
1) Foreign currency forward contracts classified as derivative financial instruments in the condensed consolidated statement of financial position	653	Assets 3,384	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Interest rate swaps classified as derivative financial instruments in the condensed consolidated statement of financial position	57,206	Liabilities 53,978	Level 2	(i) Discounted cash flow is used to determine the first year's payoff which is fixed. (ii) Black-Scholes pricing model and discounted cash flows are used to determine the fair value of the remaining term of the interest rate swap which can be seen as 7 separated index call options minus fixed cash flow payments. The key inputs are HSBC Macroeconomic Treasury Yield Spread Volatility Budgeted Index as mentioned in the interest rate swap contract, the expected volatility of the index, risk free rate and discount rate.	N/A	N/A
3) Warrants in the condensed consolidated statement of financial position	22,081	Liabilities 1,647	Level 3	The Binomial model was used. Stock price of the company and volatility of the stock price is considered as the key input in determining the fair value of the warrant.	Volatility of the stock price.	The higher of the volatility the higher the fair value.
4) Senior notes redemption option classified as derivative financial instruments in the condensed consolidated statement of financial position	22,484	N/A	Level 2	The Hull-White Trinomial Tree Model in software called FINCAD was used. The key inputs are Mean-Reversion Rate, Short-Rate Volatility Option Adjusted Spread and market yield curve	N/A	N/A

notes to the condensed consolidated financial statements

for the six months ended June 30, 2014

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values:

	June 30, 2014		December 31, 2013	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities				
Convertible loan notes (Liability component)	-	-	583,647	601,332
Senior notes	955,535	1,029,605	945,970	995,549

20. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	June 30, 2014 RMB'000	June 30, 2013 RMB'000
Revenue from construction contracts		
<i>Fellow subsidiaries:</i>		
Baotou Lucheng Water Co., Ltd ("Baotou Lucheng")	101,536	-
Beijing Xiaojiahe Wastewater Treatment Co., Ltd ("Beijing Xiaojiahe")	48,373	-
Laohekou Qingyuan Water Co., Ltd ("Laohekou Qingyuan")	-	16,062
Mingguang City Kangqing Environment Co., Ltd. ("Mingguang Kangqing")	-	4,900
Ezhou Qinghe Environmental Engineering Co., Ltd ("Ezhou Qinghe")	-	583
Beijing Guozhong Biology Technology Co., Ltd ("Beijing Guozhong")	-	553
	149,909	22,098
Revenue from sales of goods		
<i>Fellow Subsidiaries:</i>		
Laohekou Qingyuan	-	8,282
Ezhou Qinghe	-	3,247
Mingguang Kangqing	-	2,051
Sound Group Limited ("Sound Group")	-	831
	-	14,411
Revenue from design service		
<i>Fellow Subsidiaries:</i>		
Baotou Lucheng	9,047	-
Beijing Xiaojiahe	-	9,387
Mingguang Kangqing	-	660
Anda Anhua Environmental Co., Ltd ("Anda Anhua")	-	660
Linqing Yiqing Environment Energy Co., Ltd	-	613
	9,047	11,320

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

20. RELATED PARTY TRANSACTIONS - continued

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

	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Trade receivables		
<i>Fellow subsidiaries:</i>		
Baotou Lucheng	51,540	-
Beijing Xiaojahe	43,092	9,950
Laohekou Qingyuan	5,918	5,893
Jiayu Jiaqing Water Co., Ltd	1,369	2,399
Beijing Guozhong	2,220	2,220
Anda Anhua	346	376
Yichang Sanxia Water Co., Ltd	59	59
Ezhou Qinghe	57	35
Tongliao Sound Water Co., Ltd	5	-
	104,606	20,932
Amounts due from customers for contract work		
<i>Fellow subsidiaries:</i>		
Laohekou Qingyuan	1,397	1,466
Ezhou Qinghe	731	752
Baotou Lucheng	27,055	-
Beijing Xiaojahe	16,930	-
	46,113	2,218
Other receivables		
<i>Directors</i>		
Luo Liyang	85	-
Jiang Anping	50	-
	135	-
<p>The maximum balance outstanding for amounts due from Luo Liyang and Jiang Anping during the six months ended June 30, 2014 were RMB85,000 and RMB50,000 respectively.</p>		
Other payables		
<i>Director</i>		
Luo Liyang	-	28
<p>The maximum balance outstanding for amounts due to Luo Liyang during the six months ended June 30, 2014 was RMB28,000 (2013:RMB72,000).</p>		
Advance from customers		
<i>Fellow subsidiary</i>		
Sound Group	989	-

notes to the condensed consolidated financial statements

for the six months ended June 30, 2014

20. RELATED PARTY TRANSACTIONS - 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, 2014 RMB'000	June 30, 2013 RMB'000
Wages and salaries	1,091	1,361
Performance related incentive payments	33	768
Contributions to defined contribution plan	94	80
Share-based payments	253	591
	1,471	2,800

(d) Guarantees

At the end of the reporting period, the borrowings RMB973,896,000 (2013: RMB599,240,000) of the Group was guaranteed by Sound Group. This included a bank borrowing of approximately RMB50,000,000 secured by listed shares of a fellow subsidiary of the Company held by Sound Group.

At the end of the reporting period, bank borrowings amounting to RMB663,358,000 (2013: RMB655,426,000) of Sound Global (Hong Kong) Limited was jointly guaranteed by the Company and its wholly owned subsidiaries namely Sound International Engineering Ltd, Sound International Investment Holdings Limited and Epure International Engineering Pte. Ltd..

(e) Others

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 Beijing Sound for its investments in environmental protection and its subsidiary, by Beijing Sound Water Technology Co., Ltd. for the processing of purified drinking water at nil consideration before March 2006.

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