



SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

INTERIM REPORT 2016

CONTENTS

03	Corporate Profile
04	Corporate Information
05	Management Discussion & Analysis
09	Board of Directors
14	Senior Management & Joint Company Secretaries
15	General Information
24	Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
25	Condensed Consolidated Statement of Financial Position
26	Condensed Consolidated Statement of Changes in Equity
28	Condensed Consolidated Statement of Cash Flows
29	Notes to the Condensed Consolidated Financial Statements

CORPORATE PROFILE

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

Sound Global has also diversified into the management of water treatment plants, investing in Build, Operate and Transfer ("BOT") projects and pioneering the Public Private Partnership ("PPP") investment model to diversify its project portfolio. By providing solutions from equipment manufacture to technical advise and support, from project construction to investment and management, the Group is progressing towards its aspiration of becoming a fully integrated services provider.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Wen Yibo (Chairman)
Zhou Hao
Liu Xiqiang
Luo Liyang
Li Feng

Independent Non-Executive Directors

Ma Yuanju (Lead Independent Non-Executive Director)
Luo Jianhua
Zhang Shuting

COMMITTEES

Audit Committee

Ma Yuanju (Chairman)
Luo Jianhua
Zhang Shuting

Remuneration Committee

Luo Jianhua (Chairman)
Ma Yuanju
Zhang Shuting

Nomination Committee

Ma Yuanju (Chairman)
Wen Yibo
Luo Jianhua

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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Facsimile: +65 6535 8577

OFFICES

Our Principal Office and Contact Details

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Tongzhou District, Beijing 101102, PRC
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Facsimile: +8610 6050 4766

Our Singapore Office and Contact Details

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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

The Hong Kong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

AUDITORS

Foo Kon Tan LLP
Chartered Accountants of Singapore
24 Raffles Place
Clifford Centre #07-03
Singapore 048621

HLB Hodgson Impey Cheng Limited
31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central, Hong Kong

SOLICITORS

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

Stevenson Wong & Co.
39/F, Gloucester Tower
The Landmark
15 Queen's Road
Central, Hong Kong

Branch Share Registrar in Hong Kong

Tricor Investor Services Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

MANAGEMENT DISCUSSION & ANALYSIS

SIGNIFICANT TRENDS, CONDITIONS AND EVENTS

As China's economic development enters the transformation stage of the structural reform, comprehensive rectification in the environmental protection sector has also commenced. 2016 marks the year of formulation of top-down design for environmental protection in the "13th Five-Year Plan", as well as the inaugural year of the "13th Five-Year Plan", which bears significance to the daunting task of environmental protection. According to the guidelines under the "13th Five-Year Plan", comprehensive improvement shall be made to the ecological environment, while the development of ecological civilization is included to the overall layout under the national development strategy for the first time. With "Action Plan for Water Pollution Prevention and Control" as a guideline and the newly revised "Environmental Protection Law" as the most powerful guarantee, China has made strides in aspects of pollution treatment, strict enforcement of environmental regulations and strengthening of environmental protection. Over the years, the extensive industrial development in China has been subject to relaxed environmental regulations, leading to severe environmental issues that may only be resolved with long-term efforts. The Ministry of Ecology and Environment promulgated "Ecological and Environmental Big Data Development Overall Plan" (《生態環境大數據建設總體方案》) and "Proposal for Setting up Monitoring Network of Environmental Quality for Surface Water under the 13th Five-Year Plan" (《"十三五"國家地表水環境質量監測網設置方案》) in March, with a view to improving overall decision-making, regulation and treatment, and public service standard in ecological and environmental protection as a whole. At the same time, it aims to further polish the monitoring network for surface water condition so as to better adapt to the management requirement of environmental protection. Following integration of big data cloud platforms and in pursuit of smart environmental protection, the environmental protection sector will soon embrace a new round of digital upgrades, and become a new growth driver for economic development under the "New Normal". In such case, the government and green enterprises may identify pollutant sources more accurately and implement timely control and treatment. With further tightening of regulation of environmental protection, the concept of "relentless efforts on ecological and environmental protection" has become a common principle among enterprises, resulting in their unprecedented contributions to environmental protection. With increasing competition in the environmental protection market to date, Sound Global continues to improve its own competitiveness and utilise its technical advantages and synergy between each segment to expand its scope of service with constant innovations.

In 2016, Public-Private Partnership ("PPP") in environmental protection projects has witnessed accelerated growth stemming from substantial benefits from favourable policies. Faced with the new requirements of the new model, the Company has adopted PPP as the leading approach to further establish and improve its overall business chain based on business segments in municipal water treatment, industrial water treatment, rural water treatment and the construction of sponge cities. As the Company endeavours to develop as a professional and comprehensive turnkey water treatment company, it concentrates on the integration of existing water supply and sewage treatment and recycling facilities with new facilities. The Company has made steady progress in respect of municipal water treatment, industrial water treatment, rural water treatment and the construction of sponge cities. It also pays attention to treatment of contaminated and odorous water, comprehensive pipe construction, integrated urban and rural construction and rural ecological development, as an enthusiastic response to the national policies of developing ecological cities and graceful countryside.

We will focus on segmentation of water ecology sector and innovative development of the Company by putting continuous efforts on developing efficient and sustainable sewage treatment technology with professionalized equipment and committed staff. We will provide full-range consultation service in respect of environmental protection to our customers to promote the application of water treatment technology in the areas of industrial production and municipal water supply. We will take an active role in developing friendly exchange and cooperation around the world in order to further expand our overseas market presence amid competition. Meanwhile, we will focus on internal corporate reform by strengthening our internal control along with our market expansion for risk management.

We have been committed in the environmental protection sector for more than twenty years by adhering to our initial aspiration of achieving the goal of lucid waters and lush mountains in China. "Innovation, Perfection, Integrity, Responsibility" are the core values of Sound Global. "We do our utmost for the environment. Sound Global embraces its mission to give fresh impetus to clean water."

MANAGEMENT DISCUSSION & 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.

MANAGEMENT DISCUSSION & ANALYSIS

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.

MANAGEMENT DISCUSSION & ANALYSIS

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.

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	<u>4,294,307</u>	<u>3,993,688</u>
Bank balances and cash	<u>504,679</u>	<u>769,719</u>
Equity attributable to owners of the Company	<u>5,090,620</u>	<u>4,713,576</u>
Net cash / debt position	Net debt	Net debt
Total debt to equity ratio	<u>0.84</u>	<u>0.85</u>

BOARD OF DIRECTORS

WEN YIBO

Executive Director and Chairman

Mr. Wen Yibo, aged 52, is the founder of our Group. He was appointed to our Board on 7 November 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 January 2017, he completed his PhD studies in engineering with 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 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 in 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, currently the Honorary President of the Association. Mr. Wen was also honoured the “Top 10 Person in Zhongguancun” in 2013.

Mr. Wen is currently a director of Tus-Sound Environmental Resources Co., Ltd (Shenzhen Stock Code : 000826), the shares of which are listed on Shenzhen Stock Exchange. He is also the director of Sound Water (BVI) Limited, a substantial shareholder of the Company.

BOARD OF DIRECTORS

ZHOU HAO **Executive Director**

Mr. Zhou Hao, aged 47, is an Executive Director and was appointed to the Board on 12 August 2016. He is currently the vice president of the Company.

Mr. Zhou obtained a bachelor degree of water treatment and drainage from the environmental engineering department of Xi'an Metallurgy and Architecture College (currently known as Xi'an University of Architecture and Technology) in 1993.

From September 1993 to February 1998, Mr. Zhou worked as an assistant supervisor of the design office of the mechanical power department of Ningxia Hengli Steel Group. From March 1998 to February 2011, he joined Sound Group Limited, successively appointed as commander of the headquarter construction department, assistant supervisor of production office, deputy head of control office, general manager of engineering department and general manager of operation management department cum assistant to general manager. From March 2011 to February 2014, he was the operating director of Beijing Lucency Enviro-Tech Co. Ltd. Mr. Zhou joined Sound Global in February 2014. He is currently the vice president of the Company.

LIU XIQIANG **Executive Director**

Mr. Liu Xiqiang, aged 38, is an Executive Director and was appointed to the Board on 12 August 2016. Mr. Liu graduated from China University of Mining and Technology in 2002 with a bachelor degree in environmental science and East China Jiaotong University in 2005 with a master degree in economics. He is currently the vice president of the Company.

From February 2006 to January 2008, Mr. Liu was involved in the strategic investment management with Guangdong Midea Group. From January 2008 to August 2009, he was involved in the investment management with Beijing DaDi YuanTong Group. Since November 2010, Mr. Liu joined Sound Global and successively appointed as supervisor of international investment department, deputy general manager of rural village and township division, general manager of investment department and currently vice president of the Company.

BOARD OF DIRECTORS

LUO LIYANG **Executive Director**

Mr. Luo Liyang, aged 45, is an Executive Director and was appointed to our Board on 2 February 2011. Mr. Luo currently acts as executive vice president 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 12 March 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.

LI FENG **Executive Director**

Mr. Li Feng, aged 34, is appointed to the Board of Directors on 26 July 2017 as Executive Director. He is currently the Group's Singapore office representative.

Mr. Li graduated with a bachelor degree in environmental engineering from Harbin Institute of Technology, People's Republic of China, in July 2007. Mr. Li was awarded Korean ET Scholarship in August 2007, he graduated with a master's degree in environmental engineering from Kyungpook National University, Republic of Korea, in August 2009.

From August 2009 to August 2010, Mr. Li worked as a project engineer with Beijing Architectural & Engineering Design Co., Ltd. on overseas projects. He joined the Company in February 2011. From February 2011 to August 2011, he worked as a project engineer on the Group's Saudi Arabia project. Since August 2011, he has been stationed at the Singapore office, mainly responsible for overseas projects and the Group's business development in South East Asia and South Asia.

Leveraging on his professional background and his distinctive view and rigorous approach in overseas markets, Mr. Li is able to provide solutions to the needs of heterogeneous clients and he plays a vital role in the Group's overseas markets expansion.

BOARD OF DIRECTORS

MA YUANJU

Lead Independent Non-Executive Director

Mr. Ma Yuanju, aged 61, is an Independent Non-Executive Director and was appointed to the Board on 20 April 2015.

Mr. Ma graduated with a master degree from the School of Accountancy of Shanghai University of Finance and Economics in January 1987 and a doctorate degree in management from the School of Business of Renmin University of China in July 2004. In July 1982, he graduated from the Finance Department of Xinjiang University of Finance & Economics, majoring in Corporate Finance. He is currently a professor of accountancy and a doctoral supervisor in the School of Accountancy of Capital University of Economics and Business.

Mr. Ma is also experienced in teaching and scientific researches. From July 1982 to December 1993, he was engaged in teaching and scientific researches as well as management of teaching and scientific researches in Xinjiang University of Finance and Economics; from January 1994 to September 2001, he was engaged in teaching and teaching management in Zhuhai Radio & TV University; from July 2004 to present, he has been engaged in teaching and scientific researches on accounting in the School of Accountancy of Capital University of Economics and Business.

In recent years, Mr. Ma researched on “Fair Accounting Theory”, “Accounting Ethics Education” and “Management Accounting Tool Applications”. Following his research, he published one treatise and several academic theses in academic periodicals successively. Two of his teaching-material publications were graded as Beijing Elite Teaching Material for Higher Institutes of Learning and two were selected as the planned teaching materials at the State level.

Mr. Ma is has been an independent director of Jinhe Biotechnology Co., Ltd. (Shenzhen Stock Code: 002688) (“Jinhe Biotechnology”) since April 2014. He was an independent director of Qinghai Huading Industrial Co., Ltd. (Shanghai Stock Code: 600243) (“Qinghai Huading”), Tibet Cheezheng Tibetan Medicine Co., Ltd. (Shenzhen Stock Code: 002287) (“Cheezheng Tibetan Medicine”) and Beijing Hanjian Heshan Pipeline Co., Ltd (Shanghai Stock Code: 603616) (“Hanjian Heshan”) from May 2008 to August 2014, from October 2007 to February 2014 and from October 2010 to October 2016 respectively. Shares of Qinghai Huading and Hanjian Heshan are listed on Shanghai Stock Exchange and shares of Cheezheng Tibetan Medicine and Jinhe Biotechnology are listed on Shenzhen Stock Exchange.

ZHANG SHUTING

Independent Non-Executive Director

Mr. Zhang Shuting, aged 62, is an Independent Non-Executive Director and was appointed to the Board on 9 July 2015.

Mr. Zhang graduated with a doctoral degree in chemical engineering from University of Tokyo. Currently, he served as professor in School of Environmental Science and Engineering of Tianjin University, doctoral supervisor and head of Institute of Resources and Environment Research.

In 1982, Mr. Zhang graduated from Hebei Institute of Mining and Metallurgy with a bachelor degree in coking chemistry. In 1987, he obtained a master degree in chemical engineering from the Institute of Coal Chemistry, Chinese Academy of Sciences. In 1988, he studied in the Institute of Physical and Chemical Research in Japan and obtained a doctoral degree in chemical engineering from the University of Tokyo in 1994. After graduating from the University of Tokyo, Mr. Zhang taught at the university before he was engaged in the technology development at Kyodoshoji Corporation Limited. From November 2001 to October 2009, he worked as the dean of School of Environmental Science and Engineering of Tianjin University.

BOARD OF DIRECTORS

LUO JIANHUA

Independent Non-Executive Director

Mr. Luo Jianhua, aged 54, is an Independent Non-Executive Director and was appointed to the Board on 31 July 2015.

Mr. Luo graduated with a bachelor degree in science in 1984 from the geology department of Nanjing University. From 1984 to 1991, he served as the Secretary General of the China Geological Society of Youth Working Committee in Chinese Academy of Geological Science. From 1992 to 1993, he worked in the Policy Research Centre for Environment and Economy of State Environmental Protection Administration as the Secretary General of China Youth Environmental Forum Committee. He worked in the Research Office of the Environment and Resources Protection Committee of the Chinese National People's Congress (NPC) from 1993 to 2007 and successively served as Deputy Division Chief, Division Chief and eventually as Deputy Director. In 2008, he was appointed the Secretary General of China Environment Service Industry Association, currently the Vice President cum Chief Policy Expert of the Association.

After years of practice, Mr. Luo has deep insights of environmental protection especially in policy making. He was involved in the organization of enforcement inspections of environmental protection regulation for the NPC Standing Committee, the drafting of primary enforcement inspection reports over the last few years. He planned various activities for China Environmental Protection Century, drafted recommendations and suggestions on the development of the recycling economy, energy conservation for the "11th Five-Years-Plan", the construction of the environmental protection agency and other issues for the Environmental and Resources Protection Committee of NPC that were submitted to the Central Committee and the State Council. He also participated in drafting the "recycling economy law" for the "12th Five-Years-Plan" for the energy conservation industry. In January 2013, he was invited by sustainable development strategy research department of the Chinese Academy of Sciences to write "China Environmental Strategy Path in Next Decade", which was submitted to the Premier of the State Council Li Keqiang for review and eventually approved. Mr. Luo is currently an independent director of KEDA Clean Energy Co., Ltd (Shanghai Stock Code: 600499), shares of which are listed on Shanghai Stock Exchange.

SENIOR MANAGEMENT & JOINT COMPANY SECRETARIES

HE HONGBING **Chief Financial Officer**

Mr. He Hongbing, aged 44, joined our Company as Chief Financial Officer on 18 December 2015. He oversees and coordinates the operation of the Group's finance department including all financial, accounting and taxation functions and financing activities of the Group.

He graduated with a bachelor degree in science from Geology Department of Peking University in 1996 and a master degree of Civil and Commercial Law from the Law School of Yantai University in 2003. He is a CFA Charter holder and a member of The Hong Kong Society of Financial Analysts since September 2009. He has held Chinese lawyer qualification since May 1999 and Chinese Certified Public Accountant qualification since March 2003, and has over 12 years working experience in financial management, corporate finance, investor relations and merger and acquisition projects.

From July 1996 to August 2000, Mr. He was the assistant engineer of the Technical Centre, Dongfeng Motor Corporation. From February 2003 to January 2004, he served as the financial manager of Shenzhen B&K Electronic Co., Ltd. From February 2004 to July 2007, he was the finance manager, deputy general manager of the Investor Relation Division of China Gas Holdings Limited. From August 2007 to December 2007, he was the investment analyst of Singapore UOB Kay Hian Research Pte Ltd. From January 2008 to June 2008, he served as the deputy general manager of International Business Division of China Gas Holdings Limited. From July 2008 to November 2014, he worked as the senior project manager, assistant president and vice president of Sino Oil and Gas Holdings Limited. From December 2014 to December 2015, he worked as the vice president of Linuo Group Co., Ltd.

TAN WEI SHYAN **Joint Company Secretary**

Mr. Tan Wei Shyan, aged 40, 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 60, 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.

GENERAL INFORMATION

DIRECTORS

The Directors of the Company in office during the six months ended 30 June 2016 and up to the date of the 2016 Interim Report are:

Executive Directors

Wen Yibo (Chairman)
Zhang Jingzhi (Chief Executive Officer) (Resigned on 12 August 2016)
Luo Liyang
Jiang Anping (Resigned on 12 August 2016)
Liu Wei (Resigned on 26 July 2017)
Zhou Hao (Appointed on 12 August 2016)
Liu Xiqiang (Appointed on 12 August 2016)
Li Feng (Appointed on 26 July 2017)

Independent Non-Executive Directors

Ma Yuanju
Zhang Shuting
Luo Jianhua

DIRECTORSHIPS

Present and past directorships of our Directors (as at the date of this Report) in other listed companies, group and related companies and major appointments in other companies are as follows:

Name of Director	Present Directorships	Past directorships for the past 3 year
Wen Yibo	Beijing Sound Environmental Engineering Co., Ltd Beijing Lümeng Investment Co., Ltd Beijing Sanghua Environmental Technology Development Co., Ltd Beijing Xiaojahe Wastewater Treatment Co., Ltd Sound Group Limited Tus-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 Environment (Hong Kong) Limited Beijing Sound Environmental Technology Development Co., Ltd Hunan Sound Venous Industry Development Co., Ltd Epure International Engineering Pte. Ltd. Beijing Jingyushun Environment Co., Ltd Beijing Jingyuyang Water Co., Ltd Beijing Sound Lanqing Environment Technology Co., Ltd	Soundon New Energy Technology Co., Ltd Beijing Jingyushi Water Co., Ltd

GENERAL INFORMATION

Name of Director	Present Directorships	Past directorships for the past 3 year
	Beijing Epure Environmental Engineering Co., Ltd Sound Water Holdings Ltd Advanced Resources Holdings Pte. Ltd. Advanced Water Engineering Pte. Ltd. Linzhi Sound Water Co., Ltd Xizang Sound Water Co., Ltd Xizang Sound Environmental Engineering Co., Ltd Xizang Sound Environmental Development Co., Ltd Xizang Sound Investment Holdings Co., Ltd Tianjin Sound Financial Leasing Co., Ltd Xizang Sound Imaging Technology Co., Ltd Sound (Xizang) New Energy Automobile Co., Ltd Tianjin Sound Environmental Technology Co., Ltd Sound Ecological Technology Co., Ltd Sound Gold Holdings Limited	
Zhou Hao	Epure International Engineering Pte. Ltd. Advanced Resources Holdings Pte. Ltd. Advanced Water Engineering Pte. Ltd.	NIL
Luo Liyang	NIL	NIL
Liu Xiqiang	Qingdao Sound Sponge City Construction Engineering Co., Ltd.	NIL
Li Feng	Epure International Engineering Pte. Ltd. Advanced Resources Holdings Pte. Ltd. Advanced Water Engineering Pte. Ltd.	NIL
Ma Yuanju	Jinhe Biotechnology Co., Ltd.	Beijing Hanjian Heshan Pipeline Co., Ltd
Zhang Shuting	NIL	NIL
Luo Jianhua	KEDA Clean Energy Co., Ltd	NIL

GENERAL INFORMATION

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, 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 ("Model Code") 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	25,333,000	-	748,945,944 ^{#1}	774,278,944	51.41
Zhang Jingzhi	7,559,000 ^{#2}	-	-	7,559,000	0.50
Luo Liyang	7,110,000 ^{#2}	-	-	7,110,000	0.47
Jiang Anping	6,725,000 ^{#2}	-	-	6,725,000	0.45
Liu Wei	130,000 ^{#2}	-	-	130,000	0.01

Notes:

#1 This includes 714,711,000 Shares held by Sound Water (BVI) Limited, 22,729,944 Shares held by Sound (HK) Limited, 11,505,000 Shares held by Green Capital Holdings Limited. Sound Water (BVI) Limited and Sound (HK) Limited are, directly or indirectly, controlled by Mr. Wen. Sound Water (BVI) Limited was owned by Mr. Wen and his wife, Ms. Zhang Huiming as to 90% and 10% respectively. Beijing Sanghua Environmental Technology Development Co., Ltd was 22.15% owned by Mr. Wen and 77.85% 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 also owned an interest of 4.83% in the Shares of Sound Group Limited. Therefore, Mr. Wen is deemed to be interested in these shares under Part XV of the SFO.

Green Capital Holdings Limited has signed an acting in concert agreement with Mr. Wen.

#2 These include Shares held directly and share options granted under Sound Global Share Option Scheme adopted by the Company on 30 April 2010. These share options granted lapsed on 30 September 2017.

GENERAL INFORMATION

(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 30 June 2016, 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, to be notified to the Company and SEHK.

SHARE OPTION

Sound Global Share Option Scheme (“the Scheme”)

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

Luo Jianhua (Chairman)
Ma Yuanju
Zhang Shuting

The Scheme was adopted pursuant to a resolution passed on 30 April 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 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 HKEx’s daily quotations sheets for the five market days immediately preceding the date of grant of the option; and
- (ii) the closing price of the Shares as stated on the HKEx’s daily quotations sheet on the date of grant of the option.

GENERAL INFORMATION

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 immediately following its completion of the HKEx Listing, 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 number of issued shares of the Company) 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.

As at the date of this Report, the remaining number of shares which may be issued upon exercise of options to be granted under the Scheme is 105,672,000 shares, representing 7.016% of the number of issued shares of the Company. The remaining life of the Scheme is approximately 2 years.

As at 30 June 2016, the number of shares in respect of which options had been granted under the Scheme was 90,000,000 (2015: 90,000,000), representing 6% (2015: 6%) of the shares of the Company in issue at that date.

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

Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at 1 January 2016	Forfeited	Outstanding at 30 June 2016
9 December 2014	#4	#5	HKD8.11	81,415,000	8,083,000	73,332,000

In respect of options granted on 9 December 2014, 27,249,000 options were granted to the then executive Directors and 62,751,000 options were granted to the then employees. There are no options granted to any of the Company's controlling shareholders or their associates.

GENERAL INFORMATION

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

Name	Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at 1 January 2016	Forfeited	Outstanding at 30 June 2016
Director							
Zhang Jingzhi (Resigned on 12 August 2016)	9 December 2014	#4	#5	HKD8.11	7,459,000	-	7,459,000
Luo Liyang	9 December 2014	#4	#5	HKD8.11	6,500,000	-	6,500,000
Jiang Anping (Resigned on 12 August 2016)	9 December 2014	#4	#5	HKD8.11	6,500,000	-	6,500,000
Liu Wei (Resigned on 26 July 2017)	9 December 2014	#4	#5	HKD8.11	130,000	-	130,000
Other employees #6	9 December 2014	#4	#5	HKD8.11	60,826,000	8,083,000	52,743,000

#4 Vesting period is from 9 December 2014 to the 7th day after the Company announced its annual results for the financial year ending 31 December 2016.

#5 Exercisable period is from the 8th day after the Company announced its annual results for each of the financial years ended/ending 31 December 2014, 2015 and 2016 to 30 September 2017.

#6 This includes 6,531,000 options, 216,000 options and 108,000 options granted to Mr. Zhou Hao, Mr. Liu Xiqiang and Mr. Li Feng respectively as employee on 9 December 2014. Mr. Zhou Hao and Mr. Liu Xiqiang were appointed as Directors of the Company on 12 August 2016. Mr. Li Feng was appointed as Directors of the Company on 26 July 2017.

No employees or employee of related corporations has received 5% or more of the total options granted under the 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 options granted under the Scheme is also subject to the following conditions:

- 1) The options will be exercisable in three tranches over three financial years in total of not more than, 40%, 70% and 100%, upon fulfilling the condition (as denoted in item 2 below), and
- 2) The growth rate for net profit, based on net profit for the financial year ended 31 December 2013, must be at least 35%, 85% and 150% for the financial years ending 31 December 2014, 2015 and 2016 respectively, excluding all exceptional items in the profit and loss statement. If the growth rate for net profit cannot be achieved in a particular financial year, the exercisable options allocated for that financial year shall be lapsed automatically.

GENERAL INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, 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	774,278,944 (L) ^{#7}	51.41 (L)
Sound Water (BVI) Limited	714,711,000 (L)	47.45 (L)
International Finance Corporation	104,622,795 (L)	6.95 (L)
Beijing Enterprises Water Group Limited	176,425,000 (L)	11.71 (L)
Beijing Enterprises Group Company Limited	176,425,000 (L)	11.71 (L)
Beijing Enterprises Holdings Limited	176,425,000 (L)	11.71 (L)

(L) — Long position

Note:

#7 This includes 25,333,000 Shares held by her husband, Mr. Wen Yibo, 714,711,000 Shares held by Sound Water (BVI) Limited, 22,729,944 Shares held by Sound (HK) Limited and 11,505,000 Shares held by Green Capital Holdings Limited.

Sound Water (BVI) Limited and Sound (HK) Limited are, directly or indirectly, controlled by Mr. Wen. Green Capital Holdings Limited has signed on acting in concert agreement with Mr. Wen. Therefore, Ms. Zhang is deemed to be interested in these Shares under Part XV of the SFO.

Save as disclosed above, as at 30 June 2016, 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 30 June 2016 have been reviewed by the Audit Committee.

GENERAL INFORMATION

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 30 June 2016 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.

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

For 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.

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, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

GENERAL INFORMATION

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Constitution 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.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Except as disclosed in the condensed consolidated financial statements of the Group for the six months ended 30 June 2016, there were no significant investments held as at 30 June 2016, nor other material acquisitions and disposals of subsidiaries during the period.

EVENT AFTER THE REPORTING PERIOD

Please refer to Note 23 of the notes to the condensed consolidated financial statements for the six months ended 30 June 2016 for the information.

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	<u>1,735,756</u>	<u>159,771</u>	<u>408,346</u>	<u>2,303,873</u>	<u>(159,403)</u>	<u>2,144,470</u>
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						<u>489,180</u>
<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	<u>1,638,520</u>	<u>155,494</u>	<u>267,546</u>	<u>2,061,560</u>	<u>(128,457)</u>	<u>1,933,103</u>
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						<u>398,691</u>

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 RMB'000 (unaudited)	30 June 2015 RMB'000 (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 RMB'000 (unaudited)	30 June 2015 RMB'000 (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.

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