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SOUND GLOBAL LTD.

桑德國際有限公司*

(Incorporated in the Republic of Singapore with limited liability)

(Singapore Company Registration Number 200515422C)

(Hong Kong Stock Code: 00967)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

AND

CONTINUED SUSPENSION OF TRADING

The board of directors (the “Board”) of Sound Global Ltd. (the “Company”) hereby announce its unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 together with the comparative figures for the corresponding period of the immediately preceding financial year:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

| | Notes | Six months ended | |
|--|-------|--|--|
| | | 30 June 2016 RMB'000 (unaudited) | 30 June 2015 RMB'000 (unaudited) (Restated) |
| Revenue | 5 | 2,144,470 | 1,933,103 |
| Cost of sales | | (1,365,064) | (1,278,278) |
| Gross profit | | 779,406 | 654,825 |
| Other income | 6 | 29,285 | 9,080 |
| Other gains and losses, net | 7 | (83,065) | 2,070 |
| Distribution and selling expenses | | (32,346) | (24,005) |
| Research and development expenses | | (22,145) | (15,471) |
| Administrative expenses | | (112,357) | (86,014) |
| Finance costs | 8 | (69,598) | (141,794) |
| Profit before income tax | | 489,180 | 398,691 |
| Income tax expenses | 9 | (96,638) | (80,067) |
| Profit for the period | 10 | 392,542 | 318,624 |
| Other comprehensive income (expense) | | | |
| <i>Items that may be subsequently reclassified to profit or loss:</i> | | | |
| Exchange difference arising on translation of financial statements of foreign operations | | (8,205) | 476 |
| Total comprehensive income for the period (net of tax) | | 384,337 | 319,100 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 385,249 | 317,415 |
| Non-controlling interests | | 7,293 | 1,209 |
| | | 392,542 | 318,624 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | 377,044 | 317,891 |
| Non-controlling interests | | 7,293 | 1,209 |
| | | 384,337 | 319,100 |
| Earnings per share (in RMB cents) | | | |
| Basic | 12 | 25.58 | 21.08 |
| Diluted | 12 | 25.58 | 20.97 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

| | Notes | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|--|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 135,246 | 91,390 |
| Intangible assets | 14 | 56,066 | 57,862 |
| Land use rights | | 39,084 | 39,662 |
| Goodwill | | - | 41,395 |
| Service concession receivables | 15 | 6,703,178 | 5,309,946 |
| Deferred tax assets | | 10,888 | 10,888 |
| | | 6,944,462 | 5,551,143 |
| CURRENT ASSETS | | | |
| Inventories | | 114,460 | 97,827 |
| Trade and other receivables | 17 | 2,540,603 | 2,724,410 |
| Land use rights | | 1,158 | 1,158 |
| Available-for-sale investments | | 952,000 | 952,000 |
| Amounts due from customers for contract work | | 1,643,970 | 1,513,870 |
| Restricted bank balances | | 290,189 | 450,950 |
| Bank balances and cash | | 504,679 | 769,719 |
| | | 6,047,059 | 6,509,934 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 18 | 3,138,839 | 2,936,873 |
| Tax payables | | 93,558 | 124,826 |
| Borrowings | 19 | 2,351,267 | 2,704,907 |
| Obligation under finance lease | | 77,715 | 3,914 |
| Amounts due to customers for contract work | | 7,337 | 83 |
| | | 5,668,716 | 5,770,603 |
| NET CURRENT ASSETS | | 378,343 | 739,331 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 7,322,805 | 6,290,474 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 250,255 | 207,258 |
| Borrowings | 19 | 1,354,952 | 1,248,743 |
| Obligation under finance lease | | 510,373 | 36,124 |
| Derivative financial instruments | 16 | 28,758 | 37,969 |
| | | 2,144,338 | 1,530,094 |
| TOTAL ASSETS LESS TOTAL LIABILITIES | | 5,178,467 | 4,760,380 |
| CAPITAL AND RESERVES | | | |
| Issued capital | | 1,720,304 | 1,720,304 |
| Reserves | | 3,370,316 | 2,993,272 |
| Equity attributable to owners of the Company | | 5,090,620 | 4,713,576 |
| Non-controlling interests | | 87,847 | 46,804 |
| | | 5,178,467 | 4,760,380 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

| | Issued capital | Merger reserve | Capital reserve | Translation reserve | Share options | Statutory surplus reserve | 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 |
| Balance at 1 January 2015 | 1,690,579 | (198,082) | 4,562 | (2,952) | 30,713 | 185,730 | 2,529,187 | 4,239,737 | 6,246 | 4,245,983 |
| Profit for the period | - | - | - | - | - | - | 317,415 | 317,415 | 1,209 | 318,624 |
| Other comprehensive income for the period | - | - | - | 476 | - | - | - | 476 | - | 476 |
| Total comprehensive income for the period | - | - | - | 476 | - | - | 317,415 | 317,891 | 1,209 | 319,100 |
| Exercise of share options | 29,725 | - | - | - | (7,100) | - | - | 22,625 | - | 22,625 |
| Contributions from non-controlling interest | - | - | - | - | - | - | - | - | 1,000 | 1,000 |
| Balance at 30 June 2015 (unaudited) | 1,720,304 | (198,082) | 4,562 | (2,476) | 23,613 | 185,730 | 2,846,602 | 4,580,253 | 8,455 | 4,588,708 |
| Balance at 1 January 2016 | 1,720,304 | (198,082) | 4,562 | (7,163) | - | 228,437 | 2,965,518 | 4,713,576 | 46,804 | 4,760,380 |
| Profit for the period | - | - | - | - | - | - | 385,249 | 385,249 | 7,293 | 392,542 |
| Other comprehensive expense for the period | - | - | - | (8,205) | - | - | - | (8,205) | - | (8,205) |
| Total comprehensive income for the period | - | - | - | (8,205) | - | - | 385,249 | 377,044 | 7,293 | 384,337 |
| Contributions from non-controlling interest | - | - | - | - | - | - | - | - | 33,750 | 33,750 |
| Balance at 30 June 2016 (unaudited) | 1,720,304 | (198,082) | 4,562 | (15,368) | - | 228,437 | 3,350,767 | 5,090,620 | 87,847 | 5,178,467 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

Notes:

- (i) The merger reserve arose, (a) pursuant to the reorganisation 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"), which 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; and (b) pursuant to the acquisition of Tongliao Sound Water Co., Ltd. ("Tongliao") in 2014, from the difference between the consideration in relation to the acquisition of 97.8% interest in Tongliao Sound from Sound Group Limited ("Sound Group"), a fellow subsidiary of the Company, of approximately RMB192,427,000 and the issued capital and capital reserve of Tongliao Sound of RMB82,641,000.
- (ii) The 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 S\$1.00 during the listing on the Singapore Exchange Securities Trading Limited 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 Sound"), a subsidiary, by the Group and the carrying amount on the non-controlling interest; (c) the difference between the consideration of 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 the carrying amount on the non-controlling interest; and (d) the difference between the consideration of approximately RMB4,329,000 in relation to the acquisition of 2.2% interest in Tongliao Sound, a subsidiary, by the Group and the carrying amount on the non-controlling interest approximately RMB1,753,000.
- (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 FLOW

For the six months ended 30 June 2016

| | Six months ended | |
|---|--|--|
| | 30 June 2016 RMB'000 (unaudited) | 30 June 2015 RMB'000 (unaudited) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (628,478) | 1,050,351 |
| INVESTING ACTIVITIES | | |
| Interest received | 5,591 | 7,065 |
| Purchases of property, plant and equipment | (49,982) | (8,890) |
| Proceeds from disposal of property, plant and equipment | 23 | 426 |
| Acquisition of a subsidiary | - | (5,313) |
| Placement in restricted bank balances | (430,930) | (1,872,237) |
| Withdrawal in restricted bank balances | 591,691 | 294,873 |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | 116,393 | (1,584,076) |
| FINANCING ACTIVITIES | | |
| Interest paid | (67,954) | (132,603) |
| Exercise of share options | - | 22,625 |
| Capital contribution from non-controlling interest | 33,750 | 1,000 |
| Borrowings raised | 939,407 | 760,350 |
| Repayment of borrowings | (1,207,516) | (1,483,222) |
| Repayments of obligation under finance lease | (5,566) | - |
| Proceeds from sales and finance lease back arrangements | 550,000 | - |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 242,121 | (831,850) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (269,964) | (1,365,575) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | 769,719 | 1,968,239 |
| Effect of foreign exchange rate changes | 4,924 | (3,315) |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | | |
| REPRESENTED BY BANK BALANCES AND CASH | 504,679 | 599,349 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

The Company (Singapore Registration Number 200515422C) was a limited liability company incorporated in the Republic of Singapore ("Singapore") on 7 November 2005 under the Singapore Companies Act and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKEx"). The registered office of the Company is at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542. Its principal place of business is at 456 Alexandra Road, #04-03 Fragrance Empire Building, Singapore 119962.

2. 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 SEHK (the "Listing Rules") and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

3. 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 30 June 2016 are the same as those followed in the preparation of the Group's annual audited consolidated financial statements for the year ended 31 December 2015.

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.

4. 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 organised 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 and maintenance of water supply and wastewater treatment facilities ("O&M").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

4. SEGMENT INFORMATION (CONTINUED)

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 31 December 2015. Segment results represent the profits earned by each segment without allocation of central administration costs, directors' remuneration, other income, other gains and losses and 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 | Segment total RMB'000 | Elimination RMB'000 | Consolidated RMB'000 |
|--|---|--------------------------------------|----------------|-----------------------------|------------------------|-------------------------|
| <u>For the six months ended 30 June 2016 (unaudited)</u> | | | | | | |
| Revenue | | | | | | |
| External sales | 1,735,756 | 368 | 408,346 | 2,144,470 | - | 2,144,470 |
| Inter-segment sales | - | 159,403 | - | 159,403 | (159,403) | - |
| Total revenue | 1,735,756 | 159,771 | 408,346 | 2,303,873 | (159,403) | 2,144,470 |
| Segment results | 330,515 | (23,513) | 222,650 | 529,652 | - | 529,652 |
| Unallocated income | | | | | | 44 |
| Unallocated other gains and losses | | | | | | (17,933) |
| Unallocated finance costs | | | | | | (9,539) |
| Unallocated expenses | | | | | | (13,044) |
| Profit before income tax | | | | | | 489,180 |
| <u>For the six months ended 30 June 2015 (unaudited) (Restated)</u> | | | | | | |
| Revenue | | | | | | |
| External sales | 1,638,520 | 27,037 | 267,546 | 1,933,103 | - | 1,933,103 |
| Inter-segment sales | - | 128,457 | - | 128,457 | (128,457) | - |
| Total revenue | 1,638,520 | 155,494 | 267,546 | 2,061,560 | (128,457) | 1,933,103 |
| Segment results | 353,941 | 17,070 | 142,880 | 513,891 | - | 513,891 |
| Unallocated income | | | | | | 122 |
| Unallocated other gains and losses | | | | | | (9,207) |
| Unallocated finance costs | | | | | | (94,053) |
| Unallocated expenses | | | | | | (12,062) |
| Profit before income tax | | | | | | 398,691 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. REVENUE

| | Six months ended | |
|---|------------------|------------------|
| | 30 June 2016 | 30 June 2015 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| | | (Restated) |
| Revenue from construction contracts | | |
| - Turnkey services | 1,387,123 | 1,413,398 |
| - Sales of equipments | 328,938 | 198,823 |
| Revenue from sale of goods | 368 | 27,037 |
| Operating and maintenance income | 236,360 | 189,284 |
| Design service | 19,695 | 26,299 |
| Imputed interest income on service concession receivables | 171,986 | 78,262 |
| | 2,144,470 | 1,933,103 |

6. OTHER INCOME

| | Six months ended | |
|------------------|------------------|--------------|
| | 30 June 2016 | 30 June 2015 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| | | (Restated) |
| Interest income | 5,591 | 7,065 |
| Government grant | 21,371 | 1,870 |
| Sundry income | 2,323 | 145 |
| | 29,285 | 9,080 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

7. OTHER GAINS AND LOSSES, NET

| | Six months ended | |
|--|------------------|--------------|
| | 30 June 2016 | 30 June 2015 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Allowance for doubtful debts | (31,258) | - |
| Allowance for doubtful debts written back | 6,804 | - |
| Change in fair value of redemption option embedded in senior notes | - | (15,321) |
| Changes in fair value of a swap contract | (681) | (3,337) |
| Changes in fair value of foreign currency forward contracts | - | (2,716) |
| Gain on bargain purchase of a subsidiary | - | 23,108 |
| Impairment losses recognised in respect of goodwill | (41,395) | - |
| Loss on disposal of property, plant and equipment | - | (944) |
| Net foreign exchange gains (losses), net | (14,569) | 1,319 |
| Others | (1,966) | (39) |
| | (83,065) | 2,070 |

8. FINANCE COSTS

| | Six months ended | |
|---|------------------|----------------|
| | 30 June 2016 | 30 June 2015 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Interest expenses on borrowings | | |
| - wholly repayable within five years | 43,926 | 59,478 |
| - not wholly repayable within five years | 23,700 | 16,847 |
| Interest expenses on finance lease | 1,972 | - |
| Effective interest expenses on senior notes | - | 65,469 |
| | 69,598 | 141,794 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

9. INCOME TAX EXPENSES

| | Six months ended | |
|------------------------------|------------------|---------------|
| | 30 June 2016 | 30 June 2015 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| The charge comprises: | | |
| Current tax | | |
| PRC income tax | 70,450 | 61,462 |
| Over provision in prior year | | |
| PRC income tax | (16,808) | - |
| Deferred tax | 42,996 | 18,605 |
| | 96,638 | 80,067 |

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% (2015: 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 30 June 2016, certain PRC subsidiaries enjoy preferential income tax rates at 12.5% or tax exempted (2015: 12.5% 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.

10. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

| | Six months ended | |
|--|------------------|--------------|
| | 30 June 2016 | 30 June 2015 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Amortisation of intangible assets | 1,648 | 1,980 |
| Amortisation of land use rights | 578 | 578 |
| Depreciation for property, plant and equipment | 6,114 | 3,509 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

11. 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 30 June 2016 (2015: nil).

12. 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 | |
|--|--|--|
| | 30 June 2016 RMB'000 (unaudited) | 30 June 2015 RMB'000 (unaudited) |
| Earnings for the purpose of basic diluted earnings per share | 385,249 | 317,415 |
| | '000 (unaudited) | '000 (unaudited) |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,506,205 | 1,505,790 |
| Effect of dilutive potential ordinary shares from: | | |
| Share options | - | 8,076 |
| Weighted average number of shares | 1,506,205 | 1,513,866 |
| | RMB cents (unaudited) | RMB cents (unaudited) |
| Earnings per share | | |
| Basic | 25.58 | 21.08 |
| Diluted | 25.58 | 20.97 |

13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The additions during the six months ended 30 June 2016 was approximately RMB49,982,000 (2015: RMB8,890,000).

As at 30 June 2016, certain buildings with an aggregate carrying amount of approximately RMB11,620,000 (2015: RMB11,942,000) were pledged to secure general banking facilities granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. INTANGIBLE ASSETS

| | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|-----------------------|--|--|
| Patents | - | - |
| Operating concessions | 56,066 | 57,862 |
| | 56,066 | 57,862 |

The patents represent various patents which protect the design and specification in the manufacturing of wastewater treatment equipment. Amortisation 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 17 to 27 years. Details of these operating concessions are set out in Note 15.

15. SERVICE CONCESSION RECEIVABLES

| | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|--|--|--|
| Service concession receivables | 7,033,385 | 5,608,467 |
| Less: Amounts due within one year shown in trade and other receivables | (330,207) | (298,521) |
| | 6,703,178 | 5,309,946 |

Service concession receivables arose from the service concession contracts to build and operate water supply, wastewater treatment and recycling water plants. The Group is the operator under certain build-operate-transfer ("BOT") arrangements. Those arrangements entitle the Group concession rights for periods ranging from 19 to 30 years with minimum guaranteed tonnage and tariff per ton as defined in the agreements. Consideration given by 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 14, and the financial asset component is as above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

16. DERIVATIVE FINANCIAL INSTRUMENTS

| | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|--|--|--|
| Financial liabilities (non-current) | | |
| Fair value of a swap contract | 28,758 | 37,969 |

17. 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. Overdue balances are reviewed regularly by the Group's management.

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.

| | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|---------------------------|--|--|
| Trade receivables: | | |
| Within 90 days | 198,134 | 510,070 |
| 91 to 180 days | 110,320 | 226,720 |
| 181 days to 1 year | 352,843 | 178,623 |
| 1 to 2 years | 537,922 | 580,152 |
| 2 to 3 years | 127,124 | 54,672 |
| More than 3 years | 19,266 | 18,269 |
| | 1,345,609 | 1,568,506 |
| Bills receivables: | | |
| Within 180 days | 521 | 13,100 |

As set out in the Company's announcements dated 16 March 2015, 31 March 2015 and 29 April 2015, the release of the annual results for the year ended 31 December 2014 was delayed. It was further announced that the predecessor auditors of the Company (the "Predecessor Auditors") identified the potential issues in relation to the financial position of the Group which refer to the shortfall of or about RMB2.0 billion between the Group's cash balances at banks and that on the Group's books at 31 December 2014 (the "Cash Discrepancy"). The Company's shares (stock code: 00967) and debt securities (stock code: 04561) had been suspended from trading on the HKEx with effect from 16 March 2015 (the "2015 Suspension").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

In order to deal with the Cash Discrepancy, it has been resolved by the Board to set up an independent review committee (the “IRC”) on 31 March 2015 and on 23 June 2015, the Company announced that the IRC has engaged PKF Accountants & Business Advisors (“PKF”) to conduct a review on the Cash Discrepancy. The report prepared by PKF (the “Review Report”) revealed that the Cash Discrepancy was a result of the earnest money amounting to RMB2.0 billion (the “Earnest Money”) paid through Sound Group, paid to two independent third parties incorporated in the PRC (the “Sellers”) for acquisition of their water treatment businesses (the “Proposed Acquisition”) and in this connection, the Company entered into a trust agreement dated 26 August 2014 with Sound Group to empower Sound Group acting as its agent in the Proposed Acquisition (the “Trust Agreement”).

It is further set out in the Review Report that, it was agreed that the Earnest Money should be financed through Sound Group’s own internal funds. Accordingly, the Group further entered into a supplemental agreement to the Trust Agreement dated 20 March 2015 (the “Supplemental Trust Agreement”), pursuant to which Sound Group agreed to transfer RMB2.0 billion, being the refund of the Earnest Money, back to the Group’s bank account within one month from the date of the signing of the Supplemental Trust Agreement and pay interests to the Group at 0.35% annually which is the interest rate of current deposit of the People’s Bank of China. As a result of the Supplemental Trust Agreement, Sound Group transferred approximately RMB2.8 million as interest to the Company during the year ended 31 December 2015. Details of the Review Report were set out in the Company’s announcement dated 23 June 2015.

On 9 July 2015, the Company announced that it received a letter dated 6 July 2015 from the HKEx, in which the following conditions were given in respect of the resumption of trading in the Company’s shares and debt securities on the HKEx (the “Resumption Conditions”):

- (i) engage an independent forensic specialist acceptable to the HKEx to conduct forensic investigations on the Cash Discrepancy;
- (ii) demonstrate that the Group has put in place adequate financial reporting procedures and internal control systems to meet its obligations under the Listing Rules;
- (iii) publish all outstanding financial results required by the Listing Rules and address any audit qualifications; and
- (iv) inform the market of all material information.

The Company must also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation before resumption.

The HKEx may modify the above conditions and/or impose further conditions if the situation changes.

The Company announced on 31 July 2015 that the IRC was in the process of identifying an independent forensic specialist with finance and accounting expertise to conduct forensic investigation on the Cash Discrepancy.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

On 31 August 2015, the Company announced that, as disclosed in the Company's announcement dated 9 July 2015, in order to resume trading of the Company's shares and debt securities on the HKEx, the Company was required, amongst others, to engage an independent forensic specialist acceptable to the HKEx to conduct forensic investigations on the Cash Discrepancy and to demonstrate that the Group had put in place adequate financial reporting procedures and internal control systems to meet its obligations under the Listing Rules. In this connection, the Company has formally engaged RSM Nelson Wheeler Corporate Advisory Limited (now known as RSM Corporate Advisory (Hong Kong) Limited) ("RSM") as its independent forensic specialist to conduct the forensic investigations on the Cash Discrepancy; and PKF as its internal control consultant to review and advise on the Group's financial reporting procedures and internal control systems.

RSM has completed its forensic investigations and issued its report on 20 November 2015.

The trading in the Company's shares and debt securities have been suspended on the HKEx since 16 March 2014. On the other hand, it is uncertain in respect of the discretion of HKEx as to whether there may be potential non-compliance of the Listing Rules in respect of the Proposed Acquisition, the Trust Agreement and the Supplemental Trust Agreement which may result in possible sanctions for breach of the Listing Rules including relevant provisions of the Listing Rules and relevant sections of the Securities and Futures Ordinance (Cap. 571). The Board has been taking active steps to satisfy the resumption conditions but the resumption of the trading of shares of the Company are subjected to the satisfaction of the requirements laid down by the HKEx and its discretion. These conditions, along with the matters abovementioned described the uncertainty relating to the future outcome of the resumption of trading of the Company's shares which might have a significant effect on the consolidated financial statements of the Company and its subsidiaries.

On 30 November 2015, the Company announced that RSM has completed its forensic investigations on the Cash Discrepancy and had issued an Independent Forensic Accountants' Report dated 20 November 2015 (the "Independent Forensic Accountants' Report"). On 26 November 2015, the Company submitted the Independent Forensic Accountants' Report to the HKEx.

The Company further announced that PKF has completed its reviewing of the Company's financial reporting procedures and internal control systems. PKF is in the process of finalising its review report. The management of the Group had been discussing with PKF about the latter's findings and proposed remedial measures on financial reporting procedures and internal control systems. The management of the Company was also considering the implementation of the proposed remedial measures, where appropriate.

On 18 December 2015, the Company announced the summary of the key findings of RSM in the forensic accounting review on the Cash Discrepancy. Below is a summary of the key findings of RSM in the forensic accounting review.

The Predecessor Auditors identified a shortfall of RMB2.0 billion between the Group's cash balances at banks and that on the book at 31 December 2014 i.e. the Cash Discrepancy, during the course of their audit of the Group's consolidated financial statement for the year ended 31 December 2014. After the discovery of the Cash Discrepancy, the IRC was formed consisting of the independent non-executive directors (INEDs) of the Company and subsequently, PKF was appointed to conduct a special investigation on the Cash Discrepancy.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

PKF's findings were consistent with the Company's explanation that the Cash Discrepancy was due to the Earnest Money paid by the Company through its agent, Sound Group, for the Proposed Acquisitions. The payments of the Earnest Money were omitted in the Group's accounting records.

RSM's independent forensic accounting review was largely divided into, inter alia, the following areas: (1) to find out the cause(s) of the Cash Discrepancy (whether the cause(s) matched with PKF findings); (2) to review the existence of the Proposed Acquisitions and whether the Proposed Acquisitions were the cause of the Cash Discrepancy; (3) to review the subsequent fund flow of the Earnest Money refunded by Sound Group to the Group on 13 April 2015; and (4) to assess whether the Cash Discrepancy was related to fraud.

During the forensic accounting review, RSM conducted, inter alia: (1) confirmation procedures with the banks of Beijing Sound, Beijing Epure and Sound Group; (2) confirmation procedures with the Sellers in the Proposed Acquisitions; (3) interviews with various relevant individuals; and (4) computer forensic review of the computers which were used by the relevant employees of the Group.

RSM confirmed that on 4 November 2014, Beijing Sound paid earnest money to one of the Sellers via Sound Group for a proposed acquisition and on 24 November 2014, Beijing Sound and Beijing Epure paid earnest money to the another Sellers via Sound Group for another proposed acquisition, totaling RMB2.0 billion.

RSM found that none of the above payments had been recorded in the accounting records of Beijing Sound, Beijing Epure and/or the Group until 3 April 2015, i.e. approximately a month after the Cash Discrepancy was discovered by the Predecessor Auditors. These transactions, omitted in the Group's accounting records at the relevant time, caused the discrepancy of RMB2.0 billion between the Group's cash balances at banks and that on the books at 31 December 2014. The correction entries were made on 3 April 2015.

Due to the confidentiality of the Proposed Acquisitions as requested by the Sellers and to avoid intense competition, the Group engaged Sound Group as its agent in the Proposed Acquisitions. Under such an agency arrangement, Sound Group entered into agreements with the Sellers. The Group would make payments of the Earnest Money to Sound Group and Sound Group would then make the payments to the Sellers on the Group's behalf.

At the relevant time, the Chief Financial Officer ("CFO") (also an executive director) of the Company, Mr. Wang decided not to record the accounting entries for the time being since he intended to wait and see if the Proposed Acquisitions could be completed by the end of the year 2014, and if so, the Earnest Money would be fully returned to the Group. However, due to his oversight and/or heavy workload, he had forgotten to follow up with the progress of the Proposed Acquisitions and to post the relevant entries before the Predecessor Auditors' performance of their audit field work in early 2015.

RSM reviewed the relevant documents of the Proposed Acquisitions, conducted site visits at the selected water treatment facilities of the Sellers and interviews with the Sellers and conducted forensic computer reviews. All these serve as contemporaneous evidence in support the existence of the Proposed Acquisitions at the relevant time.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

Upon the discovery of the Cash Discrepancy, Sound Group voluntarily refunded RMB2.0 billion plus interest to the Company on 13 April 2015. RSM reviewed the cash flow of the refund of RMB 2.0 billion and how the refund had been utilised (e.g. repayment of bank loan, payment of bid deposits or investment funds for various projects, etc.), and found no obvious irregularities.

RSM's review is consistent with PKF's findings, and is also consistent with the Company's explanation that the Cash Discrepancy was due to the omission of recording the payments of the Earnest Money in the sum of RMB2.0 billion to the Sellers in the Company's books. RSM is unable to verify the explanation given by the CFO of the Company, Mr. Wang, as to whether, at or around the times of the transactions, he genuinely planned to make the entries by the year end of 2014 or before the commencement of the audit and/or his omission of booking the entries was indeed due to oversight.

RSM however have not found any evidence which indicated that such error or omission was related to fraud. In addition, other than the Finance Department of the Group, no other department and/or management of the Company was involved in/had knowledge about the omissions in recording the transactions prior to Predecessor Auditors' discovery of the Cash Discrepancy.

With regard to the potential internal control weaknesses revealed by the incident of the Cash Discrepancy, as also reflected in the forensic accounting review conducted by RSM, the Group had, inter alia, taken the following remedial measures to enhance its internal control:

- (i) For each single payment exceeding the limit of RMB30 million or for each single transaction exceeding the limit of RMB100 million (the payment of which may be made by instalments), the chairman of the Audit Committee would be required to counter-sign as an additional signatory on behalf of the independent non-executive directors of the Company; and
- (ii) Before submitting requests to the chairman of the Audit Committee for counter-signing, the management of the Group is required to provide the chairman of the Audit Committee with the relevant supporting documents and information for his perusal and verification.

The Company announced on 21 January 2016 that according to the internal control report issued by PKF dated 13 January 2016 (the "Internal Control Report"), PKF has come to a conclusion that from their review of the Group's implementation of the proposed measures, their enquiries, observations and discussions with the management of the Group, as well as their examination of relevant documents and records, the Group had already put in place adequate financial reporting procedures and internal control systems to meet the obligations under the Listing Rules.

Having considered the Internal Control Report, the Board is of the view that the Group's financial reporting procedures and internal control systems are sufficient to meet the obligations under the Listing Rules.

The Company further announced on 21 January 2016 that all of the Resumption Conditions imposed by the HKEx has been fulfilled. The trading of the shares of the Company was resumed on 25 January 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

18. 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.

| | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|------------------------|--|--|
| Trade payables: | | |
| Within 90 days | 903,327 | 778,432 |
| 91 to 180 days | 327,649 | 320,590 |
| 181 days to 1 year | 455,477 | 474,867 |
| 1 to 2 years | 281,651 | 225,854 |
| 2 to 3 years | 57,569 | 156,769 |
| More than 3 years | 95,360 | 75,780 |
| | 2,121,033 | 2,032,292 |
| Bills payables: | | |
| Within 180 days | 70,550 | 153,190 |

19. BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB939,407,000 (2015: RMB760,350,000) and repaid bank borrowings of approximately RMB1,207,516,000 (2015: RMB1,483,222,000).

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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 categorised (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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

| Financial assets/ Financial liabilities | Fair value at (RMB'000) | | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|--|---------------------------|----------------------------|----------------------|---|-----------------------------------|---|
| | 30 June 2016 (unaudited) | 31 December 2015 (audited) | | | | |
| Swap contract classified as derivative financial instruments in the condensed consolidated statement of financial position | Liabilities 28,758 | Liabilities 37,969 | 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 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 swap contract, the expected volatility of the index, risk free rate and discount rate. | N/A | N/A |

21. CAPITAL COMMITMENT

The Group had the following capital commitment at the end of the reporting period:

| | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|---|--|--|
| Construction of buildings: Contracted but not provided for | 50,071 | 48,850 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

22. RELATED PARTY TRANSACTIONS

Some of the transactions and arrangements of the Group are with related parties. Unless otherwise stated, the balances are unsecured, interest-free and repayable on demand.

| Name of party | Relationship |
|--|---|
| Sound Group | Companies under common control of Mr. Wen Yibo |
| Tus-Sound Environmental Resources Co. Ltd ("Tus-Sound") | Mr. Wen Yibo act as legal representative and director |

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

| | Six months ended | |
|---|--|--|
| | 30 June 2016 RMB'000 (unaudited) | 30 June 2015 RMB'000 (unaudited) |
| Revenue from engineering, procurement and construction contracts | | |
| Sound Group and its subsidiaries | 55,408 | 102,374 |
| Tus-Sound and its subsidiaries | 38,182 | 19,032 |
| | 93,590 | 121,406 |
| Revenue from design service | | |
| Sound Group and its subsidiaries | 332 | 3,113 |
| Tus-Sound and its subsidiaries | - | 1,197 |
| | 332 | 4,310 |
| Equipment procurement | | |
| Tus-Sound and its subsidiaries | 7,165 | - |

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 30 June 2016

22. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) At the end of the reporting period, the Group had the following balances with related parties:

| | 30 June 2016 RMB'000 (unaudited) | As at 31 December 2015 RMB'000 (audited) |
|----------------------------------|--|---|
| Trade receivables | | |
| Sound Group and its subsidiaries | 61,409 | 119,054 |
| Tus-Sound and its subsidiaries | 26,397 | 26,925 |
| | 87,806 | 145,979 |
| Other receivables | | |
| Tus-Sound and its subsidiaries | - | 400 |
| Director: | | |
| Jiang Anping | 48 | 32 |
| | 48 | 432 |

The maximum balance outstanding for amounts due from Jiang Anping during the six months ended 30 June 2016 was approximately RMB50,000 (31 December 2015: RMB32,000).

| | 30 June 2016 RMB'000 (unaudited) | As at 31 December 2015 RMB'000 (audited) |
|----------------------------------|--|---|
| Advance from customers | | |
| Sound Group and its subsidiaries | - | 153 |
| Tus-Sound and its subsidiaries | 7,337 | 9,168 |
| | 7,337 | 9,321 |
| Trade payables | | |
| Tus-Sound and its subsidiaries | 17,274 | 11,676 |
| Other payables | | |
| Sound Group and its subsidiaries | 210,885 | 20,660 |
| Director: | | |
| Luo Liyang | 8 | 121 |
| | 210,893 | 20,781 |

The maximum balance outstanding for amount due to Luo Liyang during the six months ended 30 June 2016 was approximately RMB121,000 (31 December 2015: RMB121,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

22. RELATED PARTY TRANSACTIONS (CONTINUED)

- (c) Compensation of key management personnel

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

| | Six months ended | |
|--|------------------|--------------|
| | 30 June 2016 | 30 June 2015 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Wages and salaries | 1,994 | 1,062 |
| Performance related incentive payments | 352 | - |
| Contributions to defined contribution plan | 130 | 104 |
| | 2,476 | 1,166 |

- (d) Guarantees

As at 30 June 2016, the borrowings amounting to approximately RMB1,245,523,000 (31 December 2015: RMB1,579,725,000) of the Group was guaranteed by Sound Group.

- (e) 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 23 March 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.

- (f) Trust Agreement and Supplemental Trust Agreement

As set out in Note 17 to the condensed consolidated financial statements, the Company entered into the Trust Agreement and the Supplemental Trust Agreement with Sound Group.

As Sound Group is a connected party to the Company under the definition of the Listing Rules, the directors of the Company has reviewed that Trust Agreement and the Supplemental Trust Agreement and considered that Sound Group is merely in essence and in substance acting as an agent for the Proposed Acquisition and therefore were not "standalone" or "separate" transactions subject to the requirements of the relevant Listing Rules. However, there may be uncertainty relating to the outcome of the discretion of the HKEx as to whether the Proposed Acquisition, the Trust Agreement and the Supplemental Trust Agreement would fall into the disclosure requirements of the Listing Rules. On the other hand, the directors of the Company considered the effect of this potential non-compliance of the Listing Rule was adequately reflected in the consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. EVENTS AFTER THE REPORTING PERIOD

(a) Development of the 2015 Suspension

As set out in note 17 to the condensed consolidated financial statements, the Company's shares have been suspended from trading on the HKEx with effect from 16 March 2015. The HKEx has set out Resumption Conditions in respect of the resumption of trading in the Company's share on the HKEx.

The Company announced on 21 January 2016 that according to the Internal Control Report, PKF had come to a conclusion that from their review of the Group's implementation of the proposed measures, its enquiries, observations and discussions with the management of the Company, as well as its examination of relevant documents and records, the Company had put in place adequate financial reporting procedures and internal control systems to meet the obligations under the Listing Rules.

Having considered the Internal Control Report, the Board was of the view that the Company's financial reporting procedures and internal control systems were sufficient to meet the obligations under the Listing Rules.

The Company further announced on 21 January 2016 that all of the Resumption Conditions imposed by the HKEx had been fulfilled. The trading of the shares of the Company was resumed on 25 January 2016.

(b) The 13 April 2016 announcement

On 13 April 2016, the Company announced that, under Rule 8(1) of the Securities and Futures (Stock Market Listing) Rules, the Commission has directed HKEx to suspend all dealings in the shares of the Company with effect from 9:00am on 13 April 2016.

The 2 June 2017 announcement

On 2 June 2017, the Company announced that the finance department of the Group discovered on 31 May 2017 that some of the financial documents of the Group were missing. The Group was now in the course of verifying the relevant details.

The 19 June 2017 announcement

On 19 June 2017, the Company announced that the finance department of the Group reported that on 25 November 2016, an accident occurred when some of the financial documents of the Group were being transported to a new file storage facility and as a result, some of the financial documents of the Group were lost and/or damaged. The Group is now in the course of verifying the relevant details and ascertaining the scope of loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. EVENT AFTER THE REPORTING PERIOD (CONTINUED)

(b) The 24 July 2017 and 13 September 2017 announcements

On 24 July 2017 and 13 September 2017, the Company announced that the reason of the 2016 Suspension was that the Commission had found that the bank balances of 5 bank accounts of the subsidiaries of the Company as at 31 December 2012 and 31 December 2013 were materially overstated by around RMB2.1 billion and RMB2.7 billion respectively. As at the date of the respective announcement, the Commission had not received from the Company any submission or representation which can satisfactorily explain such material discrepancies in the Group's bank balances.

The Company further announced that on 19 January 2017, the Company engaged the Reviewer to perform investigation services to the Company in respect of the above. The Reviewer will provide the Company with an independent investigation report to summarise the findings and recommendations to the Company. Further announcement will be made on the findings by the Reviewer when the independent investigation report has been received and assessed by the Board.

The 26 September 2017 announcement

On 26 September 2017, the Company announced that as at the date of this announcement, the Reviewer was continuing to perform investigation services to the Company in respect of the above, and its report on the said investigation was expected to be finalised in or around early October 2017. Notwithstanding the fact the Company had been actively assisting the Reviewer, the Company was given to understand from the Reviewer that based on the information provided by external parties in response to its enquiries, the findings of the Reviewer may not be adequate to satisfactorily address the concerns of the Commission. The Company was discussing with the Reviewer in relation to further possible works and procedures to be undertaken by the Reviewer in order to address the above.

The 16 October 2017 announcement

On 16 October 2017, the Company announced that as at the date of this announcement, the Reviewer was continuing to perform investigation services to the Company in respect of the above, and its report on the said investigation was expected to be finalised in or around late October 2017. Notwithstanding the fact the Company had been actively assisting the Reviewer, the Company was given to understand from the Reviewer that based on the information provided by external parties in response to its enquiries, the findings of the Reviewer may not be adequate to satisfactorily address the concerns of the Commission. The Company was discussing with the Reviewer in relation to further possible works and procedures to be undertaken by the Reviewer in order to address the above.

The 6 and 17 November 2017 announcements

On 6 and 17 November 2017, the Company announced that as at the date of the respective announcement, the Reviewer was continuing to perform investigation services to the Company in respect of the above, and based on the progress of the works of the Reviewer, it was expected that its report on the said investigation would be finalised in or around late November 2017. Notwithstanding the fact the Company has been actively assisting the Reviewer, the Company was given to understand from the Reviewer that based on the information provided by external parties in response to its enquiries, the findings of the Reviewer may not be adequate to satisfactorily address the concerns of the Commission. The Company was discussing with the Reviewer in relation to further possible works and procedures to be undertaken by the Reviewer in order to address the above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. EVENT AFTER THE REPORTING PERIOD (CONTINUED)

(b) The 27 December 2017 announcement

As at the date of this announcement, the Reviewer is continuing to perform investigation services to the Company in respect of the above, and its report on the said investigation is expected to be finalised in or around mid-January 2018. Notwithstanding the fact the Company has been actively assisting the Reviewer, the Company was given to understand from the Reviewer that based on the information provided by external parties in response to its enquiries, the findings of the Reviewer may not be adequate to satisfactorily address the concerns of the Commission. The Company is currently discussing with the Reviewer in relation to further possible works and procedures to be undertaken by the Reviewer in order to address the above.

The 26 January 2018 announcement

On 26 January 2018, the Company announced that the investigation was completed and a finalised investigation report was received from the Reviewer (the "Investigation Report") on 12 January 2018. The Company is currently reviewing the Investigation Report and seeking professional advice in respect of the findings and conclusion of the Reviewer.

The 1 February 2018 announcement

On 1 February 2018, the Company announced that on 8 January 2018, the Reviewer issued a report on its findings.

Work performed by the Reviewer

The Reviewer has performed the following investigation works:-

1. verifying the bank balances of the Group as at 31 December 2012, 2013 and 2014 by obtaining confirmations from the relevant banks;
2. comparing the balances shown in the bank statements and bank reconciliation statements provided by the Company as at 31 December 2012, 2013 and 2014 against the records maintained by the finance department of the Group (the "Finance Department"); and
3. conducting matching tests on a series of randomly selected bank transactions of the Group for the financial years ended 31 December 2012, 2013 and 2014 and examining and comparing the relevant accounting vouchers, supporting documents and monthly bank statements against the bank ledgers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. EVENT AFTER THE REPORTING PERIOD (CONTINUED)

(b) (continued)

The 1 February 2018 announcement (continued)

Key findings of the Reviewer

The key findings of the Reviewer is set out below:-

1. As announced by the Company on 2 and 19 June 2017, the accident occurred when some of the financial documents of the Group were being transported to a new file storage facility, and as a result, the financial documents and records for the years of 2010 to 2015 of five of the subsidiaries of the Company were damaged.
2. According to the explanation obtained by the Reviewer from the Finance Department, the list of bank accounts of the Group was updated by the Finance Department after the Accident (the "Updated List"), and the Updated List omitted some of the bank accounts (保證金戶) of the Group which had not been used for a long period of time (the "Abandoned Bank Accounts").

By reason of the exclusion of the Abandoned Bank Accounts in the Updated List, the Reviewer identified discrepancies between the records shown in the Updated List and the Group's audited consolidated bank balances.

3. The Reviewer also identified discrepancies between the bank balances shown on the list of bank accounts of the Group provided by the Company and the records obtained by the Commission. Based on the information obtained by the Reviewer, the Reviewer identified that the balances of the Bank Accounts shown on records obtained by the Commission as at 31 December 2012 and 2013 were lower than the corresponding balances shown on the lists of bank accounts of the Group provided by the Company, and the differences were respectively around RMB2.1 billion as at 31 December 2012 and around RMB2.7 billion as at 31 December 2013.

However, the Reviewer was unable to identify the cause(s) for the Discrepancies. This was because (1) the Bank Accounts had been closed and the relevant banks did not respond to the Reviewer's request for confirmations; and (2) the relevant financial records and documents were damaged and/or destroyed during the Accident.

4. The Reviewer did not receive responses from the relevant banks on confirmation requests for most of the bank balances as at 31 December 2012, 2013 and 2014.

Furthermore, the extent of work performed by the Reviewer on tracing bank transactions to supporting records was constrained due to unavailability of related financial documents and records as a result of the Accident.

Save for the discrepancies caused by the omission of the Abandoned Bank Accounts in the Updated List and the discrepancies identified by the Reviewer referred to in paragraph 3 above, the Reviewer was not provided with requested documentary records on a number of accounts for the remaining bank balances of the Group as at 31 December 2012, 2013 and 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. EVENT AFTER THE REPORTING PERIOD (CONTINUED)

(b) (continued)

The 1 February 2018 announcement (continued)

Conclusion of the Reviewer

Due to the limited information made available to the Reviewer, the Reviewer was unable to identify the reason for and particulars of the Discrepancies.

The Company is currently seeking professional advice in respect of the findings and conclusion the Reviewer. Further announcement will be made by the Company as and when appropriate.

The 1 March and 9 April 2018 announcements

On 1 March and 9 April 2018, the Company announced that as at the dates of these announcements, the SFC has not received from the Company any submission or representation which can satisfactorily explain such material discrepancies in its bank balances. Based on the Investigation Report, the Reviewer was unable to identify the reason for and particulars of the Discrepancies due to the limited information made available to the Reviewer. The Company was currently seeking professional advice in respect of the said findings and conclusion of the Reviewer with a view to addressing the SFC's concerns on the Discrepancies. Further announcement will be made by the Company as and when appropriate.

The 7 May and 6 June 2018 announcement

On 7 May and 6 June 2018, the Company announced that the Company had recently submitted a proposal to the SFC with a view to address its concerns on the Discrepancies. The SFC finds that the proposal does not satisfactorily address the SFC's concerns and has replied with comments. The Company was working closely with its professional advisors to address those comments. Further announcement will be made by the Company as and when appropriate.

On 3 May 2018, the Company disclosed two letters from the Listing Committee regarding failure by Mr. Jiang An Ping and Mr. Zhang Jing Zhi, former directors of the Company, respectively to cooperate in the HKEx's investigation into possible Listing Rule breaches is viewed seriously and will not be tolerated, and will also be taken into account in assessing an individual's suitability to act as a director of any listed issuer and listing applicant in the future.

(c) On 25 October 2017, the Company disclosed a letter from the Listing Committee regarding failure by Mr. Wang Kai, a former director of the Company, to cooperate in the HKEx's investigation into possible Listing Rule breaches is viewed seriously and will not be tolerated, and will also be taken into account in assessing an individual's suitability to act as a director of any listed issuer and listing applicant in the future.

(d) Privatisation

On 15 June 2017, the Board received the Letters from the Potential Offerors, in which the Potential Offerors informed the Board that they are in the preliminary phase of considering the feasibility of pursuing a proposal for the privatisation of the Company, which, if proceeded with, could result in the privatisation and delisting of the Company from the HKEx. The Board is also informed by the Potential Offerors that, in relation to the Possible Proposal, the Potential Offerors are acting in concert. The privatisation was not yet completed up to the date of approval of the consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. EVENT AFTER THE REPORTING PERIOD (CONTINUED)

(e) Resignation of directors and chief executive officer

Mr. Zhang Jingzhi resigned as an executive director and chief executive officer of the Company on 12 August 2016.

Mr. Jiang Anping resigned as an executive director of the Company on 12 August 2016.

Mr. Liu Wei resigned as an executive director of the Company on 26 July 2017.

(f) Appointment of directors

Mr. Zhou Hao and Mr. Liu Xiqiang were appointed as executive directors of the Company on 12 August 2016.

Mr. Li Feng was appointed as an executive director of the Company on 26 July 2017.

(g) Acquisition of subsidiaries

During the six months ended 31 December 2016, the Group acquired 70% equity interests of Zhongye Zhengyi Group Limited (中冶正益集團有限公司) (now known as Sound Construction Group Company Limited (桑德建設集團有限責任公司)) (“Zhongye Zhengyi”) and its subsidiaries (collectively the “Target Group”) at a consideration of RMB30,000,000. Zhongye Zhengyi is an investment holding company and mainly engaged in constructions in the PRC. Zhongye Zhengyi held the entire equity interests in Jiaxing City Zhengyi Equity Investment Management Company Limited (嘉興市正益股權投資管理有限公司) and Jiaxing Zhenghao Property Service Company Limited (嘉興正皓物業服務有限公司) and 90% of the equity interests in Jiaxing Zhengxing Machinery and Equipment Leasing Company Limited (嘉興正興機械設備租賃有限公司).

The directors of the Company have been unable to gain access to the books and records of the Target Group. Given these circumstances, the directors of the Company have been unable to consolidate the financial statements of the Target Group into the consolidated financial statements or accounts of the Group since the date of acquisition. Because of the insufficient financial information of the Target Group, the directors of the Company have not disclosed in the consolidated financial statements of the Group for the year ended 31 December 2015 the information about the nature and financial effects of the acquisition of the Target Group which is required to be disclosed by the applicable IFRSs, including IAS 10 “Events after the Reporting Period” and IFRS 3 “Business Combinations”. Further, given the lack of financial information available, the directors of the Company consider that they cannot determine whether the acquisition of the Target Group resulted in any non-compliance with the Listing Rules, including the disclosure requirements and the shareholders’ approval requirements under Chapter 14 “Notifiable Transactions” and Chapter 14A “Connected Transactions” under the Listing Rules.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. EVENT AFTER THE REPORTING PERIOD (CONTINUED)

(h) Loans and partial disposal of equity interests in subsidiaries

During the six months ended 31 December 2016, the Group entered into a series of agreements with Ningbo Meishan Bonded Area Jinxin Tairun Investment Partnership (Limited Partnership) (寧波梅山保稅港區金信泰潤投資合夥企業(有限合夥)) (“Jinxin Tairun”) and Sound Group whereby the Group borrowed in aggregate RMB871,850,000 from Jinxin Tairun for a duration of five years. Pursuant to the agreements with Jinxin Tairun and Sound Group, the Group pledged 70% equity interests of five subsidiaries including Shanxian Huadu Water Company Limited (單縣華都水務有限公司), Huizhou Sound Water Company Limited (惠州桑德水務有限公司), Shantou Guanbu Sound Water Company Limited (汕頭市關埠桑德水務有限公司), Shantou Heping Sound Water Company Limited (汕頭市和平桑德水務有限公司) and Shantou Tongyu Sound Water Company Limited (汕頭市銅孟桑德水務有限公司) (the “Five Subsidiaries”) to Jinxin Tairun. In addition, the Group disposed of 30% equity interests of the Five Subsidiaries to Jinxin Tairun for a total consideration of RMB84,150,000. Upon maturity of the loans from Jinxin Tairun, Sound Group shall buy the 30% equity interests of the Five Subsidiaries from Jinxin Tairun at a premium over the total consideration received by the Group for the disposal of the equity interests (together referred to as the “Transactions”). Jinxin Tairun is a limited partnership registered under the Partnership Enterprise Law of the People’s Republic of China. Sound Group is a fellow subsidiary of the Company and also (i) directly held 33.304% of the equity interests in Jinxin Tairun as a limited partner and (ii) directly held 20% equity interests in Jiaxing Sangzi Equity Investment Management Company Limited (嘉興桑梓股權投資管理有限公司) (“Jiaxing Sangzi”) which directly held 0.044% of the equity interests in Jinxin Tairun as an unlimited partner. A key management of the Group was a legal representative and executive director of Jiaxing Sangzi since its incorporation and up to 14 December 2017. No announcement has been made by the Company and no shareholders’ approval have been obtained for the Transactions. The directors of the Company consider they cannot determine whether the Transactions entered into with Jinxin Tairun and Sound Group resulted in any non-compliance with the Listing Rules, including the disclosure requirements and the shareholders’ approval requirements under Chapter 14 and Chapter 14A under the Listing Rules.

24. COMPARATIVE

Certain comparative amounts have been reclassified to conform with current period presentation. In particular, imputed interest income on service concession receivables has been reclassified from “other income” to “revenue”. In the opinion of the directors of the Company, such reclassifications provide a more appropriate presentation of the Group’s business segments and the condensed consolidated statement of profit or loss and other comprehensive income.

(I) MANAGEMENT DISCUSSION AND ANALYSIS

Review of Group's Financial Performance:

Revenue

The Group's revenue increased by approximately RMB211.4 million or 10.9% from approximately RMB1,933.1 million for the six months ended 30 June 2015 to approximately RMB2,144.5 million for the six months ended 30 June 2016.

The increase was attributed mainly to: (1) increased contribution from the turnkey Engineering, Procurement and Construction ("EPC") services of approximately RMB97.3 million or 5.9% from approximately RMB1,638.5 million for the six months ended 30 June 2015 to approximately RMB1,735.8 million for the six months ended 30 June 2016 as the Group continues to be awarded and fulfilling its EPC projects in China.; and (2) increased contribution from the O&M segment of approximately RMB140.8 million or 52.6% from approximately RMB267.5 million for the six months ended 30 June 2015 to approximately RMB408.3 million for the six months ended 30 June 2016 as certain BOT projects started operations.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately RMB124.6 million or 19.0% from approximately RMB654.8 million for the six months ended 30 June 2015 to approximately RMB779.4 million for the six months ended 30 June 2016. This increase was in line with the higher revenue and the stable gross profit margin.

The gross profit margin increased slightly by approximately 2.4% from approximately 33.9% for the six months ended 30 June 2015 to approximately 36.3% for the six months ended 30 June 2016.

Other Income

Other income increased by approximately RMB20.2 million or 222.0% from approximately RMB9.1 million for the six months ended 30 June 2015 to approximately RMB29.3 million for the six months ended 30 June 2016 mainly due to increase in government grants to support the O&M segment as the government announced that value added tax is payable on such O&M revenue with effect from 1 July 2015.

Other Gains and Losses, net

The Group recorded a net gain of approximately RMB2.1 million for the six months ended 30 June 2015, and a net loss of approximately RMB83.1 million for the six months ended 30 June 2016. The net loss for the six months ended 30 June 2016 mainly arose from 1) foreign exchange loss resulted from the US Dollar denominated borrowings as US Dollar strengthen against Renminbi; 2) impairment loss recognized in respect of goodwill; and 3) allowance of doubtful debts.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately RMB8.3 million or 34.6% from approximately RMB24.0 million for the six months ended 30 June 2015 to approximately RMB32.3 million for the six months ended 30 June 2016. The increase mainly arose from fees paid to local agents for assisting the Group in its tender process at various locations. Fees vary depending on project size and negotiation, there is no clear identifiable trend.

Research and Development Expenses

Research and development expenses increased by approximately RMB6.6 million or 42.6% from approximately RMB15.5 million for the six months ended 30 June 2015 to approximately RMB22.1 million for the six months ended 30 June 2016. 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.

Administrative Expenses

Administrative expenses increased by approximately RMB26.4 million or 30.7% from approximately RMB86.0 million for the six months ended 30 June 2015 to approximately RMB112.4 million for the six months ended 30 June 2016 mainly due to the increase in 1) staff costs as Group's headcount increased; 2) professional fees due to the engagement of professional firms to assist the Company to lift its trading suspension of shares on SEHK; and 3) bank charges due to issuance of bankers' guarantee.

Finance Costs

Finance costs decreased by approximately RMB72.2 million or 50.9% from approximately RMB141.8 million for the six months ended 30 June 2015 to approximately RMB69.6 million for the six months ended 30 June 2016 mainly due to redemption of senior notes in 2015, no related interest expense was recorded during the six months ended 30 June 2016.

Income Tax Expenses

Income tax expenses increased by approximately RMB16.5 million or 20.6% from approximately RMB80.1 million for the six months ended 30 June 2015 to approximately RMB96.6 million for the six months ended 30 June 2016. 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 RMB67.8million or 21.4% from approximately RMB317.4 million for the six months ended 30 June 2015 to approximately RMB385.2 million for the six months ended 30 June 2016.

Review of Group's Financial Position:

Current Assets

Current assets decreased by approximately RMB462.8 million or 7.1% from approximately RMB6,509.9 million as at 31 December 2015 to approximately RMB6,047.1 million as at 30 June 2016 mainly due to the decrease in bank balances as the Group continues to invest in BOT projects.

Non-Current Assets

Non-current assets increased by approximately RMB1,393.4 million or 25.1% from approximately RMB5,551.1 million as at 31 December 2015 to approximately RMB6,944.5 million as at 30 June 2016 mainly arose from increased service concession receivables as investment in BOT projects increased.

Current Liabilities

Current liabilities decreased by approximately RMB101.9 million or 1.8% from approximately RMB5,770.6 million as at 31 December 2015 to approximately RMB5,668.7 million as at 30 June 2016 mainly arose from the decrease in short term borrowings.

Non-Current Liabilities

Non-current liabilities increased by approximately RMB614.2 million or 40.1% from approximately RMB1,530.1 million as at 31 December 2015 to approximately RMB2,144.3 million as at 30 June 2016 mainly due to increase in finance leases during the period.

Capital and Reserves

Equity attributable to owners of the Company increased by approximately RMB377.0 million or 8.0% from approximately RMB4,713.6 million as at 31 December 2015 to approximately RMB5,090.6 million as at 30 June 2016 mainly due to the retained profits of approximately RMB385.2 million.

The non-controlling interest of approximately RMB87.8 million as at 30 June 2016 related to the followings:

| Name of subsidiaries | Minority interest shareholdings |
|--|---------------------------------|
| Anyang Taiyuan Water Co., Ltd | 10% |
| Chongqing Yusang Environment Technology Co., Ltd | 50% |
| Tongling Sound Water Co., Ltd | 20% |
| Tongzi Sound Water Co., Ltd | 44% |
| Fuqing Sound Water Co., Ltd | 49% |
| Bazhong Sound Mingjiang Co., Ltd | 36% |
| Linfen Yiande Water Co., Ltd | 20% |
| Fengdu County Sound Water Co., Ltd | 10% |
| Zhaoyuan City Sound Water Co., Ltd | 20% |
| Zhejiang Sound Zhenqing Water Co., Ltd | 30% |

(II) FINANCIAL REVIEW

Gearing

| | 30 June 2016 RMB'000 | 31 December 2015 RMB'000 |
|--|----------------------------|--------------------------------|
| Borrowings (current) | 2,351,267 | 2,704,907 |
| Borrowings (non-current) | 1,354,952 | 1,248,743 |
| Obligation under finance lease (current) | 77,715 | 3,914 |
| Obligation under finance lease (non-current) | 510,373 | 36,124 |
| Total debts | 4,294,307 | 3,993,688 |
| Bank balances and cash | 504,679 | 769,719 |
| Equity attributable to owners of the Company | 5,090,620 | 4,713,576 |
| Net cash / debt position | Net debt | Net debt |
| Total debt to equity ratio | 0.84 | 0.85 |

(III) SUPPLEMENTARY INFORMATION

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 30 June 2016 have been reviewed by the Audit Committee.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2016, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Share Options

On 9 December 2014, the Company granted 90,000,000 share options under the Sound Global Share Option Scheme. The numbers of outstanding share options for each period end are as follows:

| As at | Outstanding | Forfeited | Exercised | Expired |
|------------------|-------------|------------|-----------|---------|
| 30 June 2015 | 90,000,000 | - | - | - |
| 31 December 2015 | 81,415,000 | 8,585,000 | - | - |
| 30 June 2016 | 73,332,000 | 16,668,000 | - | - |

These share options granted lapsed on 30 September 2017.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the six months ended 30 June 2016 and up to the date of this announcement 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 annual general meeting held on 8 May 2018 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 30 June 2016, all directors of the Company have complied with the required standards of the Model Code.

Employees and Remuneration Policy

As at 30 June 2016, there were 2,979 (2015: 2,495) 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, discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

Significant Investment Held, Material Acquisitions and Disposals of Subsidiaries

Save for those disclosed in this announcement, there were no significant investments held as at 30 June 2016, nor other material acquisitions and disposals of subsidiaries during the period.

Continued Suspension of Trading

Trading in the Company's shares (stock code: 00967) has been suspended from 9:00 a.m. on 13 April 2016 and will remain suspended until further notice.

Disclosure on the Websites of the SEHK and the Company

This announcement shall be published on the website of the SEHK (<http://www.hkexnews.hk>) and on the Company's website (<http://www.soundglobal.com.sg>).

By Order of the Board
Sound Global Ltd.
Zhou Hao
Executive Director

Hong Kong, 12 July 2018

As of the date of this announcement, the executive Directors are Wen Yibo, Zhou Hao, Liu Xiqiang, Luo Liyang and Li Feng; and the independent non-executive Directors are Ma Yuanju, Luo Jianhua and Zhang Shuting.

** For identification purposes only*