SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

ANNUAL REPORT 2016

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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.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of Sound Global Ltd, I would like to express my heartfelt gratitude to all shareholders for your confidence in and support to the Company throughout the years.

Review

The 13th Five-Year Plan was unveiled in 2016, during which, the Communist Party and the government paid unprecedented attention to the environmental protection sector as they developed a more accurate understanding of the dire conditions of the environmental carrying capacity. To address the bottlenecks and constraints of the ecological construction and environmental protection, the government intensively introduced a collection of ecological and environmental protection reforms and policies, which has consequentially accelerated the advancement of ecosystem reforms. During 2016, the government constantly rolled out various plans related to environmental protection, as a result of which, the entire environmental sector witnesses a positive development trajectory. To resolve such environmental pollution that has been "the pain plaguing public livelihood", the 13th Five-Year Plan in its summary proposes the development philosophy of "being innovative, collaborative, green, open, and sharing". In full synchronization with the *Action Plan for Prevention and Control of Water Pollution* (hereinafter referred to as the "Action Plan") introduced by the government in April 2005 to support the new *Environmental Protection Law of the People's Republic of China*, on the other hand, the environmental authorities subsequently promulgated a series of supporting measures, assessment measures, and implementation rules, while commencing public consultation on the *Water Pollution Prevention and Control Law (Draft Revision)*. The Ecological and Environmental Protection Plan during the 13th Five-Year Plan set the targets for environmental improvement, subsequent to which, the Standing Committee of the National People's Congress (hereinafter referred to as the "NPCSC") for the first time reviewed the reports submitted by the State Council on annual environmental conditions and targeted environmental accomplishments. Furthermore, the Environmental Protection Tax Law of the People's Republic of China (hereinafter referred to as the "Environmental Protection Tax Law") was passed at the 25th meeting of the 12th NPCSC to further advance the ecological construction. The Environmental Protection Tax Law is the first single-subject tax law, the design of which is based on the current collection policy for sewage discharge and the standard surcharges. The current severe environmental conditions, alongside various environmental policies enacted by the government, has further stimulated the growth of the environmental protection sector. During 2016, the government continued and intensified its efforts to implement the treatment of water pollution. Upon implementation of the *Plan of Supervision and Inspection of Environmental Protection (Trial)*, the central government officially launched the supervision and inspection of environmental protection across sixteen provinces (including districts and cities) throughout the year. Amid environmental enforcement and exercises being carried out nationwide, governments in various regions subsequently require further improvement in the standard of and overhaul of the current sewage treatment facilities, in particular areas involved in industrial, municipal, and rural sewage, while a growing attention is paid to the prevention and control of underground water pollution. With an increasing number of pollutants included to the emission reduction standard in the near future, the large-scale centralized treatment will become the new norm that further expands the market demand for environmental treatment, thus generating new market highlights. In the meantime, the market competition becomes increasingly intense as the environmental protection sector becomes an economic growth pole under the new norm. Exposed to various challenges in 2016, Sound Global continued to tap into its own technical strengths and intensify its efforts to implement the projects. Apart from improving our existing water supply business and pipe network investments and operations, we further optimized the integrated ecological construction so as to lead the way in various environmental innovations, including the application of the "sponge city" concept. During the year, the Company continued to maintain our traditional competitive advantages over the wastewater and water supply business operations, while making progress in our model of unifying and centralizing the rural water businesses in regions. These further improved the urban-rural integration process. On top of our "SMART" core technology, we continued to innovate and sharpen our competitive edges. Our municipal and industrial water environment business continued its innovation, and our strategies were timely realigned in accordance with the new market trend under the PPP model. As a result, we further enhanced our own strengths, achieving a greater market share. In 2016, the Company continued exploring into new areas, including the treatment of contaminated and odorous water, comprehensive pipe construction, sponge city development, and made strategic arrangements. In doing so, we further enhanced our well-balanced regional business structure, and the key areas were further consolidated. On the other hand, our project companies subject to entrusted operations witnessed a significant increase in number as compared to that last year. Under the PPP model, the Company established strategic partnership with various public entities. Exposed to the increasing fierce competition in the environmental protection market, Sound Global made visionary and strategic arrangements on a timely basis to withstand the test of the market.

CHAIRMAN’S STATEMENT

Prospect

In line with the ongoing urbanization across China amid a slowed economic growth, cities in the western part of China, as well as small and medium cities and rural areas across the country, will benefit from the favorable national policies and witness market highlights in the integrated environmental treatment area. Subject to the national mission of stabilizing the economic growth amid the mounting pressure of the economic downturn, the third tertiary sector has become the major momentum to drive the economic growth. In such case, the government restructures outdated production capacities, cracks down heavily polluting industries, fully decelerates their original investments, and gradually increases investments in the “ecological construction”. These initiatives will further create room for a full-scale development in the environmental protection sector. In the future, capital injection into and investments in the entire environmental protection sector will project a continued growth momentum, turning the environmental sector into a new growth pole in the capital market. As the comprehensive underground pipe construction drives investments, its positive effects currently draw a growing attention of various governments at all levels from the central level to local level, in which case, the comprehensive underground pipe construction will become an emerging sector in the future development. In line with the growing public demand for their own environmental conditions, the entire community will witness an evidently growing sentiment in the environmental consumption. In this regard, various industries will arise, spanning from the sponge city development, ecosystem restoration, gardening and afforestation, pipe construction and operation, and smart cities driven by Internet-of-Things technologies to the sewage and sludge treatment.

With the unprecedentedly best opportunities presented for growth in the environmental protection sector, the integrated ecosystem chain and vertical segmentation framework of environmental businesses have been expanding. Over years of development, during which, our experiences are constantly accumulated along with technologies innovated, Sound Global has evolved into a comprehensive one-stop service provider of turnkey water supply and wastewater treatment solutions, and continued to commit itself to the water environment business in China. In 2016, there was an exponential growth in the environmental projects under the PPP model. Due to the ongoing urbanization process across China in recent years, the Central Government continues to encourage private investments into the environmental protection sector, as a result of which, the PPP model will become the necessary alternative for the environmental infrastructure development over the course of urbanization in the future, and the model of outsourced environmental treatment will become the mainstream business model in the environmental protection sector. Amid the continued government efforts to guide and improve the PPP model in the future, the environmental protection sector, which was previously dominated by capital, has embraced the new phase of financial integration. As a result, it will be easier for the environmental protection sector to tap into financing channels in the future.

In consideration of the said background, the development trend of environmental businesses, and the increasingly severe environmental pollution conditions, Sound Global, as a leading technology-driven company, believes that our own core technological advancement will play a decisive role in our future market competition. To this end, Sound Global will attach greater importance to technological enhancement and innovation standard. Having successfully withstood the test of the capital market during 2016, Sound Global persisted and further entrenched our leading position in the water industry in China. Looking into 2017, Sound Global will continue its visionary strategies to engage in the environmental protection alongside its continued expansion and exploration into other areas, including the sponge city development and contaminated and odorous water treatment. Furthermore, we will vigorously advance our exploration of the PPP model in active response to the government policies, while endeavoring to develop a brand new model of the public-private and equity partnerships, as well as an integrated ecosystem platform. In the meantime, to fully implement the vision of “Sound Global Quality 2017”, we will continue to innovate our operation and management model, strengthen our own competitive advantages, and strive to provide our clients with more premium technologies, products, and services. Our continued technological innovation, as well as our ongoing improvement in products and services, will help us achieve a new growth pole driven by innovation. Sound Global will continue to develop the integrated industry chain that extends to various areas, including technical services, equipment manufacturing, engineering construction, and operation and maintenance. By capitalizing on the cloud-based and application platform for big data of environmental protection, we will innovate and pilot the integration of big data derived from the internet into the environmental protection sector. Continuing our international expansion and adventure, the Company will closely follow the “Belt and Road” Initiative proposed by the government, while further utilizing our own technical strengths and project management capability to boost our international expansion and presence. We are firmly confident that Sound Global will continue to advance forward in our campaign for environmental protection.

OPERATIONS REVIEW

Dear Shareholders,

We are very thankful for your understanding and solid support for the Company all these years. Sound Global has been engaged in the wastewater treatment for more than 20 years, providing professional services to thousands of customers. We are indebted to your committed companion along our growth. Over the year, we have been making contribution to the environmental protection through our continued exploration and innovation. In accordance with environmental objectives under the "13th Five-Year" Plan, the government tightened environmental regulation and enforcement, and made a series of major decisions and arrangements, both aiming to improve environmental quality. With the 13th "Five-Year" Plan coming into force in 2016, the government further advanced the construction of ecological civilization by fully carrying out actions to prevent and treat wastewater, including emphasis placed on source control, enhanced protection of drinking water sources, and full treatment of contaminated and odorous water and rural wastewater. Due to increasingly intensified government efforts to treat and protect environment, the environmental protection industry ushered in enormous development opportunities. Besides being honored and privileged to share and review our 2016 performance with each shareholder, we also look forward to and make development plans for the year of 2017.

OPERATING CONDITIONS

Over the past year, to satisfy the intrinsic growth requirements amid increasingly fierce competition in the environmental industry, the Company timely gained insight into market conditions and made strategic adjustments, thus achieving great progress in various areas. As for wastewater treatment projects, our operation and management standard continued to improve, as we refined production control, adopted the just-in-time process for production, systematized daily management and specialized management models, thereby shifting the traditional management model into the innovative intensification model. Meanwhile, it was the second year for the Company to foray into the ecological environment sector in 2016. Following our development throughout 2015, we extended our core business operations to the following areas: municipal environmental engineering, industrial and rural water services, sponge city construction and environmental treatment of rivers, lakes and waters, further improving our development structure and business arrangement that are integrated with platforms and segments. While maintaining its traditional advantages during the year, Sound Global achieved remarkable results in its unique comprehensive treatment of the rural water environment, particularly focused on rural wastewater. The significance of industrial water treatment became increasingly evident, as the contradiction between industrial development and water environment was further aggravated amid the national economic development shifting focus to ecological civilization from industrial civilization. As for the industrial water environment segment, Sound Global has been committed to water supply, water conservation, wastewater treatment and renewable water services for industrial parks, industrial clusters and enterprises in such parks and clusters. Subsequent to an internal reform, an effective mechanism to manage internal control was established, pursuant to which, the Company strove hard together with all of its employees to accomplish the annual targets set at the beginning of the year, laying a solid foundation for its future strategic adjustment and stable development.

OPERATIONS REVIEW

TECHNOLOGICAL SERVICES

The Company has always recognized its technological service capability as the core competitive strength. In line with the ongoing strategic expansion of the Company's business segment, the technological service capability has been strengthened by depth and breadth, further improving the technology research and development and service model this year. Our enhanced SDN technology, an indigenously developed biochemical process, efficiently treated high-concentration non-readily degradable industrial organic wastewater and ammonia nitrogen wastewater, which was widely applied to the industrial wastewater sector, and won various honors such as the "Key National Practical Environmental Technology" and "Demonstration Project for Key National Practical Environmental Technology". In terms of energy conservation and consumption reduction, the Company paid more attention to highly efficient treatment technologies, and with which, reduced the treatment costs and energy consumption during the treatment process. The Company's high-efficiency precipitation technology, as a patented technology with a reasonable hydraulic and structural design, applies various theories, including recycled sludge contact coagulation, and inclined tube separation and concentration. This technology also represents a new-generation precipitation process for mud-water separation and sludge body. The surface load of the clarification zone is 12-25 m^3/ *h, enabling a highly efficient process with less area occupied, and the evenly stirred agent ensures highly effective coagulation and thus saves agent dosage. Sound Global has always valued the integration of technologies with actual processes. The MBR, Sound Global's energy-saving technology, uses the pulse aerator developed by Sound Global to remove the obstacle of equipment failure caused by intermittent aeration due to frequent valve opening. The pulse aerator of the energy-saving MBR, which is free from moving parts and maintenance requirements, generates high pulse frequency. Thus, this technology has been highly recognized by the market and customers. Confronting a growing market demand for technological innovation, the Company systematically researched and utilized innovative technologies, which are integrated with business requirements, to further establish and complete a mechanism for constant improvement and micro-innovation and resolve complicated sewage treatment processes for its customer base. In synchronization with the segmentation of the environmental protection market and improving environmental standards, the Company will continue to enhance the integration of technological innovation with engineering practices, and introduce new technologies to industrial applications and new projects, thereby constantly strengthening its competitive capability.

MARKET DEVELOPMENT

In 2016, we gained trust and recognition from more customers. Subject to new requirements of the new economic reality, the Company, mainly following the PPP model, further built and perfected the full-range business chain, which was predominated by such business sectors as municipal water service, industrial water service, rural water service and sponge city construction. During the year, a demonstration project of the steward-like service industrial park was undertaken in Suqian Chemical Industrial Park, where the emission quality of treated industrial wastewater met Level I under the comprehensive wastewater emission standard (GB8978-1996). The Company undertook and renewed the wastewater treatment project of Inner Mongolia Mengwei Technology Co., Ltd. (內蒙古蒙維科技有限公司) under Anhui Wanwei Updated Hi-tech, with the recycled water quality meeting the specification of wastewater recycling engineering design (GB50335-2002). In addition to maintaining the proportion of wastewater and water supply business, which traditionally enjoys competitive advantages, the Company further expanded the treatment of contaminated and odorous water, as well as the comprehensive pipe and sponge city construction. During the year, the Company won the bid for a PPP project from Haikou government with respect to the water environment comprehensive treatment, Chuanhu Basin Water Ecological Treatment under the Changchun Baili Yitong River Basin Treatment Project, a PPP project for Tongzhou-Beijing Sub-center Water Environmental Treatment (Chaobai River Ecological Zone), and several water environment comprehensive treatment projects in Fuzhou. In this connection, the Company has undertaken substantive exploration and strategic arrangement, securing the leading position in the industry.

OPERATIONS REVIEW

HUMAN RESOURCES

We believe that the talent pool represents an important engine for corporate development, so we attach great importance to the talent cultivation and talent team building. Continuing to implement the development strategy of talent priority, the Company recognizes talent resources as the strong support for culture, idea, execution and innovation required by its business growth. We continued to intensify our efforts to identify talents by offering various forms of special training lectures, online learning software and regular project learning, with a view to enhancing talent cultivation and advancing the talent team development. By constantly optimizing the talent structure, as well as adhering to the orientation of high-level, professional, top-notch and needed talents, the Company strengthened the leading role of core talents, and thus continued to improve its management standard and innovation capability. Thus far, the Company has gradually established a talent sustainability strategy that "attracts talents with development, builds cohesion with businesses, trains employees through work and determines people with performance assessment". Furthermore, the Company will further improve its core talent team building through internal training and external introduction of talents.

DEVELOPMENT OBJECTIVES

Following distribution of the 13th Five-Year Plan for Ecological and Environmental Protection (《"十三五"生態環境保護規劃》) by the State Council in November 2016, plans and policies relating to the environmental protection industry during the 13th Five-Year Plan period were introduced to provide guidance on the development of the environmental industry. Looking into 2017, the Company will continue to improve the development of its integrated innovation platform, while tapping into the capital chain to deepen in-house reforms with a focus on market development, thoroughly strengthen the internal control system, and improve the talent pool development. In addition, we will, by upgrading the integrated ecosystem development that comprises relevant technical services, equipment integration and manufacturing, engineering construction, and investment and operation, continue investments in the business segments of municipal water services, industrial water services, rural water services and sponge city construction. Concurrently paying attention to the comprehensive pipe construction, river basin ecosystem treatment, and the contaminated and odorous water treatment, the Company increased and advanced its presence in the sludge treatment, and further strengthened the research and development of miniature equipment and technology for water supply and drainage, the operation of pipe networks, and the maintenance and application of equipment. Furthermore, while expanding the industrial scale, the Company will further streamline the management and planning of energy consumption during production. For the purposes of sustainability, we are committed to further reducing our carbon emissions. Understanding the concept of Internet +, we will continue to improve our management standard and service system, and enhance our corporate competitiveness through continued technical innovation. We wish to deepen our collaboration with local governments under the state-sponsored PPP model, by utilizing the advantages of technological and management advantages to resolve environmental treatment issues for more areas and consumers. We also wish to explore extensive cooperation with various community members in building an integrated cooperative platform for environmental protection services, eventually becoming an integrated service provider of environmental solutions. Over the course of development, we will focus on risk control, efficiency improvement, and energy conservation and emission reduction.

APPRECIATION

We would like to express our gratitude to all shareholders for their guidance, support and assistance to the Company in the past year; to other industry players and business partners for their cooperation and support for the Company; and to all staff for their dedication to achieve development for the Company.

We sincerely wish all shareholders, staff and their families success, health and happiness in 2017.

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)	
Revenue	3,877,799	4,085,758	3,674,364	3,248,023	2,693,324
Gross profit	1,266,683	1,317,669	1,202,996	1,053,709	841,455
Profit before income tax	658,946	639,934	651,449	578,693	503,411
Income tax expenses	(160,498)	(180,640)	(147,518)	(143,890)	(75,902)
Profit for the year	498,448	459,294	503,931	434,803	427,509
Profit for the year attributable to					
Owners of the company	484,842	455,425	502,943	432,566	427,509
Non-controlling interests	13,606	3,869	988	2,237	-
	498,448	459,294	503,931	434,803	427,509
Earnings per share (in RMB cents)					
Basic	32.19	30.24	35.19	33.53	33.14
Diluted	32.19	30.24	34.73	32.99	32.35

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Restated)	(Restated)
Current assets	5,977,278	6,509,934	6,985,431	6,361,755	5,025,112
Non-current assets	7,943,129	5,551,143	3,120,686	2,603,054	1,974,449
Total assets	13,920,407	12,061,077	10,106,117	8,964,809	6,999,561
Current liabilities	4,756,567	5,770,603	4,377,886	2,656,408	1,843,675
Non-current liabilities	3,744,177	1,530,094	1,482,248	3,161,463	2,438,153
Total liabilities	8,500,744	7,300,697	5,860,134	5,817,871	4,281,828
Capital and reserves	5,419,663	4,760,380	4,245,983	3,146,938	2,717,733

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
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MANAGEMENT DISCUSSION & ANALYSIS

SIGNIFICANT TRENDS, COPETITION AND EVENTS

As China's economic development enters the transformation stage of the structural reform, comprehensive and critical rectification in the environmental protection sector has also commenced. 2016 marked the year of the formulation of top-down design for environmental protection in, 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, a comprehensive improvement shall be made in the ecological environment, with first inclusion of the construction of ecological civilization to the overall national development strategy. Guided by the "Action Plan for Water Pollution Prevention and Control" and guaranteed by the newly revised "Environmental Protection Law", China has made strides in aspects of pollution treatment, strict enforcement of environmental regulations and strengthening of environmental protection system reform. 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 the "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 National 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 national monitoring network for surface water conditions, so as to better adapt to the management requirements 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 upgrade, and become a new growth driver for economic growth under the "New Normal". With further tightening of regulation on environmental protection, the concept of "relentless efforts on ecological environmental protection" has become a common principle among enterprises, resulting in their unprecedented contributions to environmental protection. Consequently, the government and green enterprises may identify pollutant sources more accurately and implement timely control and treatment. Given increasing competition in the environmental protection market to date, Sound Global continues to improve its own competitiveness and utilise its technical advantages and synergy among each segment, thereby expanding its scope of service with constant innovations.

In 2016, Public-Private Partnership ("PPP") projects in environmental protection witnessed an accelerated growth stemming from substantial benefits from favourable policies. Faced with the new requirements under the new model, the Company has adopted PPP as the leading approach to further establish and improve its complete business chain mainly based on business segments, such as municipal water treatment, industrial water treatment, rural water treatment and the construction of sponge cities. As the Company endeavours to develop as a comprehensive and professional turnkey water treatment platform, it concentrates on the integration of existing water supply and sewage treatment and recycling facilities in the region with new businesses. The Company has made steady progresses in respect of municipal water treatment, industrial water treatment, rural water treatment and the construction of sponge cities. It also pays attention to the treatment of contaminated and odorous water, comprehensive pipeline construction, integrated urban and rural construction and rural ecological development, as an enthusiastic response to the national policies of developing ecological cities and graceful countrysides. We will focus on segmentation of the water ecology sector and innovative development of the Company, and continuously develop efficient and sustainable sewage treatment technologies with more input in professionalized equipment and staff. We will provide full-range consultation services in respect of environmental protection to our customers to promote the application of water treatment technologies 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 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.

In 2017 and the next few years, following gradual implementation of national policies on ecological and environmental protection and gradual establishment of the ecological civilization system, the Company will embrace new opportunities in the research, development and promotion of "electro-osmosis sludge high dry dewatering equipment". Over the course of accelerating urbanization nowadays in China, the market and application area will achieve breakthroughs in the forthcoming years. Meanwhile, upon convening the 19th National Congress of the Communist Party of China in 2017, the future work will emphasize reforms of the ecological civilization system and the master blueprint for developing a beautiful China.

The Guidelines on Promoting the Construction of Sponge City (《關於推進海綿城市建設的指導意見》) were issued by the State Council in October 2015. Following its gradual implementation in 2016, sponge city construction has been spreading across the country, as it is regarded by local governments as part of the construction of the ecological civilization system to serve as a critical element to achieve harmony and coexistence of urban development and the ecological environment. Facing the emerging growth driver with an average annual investment of over RMB400 billion during the 13th Five-Year Plan period, the Company will continue to increase its presence in the sponge city and urban-rural integration. Thus far, we have initially built a professional team for the sponge city development business. In the future, we will further improve our own comprehensive and professional water service platform, and basing on which, strive to build an integrated sponge city business segment and industrial chain. We aim to establish ourselves as a model of implementing and fulfilling the concept of green development, as well as building a new type of urbanization with harmonious development between humans and nature.

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

A) Review of Group's Financial Performance:

Revenue

The Group's revenue decreased by approximately RMB208.0 million or 5.1% from approximately RMB4,085.8 million in 2015 to approximately RMB3,877.8 million in 2016.

Turnkey revenue decreased by approximately RMB497.8 million or 14.2% from approximately RMB3,512.3 million in 2015 to RMB3,014.5 million in 2016. Despite the decrease in revenue, the Group continues to be awarded and is fulfilling its Engineering, Procurement and Construction ("EPC") projects in PRC.

External revenue from equipment fabrication segment decreased by approximately RMB36.4 million or 88.3% from approximately RMB41.2 million in 2015 to RMB4.8 million in 2016 as it further fulfils inter-segment sales.

Revenue from O&M segment increased by approximately RMB326.3 million or 61.3% from approximately RMB532.2 million in 2015 to approximately RMB858.5 million in 2016. Revenue increased as more BOT projects started operation in 2016 and projects that have been operating earlier are gradually stable.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately RMB51.0 million or 3.9% from approximately RMB1,317.7 million in 2015 to approximately RMB1,266.7 million in 2016. The decrease is resultant from the decrease in revenue.

The gross profit margin remained relatively consistent at approximately 32.3% in 2015 and approximately 32.7% in 2016. Turnkey projects and services segment remained the main contributor to the Group's revenue. Given the nature of the turnkey projects, where revenue is recognised based on the percentage of completion, the gross profit margin for engineering works would fluctuate from one period to the next depending on the amount of revenue recognised for the relevant projects during the period in review. Nevertheless, on a year-to-year basis, the gross profit margin remained relatively consistent.

Other Income

Other income increased by approximately RMB42.8 million or 88.8% from approximately RMB48.2 million in 2015 to approximately RMB91.0 million in 2016. The increase in 2016 was mainly due to the increase in government grants by approximately RMB41.1 million mainly 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

Other losses increased by approximately RMB37.2 million or 23.8% from approximately RMB156.0 million in 2015 to approximately RMB193.2 million in 2016. The losses in 2016 mainly arose from: (1) impairment of goodwill in the equipment fabrication subsidiary, Beijing Hi-Standard Water Treatment Equipment Co., Ltd., of approximately RMB41.4 million; (2) impairment losses recognized in service concession receivables of approximately RMB61.3 million; (3) impairment losses recognized in respect of investment in subsidiaries of RMB30.0 million; and (4) foreign exchange loss of approximately RMB36.1 million resulted from the US Dollar denominated borrowings as US Dollar strengthen against Renminbi.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately RMB6.5 million or 10.9% from approximately RMB59.6 million in 2015 to approximately RMB66.1 million in 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 RMB4.6 million or 10.6% from approximately RMB43.6 million in 2015 to approximately RMB48.2 million in 2016. The research and development expenses depend on the development of its dynamic technological trends of water treatment industry and the Company's needs in market development. There is no clear identifiable trend.

Administrative Expenses

Administrative expenses increased by approximately RMB49.8 million or 26.1% from approximately RMB190.8 million in 2015 to approximately RMB240.6 million in 2016 mainly due to the increase in: (1) staff costs by approximately RMB15.6 million as Group's headcount increased; (2) consultation fees in relation to borrowings during the year of approximately RMB 10.2 million; and (3) bank handling fees by approximately RMB16.1 million arising from issuance of bankers' guarantee and letter of credit.

Finance Costs

Finance costs decreased by approximately RMB125.5 million or 45.5% from approximately RMB276.0 million in 2015 to approximately RMB150.5 million in 2016. The decrease was mainly attributed by the savings in interest expenses as the Group repaid the senior notes bearing interest rate of 11.875% and borrowed at lower interest rates.

Income Tax Expenses

Income tax expenses decreased by approximately RMB20.1 million or 11.1% from approximately RMB180.6 million in 2015 to approximately RMB160.5 million in 2016. Despite the increase in profit before income tax, income tax expenses decreased. This is mainly due to the increased contributions from O&M segment as the BOT companies enjoys tax exemption for three years commencing from first revenue-generating year of operations and thereafter, be entitled to 50% tax reduction for next three years.

B) Review of Group's Financial Position:

Current Assets

Current assets decreased by approximately RMB532.6 million or 8.2% from approximately RMB6,509.9 million as at 31 December 2015 to approximately RMB5,977.3 million as at 31 December 2016 mainly due to the decrease in bank balances and available for sale investments as the Group continues to invest in BOT projects.

Non-Current Assets

Non-current assets increased by approximately RMB2,392.0 million or 43.1% from approximately RMB5,551.1 million as at 31 December 2015 to approximately RMB7,943.1 million as at 31 December 2016. The increase mainly arose from increase in service concession receivables as investment in BOT projects increased.

Current Liabilities

Current liabilities decreased by approximately RMB1,014.0 million or 17.6% from approximately RMB5,770.6 million as at 31 December 2015 to approximately RMB4,756.6 million as at 31 December 2016. The decrease mainly arose from the decrease in short term borrowings as the Group borrows long term.

Non-Current Liabilities

Non-current liabilities increased by approximately RMB2,214.1 or 144.7% from approximately RMB1,530.1 million as at 31 December 2015 to approximately RMB3,744.2 million as at 31 December 2016. The increase mainly arose from the increase in long term borrowings.

Capital and Reserves

Equity attributable to owners of the Company increased by approximately RMB473.0 million or 10.0% from approximately RMB4,713.6 million as at 31 December 2015 to approximately RMB5,186.6 million as at 31 December 2016. The increase was mainly due to the increase in the profit for the year attributable to owners of the Company of approximately RMB484.8 million.

FINANCIAL REVIEW

Gearing

	2016 RMB'000	2015 RMB'000
Borrowings (current)	1,483,726	2,704,907
Borrowings (non-current)	2,624,444	1,248,743
Obligation under finance lease (current)	188,092	3,914
Obligation under finance lease (non-current)	826,578	36,124
Total debts	5,122,840	3,993,688
Equity attributable to owners of the Company	5,186,632	4,713,576
Total debt to equity ratio	0.99	0.85

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions entered into by the Group during the year are as follows:

(A) Continuing connected transactions

During the year, Beijing Hi-Standard Water Treatment Equipment Co., Ltd, a subsidiary of the Company, entered into continuing connected transactions with Sound Group Limited, which is a connected person of the Company ("Continuing Connected Transactions").

Since all the percentage ratios (other than the profits ratio) are less than 5% and the total consideration is less than HK$3,000,000, the Continuing Connected Transactions fall within the de minimis threshold under Rule 14A.76(1)(c) of the Listing Rules and are therefore fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules.

(B) Confirmation from Independent Non-Executive Directors

The independent non-executive Directors of the Company reviewed the continuing connected transactions above as required under Rule 14A.55 of the Lising Rules and in their opinion:

(i) the transactions were conducted in the ordinary and usual course of its business;

(ii) the transactions were carried out on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Over the past years, all directors and management members of Sound Global Ltd. (the "Company" or "Sound Global" or "we") have been committed to environmental protection. This Environmental, Social and Governance Report (the "Report") of our Company, which is prepared in accordance with the provisions of Appendix 27 under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), provides our investors with information about the contributions made by Sound Global to eco-environmental protection and our social responsibility. The Report is regarded as one of the most important reports of the Company such that we can evaluate and gauge our risk management and internal control. The board of directors is responsible for assessing and determining risks related to environmental, social and governance performance, while various functional departments, management and third-party institutions of the Company are actively involved in the preparation of the Report. This Report covers the period from 1 January 2016 to 31 December 2016.

Environmental Sustainability

As a leading turnkey water and wastewater treatment solutions provider in China, we are committed to providing solutions to wastewater treatment, water supply and water ecological restoration amid a mounting pressure from environmental protection. In possession of the advanced sewage treatment and water purification technology, we continue to improve our water treatment capacity and are capable of delivering standard irrigation and drinking water. As our technology research and development team is comprised of experienced professional engineers, we believe that we can develop and apply more advanced technologies, thus resolving issues concerning our customers during the operation of water treatment.

Besides complying with the relevant national laws and regulations, we carefully study the relevant national policies, as a result of which, all of our business operations, productions and management are in compliance with the relevant national regulations. On the other hand, we are also vigorously making contributions to the environmental protection industry by regularly updating our industry policies and guidelines, as well as providing environmental consulting services to our customers. As of the date of this Report, we did not identify any non-compliant case in connection with environmental protection laws and regulations due to our full understanding of and compliance with the environmental laws and regulations.

Waste Gas, Wastewater and Solid Waste Disposal

We are of the view that our entire production chain shall proceed with the practice of sustainability. Emissions from the beginning to the end of our production activities shall also be subject to control and meet the discharging standard. Waste gas, wastewater and solid waste are the major emissions from our operations. Paying attention to the treatment quality of these materials, we prevent any adverse effect of such substances on the living conditions of residential communities in vicinity. To treat solid waste, the Group has set up the renewable resources department that recycles the resources of all companies under our headquarters to maximize the reuse of these resources.

Waste Gas

A large amount of pungent gas will be generated in the process of our wastewater treatment, in particular over the course of our treatment of complex industrial wastewater. To separate the waste gas for an efficient and safe treatment of gas emission, we utilize specialized reagents, efficient processing equipment and 24-hour precision testing devices, as well as providing professional training to our operators. Our continued update and improvement of the production management system successfully helped our local clients achieve their targets set for energy saving and emission reduction.

Wastewater

In response to a growing trend where the water resource becomes insufficient and the water environment deteriorates, as an operator of integrated services extensively provided to municipal/industrial/rural water environment, Sound Global has tapped into its leading capability to research, develop and integrate water treatment technologies as well as its operation and management capacities to develop a service system that involves various processes of the water environment, including municipal/industrial/rural raw water, water production, water supply, general treatment and in-depth treatment of sewage, and reuse of wastewater. Our treated water is able to meet the irrigation standard or directly enter the pipe network for reuse purposes.

Solid Waste Disposal

As regards solid waste generated from our production and operation activities, the Company has introduced strict management measures. In accordance with national laws and regulations and subject to industry standards, we make unified judgements and regulate our operations to prevent secondary pollution against our local clients. We also impose strict requirements on our employees to reduce the waste of materials in the office, and encourage our employees to use recycled paper, as well as to reuse stationery and other items. Furthermore, we control the procurement of new office supplies and conduct regular assessments over the waste of resources in various departments.

Greenhouse Gas Emissions

Over the course of ecological construction and development, sustainability has been identified as part of the green development so that we may conserve more ecological resources for our future generations. As carbon dioxide represents a major factor in generating greenhouse gas, energy conservation and emission reduction become an important task of the ecological construction and development. In view that governments in the European Union have been leading the way in the carbon emissions trading system across the globe, the Chinese government has been collecting statistics on carbon emissions of various pilot locations to promote the low-carbon practices. Our Company has been making positive contributions to carbon emissions by arranging shuttle buses for our employees and actively encouraging the use of public transportation. In addition, we manage to reduce energy consumption through continuous research and development of production and processing equipment, and the Company practices safe use of water and electricity to minimize waste.

Energy and Water Consumption

The Company has formulated the measures to manage electricity and water consumption during our production and office hours, and has posted slogans reminding our employees to save resources in the service area. Striving to make contributions to sustainability, we have dedicated personnel to monitor and evaluate the use of high-power equipment and electric equipment, and prioritize the purchase of energy-efficient equipment and devices. Personnel will be specifically arranged to check whether electric equipment in each office are turned off after work every day. In case of any improper use of electric equipment, a notice of criticism will be issued.

To efficiently utilize water resources, the production workshops exercise strict control over direct discharge of sewage, including treatment and recycle of sewage. At the same time, we maximize utilization of water resources by using the recycled water

Environmental Impact Management

In 2016, the Chinese government promulgated the amendments to the *Environmental Impact Assessment Law of the People's Republic of China*. Following analysis and evaluation of the environmental impacts caused by the implementation of work-in-progress and planned construction projects, countermeasures and initiatives will be proposed to prevent or mitigate adverse environmental impacts, alongside methods and rules for tracking and monitoring such impacts. Prior to commencement of any of our construction projects, environmental impact assessment will be performed in accordance with laws and regulations. In addition, we also have professional environmental impact assessment engineers to supervise and manage each process of the projects, while the Company will carry out ISO internal audit every half a year in order to meticulously implement the "Environmental Management System Requirements and Guide". To avoid any impact on local residential communities and minimize environmental impacts, we usually implement various measures, including sound insulation, containment and sealing of gas and liquid, and heat insulation.

Employee Recruitment

In accordance with the *Labour Law of the People's Republic of China* and subject to our corporate employment policy, we treat each employee fairly. Besides our formal recruitment procedures in place, we operate a well-developed talent development program, allowing each employee to quickly adapt to our corporate culture and achieve fast personal growth. No employee is discriminated due to his/her ethnicity, race, gender or religious beliefs. Female employees enjoy the same employment rights as male employees. We prohibit the recruitment of minors under the age of 16. A labour agreement will be entered into upon employment. We comply with national regulations, and the daily working time will not exceed 8 hours with the average weekly working time no more than 44 hours. We effectively protect the interests of our employees by making social insurance contributions for our employees on time and providing statutory holidays and paid annual leave. Meanwhile, the Company actively applies Work and Residence Permit in Beijing*（北京市居住工作證）and the public rental housing for eligible employees in accordance with the relevant regulations of Beijing Municipality. Our performance assessment indicators are established to promote the career development of our employees and cultivate an echelon of high-caliber talents. As of the date of this Report, we have not identified any non-compliance relating to human resources.

Occupational Health and Safety

We attach great importance to occupational health and safety. In accordance with the *Production Safety Law of the People's Republic of China*, the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases and the Fire Protection Law of the People's Republic of China*, we have established internal production safety management measures, pursuant to which, the Company will carry out ISO internal audit every half a year in order to meticulously implement the "Environmental Management System Requirements and Guide". On the other hand, we will release the Workplace Safety and Quality Weekly as to our production safety performance on a weekly basis. Furthermore, we will organize the "Production Safety Month" event at the companywide level, alongside our regular training sessions on production safety, thus enabling each employee to pay close attention to issues to be addressed, as well as to prevent accidents during construction. While maintaining a safe working environment, we organize an annual medical examination for all of our employees and provide personal protective equipment on a regular basis. In order to alleviate the stress of our employees, we arrange 10 minutes of morning radio calisthenics and 10 minutes of afternoon shoulder and neck exercises. As of the date of this Report, we did not identify any non-compliance relating to occupational health and safety.

Development and Training

We recognize the importance of talent development. To share intra-company training resources and effectively improve the training management, the Company publishes annual training plans, quarterly training plans and separate training (temporary training) every year. In addition, the Company will appoint external trainers to provide training sessions to our employees on a monthly basis, which cover not only technical and management aspects but also knowledge other than work. Our well-designed induction training provided to new employees will help them obtain a fast understanding of the Company's corporate culture and their work. Subject to the requirements of various business departments, we will arrange business-targeted training sessions, the trainers of which are composed of internal senior officers and external trainers specialized in various segments of our business operations. In order to improve the management level of our middle and senior management members, the Company encourages middle and senior management to actively participate in the MBA programs by offering them certain allowances. To continue advancing training effectiveness, we have installed the training software Sound College in our internal OA system, allowing our employees to log in for all-round further learning.

Prohibition of Child Labour and Forced Labour

Our Company practices strict recruitment policies, and will not employ any applicant who fails to meet the requirements of the relevant national laws and regulations. According to the *Labour Law of the People's Republic of China*, employers are prohibited from use of child labour and forced labour. As of the date of this Report, we did not identify any non-compliant cases in connection with child labour and forced labour.

Environmental Risk and Social Responsibility Related to Supply Chain Management

In accordance with the provisions of our tender management measures, we practice the public tender process in a fair, equal and open manner under the principle of equal weight on both power and accountability. A valid public tender requires at least five bidders. The invitation for a tender is sent by virtue of a letter of bidding, under which, bodies corporate or other organizations that are eligible to undertake bidding projects with a good standing will be invited The tender evaluation committee consists of an odd number of at least 5 experts in the relevant fields including technology and economics. As for new suppliers, we will conduct qualification reviews and field visits, and the tender evaluation committee selects qualified suppliers based on the score of each sub-item.

Product Responsibility

As a leading integrated provider of turnkey water and wastewater treatment solutions in China, Sound Global provides an integrated service package that covers the entire industry chain of the water and wastewater treatment industry, including design and construction, operation and maintenance, and manufacture of water and wastewater treatment equipment.

Attaching great importance to our design capability and innovative technological transformations and applications, Sound Global provides tailor-made, cost-effective and practical solutions to address municipal, rural and industrial water and wastewater treatment across China. We cherish the values of providing premium professional services in the field of water environment, leading industrial innovation and shouldering social responsibility. Furthermore, we respect and protect life amid our ongoing pursuit of environmental improvement. As of the date of this Report, we did not identify any recall due to safety and health issues, nor did we receive any complaint from our customers. Our water supply service meets the National Urban Water Quality Standard (CJ/T206-2005) and the National Drinking Water Quality Standard (GB5749-2006). Recognizing that water plays a vital role in the residential communities and ecosystem, we ensure the safety of drinking water by observing national standards governing water supply and implementing post-monitoring procedures. We offer a warranty period upon acceptance of the projects by our clients and will arrange dedicated personnel to ensure the stable operation of the projects.

Anti-bribery and Anti-corruption

As part of the rules for the effective operation of the market economy, equality, fairness and openness also represent the key in verifying the attractiveness and competitiveness of an economic model. From the national level to the corporate level, transparency in information exchange alongside full competition is the important factor to gauge the future development, in view of which, Sound Global has long been implementing the practice of integrity, including our strict tender accountability system, public tender procedures, and public whistleblowing channels. As of the date of this Report, we did not identify any case of corruption and bribery.

Social Welfare

We are an active proponent of the development of public interests in communities. During the year, we organized blood donations as well as money and goods donations. We also established a university scholarship program to encourage and enable more poor college students to pursue and receive better education. We are willing to work with other concerned enterprises and philanthropists to provide more caring support to those in need.

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 oversea 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 oversea 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 oversea markets, Mr. Li is able to provide solutions to the needs of heterogeneous clients and he plays a vital role in the Group's oversea 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.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") of Sound Global Ltd. (the "Company" or "Sound Global") and its subsidiaries (collectively referred to as the "Group") has reviewed its own corporate governance practices and ensured that they are in compliance with all the applicable code provisions of the Corporate Governance Code (the "HK CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "HKEx") for the year under review. In so doing the Company endeavours to set the stage for greater transparency and protection of the shareholders' interests.

The Board is of the view that throughout the year under review and up to the date of this Annual Report, the Company has complied with all of the code provisions as set out in the HK CG Code, save and except for Code Provisions A.4.1 and E.1.2, details set out below.

This report describes Sound Global's main corporate governance practices that were in place with reference to the HK CG Code. Sound Global believes that it is in compliance with the principles/code provisions of the HK CG Code.

1. BOARD MATTERS

1.1 Role of Board of Directors

The Board has the responsibility for the overall management of the Group. The Board's principal roles include guiding and establishing strategic mission and business objectives. Executives of the Board are tasked to execute these by setting direction and goals for management and staff and ensuring that the business of the Group is effectively managed and properly conducted day to day towards these ends. The Board has the overall responsibility for corporate governance of the Group.

1.2 The Board of Directors

As at the date of this Report, the Board comprises 8 Directors: 1 executive Director and Chairman, 4 executive Directors and 3 independent non-executive Directors. The members of the Board are as follows:

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current occupation
Wen Yibo	52	7 November 2005	8 May 2018	Executive Director and Chairman	Executive Director and Chairman
Zhou Hao	47	12 August 2016	8 May 2018	Executive Director	Vice President
Liu Xiqiang	38	12 August 2016	8 May 2018	Executive Director	Vice President
Luo Liyang	45	2 February 2011	8 May 2018	Executive Director	Executive Vice President
Li Feng	34	26 July 2017	8 May 2018	Executive Director	Singapore Office Representative
Ma Yuanju	61	20 April 2015	12 January 2016	Independent Non-Executive Director	Professor of Capital University of Economics and Business
Zhang Shuting	62	9 July 2015	12 January 2016	Independent Non-Executive Director	Professor of Tianjin University

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current occupation
Luo Jianhua	54	31 July 2015	12 January 2016	Independent Non-Executive Director	Secretary General of China Environment Service Industry Association

Changes in directors of the Company since 31 December 2016 and up to the date of this report are as follows:-

As at 31 December 2016, the Board comprised 8 Directors: 1 executive Director and Chairman, 4 executive Directors and 3 independent non-executive Directors.

On 26 July 2017, Mr. Liu Wei has resigned as an executive Director of the Company.

On 26 July 2017, Mr. Li Feng has been appointed as executive Director of the Company.

The Nomination Committee has reviewed the size and composition of the Board. Taking into account the mix of educational background, professional experience, skills and knowledge possessed by the Board members, the Nomination Committee is of the opinion that the current Board's size is adequate and the board composition is diversified which comprises members who as a group provide the necessary core competencies for the proper stewardship of the Group.

During the year ended 31 December 2016, the Board at all times met with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one third of the Board under Rule 3.10 and Rule 3.10A of the Listing Rules and complied with the requirement that at least one such independent non-executive Director should possess the appropriate professional qualifications of accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent. There is no relationship among members of the Board.

CORPORATE GOVERNANCE REPORT

1.3 Board Processes

To assist in the execution of its responsibilities as a listed company, the Board has established an Audit Committee ("AC"), a Remuneration Committee ("RC") and a Nomination Committee ("NC"). These Committees function within clearly defined terms of references and operating procedures, which are reviewed on a regular basis. The effectiveness of each Committee is also constantly reviewed by the Board. The terms of reference of the Board Committees are posted on the Company's website and the Stock Exchange website.

The Board meets on a regular basis and as and when necessary to address any specific significant matters that may arise. The Company's Constitution allows a Board meeting to be conducted by way of teleconference or video conference. Advice and guidance are also given through the use of teleconferencing, emails and faxes as and when required. Board approval for less critical matters may be obtained via written resolutions by circulation. The Board meets at least quarterly and whenever warranted by circumstances. The number of Board and Board Committee meetings held for the financial year ended 31 December 2016 and the attendance of each Director at the Board and Board Committee meetings where relevant and general meeting(s) is as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	General meeting
Number of meetings held	4	2	1	1	1
Wen Yibo	4	NA	1	NA	0
Zhang Jingzhi (resigned on 12 August 2016)	3	NA	NA	NA	1
Luo Liyang	4	NA	NA	NA	0
Jiang Anping (resigned on 12 August 2016)	3	NA	NA	NA	0
Liu Wei (resigned on 26 July 2017)	2	NA	NA	NA	0
Ma Yuanju	4	2	1	1	1
Zhang Shuting	4	2	NA	1	0
Luo Jianhua	4	2	1	1	1
Zhou Hao (appointed on 12 August 2016)	1	NA	NA	NA	NA
Liu Xiqiang (appointed on 12 August 2016)	1	NA	NA	NA	NA

Apart from regular Board meetings, the Chairman also held meeting at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present during the year.

1.4 Training and Continuous Professional Development Program

The Board recognises the importance of appropriate training for its Directors and participation in continuous development by its Directors. Newly appointed Directors will be given an orientation program which includes presentations by senior management staff and briefings by the Chairman and an executive Director. On-site visits to overseas plants may also be conducted to facilitate a better understanding of the Group's operations. All the Directors and key executives are encouraged to participate in continuous development to develop and refresh their skills and knowledge, particularly on new laws and regulations affecting the Group's business and governance practices, and roles, functions and duties of a listed company director. All Directors are requested to provide the Company with their respective training records.

During the year ended 31 December 2016, all Directors have received regular updates on the changes to and developments in the relevant laws and regulations applicable to the Directors. Mr. Liu Wei, Mr. Ma Yuanju, Mr. Zhang Shuting, Mr. Luo Jianhua, Mr. Zhou Hao, Mr. Liu Xiqiang and Mr. Li Feng have also upon their appointment as Directors of the Company received orientation, training and regular updates.

1.5 Independent Non-Executive Directors

The NC reviews the independence of each Director on an annual basis based on the HK CG Code's and the Listing Rules' definition of what constitutes an independent non-executive Director. The NC considers an "independent" Director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent judgment of the Group's affairs. The NC is satisfied that a majority of its members are independent non-executive Directors.

Pursuant to Rule 3.10 of the Listing Rules, the Company has three independent non-executive Directors, one of them have appropriate professional or accounting or related financial management expertise. The Company has received a written confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules.

Certain functions have been delegated to the various Board Committees. These Committees are made up of predominantly independent non-executive Directors and are each chaired by an independent non-executive Director. The details of the membership in the Committees during the year under review and as at the date of this report are set out as follows:

	AC	**RC**	**NC**
Wen Yibo	NA	NA	Member
Ma Yuanju	Chairman	Member	Chairman
Zhang Shuting	Member	Member	NA
Luo Jianhua	Member	Chairman	Member

1.6 Matters Requiring Board's Approval

The Board has identified a number of areas for which the Board has direct responsibility for decision making. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management. Continuing Connected Transactions and the Group's internal control procedures are also reviewed by the AC and reported to the Board. The Board also evaluates and approves major investments and funding decisions.

The Board is also responsible for the following corporate matters:

- Approving quarterly (if any), half-year and year-end financial results announcements;
- Reviewing the interim reports, annual reports and statutory accounts;
- Reviewing the Company's policies, strategic and financial objectives;
- Overseeing the business conduct and affairs;
- Convening of shareholders' meetings;
- Reviewing material acquisitions and disposal of assets;
- Reviewing a framework for proper internal controls and risk management; and
- Ensuring the Group's compliance to laws, regulations, policies, guidelines and internal code of conduct.

Board members are encouraged to request for information, reports or briefings on any aspect of the Company's operations or business from the management. Necessary arrangements will be made to meet as and when required by any Director.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company. All the Directors have full and timely access to all the information and accounts of the Group. The Directors may seek independent professional advice in appropriate circumstances, at the expenses of the Company. The Company will, upon request, provide separate independent professional advice to the Directors to assist them to discharge their duties to the Company. The Company has arranged appropriate insurance cover in respect of legal action against its Directors and Officers.

1.7 Chairman and CEO

During the year under review, Mr. Wen Yibo is the Chairman of the Group. Mr. Wen is responsible for chartering the Group's strategic directions. Mr. Wen is not involved in the day-to-day running of the Group's business and has delegated the day-to-day operations and management to Mr. Zhang Jingzhi. Mr. Zhang Jingzhi is the CEO of the Group from 4 March 2013 to 12 August 2016. Mr. Zhang is responsible for directing the Group's overall strategy and growth. Mr. Wen and Mr. Zhang are not related to each other.

As at the publication date of this report, Mr. Wen is the Chairman of the Group. Since Mr. Zhang has resigned as an executive Director and CEO of the Company effective from 12 August 2016, following Mr. Zhang's resignation, the roles and responsibilities of CEO are performed by the executive Directors.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions of the Board members without any individuals exercising any considerable concentration of power or influence. All major decisions made by the Company will be subject to review by the Board. The three Board committees, namely the AC, NC and RC, are each chaired by an independent non-executive Director. The AC and RC are made up entirely of independent non-executive Directors, while the NC has a majority of independent non-executive Directors.

1.8 Access to Information

The Board has separate and independent access to the chief financial officer ("CFO"), the company secretaries and the external and internal auditors. Management ensures that the Board receives regular reports on the Group's financial performance and operations. Board papers are given to the Directors before the scheduled meetings to facilitate Board discussions on specific matters and issues. Management also consults with Board members periodically. Analysts' reports have been forwarded to the Directors as and when received by the Company.

The company secretaries administer, attend and prepare minutes of Board meetings, and assist the Chairman in ensuring that Board procedures are followed and the laws and regulations applicable to the Company are complied with. The Board is involved for the appointment and removal of company secretaries. The Board in fulfilling its responsibilities may direct the Company to appoint professional advisers to render professional advice when necessary.

2. BOARD COMMITTEES

2.1 Nomination Committee

The NC was formed in October 2006.

As at the date of this Report, the NC comprises the following members:

Ma Yuanju (Chairman and independent non-executive Director)
Wen Yibo (Executive Director and Chairman of the Board)
Luo Jianhua (Independent non-executive Director)

The primary function of the NC is to determine the criteria for identifying candidates and to review nominations for the appointment of Directors to the Board and subsequent re-nominations, to consider how the Board's performance may be evaluated and to propose objective performance criteria for the Board's approval. Its duties and functions are outlined as follows:

a. to make recommendations to the Board on all board appointments and re-nomination having regard to the Director's contribution and performance (e.g. attendance, preparedness, participation, candour, and any other salient factors);

b. to ensure that all Directors would be required to submit themselves for re-nomination and re-election at regular intervals and at least once in every three years, as required by the Constitution of the Company;

c. to determine annually whether a Director is independent, in accordance with the independence guidelines contained in the HK CG Code and the Listing Rules;

d. to review and recommend on the Board structure, size, composition and core competencies at least annually, taking into account the balance between executive and non-executive Directors and between independent and non-independent Directors, and having regard at all times to the principles of corporate governance;

e. to review whether a Director is able to and has adequately carried out his duties as a Director in particular where the Director concerned has multiple board representations; and

f. to consider how the Board's performance may be evaluated and to propose objective performance criteria.

The Board and NC have strived to ensure that members of the Board possess the educational background, professional experience, knowledge and skills necessary to promote the Company's business and governance process, so as to enable the Board to make balanced and well-considered decisions.

The NC has established an appraisal process to access the performance and effectiveness of the Board as a whole. The Board is of the opinion that the level of commitment and efforts of the Directors to the Group is adequate.

The following depicts the 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.

Name of Director	Present Directorships	Past directorships for the past 3 year
Wen Yibo	Beijing Sound Environmental Engineering Co., Ltd Beijing Lümeng Investment Co., Ltd Beijing Sanghua Environmental Technology Development Co., Ltd Beijing Xiaojiahe Wastewater Treatment Co., Ltd Sound Group Limited 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 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	Soundon New Energy Technology Co., Ltd Beijing Jingyushi Water Co., Ltd

Name of Director	Present Directorships	Past directorships for the past 3 year
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

In the selection and nomination for new Directors, the NC identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of the Directors' personal contacts for recommendations of potential candidates. Executive recruitment agencies may also be appointed to assist in the search process where necessary. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the NC to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the NC has approved their nominations.

Code Provision A.4.1 of the HK 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 Constitution. Under the Company's Constitution, any new Director so appointed by the Board shall hold office only until the next following Annual General Meeting ("AGM") of the Company and shall be then eligible for re-election at the meeting. Mr. Ma Yuanju, Mr. Zhang Shuting and Mr. Luo Jianhua will retire at the forthcoming AGM. The NC recommended that they be nominated for re-appointment at the forthcoming AGM.

Each member of the NC had abstained from the deliberation in respect of his re-nomination as a Director. During the year under review, the NC recommended the re-appointment of the Directors standing for re-election at the AGM.

2.2 Remuneration Committee

The RC was formed in October 2006.

The RC has three members, all being non-executive Directors, who are independent of management and free from any business relationships with the Group. The RC is chaired by an independent non-executive Director. The RC will have access to expert advice inside and/or outside the Company.

As at the date of this Report, the RC members are:

Luo Jianhua (Chairman and independent non-executive Director)
Ma Yuanju (Independent non-executive Director)
Zhang Shuting (Independent non-executive Director)

The RC's role is primarily to advise the Board on compensation issues including determining the remuneration packages of individual executive Directors and senior management (for endorsement by the Board), the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his close associates will participate in deciding his own remuneration. The RC meets whenever required. The review will cover all aspects of remuneration including but not limited to Directors' and senior management's fees, salaries, allowances, bonus, share options (if any) and benefits in kind. In structuring a compensation framework for executive Directors and key management executives, the Committee takes into account pay and employment conditions within the same industry and in comparable companies. The remuneration policy takes into consideration the Company's performance, responsibility and performance of each individual Director and key management executive. Such performance is measured by goals and objectives set for each individual Director and key management executive in congruence with the Company's overall goals and objectives.

Remuneration Matters

An appropriate and attractive level of remuneration has been set to attract, retain and motivate Directors and staff. The remuneration package is made up of both fixed and variable components. The variable component is determined based on the performance of the individual employee as well as the Group's performance. Annual increments and adjustments to remuneration are reviewed and approved taking into account the results of the annual review made by the executive Directors and the various heads of department.

All the executive Directors have entered into service agreements with the Company. The service agreements are for a term of three years. The service agreements set out the salary, bonus and other benefits that the executive Directors are entitled to. The independent non-executive Directors receive Directors' fees, which is determined after taking into account factors such as time and effort spent, responsibilities of the Directors, and the need to pay competitive fees to attract and retain the Directors. Directors' fees are subject to shareholders' approval at the AGM.

Remuneration of Directors and Senior Management

The remuneration of the members of the Directors and senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands (HK$)	Number of persons
Nil to $1,000,000	10
From $1,000,001 to $1,500,000	-
From $1,500,001 to $2,000,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees are set out in Notes 13 and 14 to the consolidated financial statements, respectively.

2.3 Audit Committee

The AC was formed in October 2006.

The AC comprises three independent non-executive Directors. At the date of this Report, the AC comprises the following members:

Ma Yuanju (Chairman and independent non-executive Director)
Luo Jianhua (Independent non-executive Director)
Zhang Shuting (Independent non-executive Director)

The AC is scheduled to meet at least twice a year. It also holds informal meetings and discussions with management from time to time. The AC also meets with the external auditors without the presence of management at least once a year, and holds discussions as and when necessary.

The functions of the AC are as follows:

a. review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the management's response;

b. review the quarterly (if any), half-year and annual financial statements, and announcements before submission to the Board for approval;

c. review internal control and risk management systems and procedures, including review of the internal auditor's internal audit plan and internal audit findings and ensure that the internal audit function is adequately resourced;

d. to review the adequacy of the internal financial controls, operational and compliance controls and risk management policies and systems;

e. review the co-ordination between the external auditors and the management, the assistance given by management to the auditors and addressing any issues arising from the audits, and any matters raised by the auditors, including meeting with the auditors in the absence of management;

f. consider and make recommendation on the appointment or re-appointment of the external auditors, the audit fee, and matters relating to the resignation or dismissal of the auditors; and

g. review Continuing Connected Transactions.

The AC has full access to and co-operation of the management and external auditors, HLB Hodgson Impey Cheng Limited ("HLB") and Foo Kon Tan LLP, Singapore ("FKT"). To facilitate discussions, the AC can invite any Director and key executive of the Group to attend its meetings.

The AC has put in place a whistle-blowing framework for employees of the Group to raise concerns about the possible improprieties in matters of financial reporting or other matters in confidence.

For the year under review, the AC has reviewed the half-year and annual financial statements and results announcements, the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

Auditors' Remuneration

The AC has reviewed the independence of HLB and FKT including the volume of non-audit services supplied by HLB and FKT and is satisfied of the position of HLB and FKT as independent external auditors. There is no disagreement between the Board and AC regarding the selection, appointment, resignation or dismissal of external auditors. For the year under review, the Group has paid/will pay approximately RMB2,453,000 to HLB and FKT for its audit services and approximately RMB70,000 to FKT for tax consultancy services. The nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The Board has accepted the AC's recommendation to nominate HLB and FKT for re-appointment as external auditors at the forthcoming AGM of the Company.

The Company and all of its significant subsidiaries are audited or reviewed by HLB for consolidation purposes. The Company is audited by FKT. HLB and FKT are member firms of HLB International.

Internal Audit and Internal Controls

The AC is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets, and to manage risks. The system is intended to provide reasonable but not absolute assurance against material misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks. The Board understands that all internal control systems contain inherent limitations and no system of internal controls could provide absolute assurance against occurrence of material errors, poor judgment in decision making, human error losses, fraud or other irregularities. Without any evidence to the contrary, in the opinion of the Board upon its review, the effectiveness of the system of internal controls maintained by the Company and its subsidiaries was in place.

Any internal control weaknesses identified by the external auditors, HLB and FKT, during the course of their audit, together with their recommendations to address such weaknesses, were reported to and reviewed by the AC.

From 2007 to 2014, the Company had outsourced the functions of the internal audit to Baker Tilly Consultancy (S) Pte Ltd. The internal audit is conducted yearly and meets the standards set by recognised professional bodies. The objective of the internal audit is to determine whether the Group's risk management and control procedures, as designed by the Company, were adequate and functioning properly. The AC will review and approve the internal audit plans together with the internal auditors. Any material non-compliance for improvements are reported to the AC and the Board. During the year ended 31 December 2015, the Company has engaged PKF Accountants & Business Advisers as its internal control consultant to review and advise on the Company's financial reporting procedures and internal control systems and put in place adequate procedures. In the opinion of the Board, with the concurrence of the AC, the internal controls, addressing financial, operational and compliance risks, are adequate.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the HK CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") and the Written Guidelines for Securities Transactions by the Relevant Employees adopted by the Company, and the Company's compliance with the HK CG Code and disclosure in this Corporate Governance Report.

The Company recognises the importance of providing the Board with sufficient, up-to-date and relevant information on an accurate and timely basis so that it can discharge its duties effectively. The Company also believes in timely, fair and adequate disclosure of relevant information to its shareholders and investors so that they will be appraised of developments that may have a material impact on the Company's securities.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016. The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the financial position of the Group and that relevant statutory and regulatory requirements and applicable accounting standards are complied with.

Information is disseminated to the shareholders via the HKExnews announcements and news releases. Annual report is prepared and issued to all the shareholders. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure. Shareholders and investors can also access information about the Group on its website at http://www.soundglobal.com.sg.

The AGM is the principal forum for dialogue with shareholders. At each AGM, there is an open question and answer session where shareholders may raise questions or share their views on the proposed resolutions and the Company's business and affairs with the Board. Resolutions requiring shareholders' approval are tabled separately for adoption at the AGM. The Chairman of the Board and the Chairpersons of the AC, RC and NC (or a member or duly appointed delegate of each Committee) and external auditors will normally be present at the AGM to answer any questions relating to the work of these Committees. The external auditors are also present at the AGM to assist the Directors in answering questions from shareholders.

The Chairman did not attend the AGM held on 8 May 2018 due to his other pre-assigned work commitment which deviates from Code Provision E.1.2 of the HK CG Code. He will use his best endeavours to attend all future Shareholders' meetings of the Company.

Notice of the meeting will be advertised in newspapers in Singapore and announced via HKExnews. Shareholders can vote in person or by proxy.

During the year under review, the Company has not made any change to its Constitution.

Dealings in Securities

The Company has adopted a code of conduct rules regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. In addition, specific enquiry has been made to all Directors in relation to whether the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions. The Company was not aware of any information that reasonably suggested that the Directors had not complied with the requirements as stipulated in the Model Code during the year ended 31 December 2016.

Specifically, the Group has procedures on no less than exacting terms than the Model Code (the "Written Guidelines") in place prohibiting dealings in the Company's shares by its officers while in possession of inside information and during the period commencing 30 days preceding the publication date of the Company's quarterly (if any) and half-year results and 60 days preceding the publication date of the Company's annual results, or, if shorter, the period from the end of the relevant financial year/period and ending on the date of the announcement of the relevant results. Internal memorandums are sent to remind Directors and officers on the period where dealings are prohibited. Directors and officers are also expected to observe insider-trading laws at all times, even when dealing in securities within the permitted trading period. An officer should not deal in the Company's shares on short-term considerations. No incident of non-compliance of the Written Guidelines by the officers was noted by the Company.

Risk Management

The Group is subject to business and operational risks, which include, amongst other things, competition from other water and wastewater treatment companies, increases in operating costs, changes in government regulations, adverse local and international economic and market conditions. Details of financial risk are discussed in Note 40b of the financial statements. The Group also reviews significant control policies and procedures and highlights significant matters to the Board when necessary.

Material Contracts

Apart from those transactions disclosed under the Continuing Connected Transactions, if any, there were no material contracts entered into by the Company or any of its subsidiaries involving the interest of any Director or controlling shareholder during the financial year under review.

Company Secretaries

Ms. Wong Tak Yee of Tricor Services Limited and Mr. Tan Wei Shyan of Shook Lin & Bok LLP, external service providers, have been engaged by the Company as its joint company secretaries in Hong Kong and Singapore respectively. Their primary contact person at the Company is Mr. He Hongbing, CFO of the Company.

Ms. Wong Tak Yee has confirmed that she has taken no less than 15 hours professional training as required by Rule 3.29 of the Listing Rules. Although Mr. Tan Wei Shyan has not attended any professional training during the year, he is a practising corporate law lawyer in Singapore, and is familiar with the relevant compliance requirements under Singapore law.

Communication with Shareholders

The Company provides information in relation to the Group to the Shareholders in a timely manner through a number of formal channels, including interim and annual reports, announcements and circulars. Such published documents together with the corporate information of the Group are also available on the Company's website.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at shareholders' meetings, including the election of individual Directors. All resolutions put forward at shareholders' meetings will be voted on by poll pursuant to the Constitution of the Company and poll results will be posted on the websites of the Company and of HKEx after each shareholders' meeting.

Procedures to Convene an Extraordinary General Meeting On Requisition by Shareholders

Pursuant to Section 176 of the Singapore Companies Act, Chapter 50 ("CA"), shareholders may make requisition to the Directors of the Company to convene an extraordinary general meeting, provided that such shareholders hold at the date of the deposit of requisition not less than 10 per cent. of the total number of paid-up Shares which carry voting rights at general meetings. The requisition shall state the objects of the meeting. Alternatively, Section 177 of the CA permits two or more shareholders holding not less than 10% of the total number of issued shares of the Company (excluding treasury shares) to call a meeting of the Company. The requirements and procedures for requisitioning and calling a meeting are as set out in Section 176 and Section 177 of the CA respectively.

Procedures to Put Forward Proposals at General Meetings

Under Section 183 of the CA, any number of shareholders representing not less than five (5) per cent. of the total voting rights, or not less than 100 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than S$500, may requisition the Company to give notice of a resolution intended to be dealt with at the next AGM. Shareholders should follow the requirements and procedures as set out in Section 183 of the CA for putting forward a resolution at the AGM.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Singapore:

Address: 1 Robinson Road, #17-00 AIA Tower, Singapore 048542
(For the attention of Joint Company Secretary)
Fax: (65) 6535 8577
Email: IR@soundglobal.cn

Hong Kong:

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
(For the attention of Joint Company Secretary)
Fax: (852) 2545 1628
Email: IR@soundglobal.cn

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Shareholders may call the Company at (852) 2980 1888 for any assistance.

REPORT OF THE DIRECTORS

The Directors present their report together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2016. These financial statements are prepared in accordance with International Financial Reporting Standards.

1. PRINCIPAL ACTIVITIES STAY BUSINESS REVIEW

The Group is principally engaged in turnkey water and wastewater treatment. The activities of its principal subsidiaries are set out in Note 45 to the financial statements.

A review of the Group's business and performance during the year and future development of the business are provided in the Chairman's Statement on page 4, Operations Review on page 5, and Management Discussion and Analysis on pages 11 to 15.

The principal risks and uncertainties that the Group is subject to are business and operational risks and financial risks. Business and operational risks include, amongst other things, competition from other water and wastewater treatment companies, increases in operating costs, changes in government regulations, adverse local and international economic and market conditions. Details of financial risks are discussed in Note 38b to the financial statements.

Details of event after the reporting period is set out in Note 44 to the financial statements.

2. RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the financial position of the Group at that date are set out in the financial statements on pages 59 to 172 of this annual report.

The Directors do not propose any final dividend in respect of the year ended 31 December 2016.

3. RESERVES AND DISTRIBUTABLE RESERVES

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity to the financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in Note 17 to the financial statements.

5. ISSUED CAPITAL

Movements in issued capital of the Group during the year are set out in Note 34 to the financial statements.

6. SENIOR NOTES

Details of the senior notes of the Group during the year are set out in Note 31 to the financial statements.

7. PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2016.

8. MAJOR SUPPLIERS AND CUSTOMERS

The purchase from the largest supplier of the Group for 2016 was approximately RMB145.8 million, which accounted for 6.2% of the total purchase of the Group for the year and the total purchase from the five largest suppliers was approximately RMB536.8 million, which accounted for 22.7% of the total purchases of the Group for the year. None of the Directors and their close associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the number of issued shares of the Company had any interest in any of the five largest suppliers of the Group.

The sales to the largest customer of the Group for 2016 was approximately RMB145.0 million, which accounted for 3.7% of the total sales of the Group for the year and the total sales from the five largest customers was approximately RMB374.9 million, which accounted for 9.7% of the total sales of the Group for the year. None of the Directors and their close associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the number of issued shares of the Company had any interest in any of the five largest customers of the Group.

9. DIRECTORS

The Directors in office during the year and up to the date of this report and publication date of this 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

Mr. Ma Yuanju, Mr. Zhang Shuting and Mr. Luo Jianhua shall retire from the office of Director at the forthcoming AGM in accordance with Article 89 of the Articles of Association comprising part of the the Constitution of the Company.

All the above Directors, being eligible, will offer themselves for re-election at the forthcoming AGM.

No Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

The Company has received annual confirmations of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

10. DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 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

	Number of Shares/underlying Shares held, capacity and nature of interest				
Name	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Total**	**Percentage to the issued share capital of the Company (%)**
Wen Yibo	25,333,000	-	748,945,944[#1]	774,278,944	51.41
Luo Liyang	7,110,000[#2]	-	-	7,110,000	0.47
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.

(B) Associated Corporation — Sound Water (BVI) Limited #3

	Number of shares/underlying shares held, capacity and nature of interest				Percentage to the issued share capital of the Associated Corporation (%)
Name	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Total**	
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 31 December 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.

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 31 December 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 31 December 2016
9 December 2014	#4	#5	HKD8.11	81,415,000	23,325,000	58,090,000

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.

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 31 December 2016
Director							
Zhang Jingzhi (Resigned on 12 August 2016)	9 December 2014	#4	#5	HKD8.11	7,459,000	7,459,000	-
Liu Xiqiang	9 December 2014	#4	#5	HKD8.11	216,000	-	216,000
Luo Liyang	9 December 2014	#4	#5	HKD8.11	6,500,000	-	6,500,000
Zhou Hao	9 December 2014	#4	#5	HKD8.11	6,531,000	-	6,531,000
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	54,080,000	9,366,000	44,714,000

#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 108,000 options granted to Mr. Li Feng as employee on 9 December 2014. 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.

12. SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 31 December 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.

13. AUDIT COMMITTEE ("AC")

The AC comprises three independent non-executive Directors. As at the date of this Report, the AC comprises the following members:

Ma Yuanju (Chairman)
Zhang Shuting
Luo Jianhua

The AC is scheduled to meet at least twice a year. It also holds informal meetings and discussions with management from time to time. The AC also meets with the external auditors without the presence of management at least once a year, and holds discussions as and when necessary.

The functions of the AC are as follows:

a. review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the management's response;

b. review the quarterly (if any), half-year and annual financial statements, and announcements before submission to the Board for approval;

c. review internal control and risk management systems and procedures, including review of the internal auditor's internal audit plan and internal audit findings and ensure that the internal audit function is adequately resourced;;

d. to review the adequacy of the internal financial controls, operational and compliance controls and risk management policies and systems;

e. review the co-ordination between the external auditors and the management, the assistance given by management to the auditors and addressing any issues arising from the audits, and any matters raised by the auditors, including meeting with the auditors in the absence of management;

f. consider and make recommendation on the appointment or re-appointment of the external auditors, the audit fee, and matters relating to the resignation or dismissal of the auditors; and

g. review Continuing Connected Transactions.

The AC has full access to and co-operation of the management, and the external auditors, HLB and FKT have been given the resources required for them to discharge their function properly. HLB and FKT have unrestricted access to the AC. To facilitate discussions, the AC can invite any of the Directors and key executive of the Group to attend its meetings.

The AC has reviewed the independence of HLB and FKT including the volume of non-audit services provided by HLB and FKT and is satisfied of the position of HLB and FKT as independent external auditors. The nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The Board of Directors has accepted the AC's recommendation to nominate HLB and FKT for re-appointment as external auditors at the forthcoming AGM of the Company.

The audited consolidated financial statements of the Group for the year ended 31 December 2016 have been reviewed by the AC of the Company.

14. AUDITORS

The consolidated financial statements of the Group, which include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance and the CA, are prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements have been audited by HLB. The auditors, HLB and FKT shall retire at the forthcoming AGM and they have expressed their willingness to accept re-appointment as the Company's auditors at the forthcoming AGM.

15. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Constitution or the laws of Singapore, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

16. SUFFICIENT PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained a sufficient public float as at 31 December 2016.

17. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in Note 43 to the consolidated financial statements. Such transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules.

18. PERMITTED INDEMNITY PROVISIONS

The Constitution of the Company provide that the Directors of the Company shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto including any liability by him in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company and in which judgment is given in his favour (or the proceedings otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted or in connection with any application under any statute for relief from liability in respect of any such act or omission in which relief is granted to him by the court. Directors liability insurance is in place to protect the Directors of the Company or of its subsidiaries against any potential costs and liabilities arising from claims brought against the Directors.

19. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

20. ENVIRONMENTAL PROTECTION POLICY AND PERFORMANCE

The Group is committed to reduce the emission of various pollutants and has made best use of renewable resources. The Group has optimized the design of sewage treatment plants on the basis of the original site as far as possible during the process of transformation and expansion, and has not occupied any additional land. Some of the Group's projects are equipped with photovoltaic equipment to increase the utilization rate of renewable power resources. The Group recycles and reuses consumables in order to reduce the impact on the environment and resources.

21. COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

22. RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group insist that the employees, customers and suppliers are the key partners of the Group and are keen on developing long-term relationships with them.

The Group places significant emphasis on human resource and encourages the employees to develop their own potential. The Group provides a fair and safe environment and provides competitive remuneration and career development opportunities to our staffs based on their performance. The Group also provide adequate trainings and development resources to the staffs so that they can follow the latest development inside the industry.

The Group always maintain a good relationship with its customers and provide the services in a high standard. The Group try to improve the relationship with its customers to get more market share and gain more business opportunities. The Group has also established procedures to handle customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner. The Group has also developed a good relationship with suppliers and contractors to ensure stable supply of materials and equipment.

ON BEHALF OF THE DIRECTORS

Zhou Hao

Liu Xiqiang

12 July 2018

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

We were engaged to audit the consolidated financial statements of Sound Global Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 59 to 172, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

(a) Discrepancies in the bank balances as at 31 December 2012 and 2013 and loss of accounting records

As disclosed in note 3 to the consolidated financial statements, the Company made an announcement on 13 April 2016 stating that the Securities and Futures Commission (the "**Commission**") had directed The Stock Exchange of Hong Kong Limited (the "**HKEx**") to suspend all the dealings in the shares of the Company with effect from 13 April 2016 (the "**2016 Suspension**").

The Company later announced on 2 June 2017 and 19 June 2017 that (i) on 25 November 2016, an accident occurred when certain financial documents of the Group were being transported to a new file storage facility and as a result, certain financial documents of the Group were lost and/or damaged (the "**Accident**"); and (ii) the Group was in the course of verifying the relevant details and ascertaining the scope of loss. Subsequently on 24 July 2017, the Company made an announcement stating that (i) the reason for the 2016 Suspension was that the Commission had found the bank balances of five bank accounts (the "**Banks Accounts**") of the subsidiaries of the Company as at 31 December 2012 and 31 December 2013 were materially overstated by approximately RMB2.1 billion and RMB2.7 billion respectively (the "**Bank Balances Discrepancies**"); and (ii) PKF Business Advisory Limited (the "**Reviewer**") was engaged by the Company on 19 January 2017 to perform investigation services to the Company in respect of the Bank Balances Discrepancies.

In relation to the Accident, the directors of the Company have determined that the Accident was a fire accident which caused damages to and loss of financial documents of five subsidiaries of the Company (the "**Relevant PRC Subsidiaries**"), details of which are set out in note 3 to the consolidated financial statements. Vouchers together with their supporting documents, bank statements and related bank reconciliations of the Relevant PRC Subsidiaries for the financial years 2010 to 2015 were lost in the Accident (the "**Damaged Documents**"). The directors of the Company asserted that the Group had been unable to retrieve or reconstruct the books and records of the Relevant PRC Subsidiaries based on the financial information of the Relevant PRC Subsidiaries available to them, as key personnel of the finance department of the Group had left the Group and the Group had lost contact with them. Further, the Bank Accounts to which the Bank Balances Discrepancies relate were bank accounts of the Relevant PRC Subsidiaries.

Basis for Disclaimer of Opinion (Continued)

(a) *Discrepancies in the bank balances as at 31 December 2012 and 2013 and loss of accounting records (Continued)*

On 1 February 2018, the Company announced that the Reviewer had on 8 January 2018 issued a report of their investigation findings. The Reviewer had identified discrepancies between the records shown in the list of bank accounts of the Group which was updated by the finance department after the Accident and the bank balances shown in the Group's audited consolidated financial statements, as well as discrepancies in 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 the 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.

The Reviewer also stated that it 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 and that 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.

The Reviewer concluded that it was unable to identify the cause or causes for the Bank Balances Discrepancies and particulars of these discrepancies.

The Company further announced on 9 April 2018 that (i) the Commission had not received from the Company any submission or representation which could satisfactorily explain the Bank Balances Discrepancies; (ii) 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 Bank Balances Discrepancies; and (iii) further announcement will be made by the Company as appropriate and when appropriate.

As disclosed in note 3 to the consolidated financial statements, in December 2017, the Group had commenced taking steps to further investigate the Bank Balances Discrepancies. As at the date of this report, these investigation works of the Group are still in progress and no conclusive result was drawn in respect of the findings and conclusion of the Reviewer.

Under the circumstances as described above, we have not been able to obtain sufficient appropriate audit evidence to enable us to assess the effects of the matters to which the Bank Balances Discrepancies, investigations on the Bank Balances Discrepancies and the Accident relate.

Basis for Disclaimer of Opinion (Continued)

(a) *Discrepancies in the bank balances as at 31 December 2012 and 2013 and loss of accounting records (Continued)*

Further, given the loss of books and records of the Relevant PRC Subsidiaries in relation to the Damaged Documents and the inability of the Group to retrieve or reconstruct them, the directors of the Company had prepared the consolidated financial statements of the Group for the year ended 31 December 2015 by using the figures shown in the management accounts of the Relevant PRC Subsidiaries even though the Group did not have the necessary information and supporting books and records and evidences about the transactions and account balances of the Relevant PRC Subsidiaries for inclusion of these entities in the consolidated financial statements of the Group for the year ended 31 December 2015. The amounts of the assets, liabilities, revenue, income, expenses and cash flows of the Relevant PRC Subsidiaries that have been included in the consolidated assets, liabilities, revenue, income, expenses and cash flows of the Group for the year ended 31 December 2015, which are presented as comparative figures in the consolidated financial statements, are disclosed in note 3 to the consolidated financial statements. As can be seen from the disclosure note, many elements in the consolidated financial statements for the years ended 31 December 2016 and 2015 have been materially affected by the Damaged Documents.

There were no alternative audit procedures that we could perform to obtain sufficient and appropriate evidence as to the causes and effects of the Bank Balances Discrepancies and the Accident and their implications and impacts on all the elements (including all balances of assets and liabilities and all amounts of revenue, income and expenses) presented in the consolidated financial statements of the Group for the year ended 31 December 2016 and the comparative figures presented in these consolidated financial statements, including all information disclosed in the notes to the consolidated financial statements. In particular, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves regarding (i) whether problematic transactions and balances that caused the Bank Balances Discrepancies had been completely identified by the directors of the Company and appropriately reflected in the Group's consolidated financial statements for the respective financial years to which they relate; (ii) the nature and validity of the problematic transactions and balances and the reasons why they arose; (iii) whether there were any contingent liabilities arising from the problematic transactions and balances; and (iv) whether there were any problematic transactions and balances involving related parties but which had not been previously identified by the directors of the Company. The scope limitations described above also impact on our ability to determine the reliability of the management representations received by us and relied upon for our audit testing purposes and hence of the audit evidence in general.

In view of the limitations, we have been unable to obtain sufficient appropriate audit evidence to evaluate the possible effects of the matters described above. Any adjustments found to be required may have consequential significant effects on the elements in the consolidated financial statements for the year ended 31 December 2016 and the comparative figures for the preceding financial year and hence on the consolidated net assets of the Group as at 31 December 2016 and 2015 and the consolidated profit and other comprehensive expenses and cash flows of the Group for the years ended 31 December 2016 and 2015.

Basis for Disclaimer of Opinion (Continued)

(b) Going concern

As disclosed in note 3 to the consolidated financial statements, the Group (i) incurred net cash outflows from operating activities of approximately RMB1,274,529,000 for the year ended 31 December 2016; and (ii) had total borrowings which exceeded the aggregate restricted bank balances and bank balances and cash by approximately RMB2,577,528,000 as at 31 December 2016. The Group recorded current and non-current borrowings of approximately RMB1,483,726,000 and RMB2,624,444,000 respectively and restricted bank balances and bank balances and cash of aggregate amount of approximately RMB1,530,642,000 as at 31 December 2016. In addition, the adjustments found to be necessary to the Group's balance of retained profits as at 1 January 2015 and 2016, results for the years ended 31 December 2015 and 2016 and closing balances of assets and liabilities as at 31 December 2015 and 2016 of the matters described in paragraphs (a), (c), (d) and (e) herein may cause the operating results and liquidity position of the Group as presented in the consolidated financial statements for the year ended 31 December 2016 to be adversely affected to the extent that the Group's ability to meet its obligations as and when they fall due may be adversely affected. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to repay or extend existing borrowings upon their maturities, through cash flows from operations and working capital, financial support from the controlling shareholder and continuing support from other financial institutions. As of the date of this report, we are unable to obtain the Group's cash flow forecast, including related reasonable and supportable basis for the underlying data and assumptions, which are necessary for us to assess the appropriateness of the use of the going concern assumption in the preparation of the consolidated financial statements. Because of the significance of the matters above, we are unable to form an opinion as to whether the use of going concern assumption in the preparation of the consolidated financial statements is appropriate. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

(c) Opening balances and comparative information

The opening balances and corresponding figures disclosed in the consolidated financial statements are based on the figures presented in the consolidated financial statements of the Group for the year ended 31 December 2015, in respect of which we expressed a disclaimer opinion in our auditors' report dated 26 February 2018. The matters which resulted in us expressing the disclaimer opinion are described in the respective paragraphs in this "Basis for Disclaimer of Opinion" section. Therefore, the opening balances and corresponding figures shown in the consolidated financial statements may not be comparable with the current year's figures and furthermore, any adjustments to the opening balances at 1 January 2016 would have consequential effects on the consolidated profit and other comprehensive expenses and cash flows of the Group for the year ended 31 December 2016 and/or the net assets of the Group and the Company as at 31 December 2016.

Basis for Disclaimer of Opinion (Continued)

(d) Recoverability of trade receivables, amounts due from customers for contract work and other receivables and validity of related revenue recognised

As disclosed in notes 24 and 26 to the consolidated financial statements, as of the date of this report, (i) trade receivables with principal amounts of approximately RMB225,362,000, RMB269,064,000, RMB420,260,000 and RMB107,053,000 which were recorded by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015 and 2016 respectively were still outstanding and remained unsettled, (ii) amounts due from customers for contract work with amounts of approximately RMB292,449,000, RMB384,367,000, RMB93,371,000 and RMB303,681,000 which were recorded by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015 and 2016 respectively were still outstanding and no progress billings had been issued, and (iii) in respect of all other receivables (other than trade receivables), amounts of approximately RMB57,645,000, RMB117,662,000, RMB209,131,000 and RMB158,930,000 which were recorded by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015 and 2016 respectively were still outstanding and remained unsettled.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of the trade receivables, amounts due from customers for contract work and other receivables outstanding as at 31 December 2016 and 2015 described in the foregoing. Further, we were not provided with sales invoices and complete sets of related sales documents issued in relation to these outstanding trade receivables and amounts due from customers for contract work which were recorded during the years stated above to support the validity and existence of these outstanding trade receivables and amounts due from customers for contract work. Hence we have not been able to obtain sufficient appropriate audit evidence as to whether the trade receivables, amounts due from customers for contract work, other receivables, impairment losses recognised in respect of the trade receivables, amounts due from customers for contract work and other receivables and related revenue and expenses recognised in the consolidated financial statements as at and for the years ended 31 December 2016 and 2015 were properly recorded and accounted for in accordance with the requirements of applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board, including International Accounting Standard ("**IAS**") 39 "Financial Instruments: Recognition and Measurement", IAS 18 "Revenue" and IAS 11 "Construction Contracts". There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the amounts reported in the consolidated financial statements for these elements were free from material misstatement, whether due to fraud or otherwise. Any adjustments that would be required may have consequential significant effects on the consolidated net assets of the Group as at 31 December 2016 and 2015 and the consolidated profit and other comprehensive expenses and cash flows of the Group for the years ended 31 December 2016 and 2015, and the related disclosures thereof in the consolidated financial statements.

Basis for Disclaimer of Opinion (Continued)

(e) *Non-compliance with accounting and disclosure requirements of IFRSs and the Rules Governing the Listing of Securities on the HKEx (the "**Listing Rules**") and other applicable laws and regulations*

(i) As disclosed in note 35 to the consolidated financial statements, during the year ended 31 December 2016, the Group has 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 (the "**Target Group**") at a consideration of RMB30,000,000. The directors of the Company have asserted that subsequent to the acquisition of Zhongye Zhengyi and up to the date of this report, they have been unable to gain access to the books and records of the Target Group (the "**Zhongye Zhengyi Issue**"). Given these circumstances, the directors of the Company have been unable to consolidate, and hence have not consolidated, the financial statements or accounts of the Target Group into the consolidated financial statements of the Group with effect from the date of acquisition of the Target Group. In addition, an impairment loss in respect of the investment in Zhongye Zhengyi of RMB30,000,000 was recognised for the year ended 31 December 2016. This accounting outcome is a departure from the requirements of IFRS 10 "Consolidated Financial Statements" which requires all subsidiaries controlled by the Company and its subsidiaries to be included in the consolidated financial statements. Under IFRS 10, the Company should have consolidated the Target Group in its consolidated financial statements for the year ended 31 December 2016 with effect from the date of acquisition of the Target Group. Had the Target Group been consolidated, many elements in the consolidated financial statements for the year ended 31 December 2016 would have been materially affected. Furthermore, a goodwill or bargain purchase gain would have arisen from the purchase price allocation of consideration for the acquisition of the Target Group to the fair values of identifiable assets and liabilities of the Target Group as at the acquisition date, as required by IFRS 3 "Business Combinations". However, because of the insufficient financial information of the Target Group made available to us, as stated above, we have not been able to obtain sufficient appropriate audit evidence to enable us to assess the effects of these matters. Accordingly, the effects on the consolidated financial statements of the failure to consolidate the Target Group and of the failure to carry out purchase price allocation could not be determined. We have also been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) the validity of the cost of the investment in Zhongye Zhengyi on initial recognition of RMB30,000,000; (ii) the identity of the vendors of 70% equity interest of Zhongye Zhengyi and the fact that the vendors were not related parties of the Group in accordance with IAS 24 "Related Party Disclosures"; and (iii) the validity of the commercial terms arrived at in acquiring the 70% equity interest of Zhongye Zhengyi. Further, no impairment assessment was performed on the recoverability of the cash generating unit represented by Zhongye Zhengyi and its subsidiaries and hence we were unable to be satisfied as to the recoverable amount of the cash generating unit as at 31 December 2016 and as to the appropriateness of the recognition of the related impairment loss of RMB30,000,000 in consolidated profit or loss for the year ended 31 December 2016. Any adjustments found to be required may have a consequential significant effect on the carrying amounts of assets and liabilities in relation to Zhongye Zhengyi and its subsidiaries as at 31 December 2016 and impairment loss recognised in consolidated profit or loss of the Group for the year then ended and hence on the net assets of the Group as at 31 December 2016 and the consolidated profit and other comprehensive loss and cash flows for the year then ended.

Basis for Disclaimer of Opinion (Continued)

*(e) Non-compliance with accounting and disclosure requirements of IFRSs and the Rules Governing the Listing of Securities on the HKEx (the "**Listing Rules**") and other applicable laws and regulations (Continued)*

(i) Furthermore, the directors of the Company have not disclosed in the consolidated financial statements of the Group for the year ended 31 December 2016 the information about the nature and financial effects of the acquisition of the Target Group which is required to be disclosed by the IFRS 3. Given the lack of financial information available, there were no practicable audit procedures that we could perform to also assess 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.

(ii) In addition, as disclosed in note 36 to the consolidated financial statements, during the year 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(有限合伙)) ("**Jinxin Tairun**") and Sound Group Limited ("**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 (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, which represented 30% of the carrying amounts of the net assets of the Five Subsidiaries. The disposal was recorded as transaction with non-controlling interests in the consolidated statement of changes in equity. 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 personnel of the Group was a legal representative and executive director of Jiaxing Sangzi since its incorporation and up to 14 December 2017. We were not provided with sufficient appropriate audit evidences on the identity of Jinxin Tairun and there were no practicable alternative audit procedures that we could perform to assess whether the Transactions entered into by the Group with Jinxin Tairun and involving Sound Group were related party transactions and whether the outstanding balances as at 31 December 2016 were related party balances and hence whether there had been non-compliance with the disclosure requirements of International Accounting Standard 24 "Related Party Disclosures" in respect of related party transactions and balances. Further, we were not provided with sufficient appropriate audit evidences to satisfy ourselves as to the validity of the commercial terms, including the consideration of RMB84,150,000, for the disposal of the 30% equity interests in the Five Subsidiaries. In addition, for the same reasons, we were also unable to assess whether the Transactions entered into by the 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.

Basis for Disclaimer of Opinion (Continued)

(e) *Non-compliance with accounting and disclosure requirements of IFRSs and the Rules Governing the Listing of Securities on the HKEx (the "**Listing Rules**") and other applicable laws and regulations (Continued)*

(iii) Due to lack of access to the books and records and management personnel of the Relevant PRC Subsidiaries for the years 2010 to 2015 made available to us, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether there was non-compliance with applicable laws and regulations by the Relevant PRC Subsidiaries and hence about the completeness of any actual or contingent liabilities in the consolidated financial statements. There were no practicable alternative procedures that we could perform to satisfy ourselves as to whether there existed unrecorded provisions or undisclosed contingent liabilities arising from breaches of laws and regulations by these subsidiaries and hence whether there were material misstatements of the consolidated financial statements due to non-compliance with laws and regulations. Any adjustments found to be necessary may have a consequential significant effect on the net assets of the Group as at 31 December 2016 and 2015 and of the consolidated profit and other comprehensive expenses and cash flows of the Group for the years then ended and the related disclosures thereof in the consolidated financial statements.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and to issue an auditors' report. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Report on Other Matters under sections 407(2) and 407(3) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report above:

- we were unable to determine whether adequate accounting records had been kept; and
- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

The engagement director on the audit resulting in this independent auditors' report is Yu Chi Fat.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Yu Chi Fat
Practicing Certificate Number: P05467

Hong Kong, 12 July 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
Revenue	7	**3,877,799**	4,085,758
Cost of sales		**(2,611,116)**	(2,768,089)
Gross profit		**1,266,683**	1,317,669
Other income	8	**90,915**	48,239
Other gains and losses, net	9	**(193,221)**	(156,005)
Distribution and selling expenses		**(66,116)**	(59,608)
Research and development expenses		**(48,247)**	(43,591)
Administrative expenses		**(240,555)**	(190,811)
Finance costs	10	**(150,513)**	(275,959)
Profit before income tax		**658,946**	639,934
Income tax expenses	11	**(160,498)**	(180,640)
Profit for the year	12	**498,448**	459,294
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of financial statements of foreign operations		**(11,786)**	(4,211)
Total comprehensive income for the year, net of tax		**486,662**	455,083
Profit for the year attributable to:			
Owners of the Company		**484,842**	455,425
Non-controlling interests		**13,606**	3,869
		498,448	459,294
Total comprehensive income for the year attributable to:			
Owners of the Company		**473,056**	451,214
Non-controlling interests		**13,606**	3,869
		486,662	455,083
Earnings per share (in RMB cents)			
Basic and diluted	16	**32.19**	30.24

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016	2015
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**175,239**	91,390
Intangible assets	18	**473,682**	57,862
Land use rights	19	**38,505**	39,662
Goodwill	20	**-**	41,395
Service concession receivables	21	**7,245,861**	5,309,946
Deferred tax assets	22	**9,842**	10,888
		7,943,129	5,551,143
CURRENT ASSETS			
Inventories	23	**204,327**	97,827
Trade and other receivables	24	**2,401,237**	2,724,410
Land use rights	19	**1,158**	1,158
Available-for-sale investments	25	**42,800**	952,000
Amounts due from customers for contract work	26	**1,797,114**	1,513,870
Restricted bank balances	27	**1,059,667**	450,950
Bank balances and cash	27	**470,975**	769,719
		5,977,278	6,509,934
CURRENT LIABILITIES			
Trade and other payables	28	**2,985,729**	2,936,873
Tax payables		**72,766**	124,826
Derivative financial instruments	30	**20,380**	-
Borrowings	29	**1,483,726**	2,704,907
Obligation under finance lease	32	**188,092**	3,914
Amounts due to customers for contract work	26	**5,874**	83
		4,756,567	5,770,603
NET CURRENT ASSETS		**1,220,711**	739,331
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,163,840**	6,290,474

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016	2015
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	**293,155**	207,258
Borrowings	29	**2,624,444**	1,248,743
Obligation under finance lease	32	**826,578**	36,124
Derivative financial instruments	30	**-**	37,969
		3,744,177	1,530,094
TOTAL ASSETS LESS TOTAL LIABILITIES		**5,419,663**	4,760,380
CAPITAL AND RESERVES			
Issued capital	34	**1,720,304**	1,720,304
Reserves		**3,466,328**	2,993,272
Equity attributable to owners of the Company		**5,186,632**	4,713,576
Non-controlling interests		**233,031**	46,804
		5,419,663	4,760,380

The consolidated financial statements on pages 59 to 172 were approved and authorised for issue by the Board of Directors on 12 July 2018 and are signed on its behalf by:

Zhou Hao
Director

Liu Xiqiang
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company									
	Issued capital RMB'000	Merger reserve RMB'000 (note i)	Capital reserve RMB'000 (note ii)	Translation reserve RMB'000	Share options reserve RMB'000	Statutory surplus reserve RMB'000 (note iii)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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 year	-	-	-	-	-	-	455,425	455,425	3,869	459,294
Other comprehensive expense	-	-	-	(4,211)	-	-	-	(4,211)	-	(4,211)
Total comprehensive income	-	-	-	(4,211)	-	-	455,425	451,214	3,869	455,083
Transfer to reserve fund	-	-	-	-	-	42,707	(42,707)	-	-	-
Non-controlling interest arising on change in ownership interest in a subsidiary	-	-	-	-	-	-	-	-	7,066	7,066
Capital contributions from non-controlling interest	-	-	-	-	-	-	-	-	29,623	29,623
Exercise of share options	29,725	-	-	-	(7,100)	-	-	22,625	-	22,625
Lapse of share options	-	-	-	-	(23,613)	-	23,613	-	-	-
At 31 December 2015	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 year	-	-	-	-	-	-	484,842	484,842	13,606	498,448
Other comprehensive expense	-	-	-	(11,786)	-	-	-	(11,786)	-	(11,786)
Total comprehensive income	-	-	-	(11,786)	-	-	484,842	473,056	13,606	486,662
Transfer to reserve fund	-	-	-	-	-	37,378	(37,378)	-	-	-
Non-controlling interest arising on change in ownership interest in a subsidiary	-	-	-	-	-	-	-	-	84,150	84,150
Capital contributions from non-controlling interest	-	-	-	-	-	-	-	-	88,471	88,471
At 31 December 2016	**1,720,304**	**(198,082)**	**4,562**	**(18,949)**	**-**	**265,815**	**3,412,982**	**5,186,632**	**233,031**	**5,419,663**

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 City Sound Water Co., Ltd. ("**Tongliao Sound**") 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 (the "**SGX**") in 2006; (b) the difference between the consideration of RMB18,000,000 in relation to the acquisition of 40% interest in Anyang Zongcun Sound Water Co., Ltd. ("**Anyang Zongcun 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 of 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.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016	2015
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**658,946**	639,934
Adjustments for:			
Depreciation of property, plant and equipment		**12,673**	7,934
Amortisation of intangible assets		**3,296**	3,296
Amortisation of land use right		**1,157**	1,158
Investment income on debt investments		**(23,539)**	-
Interest income		**(8,227)**	(32,717)
Finance costs		**150,513**	275,959
Allowance for doubtful debts		**36,597**	37,492
Allowance for doubtful debts written back		**(18,305)**	(24,862)
Write-down of inventories		**-**	3,868
Impairment losses recognised in respect of goodwill		**41,395**	-
Impairment losses recognised in respect of service concession receivables		**61,286**	-
Impairment loss recognised in respect of investment in subsidiaries		**30,000**	-
Imputed interest income on service concession receivables		**(343,970)**	(160,626)
Gain on bargain purchase of subsidiaries		**-**	(23,209)
Foreign exchange (gain) loss		**(52,325)**	30,202
Loss on disposal of property, plant and equipment		**1,711**	1,584
Loss on early redemption of senior notes		**-**	56,501
Fair value change of redemption option embedded in senior notes		**-**	15,321
Fair value change of foreign currency forward contracts		**-**	2,716
Fair value change in a swap contract		**2,246**	8,286
Operating cash flows before movements in working capital		**553,454**	842,837
Increase in inventories		**(106,405)**	(63,482)
Decrease (increase) in trade and other receivables		**340,188**	(888,752)
Increase in service concession receivables		**(1,716,602)**	(2,126,699)
Increase in amounts due from customers for contract work		**(283,243)**	(356,289)
Increase in trade and other payables		**57,903**	997,602
Increase (decrease) in amounts due to customer for contract work		**5,791**	(100,982)
Cash used in operations		**(1,148,914)**	(1,695,765)
Income taxes paid		**(125,615)**	(109,155)
NET CASH USED IN OPERATING ACTIVITIES		**(1,274,529)**	(1,804,920)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	**2016**	2015
		RMB'000	RMB'000
INVESTING ACTIVITIES			
Interest received		**8,227**	32,717
Purchases of property, plant and equipment		**(98,551)**	(13,182)
Proceeds from disposal of property, plant and equipment		**25**	616
Addition of intangible assets		**(419,116)**	-
Refund of earnest money paid for the purposed acquisition of subsidiaries		**-**	2,000,000
Acquisitions of subsidiaries	35	**-**	(89,465)
Purchase of available-for-sale investments		**(42,800)**	(952,000)
Proceeds from disposal of available-for-sale investments		**975,540**	-
Payment for deferred consideration on acquisitions of subsidiaries in previous years		**(8,654)**	(7,031)
Placement in restricted bank balances		**(1,057,511)**	(1,699,506)
Withdrawal from restricted bank balances		**451,343**	1,362,267
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		**(191,497)**	634,416
FINANCING ACTIVITIES			
Interest paid		**(130,897)**	(325,997)
Capital contribution from non-controlling interest		**88,471**	29,623
Disposal of partial interests in subsidiaries		**84,150**	-
Exercise of share options		**-**	22,625
Proceeds from sales and finance lease back arrangements		**964,610**	40,000
Repayments of obligation under finance lease		**(10,002)**	-
Repayment for senior notes		**-**	(1,008,102)
Borrowings raised		**3,212,894**	3,225,273
Repayments of borrowings		**(3,051,746)**	(2,019,979)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		**1,157,480**	(36,557)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(308,546)**	(1,207,061)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**769,719**	1,968,239
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**9,802**	8,541
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR REPRESENTED BY BANK BALANCES AND CASH		**470,975**	769,719

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

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, Fragrance Empire Building #04-03, Singapore 119962.

The Company is an investment holding company. Its subsidiaries (together with the Company, collectively referred to as the "**Group**") are mainly engaged in environmental construction related to water treatment, research and development of water treatment technologies, manufacturing of water treatment equipments, provision of services for technology consultation and construction, management and operation of wastewater projects and water supply.

The consolidated financial statements are presented in Renminbi ("**RMB**"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate. The functional currency of the Company is RMB.

The Company's immediate and ultimate parent company is Sound Water.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND DISCLOSURES

The accounting policies adopted in the consolidated financial statements for the year ended 31 December 2016 are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015 except as described below.

In the current year, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board.

IFRSs (Amendments)	Annual Improvements to IFRSs 2012-2014 Cycle
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IAS 1 (Amendments)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants
IAS 27 (Amendments)	Equity Method in Separate Financial Statements

The application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial results and positions and/or on the disclosures set out in the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND DISCLOSURES (CONTINUED)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective.

IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle[2]
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle[3]
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[2]
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
IFRS 9	Financial Instruments[2]
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation[3]
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
IFRS 17	Insurance Contracts[4]
IAS 7 (Amendments)	Disclosure Initiative[1]
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses[1]
IAS 19 (Amendments)	Plan amendments, curtailments or settlements[2]
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[3]
IAS 40 (Amendments)	Transfers of Investment Property[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[2]
IFRIC 23	Uncertainty over Income Tax Treatments[3]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 Effective for annual periods beginning on or after 1 January 2021
5 Effective for annual periods beginning on or after a date to be determined

Except for those as stated below, the adoption of these new and amendments to IFRSs is not expected to have material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND DISCLOSURES (CONTINUED)

New and amendments IFRSs in issue but not yet effective (continued)

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 "Financial Instruments: Recognition and Measurement" that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND DISCLOSURES (CONTINUED)

New and amendments IFRSs in issue but not yet effective (continued)

IFRS 16 Leases

IFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with IAS 17 "Leases". Under IFRS 16, leases are recorded on the statement of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of the lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities.

3. BASIS OF PREPARATION

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

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 and the Group was in the course of verifying the relevant details. On 19 June 2017, the Company further announced that (i) the finance department of the Group reported that on 25 November 2016 an accident occurred when certain financial documents of the Group were being transported to a new file storage facility and as a result certain financial documents of the Group were lost and/or damaged (the "**Accident**"); (ii) the Group was in the course of verifying the relevant details and ascertaining the scope of loss.

The directors of the Company have determined that the Accident was a fire accident which damaged financial documents of five subsidiaries engaged in (i) research and development of water treatment technologies, provision of water treatment technology consultation services and construction of water treatment plant, which contributed to the operating segment of turnkey projects and services; and (ii) manufacturing water treatment equipment which contributed to the operating segment of equipment fabrications (the "**Relevant PRC Subsidiaries**"). The financial documents which were lost included vouchers with supporting documents, bank statements and related bank reconciliations for the financial years 2010 to 2015 (the "**Damaged Documents**"). As of the date of approval for issuance of the consolidated financial statements of the Group for the year ended 31 December 2016, the directors of the Company considered that the Group had made its best efforts, to the extent commercially practicable, to reconstruct the accounting records of the Relevant PRC Subsidiaries for the financial years concerned, including the year ended 31 December 2015 whose financial information in respect thereof are presented in these consolidated financial statements as comparative figures, applying the best estimate and judgement based on the information of the Group that are available to the directors of the Company. However, given that almost all books and records of the Relevant PRC Subsidiaries were damaged in the Accident and a number of key personnel of the finance department of the Group had left the Group and the Group had lost contact with them, the directors of the Company considered that it is impossible and impractical to ascertain the transactions and balances of the Relevant PRC Subsidiaries for the financial years concerned for inclusion in the consolidated financial statements of the Group.

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

On 24 July 2017, the Company announced that the reason for trading suspension of the shares of the Company under Rule 8(1) of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) was that the Commission has found that the bank balances of five bank accounts (the "**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 (the "**Bank Balances Discrepancies**") and the Company had engaged PKF Business Advisory Limited (the "**Reviewer**") on 19 January 2017 to perform investigation services to the Company in respect of the Bank Balances Discrepancies.

On 1 February 2018, the Company announced that the Reviewer had on 8 January 2018 issued a report of their investigation findings on 8 January 2018. The Reviewer had identified discrepancies between the records shown in the list of bank accounts of the Group which was updated by the finance department after the Accident and the Group's audited consolidated bank balances, as well as discrepancies in 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 the 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.

The Reviewer also stated that it 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 and that 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.

The Reviewer concluded that it was unable to identify the cause or causes for the Bank Balances Discrepancies and particulars of these discrepancies.

On 7 May 2018, the Company announced that it has submitted a proposal to the Commission with a view to address its concerns on the Bank Balances Discrepancies. The Commission finds that the proposal does not satisfactorily address the Commission's concerns and has replied with comments. The Company is working closely with its professional advisors to address those comments.

The Company further announced on 7 May 2018 that (i) the Commission had not received from the Company any submission or representation which could satisfactorily explain the Bank Balances Discrepancies; (ii) is currently seeking professional advise in respect of the said findings and conclusion of the Reviewer with a view to addressing the Commission's concerns on the Bank Balances Discrepancies; and (iii) further announcement will be made by the Company as appropriate and when appropriate.

In December 2017, the Group had commenced taking steps to further investigate the Bank Balances Discrepancies. As at the date of approval for issuance of these consolidated financial statements, these investigation works of the Group are still in progress and no conclusive result was drawn in respect of the findings and conclusion of the Reviewer.

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

Based on the circumstances as abovementioned and the fact that the Bank Accounts to which the Bank Balances Discrepancies relate were bank accounts of the Relevant PRC Subsidiaries, the directors of the Company were unable to assess the impact of the Bank Balances Discrepancies on the Group's consolidated financial statements for the year ended 31 December 2016, including the impact on the figures presented in these consolidated financial statements in respect of the previous financial year and the impact on the figures presented in previously issued consolidated financial statements for prior financial years. As of the date of the approval for issuance of the consolidated financial statements, the directors of the Company are still considering steps to be taken in response to the investigation of the Bank Balances Discrepancies.

The revenue, income, expenses and cash flows for the years ended 31 December 2016 and 2015 and the assets and liabilities as at those dates of the Relevant PRC Subsidiaries, excluding intra-group transactions and balances, which have been included in the consolidated financial statements of the Group are as follow:

	2016	2015
	RMB'000	RMB'000
Revenue, income and expenses for the years ended 31 December:		
Revenue (note (a))	**3,002,582**	3,524,057
Cost of sales	**(2,254,898)**	(2,498,070)
Gross profit	**747,684**	1,025,987
Other income	**44,013**	36,906
Other gains and losses, net	**(87,450)**	(16,448)
Distribution and selling expenses	**(64,752)**	(58,399)
Research and development expenses	**(48,247)**	(43,591)
Administrative expenses	**(115,879)**	(92,089)
Finance costs	**(79,392)**	(76,281)
Profit before income tax	**395,977**	776,085
Income tax expenses	**(59,843)**	(118,712)
Profit and total comprehensive income for the year attributable to owners of the Company	**336,134**	657,373

Note:

(a) Included in the revenue of the Relevant PRC Subsidiaries for the year ended 31 December 2016 were revenue attributable to (i) operating segment of turnkey projects and services of approximately RMB2,997,769,000 (2015: RMB3,482,810,000), representing 99% (2015: 99%) of revenue in this segment. Such revenue included approximately RMB2,271,612,000 (2015: RMB2,294,602,000) related to revenue from service concession arrangements of the Group; and (ii) operating segment of Equipment Fabrications of approximately RMB4,813,000 (2015: RMB41,247,000), representing 100% (2015: 100%) of revenue in this segment.

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

	2016 RMB'000	2015 RMB'000
Assets and liabilities as at 31 December:		
NON-CURRENT ASSETS		
Property, plant and equipment	**95,960**	39,801
Land use rights	**37,636**	38,786
Goodwill	**-**	41,395
Services concession receivables	**3,535,598**	2,017,639
Deferred tax assets	**6,514**	7,730
	3,675,708	2,145,351
CURRENT ASSETS		
Inventories	**196,442**	90,655
Trade and other receivables	**1,627,313**	1,869,025
Land use rights	**1,150**	1,150
Available-for-sale investments	**-**	952,000
Amounts due from customers for contract work	**401,323**	717,105
Restricted bank balances	**1,027,896**	414,369
Bank balances and cash	**260,442**	486,072
	3,514,566	4,530,376
CURRENT LIABILITIES		
Trade and other payables	**2,751,565**	2,488,278
Tax payables	**25,500**	97,513
Borrowings	**1,139,658**	1,041,420
	3,916,723	3,627,211
NET CURRENT (LIABILITIES) ASSETS	**(402,157)**	903,165
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,273,551**	3,048,516
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**4,401**	4,497
Borrowings	**424,355**	557,700
	428,756	562,197
TOTAL ASSETS LESS TOTAL LIABILITIES	**2,844,795**	2,486,319

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

	2016	2015
	RMB'000	RMB'000
Cash flow for the years ended 31 December:		
Net cash (used in) generated from operating activities	**(414,556)**	184,624
Net cash generated from (used in) investing activities	**284,251**	(1,255,171)
Net cash (used in) generated from financing activities	**(114,871)**	188,821
	(245,176)	881,726

(ii) On 15 June 2017, the board of directors of the Company (the "**Board**") received two letters from Mr. Wen Yibo and Changjiang Capital Fund (the "**Potential Offerors**") (collectively, the "**Letters**"), 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 "**Possible Proposal**"). 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.

(iii) During the year ended 31 December 2016, the Group recorded net cash outflow from operating activities of approximately RMB1,274,529,000 (2015: RMB1,804,920,000) and as at 31 December 2016, the Group recorded total borrowings exceeding restricted bank balances and bank balances and cash of approximately RMB2,577,528,000 (2015: RMB2,732,981,000). The Group recorded current and non-current borrowings of approximately RMB1,483,726,000 (2015: RMB2,704,907,000) and RMB2,624,444,000 (2015: RMB1,248,743,000) and restricted bank balances and bank balances and cash of aggregate amount of approximately RMB1,530,642,000 (2015: RMB1,220,669,000) as at 31 December 2016.

The directors of the Company have assessed the latest financial position and operating performance of the Group. The directors of the Company are of the view that the Group is able to meet with its liabilities as and when they fall due in the foreseeable future. The directors believe that the Group is able to repay or extend its existing borrowings upon their maturities, through cash flows from operations and working capital, financial support from the controlling shareholder and continuing support from other financial institutions. Accordingly, the directors of the Company consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “Share-based Payment”, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “Inventories” or value in use in IAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs and the accounting policies are set out below. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKEx (the “**Listing Rules**”), and by the Hong Kong Companies Ordinance and the Singapore Companies Act.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive Income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Income and expenses of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a *pro rata* basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Construction contracts

When the outcome of a construction contract including construction or upgrade services of the infrastructure under a service concession arrangement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable and they have been agreed with the customer.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Construction contracts (continued)

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Service income including that from operating service provided under service concession arrangements is recognised when services are provided. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Interest income

Interest income from a financial asset (excluding financial assets through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, plant and equipment

Property, plant and equipment including land and buildings and leasehold land (classified as finance lease) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as describes below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than properties under construction over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Land and buildings	2% to 3%
Plant and machinery	9% to 33%
Transportation vehicles	18%
Fixtures and equipment	9% to 33%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that day. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service concession arrangements

The Group has entered into service concession arrangements with the various governing bodies or agencies of the PRC government (the "**grantors**") to build and operate waste water treatment plants. Under the concession arrangements, the Group will construct and/or operate the plants for a concession period of between 20 and 30 years and transfer the plants to the grantors at the end of the concession periods. Such concession arrangements fall within the scope of IFRIC 12 "Service Concession Arrangement", and are accounted for as follows:

Financial asset - service concession receivables

The Group recognises a service concession receivable if it has an unconditional contractual right under the service concession arrangements to receive a fixed or determinable amount of payments during the concession period irrespective of the usage of the plants. The service concession receivable is measured on initial recognition at its fair value. Subsequent to initial recognition, the service concession receivable is measured at amortised cost using the effective interest method.

Intangible asset - operating concession

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is recognised at fair value upon initial recognition and is carried at cost less accumulated amortisation and any accumulated impairment losses.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Retirement benefit costs

Payments to the defined contribution retirement benefits scheme under the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before income tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Land use rights

Land use rights are stated at cost and amortised on a straight-line basis over the lease terms. Land use rights which are to be amortised in the next twelve months or less are classified as current assets.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Intangible assets acquired in a business combination (continued)

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment losses of tangible assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses of tangible assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following specified categories, including financial assets at fair value through profit or loss ("**FVTPL**"), available-for-sale financial assets and loans and receivables.

<u>**Effective interest method**</u>

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets are classified as FVTPL when the financial assets are either held for trading or it is those designated at FVTPL on initial recognition.

Financial assets at FVTPL include derivatives not designated nor effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Restricted bank balances

Cash and cash equivalent are classified as restricted bank balances when the assets are restricted from being exchanged or used to settle a liability.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including service concession receivables, trade and other receivables, restricted bank balances and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that are correlated with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as FVTPL.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as FVTPL when the financial liabilities are either held for trading or it is those designated at FVTPL on initial recognition.

Financial liabilities at FVTPL include derivatives not designated nor effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

Other financial liabilities including senior notes, borrowings and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contract

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL, subsequently at the higher of the amount of obligation under the contract recognised as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation in accordance with IAS 18.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to issued capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Related parties transactions

A party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employees are also related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in note (a); or
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties transactions (continued)

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

i. Critical judgements in applying the Group's accounting policies

The management is of the opinion that there is no instance of application of judgement expected to have a significant effect on the amounts recognised in the consolidated financial statements.

ii. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade and other receivables

The Group makes allowances for bad and doubtful debts based on assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed. The carrying amount of trade and other receivables are disclosed in Note 24 to the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

ii. Key sources of estimation uncertainty (continued)

Revenue recognition

The Group recognises contract revenue based on the stage of completion method. The stage of completion is measured in accordance with the accounting policy stated in Note 4. Significant estimation is required in determining the stage of completion, including the extent of the contract cost incurred, the estimated total contract revenue and the estimated total contract cost and the recoverability of the costs. In assessing the estimation, the Group relies on past experience and the work of the project management team. Changes in the estimation of contract revenue or contract costs, or changes in the estimated outcome of a contract could affect the amounts of revenue and expenses recognised in profit or loss in the period in which the changes are made and in subsequent periods. Such impact could potentially be significant.

Accounting for IFRIC 12 Service Concession Arrangements

The Group recognises the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset under public-to-private concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, *inter alia*, fair value of the construction services, expected future wastewater treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates are determined by the Group's management based on their experience and assessment on current and future market condition. Changes in these estimates could impact the amounts of construction revenue and deemed interest income and expenses recognised in profit or loss in the period in which the change is made and in subsequent periods. Such impact could potentially be significant.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating operating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill and details of the recoverable amount calculation are disclosed in Note 20 to the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

ii. Key sources of estimation uncertainty (continued)

Impairment of intangible assets and property, plant and equipment

Determining whether the intangible assets and property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which intangible assets and property, plant and equipment have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the intangible assets and property, plant and equipment at the end of the reporting period is disclosed in Notes 18 and 17 to the consolidated financial statements respectively.

6. 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**").

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. 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.

6. SEGMENT INFORMATION (CONTINUED)

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

Segment revenue and results

	Turnkey projects and services RMB'000	Equipment Fabrications RMB'000	O&M RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December 2016						
Revenue						
External sales	**3,014,535**	**4,812**	**858,452**	**3,877,799**	**-**	**3,877,799**
Inter-segment sales	**-**	**362,941**	**-**	**362,941**	**(362,941)**	**-**
Total revenue	**3,014,535**	**367,753**	**858,452**	**4,240,740**	**(362,941)**	**3,877,799**
Segment results	**429,180**	**(10,012)**	**355,818**	**774,986**	**-**	**774,986**
Unallocated income						**83**
Unallocated other gains and losses, net						**(74,932)**
Unallocated finance costs						**(19,976)**
Unallocated expenses						**(21,215)**
Profit before income tax						**658,946**
For the year ended 31 December 2015						
Revenue						
External sales	3,512,357	41,247	532,154	4,085,758	-	4,085,758
Inter-segment sales	-	263,106	-	263,106	(263,106)	-
Total revenue	3,512,357	304,353	532,154	4,348,864	(263,106)	4,085,758
Segment results	731,138	14,545	256,280	1,001,963	-	1,001,963
Unallocated income						7
Unallocated other gains and losses, net						(146,146)
Unallocated finance costs						(180,937)
Unallocated expenses						(34,953)
Profit before income tax						639,934

Inter-segment sales are charged at prices agreed between the group entities and are eliminated on consolidation.

6. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

Segment assets represent property, plant and equipment, land use rights, intangible assets, goodwill, service concession receivables, deferred tax assets, available-for-sale investments, inventories, trade and other receivables, amounts due from customers for contract work, restricted bank balances and bank balances and cash, which are attributable to each operating segment. Segment liabilities represent trade and other payables, tax payables, borrowings, amounts due to customers for contract work and deferred tax liabilities except for those arisen from undistributed profits of the PRC subsidiaries, which are attributable to each operating segment. In the internal reports regularly reviewed by the CODM, tax payables and deferred tax assets/liabilities are allocated to each segment, if applicable, without allocating the related income tax expenses to relevant segment results.

	Turnkey projects and services RMB'000	Equipment Fabrications RMB'000	O&M RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December 2016						
Segment assets	**9,783,494**	**903,384**	**11,319,031**	**22,005,909**	**(9,393,075)**	**12,612,834**
Unallocated corporate assets (note i)						**1,307,573**
Consolidated assets						**13,920,407**
Segment liabilities	**8,953,826**	**565,809**	**8,038,526**	**17,558,161**	**(9,393,075)**	**8,165,086**
Deferred tax liabilities						**63,625**
Unallocated corporate liabilities (note ii)						**272,033**
Consolidated liabilities						**8,500,744**
At 31 December 2015						
Segment assets	8,010,402	651,000	7,772,912	16,434,314	(6,940,430)	9,493,884
Unallocated corporate assets (note i)						2,567,193
Consolidated assets						12,061,077
Segment liabilities	6,201,637	309,546	4,513,681	11,024,864	(6,940,430)	4,084,434
Deferred tax liabilities						63,625
Unallocated corporate liabilities (note ii)						3,152,638
Consolidated liabilities						7,300,697

notes:

i Unallocated corporate assets mainly represent bank balances and cash, other receivables and equipment at the corporate and investment holding companies' levels.

ii Unallocated corporate liabilities mainly represent borrowings, senior notes, derivative financial instruments, obligation under finance lease and other payables at the corporate and investment holding companies' levels.

6. SEGMENT INFORMATION (CONTINUED)

Other information

	Turnkey projects and services RMB'000	Equipment Fabrications RMB'000	O&M RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended 31 December 2016					
Additions to non-current assets excluding financial instruments and deferred tax assets	**5,490**	**57,086**	**455,065**	**26**	**517,667**
Depreciation and amortisation	**2,854**	**2,885**	**11,265**	**122**	**17,126**
Interest income	**(7,904)**	**(32)**	**(278)**	**(13)**	**(8,227)**
Loss on disposal of property, plant and equipment	**1,701**	**-**	**10**	**-**	**1,711**
Finance costs	**75,769**	**3,623**	**51,145**	**19,976**	**150,513**
For the year ended 31 December 2015					
Additions to non-current assets excluding financial instruments and deferred tax assets	2,319	968	9,740	155	13,182
Depreciation and amortisation	2,149	2,132	8,051	56	12,388
Interest income	(32,386)	(121)	(207)	(3)	(32,717)
Loss (gain) on disposal of property, plant and equipment	102	1,122	402	(42)	1,584
Finance costs	78,022	5,167	11,832	180,938	275,959

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's operations are located in the PRC, the People's Republic of Bangladesh ("**Bangladesh**"), Kingdom of Saudi Arabia ("**Saudi Arabia**") and Singapore. The Group's revenue from external customers is presented based on the location of the operations of customers. Information about the Group's non-current assets other than financial instruments and deferred tax assets is presented based on the geographical location of the assets.

	2016	2015
	RMB'000	RMB'000
Revenue from external customers		
The PRC	**3,847,462**	3,966,064
Bangladesh	**29,038**	117,821
Saudi Arabia	**-**	1,873
Singapore	**1,299**	-
	3,877,799	4,085,758
Non-current assets		
The PRC	**687,426**	230,309

No revenue from a single external customer amounted to 10% or more of the Group's total revenue for the year ended 31 December 2016 (2015: Nil).

7. REVENUE

	2016	2015
	RMB'000	RMB'000
Revenue from engineering, procurement and construction contracts (note (i))		
- Design service	**51,307**	57,666
- Sale of equipment	**642,787**	487,401
- Turnkey services	**2,335,781**	2,949,920
	3,029,875	3,494,987
Revenue from sale of goods	**4,812**	41,247
Operating and maintenance income	**494,721**	371,528
Design service	**4,420**	17,370
Imputed interest income on service concession receivables	**343,971**	160,626
	3,877,799	4,085,758

7. REVENUE (CONTINUED)

Note:

(i) Further breakdown of revenue from engineering, procurement and construction contracts:

	2016	2015
	RMB'000	RMB'000
From contracts with external customers	**758,263**	1,200,385
From service concession arrangements of the Group	**2,271,612**	2,294,602
	3,029,875	3,494,987

8. OTHER INCOME

	2016	2015
	RMB'000	RMB'000
Government grants	**56,210**	15,104
Interest income	**8,227**	32,717
Investment income on debt investments	**23,539**	-
Sundry income	**2,939**	418
	90,915	48,239

Government grants were mainly granted to the Group as subsidies to support the operations of the PRC subsidiaries. The government grants had no conditions or contingencies attached to them and they were non-recurring in nature.

9. OTHER GAINS AND LOSSES, NET

	2016	2015
	RMB'000	RMB'000
Allowance for doubtful debts	**36,597**	37,492
Allowance for doubtful debts written back	**(18,305)**	(24,862)
Write-down of inventories	**-**	3,868
Change in fair value of redemption option embedded in senior notes	**-**	15,321
Change in fair value of a swap contract	**2,246**	8,286
Change in fair value of foreign currency forward contracts	**-**	2,716
Loss on disposal of property, plant and equipment	**1,711**	1,584
Loss on early redemption of senior notes	**-**	56,501
Gain on bargain purchase of subsidiaries	**-**	(23,209)
Impairment losses recognised in respect of goodwill	**41,395**	-
Impairment losses recognised in respect of service concession receivables	**61,286**	-
Impairment loss recognised in respect of investment in subsidiaries	**30,000**	-
Net foreign exchange loss	**36,145**	78,067
Others	**2,146**	241
	193,221	156,005

10. FINANCE COSTS

	2016	2015
	RMB'000	RMB'000
Interest expenses on borrowings		
- wholly repayable within five years	**103,920**	114,808
- not wholly repayable within five years	**26,569**	32,364
Interest expenses on finance lease	**20,024**	38
Interest expenses on senior notes	**-**	128,749
	150,513	275,959

11. INCOME TAX EXPENSES

	2016	2015
	RMB'000	RMB'000
The charge comprises:		
Current tax		
- PRC income tax	**84,861**	133,978
Over provision in prior years		
- PRC income tax	**(11,306)**	-
Deferred tax (Note 22)	**86,943**	46,662
	160,498	180,640

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 the years ended 31 December 2015 and 2016, the tax rate was 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% (2015: 25%).

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.

For the year ended 2015 and 2016, certain PRC subsidiaries of the Company enjoyed preferential income tax rates at 12.5%, 15% or tax exemption as follows:

	2016	2015
	%	%
Beijing Sound (note i)	**15**	15
Beijing Epure International Water Co., Ltd ("**Beijing Epure**") (note ii)	**15**	15
Beijing Hi-Standard Water Treatment Equipment Co., Ltd ("**Hi-Standard Equipment**") (note iii)	**15**	15
Guangxi Sound Water Co., Ltd ("**Guangxi Sound**") (note iv)	**25**	12.5
Hainan Sound Water Co., Ltd ("**Hainan Sound**") (note iv)	**25**	12.5
Taizhou Sound Wastewater Co., Ltd ("**Taizhou Sound**") (note iv)	**12.5**	12.5
Xi'an Chang'an Sound Water Co., Ltd ("**Xi'an Chang'an Sound**") (note iv)	**12.5**	12.5
Xi'an Hu County Sound Water Co., Ltd ("**Xi'an Hu County Sound**") (note iv)	**25**	12.5
Hancheng City Sound Water Co., Ltd ("**Hancheng Sound**") (note iv)	**12.5**	12.5
Shangluo Sound Water Co., Ltd ("**Shangluo Sound**") (note iv)	**12.5**	12.5
Tongliao Sound (note iv)	**12.5**	12.5
Yulin City Jingzhou Water Co., Ltd ("**Yulin Jingzhou**") (note iv)	**12.5**	12.5
Anyang Zongcun Sound (note iv)	**12.5**	12.5
Xi'an Trade & Logistics Park Sound Water Co., Ltd ("**Xi'an Trade & Logistics Park Sound**") (note iv)	**12.5**	12.5
Daye Honglian Water Co. Ltd ("**Daye Honglian**") (note iv)	**25**	Exempted

11. INCOME TAX EXPENSES (CONTINUED)

For the year ended 2015 and 2016, certain PRC subsidiaries of the Company enjoyed preferential income tax rates at 12.5%, 15% or tax exemption as follows:

	2016	2015
	%	%
Jiangyan Qinlong Water Co., Ltd ("**Jiangyan Qinlong**") (note iv)	**Exempted**	Exempted
Anshan Qingchang Water Co., Ltd ("**Anshan Qingchang**") (note iv)	**Exempted**	Exempted
Anshan Qinglang Water Co., Ltd ("**Anshan Qinglang**") (note iv)	**Exempted**	Exempted
Anshan Tianqing Water Co., Ltd ("**Anshan Tianqing**") (note iv)	**Exempted**	Exempted
Anyang Taiyuan Water Co., Ltd ("**Anyang Taiyuan**") (note iv)	**Exempted**	Exempted
Changsha Sound Water Co., Ltd ("**Changsha Sound**") (note iv)	**25**	Exempted
Fushun Sound Water Co., Ltd ("**Fushun Sound**") (note iv)	**Exempted**	Exempted
Hailun Sound Water Co., Ltd ("**Hailun Sound**") (note iv)	**Exempted**	Exempted
Hongze Zeqing Water Co., Ltd ("**Hongze Zeqing**") (note iv)	**Exempted**	Exempted
Sound Hanzhong Yang County Water Co., Ltd ("**Hanzhong Yang County**") (note iv)	**Exempted**	Exempted
Yantai Bihai Water Co., Ltd ("**Yantai Bihai**") (note iv)	**12.5**	Exempted
Beijing Jingyushi Water Co., Ltd ("**Jingyushi**") (note iv)	**Exempted**	Exempted
Beijing Jingyuyang Water Co., Ltd ("**Jingyuyang**") (note iv)	**Exempted**	Exempted
Changbaishan Protection and Development Zone Sound Water Co., Ltd ("**Changbaishan Sound**") (note iv)	**Exempted**	Exempted
Helong Sound Water Co., Ltd ("**Helong Sound**") (note iv)	**25**	Exempted
Hongze Sound Water Co., Ltd ("**Hongze Sound**") (note iv)	**Exempted**	Exempted
Tongzi Sound Water Co., Ltd ("**Tongzi Sound**") (note iv)	**Exempted**	Exempted
Advanced Water (Pengxi) Co., Ltd ("**Advanced (Pengxi)**") (note v)	**15**	15

(i) Beijing Sound is a sino-foreign joint cooperative company located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC.

According to the EIT Law and Circular of State Administration of Taxation on Issues Concerning Implementation of Preferential Income Tax Enjoyed by High-and-new-tech Enterprises (Guo Shui Han 2009 No. 203), high-and-new-tech enterprises are levied enterprise income tax at 15%. Beijing Sound was entitled to enjoy a preferential tax rate at 15% from 2008 to 2016 and as it has successfully applied as a high-and-new-tech enterprise in 2014 for a period from 2014 to 2016.

(ii) Beijing Epure is a foreign investment enterprise located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC.

In accordance with the Interim Measures of Beijing New Tech Industry Development Test Zone approved by the State Council on May 10, 1988 and promulgated by the People's Government of Beijing on May 20, 1988, the newly established new tech enterprise within test zone shall be entitled to an exemption from income tax for the three years commencing from its establishment, and thereafter, entitled to a 50% relief of income tax for the next three years subject to the approval from the relevant authority. As a company established in a test zone, Beijing Epure was exempted from income tax for each of the years ended 31 December 2007, 2008 and 2009, and is subject to income tax at 7.5% for each of the years ended 31 December 2010, 2011 and 2012. According to Guo Shui Han 2009 No. 203, Beijing Epure was entitled to enjoy a preferential tax rate at 15% for current year as it has successfully applied as a high-and-new-tech enterprise in 2014 for a period from 2014 to 2016.

11. INCOME TAX EXPENSES (CONTINUED)

notes: (continued)

(iii) Hi-Standard Equipment is a PRC limited liability company located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC.

According to Guo Shui Han 2009 No. 203, Hi-Standard Equipment was entitled to enjoy a preferential tax rate of 15% for an effective period from 2011 to 2016 and as it has successfully applied as a high-and-new-tech enterprise in 2014 for a period from 2014 to 2016.

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

Guangxi Sound, Hainan Sound, Taizhou Sound, Xi'an Chang'an Sound and Xi'an Hu County Sound have obtained the approval and are entitled to exempt from enterprise income tax in 2010, 2011 and 2012 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

Hancheng Sound, Shangluo Sound, Tongliao Sound, and Yulin Jingzhou have obtained the approval and are entitled to exempt from enterprise income tax in 2011, 2012 and 2013 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

Anyang Zongcun Sound and Xi'an Trade & Logistics Park Sound have obtained the approval and are entitled to exempt from enterprise income tax in 2012, 2013 and 2014 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

Daye Honglian and Jiangyan Qinlong have obtained the approval and are entitled to exempt from enterprise income tax in 2013, 2014 and 2015 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

Anshan Qingchang, Anshan Qinglang, Anshan Tianqing, Anyang Taiyuan, Changsha Sound, Fushun Sound, Hailun Sound, Hongze Zeqing, Hanzhong Yang County and Yantai Bihai have obtained the approval and are entitled to exempt from enterprise income tax in 2014, 2015 and 2016 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

Jingyushi, Jingyuyang, Changbaishan Sound, Helong Sound, Hongze Sound and Tongzi Sound have obtained the approval and are entitled to exempt from enterprise income tax in 2015, 2016 and 2017 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

11. INCOME TAX EXPENSES (CONTINUED)

notes: (continued)

(v) Advanced (Pengxi) is a foreign investment enterprise located in Pengxi County, Suining City, Sichuan, the PRC.

According to the EIT Law, Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Tax Policy Issues Concerning Further Implementing the Western China Development Strategy (No. 58 2011 of the Ministry of Finance), and Announcement of the State Administration of Taxation on Issues Concerning Enterprise Income Tax Related with Enhancing the Western Region Development Strategy, enterprise's main business belongs to the scope of "Catalogue of Encouraged Industries in Western Regions" are levied enterprise income tax at 15%. Advanced (Pengxi) was entitled to enjoy a preferential tax rate at 15% from 2011 to 2020.

The income tax expenses can be reconciled to the profit before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	2015
	RMB'000	RMB'000
Profit before income tax	**658,946**	639,934
Tax at the applicable income tax rate of respective tax jurisdictions	**166,438**	193,701
Tax effect of expenses not deductible for tax purpose	**113,989**	58,862
Tax effect of income not taxable for tax purpose	**(74,742)**	(15,954)
Effect of taxable profits taxed at preferential tax rates or subjected to tax exemption	**(76,773)**	(120,887)
Tax effect of unrecognised deductible temporary differences	**24,687**	460
Tax effect of tax losses not recognised	**19,345**	58,988
Utilisation of tax losses previously not recognised	**(1,140)**	(5,530)
Deferred tax liabilities arising on undistributed profits in the PRC subsidiaries from 1 January 2008 onwards	**-**	11,000
Over provision of current tax in prior years	**(11,306)**	-
Income tax expense	**160,498**	180,640

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2016 RMB'000	2015 RMB'000
Amortisation of intangible assets	**3,296**	3,296
Amortisation of land use rights	**1,157**	1,158
Auditors' remuneration		
Audit services	**2,453**	4,186
Non-audit services	**70**	2,422
Cost of inventories recognised as expenses	**298,218**	283,339
Depreciation for property, plant and equipment	**12,673**	7,934
Staff costs		
Directors' remuneration (Note 13)	**2,904**	2,623
Other staff costs		
Salaries and other benefits	**182,415**	146,107
Contributions to defined contribution plans	**24,109**	23,390
Total staff costs	**209,428**	172,120

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the emoluments paid to the directors and the chief executive of the Company for the year are as follows:

	2016 RMB'000	2015 RMB'000
Directors' fees	**360**	420
Directors' emoluments:		
- Salaries and other benefits	**1,948**	1,936
- Bonus	**352**	24
- Contributions to defined contribution plans	**244**	243
	2,544	2,203
Total	**2,904**	2,623

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	Directors' fee RMB'000	Salaries and other benefit RMB'000	Bonus RMB'000	Contributions to defined contribution plans RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended 31 December 2016						
Executive directors:						
WEN Yibo	**-**	**481**	**-**	**48**	**-**	**529**
ZHANG Jingzhi (note i)	**-**	**277**	**-**	**27**	**-**	**304**
JIANG Anping (note ii)	**-**	**154**	**70**	**27**	**-**	**251**
LUO Liyang	**-**	**265**	**282**	**48**	**-**	**595**
LIU Wei (note iv)	**-**	**543**	**-**	**61**	**-**	**604**
ZHOU Hao (note xi)	**-**	**132**	**-**	**15**	**-**	**147**
LIU Xiqiang (note xii)	**-**	**96**	**-**	**18**	**-**	**114**
Independent non-executive directors:						
MA Yuanju (note v)	**120**	**-**	**-**	**-**	**-**	**120**
ZHANG Shuting (note vi)	**120**	**-**	**-**	**-**	**-**	**120**
LUO Jianhua (note vii)	**120**	**-**	**-**	**-**	**-**	**120**
	360	**1,948**	**352**	**244**	**-**	**2,904**

	Directors' fee RMB'000	Salaries and other benefit RMB'000	Bonus RMB'000	Contributions to defined contribution plans RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended 31 December 2015						
Executive directors:						
WEN Yibo	-	465	-	44	-	509
ZHANG Jingzhi (note i)	-	396	-	44	-	440
JIANG Anping (note ii)	-	249	-	44	-	293
LUO Liyang	-	248	-	44	-	292
WANG Kai (note iii)	-	293	-	44	-	337
LIU Wei (note iv)	-	285	24	23	-	332
Independent non-executive directors:						
MA Yuanju (note v)	83	-	-	-	-	83
ZHANG Shuting (note vi)	57	-	-	-	-	57
LUO Jianhua (note vii)	50	-	-	-	-	50
WONG See Meng (note viii)	75	-	-	-	-	75
FU Tao (note ix)	30	-	-	-	-	30
SEOW Han Chiang Winston (note x)	125	-	-	-	-	125
	420	1,936	24	243	-	2,623

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

notes:

(i) Mr. Zhang Jingzhi resigned as an executive director and chief executive officer of the Company on 12 August 2016.
(ii) Mr. Jiang Anping resigned as an executive director of the Company on 12 August 2016.
(iii) Mr. Wang Kai ("**Mr. Wang**") was resigned as an executive director and removed as chief financial officer of the Company on 18 December 2015.
(iv) Mr. Liu Wei was appointed as an executive director of the Company on 30 July 2015 and resigned as an executive director of the Company on 26 July 2017.
(v) Mr. Ma Yuanju was appointed as an independent non-executive director of the Company on 20 April 2015.
(vi) Mr. Zhang Shuting was appointed as an independent non-executive director of the Company on 9 July 2015.
(vii) Mr. Luo Jianhua was appointed as an independent non-executive director of the Company on 31 July 2015.
(viii) Mr. Wong See Meng resigned as an independent non-executive director of the Company on 26 March 2015.
(ix) Mr. Fu Tao resigned as an independent non-executive director of the Company on 6 July 2015.
(x) Mr. Seow Han Chiang Winston resigned as an independent non-executive director of the Company on 31 July 2015.
(xi) Mr. Zhou Hao was appointed as an executive director of the Company on 12 August 2016.
(xii) Mr. Liu Xiqiang was appointed as an executive director of the Company on 12 August 2016.

Mr. Wen Yibo is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

None of the directors of the Company has waived any emoluments during the years ended 31 December 2015 and 2016.

The bonus is determined based on evaluation of each individual annually, which is approved by remuneration committee.

Details of material interests of the directors of the Company in transactions, arrangements or contracts entered into by subsidiaries of the Company are disclosed in the Directors' Statement of this annual report.

14. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included one (2015: two) directors for the year ended 31 December 2016. The emoluments of the directors are included in the disclosure in Note 13 above. The emoluments of the remaining four (2015: three) highest paid individuals are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries and other benefits	**3,179**	1,550
Bonus (note)	**403**	345
Contributions to defined contribution plans	**237**	173
	3,819	2,068

14. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

note:

The performance related bonus is determined based on evaluation of each individual annually.

No emoluments were paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

Their emoluments were within the following band:

	Number of individuals	
	2016	2015
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**-**	-
HK$1,500,001 to HK$2,000,000	**1**	-

15. DIVIDENDS

No dividend has been proposed by the Board in respect of the year ended 31 December 2016 and 2015.

16. EARNINGS PER SHARE

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

	2016	2015
	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share	**484,842**	455,425

	2016	2015
	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,506,205**	1,506,047

Diluted earnings per share for the years ended 31 December 2016 and 2015 were the same as the basic earnings per share as the Company's outstanding share options granted have anti-dilutive effects.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Transportation vehicles RMB'000	Fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2015	44,973	9,225	14,377	14,191	-	82,766
Additions	354	168	7,486	4,240	934	13,182
Acquisitions of subsidiaries (Note 37)	17,087	12,957	562	356	5,311	36,273
Transfer	33	2,803	-	179	(3,015)	-
Disposal	-	(5,626)	(640)	(1,286)	-	(7,552)
Exchange alignment	-	68	50	33	-	151
At 31 December 2015	62,447	19,595	21,835	17,713	3,230	124,820
Additions	1,042	4,875	5,501	23,348	63,785	98,551
Transfer	38	2,694	-	29	(2,761)	-
Disposal	(3,719)	(119)	(595)	(536)	-	(4,969)
Exchange alignment	-	88	65	44	-	197
At 31 December 2016	59,808	27,133	26,806	40,598	64,254	218,599
ACCUMULATED DEPRECIATION						
At 1 January 2015	12,939	5,155	5,035	7,568	-	30,697
Charge for the year	1,451	1,289	2,562	2,632	-	7,934
Disposal	-	(3,631)	(547)	(1,174)	-	(5,352)
Exchange alignment	-	68	50	33	-	151
At 31 December 2015	14,390	2,881	7,100	9,059	-	33,430
Charge for the year	2,641	1,854	3,693	4,485	-	12,673
Disposal	(2,067)	(18)	(536)	(319)	-	(2,940)
Exchange alignment	-	88	65	44	-	197
At 31 December 2016	14,964	4,805	10,322	13,269	-	43,360
CARRYING AMOUNT						
At 31 December 2016	**44,844**	**22,328**	**16,484**	**27,329**	**64,254**	**175,239**
At 31 December 2015	48,057	16,714	14,735	8,654	3,230	91,390

At 31 December 2016, the Group has pledged land and buildings and buildings under construction in progress with carrying amount of approximately RMB25,576,000 and RMB56,526,000 (2015: RMB26,627,000 and Nil) respectively to secure general banking facilities granted to the Group.

18. INTANGIBLE ASSETS

	Patents RMB'000	Operating concessions RMB'000	Total RMB'000
COST			
At 1 January 2015 and 31 December 2015	67,199	77,579	144,778
Addition	-	419,116	419,116
Release on retirement	(67,199)	-	(67,199)
At 31 December 2016	-	496,695	496,695
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2015	67,199	16,421	83,620
Amortisation for the year	-	3,296	3,296
At 31 December 2015	67,199	19,717	86,916
Amortisation for the year	-	3,296	3,296
Release on retirement	(67,199)	-	(67,199)
At 31 December 2016	-	23,013	23,013
CARRYING AMOUNTS			
At 31 December 2016	**-**	**473,682**	**473,682**
At 31 December 2015	-	57,862	57,862

The patents represented 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. All the patents were expired during the year 2016.

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. As at 31 December 2016, operating concessions with cost and carrying amount of approximately RMB419,116,000 (2015: Nil) have not yet commenced use as the plants to which the operating concessions relate were still under construction and were subsequently completed construction in 2017.

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 21.

The operating concessions will be tested for impairment whenever there is an indication that it may be impaired.

At 31 December 2016, the directors of the Company have assessed the recoverable amount of intangible assets by reference to valuation report issued by Peak Vision Appraisals Limited, a firm of independent qualified professional valuers, which valued the operating concession using the value-in-use calculation and determined that no intangible assets associated with it was impaired for the year ended 31 December 2016 (2015: Nil).

At 31 December 2016, the Group has pledged operating concessions with carrying amount of approximately RMB175,172,000 (2015: Nil) to secure general banking facilities granted to the Group.

19. LAND USE RIGHTS

	RMB'000
COST	
At 1 January 2015, 31 December 2015 and 31 December 2016	49,921
ACCUMULATED AMORTISATION	
At 1 January 2015	7,943
Charge for the year	1,158
At 31 December 2015	9,101
Charge for the year	1,157
At 31 December 2016	10,258
CARRYING AMOUNTS	
At 31 December 2016	**39,663**
At 31 December 2015	40,820

	2016	2015
	RMB'000	RMB'000
Analysed for reporting purpose as:		
- Current asset	**1,158**	1,158
- Non-current asset	**38,505**	39,662
	39,663	40,820

The amount represents the prepayment of rentals for land use rights situated in the PRC. The leasehold lands have lease terms ranging from 43 to 47 years.

At 31 December 2016, the Group pledged land use rights with carrying amount of approximately RMB2,012,000 (2015: RMB2,075,000) to secure general banking facilities granted to the Group.

20. GOODWILL

	RMB'000
COST	
At 1 January 2015, 31 December 2015 and 31 December 2016	41,395
ACCUMULATED IMPAIRMENT	
At 1 January 2015, 31 December 2015 and 1 January 2016	-
Impairment for the year	41,395
At 31 December 2016	41,395
NET BOOK VALUE	
At 31 December 2016	-
At 31 December 2015	41,395

Goodwill has been allocated to the cash-generating unit of Hi-Standard Equipment in manufacturing and sales of wastewater treatment equipment business, which comprised the Equipment Fabrications operating segment.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the cash-generating unit is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and expected order book secured and direct costs during the forecasted period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash-generating unit. Order book secured and direct costs are estimated based on past practices and expectations of future changes in the market.

The value in use calculation uses cash flow forecasts derived from the most recent financial forecasts approved by the management for the next five years, and the pre-tax discount rate of 14.19% (2015: 12.77%) at 31 December 2016. Cash flows beyond that five-year period have been extrapolated using a steady growth rate of the relevant industry. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

During the year ended 31 December 2016, based on the business valuation report issued by Peak Vision Appraisals Limited of Hi-Standard Equipment cash-generating unit, the cash generating unit has been reduced to its recoverbale amount of approximately RMB287,449,000. The recoverable amount was lower than its carrying amount in which the goodwill was allocated, hence impairment loss on goodwill of approximately RMB41,395,000 (2015: nil) was recognised. The impairment loss arose because of the significant reduction in sales of equipment to external customers of the Equipment Fabrications operating segment during the current financial year ended 31 December 2016 as a result of management's decision for the segment to increasingly focus on supporting the other operating segments of the Group by supplying them with the equipment required for their operations.

21. SERVICE CONCESSION RECEIVABLES

	2016 RMB'000	2015 RMB'000
Service concession receivables	**7,607,755**	5,608,467
Less: Amounts due within one year shown under current assets (Note 24)	**(361,894)**	(298,521)
Service concession receivables due after one year	**7,245,861**	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. As explained in the accounting policy for "Service concession arrangements" set out in Note 4, consideration given by the grantor for a service concession arrangement is accounted for as an intangible asset (operating concessions) or a financial asset (service concession receivables) or a combination of both, as appropriate. The intangible asset component is detailed in Note 18, and the financial asset component is as above.

As at 31 December 2016, the Group has 91 (2015: 88) BOT projects in progress, among which 47 (2015: 35) BOT projects were in the operation stage as at 31 December 2016. 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. During the year ended 31 December 2016, the Group recognised construction revenue of approximately RMB2,271,612,000 (2015: RMB2,294,602,000) and construction profit of RMB472,352,000 (2015: RMB645,671,000) in connection with BOT projects under construction.

At 31 December 2016, certain BOT projects' charging rights under the service concession contracts of the Group with an aggregate carrying amount of approximately RMB3,216,243,000 (2015: RMB2,561,794,000) were pledged to secure certain bank borrowings granted to the Group (Note 29(i)).

The Group's obligation under finance lease is secured by the lessors' title to the leased assets classified as service concession receivables, which have a carrying amount of approximately RMB82,662,000 (2015: RMB156,270,000) at 31 December 2016 (Note 33).

22. DEFERRED TAXATION

The deferred tax assets (liabilities) recognised by the Group, and the movements thereon are as follows:

	Allowance for doubtful debts	Undistributed profits of the PRC subsidiaries	Fair value adjustment arising from acquisitions of subsidiaries	Service concession receivables	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	7,557	(52,625)	(25,019)	(84,938)	173	(154,852)
Credit (charge) to profit or loss	3,158	(11,000)	513	(39,333)	-	(46,662)
Acquired on acquisitions of subsidiaries (Note 35)	-	-	5,144	-	-	5,144
At 31 December 2015	10,715	(63,625)	(19,362)	(124,271)	173	(196,370)
(Charge) credit to profit or loss	(1,046)	-	96	(85,993)	-	(86,943)
At 31 December 2016	**9,669**	**(63,625)**	**(19,266)**	**(210,264)**	**173**	**(283,313)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016	2015
	RMB'000	RMB'000
Deferred tax assets	**9,842**	10,888
Deferred tax liabilities	**(293,155)**	(207,258)
	(283,313)	(196,370)

22. DEFERRED TAXATION (CONTINUED)

At 31 December 2016, the Group has unused tax losses of approximately RMB407,146,000 (2015: RMB449,944,000) available for offset against future profits. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams. The tax losses of approximately RMB357,346,000 (2015: RMB364,882,000) at 31 December 2016 has no expiry date and the remainder will be expired as follows:

	2016	2015
	RMB'000	RMB'000
2016	**-**	11,715
2017	**1,222**	5,695
2018	**6,391**	15,117
2019	**4,913**	47,299
2020	**7,174**	5,236
2021	**30,100**	-
	49,800	85,062

Under the EIT Law, withholding tax is imposed at 5% on dividends declared to foreign investors in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Accordingly, deferred taxation has been provided for in the consolidated financial statements in respect of profits of relevant PRC subsidiaries to be distributed estimated by the directors of the Company. Meanwhile, deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB3,699,101,000 (2015: RMB3,351,050,000) which was earned after 1 January 2008, have not been recognised at 31 December 2016, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

23. INVENTORIES

	2016	2015
	RMB'000	RMB'000
Raw materials	**30,231**	40,499
Work in progress	**145,202**	2,746
Finished goods	**28,894**	54,582
	204,327	97,827

24. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of the reporting period:

	2016	2015
	RMB'000	RMB'000
Trade receivables	**1,466,925**	1,627,886
Allowance for doubtful debts	**(77,672)**	(59,380)
	1,389,253	1,568,506
Bills receivable	**14,226**	13,100
Advance payments to suppliers and subcontractors	**335,893**	192,967
Bid and compliance deposits	**88,355**	251,696
Other receivables	**211,616**	399,620
Service concession receivables (Note 21)	**361,894**	298,521
Total	**2,401,237**	2,724,410

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.

	2016	2015
	RMB'000	RMB'000
Trade receivables:		
Within 90 days	**174,599**	510,070
91 to 180 days	**96,561**	226,720
181 days to 1 year	**283,943**	178,623
1 to 2 years	**463,325**	580,152
2 to 3 years	**352,535**	54,672
More than 3 years	**18,290**	18,269
	1,389,253	1,568,506
Bills receivable:		
Within 180 days	**14,226**	13,100

The Group has a policy of awarding trade customers with credit of generally within 90 (2015: 90) days. In respect of construction projects, billings and settlements are made in accordance with the terms specified in the contracts governing the relevant transactions and retention monies are billed after the end of the retention period specified in the contracts. Overdue balances are reviewed regularly by the Group's management.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB929,400,000 (2015: RMB341,509,000) at 31 December 2016 which were overdue, for which the Group has not made allowance for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging of trade receivables past due but not impaired:

	2016 RMB'000	2015 RMB'000
181 days to 1 year	**255,011**	40,340
1 to 2 years	**326,855**	263,397
2 to 3 years	**329,871**	19,503
More than 3 years	**17,663**	18,269
	929,400	341,509

Movement in allowance for doubtful debts:

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	**59,380**	46,181
Acquired on acquisitions of subsidiaries (Note 35)	**-**	569
Charge to profit or loss	**36,597**	37,492
Written back to profit or loss	**(18,305)**	(24,862)
Balance at end of the year	**77,672**	59,380

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the end of the reporting period. The above allowance was mainly provided for based on estimated irrecoverable amounts arising from construction contracts, determined by reference to past default experience. The Group reviews the recoverable amount of each individually significant debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

Management considers that the trade and other receivables that are neither past due nor impaired are with creditworthy counterparties.

At 31 December 2016, trade receivables with carrying amount of approximately RMB110,379,000 (2015: RMB Nil) have been pledged as collateral for the obligation under finance lease of approximately RMB895,331,000 (2015: Nil).

As of the date of the approval of the consolidated financial statements, (i) trade receivables with principal amounts of approximately RMB225,362,000, RMB269,064,000, RMB420,260,000 and RMB107,053,000 which were recognised by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015 and 2016 respectively were still outstanding and remained unsettled; and (ii) in respect of all other receivables (other than trade receivables), with amounts of approximately RMB57,645,000, RMB117,662,000, RMB209,131,000 and RMB158,930,000 which were recognised by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015 and 2016 respectively were still outstanding and remained unsettled.

25. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	RMB'000	RMB'000
Debt investments	**42,800**	952,000

The amount represents RMB denominated debt investments placed by the Group in the licensed commercial bank in the PRC, which without a fixed or determinable repayment at the maturity.

The debt investments are classified as available-for-sale investments and stated at fair value, which approximated cost at the end of the reporting period. The directors of the Company consider that the costs of the debt investments were approximate to their fair values because the deposits were relatively low risk investments carrying low expected rates of return of 2.20% to 2.25% (2015: 2.50%) per annum and were subsequently realised in 2017.

26. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2016	2015
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**5,371,732**	6,312,971
Less: Progress billings	**(3,580,492)**	(4,799,184)
	1,791,240	1,513,787
Contract work in progress at the end of the reporting period:		
Amounts due from customers for contract work	**1,797,114**	1,513,870
Amounts due to customers for contract work	**(5,874)**	(83)
	1,791,240	1,513,787

The amounts due from (to) customers for contract work are all related to construction contracts in turnkey projects.

At 31 December 2016, retentions held by customers for contract works amounted to approximately RMB230,729,000 (2015: RMB185,699,000).

As of the date of the approval of the consolidated financial statements, amounts due from customers for contract work with amounts of approximately RMB292,449,000, RMB384,367,000, RMB93,371,000 and RMB303,681,000 which were recognised by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015 and 2016 respectively were still outstanding and no progress billings had been issued.

27. BANK BALANCES AND CASH

Bank balances and cash comprise cash with an original maturity of three months or less which are held with banks and carry interest at prevailing market rate is from 0.0001% to 0.385% (2015: 0.001% to 0.30%) per annum at 31 December 2016.

Bank balances and cash were mainly denominated in RMB which is not a fully convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Bank balances and cash of the Group and the Company represent cash and cash equivalents of the Group and the Company.

Bank balances and cash that are denominated in currency other than the functional currency are set out below:

	2016	2015
	RMB'000	RMB'000
Australian Dollar ("**AUD**")	**-**	1,078
Bangladeshi Taka ("**BDT**")	**11,827**	2,250
Euro ("**EUR**")	**22**	-
Hong Kong Dollar ("**HKD**")	**579**	424
Japanese Yen ("**JPY**")	**23,654**	4,803
Saudi Riyal ("**SAR**")	**4,807**	875
Singapore Dollar ("**S$**")	**1,213**	7,012
United States Dollar ("**US$**")	**54,560**	177,346

Restricted bank balances

Restricted bank balances are analysed based on the facilities or agreements that gave rise to the restrictions, as follows:

	2016	2015
	RMB'000	RMB'000
Bills payables and banking facilities	**1,017,424**	430,226
Construction contracts	**40,167**	9,596
Merchandise agreements	**1,176**	10,228
Salaries payables	**900**	900
	1,059,667	450,950

The restricted bank balances bear prevailing interest rate is 0.35%-3.00% (2015: 0.35%-0.39%) per annum at 31 December 2016. The restricted bank balances will be released upon the completion of relevant contracts or maturity and settlement of related liabilities which are due within current operating cycle or within one year and are therefore classified as current assets.

27. BANK BALANCES AND CASH (CONTINUED)

Restricted bank balances (continued)

The restricted bank balances that are denominated in currency other than the functional currency are set out below:

	2016 RMB'000	2015 RMB'000
JPY	-	10,228
SAR	31,771	-
S$	-	20,641
US$	-	15,940

28. 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 at the end of each reporting period:

	2016 RMB'000	2015 RMB'000
Trade payables:		
Within 90 days	930,250	778,432
91 days to 180 days	260,735	320,590
181 days to 1 year	541,501	474,867
1 to 2 years	402,533	225,854
2 to 3 years	58,650	156,769
More than 3 years	103,493	75,780
	2,297,162	2,032,292
Bills payable within 180 days	158,050	153,190
Advance from customers	66,491	39,521
Bid and compliance deposits	43,701	43,764
Borrowings interest payables	6,196	6,603
Senior notes interest and withholding tax payables (Note 33)	-	5,285
Other payables	322,684	376,065
Business tax payables	670	215,309
Value added tax payables	78,150	45,815
Other tax payables	12,625	19,029
	2,985,729	2,936,873

Trade payables principally comprise amounts outstanding for trade purchases and on-going costs.

The average credit period on purchases of goods is 90 days (2015: 90 days).

29. BORROWINGS

	2016 RMB'000	2015 RMB'000
Secured bank borrowings (note i)	**1,441,873**	1,217,152
Unsecured bank borrowings	**1,558,447**	2,686,498
Secured other borrowings (note ii)	**1,062,850**	-
Unsecured other borrowings	**45,000**	50,000
	4,108,170	3,953,650
Carrying amount repayable (note iv):		
Within one year	**1,483,726**	2,704,907
More than one year but not exceeding two years	**336,003**	295,525
More than two years but not exceeding five years	**1,687,488**	583,278
More than five years	**600,953**	369,940
	4,108,170	3,953,650
Less: Amounts due within one year	**(1,483,726)**	(2,704,907)
Amounts shown under current liabilities	**(1,483,726)**	(2,704,907)
Amounts shown under non-current liabilities	**2,624,444**	1,248,743

The borrowings comprise:

	2016 RMB'000	2015 RMB'000
Fixed-rate borrowings	**1,398,850**	475,000
Variable-rate borrowings (note iii)	**2,709,320**	3,478,650
	4,108,170	3,953,650

The effective interest rates per annum at the end of each reporting period, are as follows:

	2016	2015
Fixed-rate borrowings	**4.79% ~ 8.50%**	3.31% ~ 7.00%
Variable-rate borrowings	**1.08% ~ 8.16%**	1.46% ~ 8.16%

notes:

(i) At 31 December 2016, bank borrowings of approximately RMB62,000,000 (2015: RMB72,000,000) were mortgaged and secured by certain buildings, land use rights and buildings under construction in progress of the Group. Bank borrowings of approximately RMB1,379,873,000 (2015: RMB1,145,152,000) were secured by certain BOT subsidiaries' charging rights under the service concession contracts.

29. BORROWINGS (CONTINUED)

notes: (continued)

(ii) At 31 December 2016, other borrowings of approximately RMB1,062,850,000 (2015: Nil) were secured by equity interests of certain subsidiaries.

(iii) The interest rate of variable-rate bank borrowings of the Group was varied according to the loan interest published by the People's Bank of China ("**PBOC**") or LIBOR.

(iv) The amounts due are based on scheduled repayment dates set out in the loan agreements.

(v) At 31 December 2016, the Group has borrowings of approximately RMB565,154,000 (2015: RMB1,605,498,000) which where denominated in US$.

(vi) The borrowings at 31 December 2016 will be repayable from 2017 to 2031 (2015: 2016 to 2027).

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2016	2015
	RMB'000	RMB'000
Financial liability		
Fair value of a swap contract (note (i))	**20,380**	37,969
Analysed for reporting purpose as:		
Current	**20,380**	-
Non-current	**-**	37,969
	20,380	37,969

note:

(i) During the year ended 31 December 2013, the Group has signed a swap contract with the Hong Kong and Shanghai Banking Corporation Limited ("**HSBC**") and the contract will mature in 2017. Under the contract, the Group will receive fixed amounts at a rate of 11.88% per annum and pay floating amounts which vary according to a pre-specified formula based on HSBC MacroEconomic Treasury Yield Spread Volatility Budget Index (Bloomberg code: HSMETYS1 Index) on 5 business days immediately prior to the payment dates, HSMETYS1 Index on 22 March 2013 (except for the first year which is fixed at 10.875% per annum) and notional principal amount of US$150,000,000 on a semi-annual basis. In respect of the swap contract, the Group entered into International Swaps and Derivatives Association Master Agreement with HSBC which is subject to an enforceable master netting arrangement.

31. SENIOR NOTES

On 6 August 2012, the Company issued guaranteed senior fixed rate notes to the public at par with the aggregated nominal value of US$150,000,000 (the "**Senior Notes**") which carried at fixed interest rate of 11.875% per annum (interest payable semi-annually in arrears) and will be fully repayable by 10 August 2017.

The Senior Notes are listed on the HKEX. They are senior obligations of the Company and guaranteed by certain of the Company's existing subsidiaries, other than (i) those organised under the laws of the PRC and (ii) Sound International Investment Holdings Limited. The guarantees are effectively subordinated to the secured obligations of each guarantor, to the extent of the value of the assets serving as security.

At any time on or after 10 August 2015, the Company may on any one or more occasions redeem all or any part of the Senior Notes, at the redemption prices (expressed as percentages of principal amount) set forth as below, plus accrued and unpaid interest, if any, to the applicable date of redemption.

Year	**Redemption price**
2015	105.9375%
2016 and thereafter	102.96875%

At any time prior to 10 August 2015, the Company may at its option redeem the Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.

Applicable Premium means, with respect to a Senior Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Senior Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Senior Note at 10 August 2015, plus all required remaining scheduled interest payments due on such Senior Note through 10 August 2015 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate as disclosed in the offering circular dated 6 August 2012 plus 100 basis points, over (B) the principal amount of such Senior Note on such redemption date.

At any time and from time to time prior to 10 August 2015, the Company may, subject to certain conditions, at its option redeem up to 35% of the aggregate principal amount of the Senior Notes at a redemption price of 111.875% of the principal amount of the Senior Notes redeemed, plus accrued and unpaid interest, if any, to the redemption date.

Upon the occurrence of a change control triggering event, the Company is required to make an offer to repurchase all outstanding Senior Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the repurchase date.

If the Company or a guarantor would become obliged to pay certain additional amounts as a result of certain changes in specified tax laws, the Company may redeem the Senior Notes, in whole but not in part, at redemption price equal to 100% of the principal amount plus accrued and unpaid interest, if any, to the date fixed by the Company for redemption.

The carrying amount of the Senior Notes on date of issuance is stated net of issue expenses totaling US$146,233,000, (equivalent to approximately RMB923,084,000) and the effective interest rate of the Senior Notes is 14.70% per annum.

31. SENIOR NOTES (CONTINUED)

The movements of the Senior Notes for the year ended 31 December 2015 and 2016 are set out below:

	2016 RMB'000	2015 RMB'000
Carrying amount at beginning of the year	**5,285**	954,543
Interest charge (Note 10)	**-**	128,749
Interest and withholding tax paid	**(5,285)**	(158,664)
Redemption of senior notes	**-**	(1,008,102)
Loss on early redemption of senior notes	**-**	56,501
Exchange alignment	**-**	32,258
Carrying amount at end of the year	**-**	5,285
Less: Interest and withholding tax payables within one year included in payables shown under current liabilities (Note 28)	**-**	(5,285)
	-	-

On 13 November 2015, the Senior Notes were redeemed in full and there were no outstanding Senior Notes in issue at 31 December 2015.

32. OBLIGATION UNDER FINANCE LEASE

The Group leased certain of its service concession arrangement's plant and machinery under sales and finance lease back (Note 21). The lease term is 1 to 8 (2015: 6) years. Interest rates underlying all obligations under finance are fixed at 5.22% to 6.50% (2015: 5.64%) per annum. The Group has options to purchase the plant and machinery for a nominal amount at the end of the lease term.

	Minimum lease payments		Present value of minimum lease payments	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Amounts payable under finance lease:				
Within one year	**241,742**	6,059	**188,092**	3,914
In more than one year and not more than five years	**776,943**	31,614	**663,991**	26,537
In more than five years	**174,754**	9,879	**162,587**	9,587
	1,193,439	47,552	**1,014,670**	40,038
Less: future finance charges	**(178,769)**	(7,514)	**-**	-
Present value of lease obligations	**1,014,670**	40,038	**1,014,670**	40,038
Less: Amount due for settlement within one year (shown under current liabilities)			**(188,092)**	(3,914)
Amount due for settlement after one year			**826,578**	36,124

The Group's obligation under finance lease is secured by the lessors' title to the leased assets.

33. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank and other borrowings (Note 29) of the Group:

	2016	2015
	RMB'000	RMB'000
Land and buildings	**25,576**	26,627
Buildings under construction in progress	**56,526**	-
Land use right	**2,012**	2,075
Service concession receivables	**3,298,905**	2,561,794
Intangible assets – operating concession	**175,172**	-
	3,558,191	2,590,496

At 31 December 2016, the Group's obligations under finance lease (Note 32) are secured by the lessors' title to the leased plant and machinery classified as service concession receivables and trade receivables, which have carrying amounts of approximately RMB82,662,000 (2015: RMB156,270,000) and RMB110,379,000 (2015: RMB Nil) respectively.

34. ISSUED CAPITAL

	Number of shares	**RMB'000**
Issued and paid up		
At 1 January 2015	1,499,768,421	1,690,579
Exercise of share options	6,437,000	29,725
At 31 December 2015 and 31 December 2016	1,506,205,421	1,720,304

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

The amount of issued capital represents the net proceeds from allotment of ordinary shares.

35. ACQUISITIONS OF SUBSIDIARIES

Acquisitions of subsidiaries for the year ended 31 December 2016

During the year 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).

Despite the facts that (i) the change in shareholders of registered capital of Zhongye Zhengyi under the name of a subsidiary of the Company; (ii) the change in three directors of Zhongye Zhengyi; (iii) the change of the company name of Zhongye Zhengyi; and (iv) the change in the legal representative of Zhongye Zhengyi to a key management personnel of the Group who subsequently resigned on 5 August 2016 were registered with relevant State Administration for Industry and Commerce (SAIC) of the government of the PRC; the Group have been unable to gain access to the books and records of the Target Group subsequent to the completion of the acquisition of Zhongye Zhengyi. The existing management of the Target Group did not respond to the Group's requests and did not cooperate with the Group. The negotiation with the existing management of the Target Group was still in progress up to the date of the approval of the consolidated financial statements. Given these circumstances, the Group was 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 information about the nature and financial effects of the acquisition of the Target Group which is required to be disclosed by IFRS 3 "Business Combinations" have not been disclosed in the consolidated financial statements of the Group for the year ended 31 December 2016. Furthermore, the directors of the Company consider the acquisition of the Target Group did not result 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 and related party transaction in accordance with IAS 24 "Related Party Disclosures".

Acquisitions of subsidiaries for the year ended 31 December 2015

During the year ended 31 December 2015, the Group acquired the entire equity interests in Fogang Sound Water Co., Ltd ("**Fogang Sound**") (formerly known as Fogang Zhanyang Domestic Sewage Treatment Co., Ltd), Bazhong Sound Water Co., Ltd (formerly known as Bazhong Best Environment Investment Co., Ltd.), Xingping City Hualu Water Co., Ltd ("**Xingping Hualu**"), Advanced Resources Holdings Pte. Ltd. ("**Advanced Resources**"), Advanced Water Engineering Pte. Ltd. ("**Advanced Engineering**") and their respective subsidiaries from independent third parties for an aggregate consideration of approximately RMB144,463,000.

These subsidiaries are mainly engaged in (i) BOT contracts on management and operation of wastewater projects located in Fogang, Bazhong, Xingping and Chengdu under service concession arrangements with remaining service concession periods of 14 to 20 years, (ii) own, management and operation of water supply projects located in Pengxi under service concession arrangement with remaining service concession periods of 43 years, and (iii) construction in the PRC.

The acquisitions have been accounted for using the acquisition method. There was gain on bargain purchase arising from these acquisitions.

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

Acquisitions of subsidiaries for the year ended 31 December 2015 (continued)

Assets acquired and liabilities recognised at the dates of acquisitions are as follows:

	Fair value RMB'000
Property, plant and equipment	36,273
Service concession receivables	209,007
Deferred tax assets	5,840
Inventories	3,131
Trade and other receivables	46,647
Bank balances and cash	39,123
Trade and other payables	(166,053)
Borrowings	(5,600)
Deferred tax liabilities	(696)
	167,672
Gain on bargain purchase	(23,209)
Total consideration	144,463

	RMB'000
Satisfied by:	
Cash	128,588
Deferred consideration	15,875
	144,463

Net cash outflow arising from these acquisitions:	
Consideration paid in cash	128,588
Bank balances and cash acquired	(39,123)
	89,465

Included in the Group's profit for the year ended 31 December 2015, is a net profit of approximately RMB12,116,000 and revenue of approximately RMB23,612,000 attributable to these acquired companies.

Had the acquisitions taken place at beginning of the year, the revenue and net profit of the Group for the year ended 31 December 2015 would have been approximately RMB4,106,097,000 and RMB462,732,000 respectively.

The deferred considerations were due within one year and approximately RMB13,654,000 was subsequently settled.

Acquisition-related costs amounting to approximately RMB170,000 have been excluded from the consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss.

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

The fair value of trade receivables at the dates of acquisitions is approximately RMB46,647,000 and the gross contractual amount is approximately RMB47,216,000. The best estimate at the dates of acquisitions of the contractual cash flows not expected to be collected is approximately RMB569,000.

36. TRANSACTION WITH NON-CONTROLLING INTEREST

Loans and partial disposal of equity interests in subsidiaries

During the year 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(有限合伙)) ("**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 (汕頭市銅盂桑德水務有限公司) (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 which represented 30% of the carrying values of the net assets of the Five Subsidiaries. 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. Given the fact that 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. Furthermore, 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. The Company did not make announcement with regard to the Transactions and no shareholders' approval have been obtained for the Transactions if required by the Listing Rules. The directors of the Company consider the Transactions entered into with Jinxin Tairun and Sound Group (i) did not result 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 and (ii) did not result in related party transactions in accordance with IAS 24.

	RMB'000
Consideration from non-controlling interests	**84,150**
Amount recognised as non-controlling interests	**(84,150)**
Movement on partial disposal within equity	**-**

36. TRANSACTION WITH NON-CONTROLLING INTEREST (CONTINUED)

Disposal of shareholding in Fuqing Sound Water Co., Ltd ("Fuqing Sound")

During the year ended 31 December 2015, the Group entered into a sale and purchase agreement with an independent third party to dispose 49% of the entire issued share capital of Fuqing Sound, at a total cash consideration of approximately RMB7,066,000 measured at the 49% of the net assets values of Fuqing Sound.

As a result of the disposal, the Group owns 51% of Fuqing Sound. The disposal was completed on 14 August 2015.

	RMB'000
Consideration from non-controlling interests	7,066
Amount recognised as non-controlling interests	(7,066)
Movement on disposed within equity	-

The total cash consideration of approximately RMB7,066,000 was settled by other receivables of Fuqing Sound from the Group.

Capital contributions from non-controlling interests

During the year ended 2016, the shareholders of the non-wholly owned subsidiaries including Zhaodong Sound Water Co., Ltd, Suqian Sound Water Co., Ltd, Fengdu County Sound Water Co., Ltd, Bazhong Sound Mingjiang Water Co., Ltd and Zhaoyuan City Sound Water Co., Ltd provided capital contributions to these companies based on their percentage of equity interests in these subsidiaries. The non-controlling interests has provided capital contribution of approximately RMB88,471,000.

During the year ended 2015, the shareholders of the non-wholly owned subsidiaries including Tongling Sound Water Co., Ltd, Fuqing Sound and Bazhong Sound Mingjiang Water Co., Ltd provided capital contributions to these companies based on their percentage of equity interests in these subsidiaries. The non-controlling interests has provided capital contribution of approximately RMB29,623,000.

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings and obligation under finance lease and equity attributable to owners of the Company, comprising issued capital, retained earnings and other reserves.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation.

	2016	2015
	RMB'000	RMB'000
Borrowings (current)	**1,483,726**	2,704,907
Borrowings (non-current)	**2,624,444**	1,248,743
Obligation under finance lease (current)	**188,092**	3,914
Obligation under finance lease (non-current)	**826,578**	36,124
Total debts	**5,122,840**	3,993,688
Equity attributable to owners of the Company	**5,186,632**	4,713,576
Total debt to equity ratio	**0.99**	0.85

The Group's management reviews the capital structure on an on-going basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

38. FINANCIAL INSTRUMENTS

38a. Categories of financial instruments

	2016	2015
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Service concession receivables	**7,607,755**	5,608,467
Trade receivables	**1,389,253**	1,568,506
Bills receivable	**14,226**	13,100
Bid and compliance deposits	**88,355**	251,696
Other receivables	**211,616**	399,620
Restricted bank balances	**1,059,667**	450,950
Bank balances and cash	**470,975**	769,719
	10,841,847	9,062,058
Available-for-sale financial asset		
Debt investments	**42,800**	952,000
Total	**10,884,647**	10,014,058
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	**2,297,162**	2,032,292
Bills payable	**158,050**	153,190
Other payables	**322,684**	375,938
Borrowings interest payables	**6,196**	6,603
Bid and compliance deposits	**43,701**	43,764
Borrowings	**4,108,170**	3,953,650
	6,935,963	6,565,437
Fair value through profit or loss		
Swap contract	**20,380**	37,969
Total	**6,956,343**	6,603,406

38. FINANCIAL INSTRUMENTS (CONTINUED)

38b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, service concession receivables, trade and other payables, borrowings, convertible loan notes, senior notes, warrants, derivative financial instruments, restricted bank balances, bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged from prior year.

Credit risk management

The Group's maximum exposure to credit risk which will cause a financial loss due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of each reporting period.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk primarily relates to the Group's trade and other receivables, service concession receivables and bank balances. There is no significant concentration of credit risk as the top five largest customers account for approximately 32% (2015: 27%) of the carrying amount of trade receivables at 31 December 2016. The management of the Group generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade receivable is reviewed at the end of each reporting period and adequate impairment for doubtful debts has been made for irrecoverable amounts.

The Group is exposed to the concentration of credit risk on its service concession receivables as approximately 19% (2015: 22%) of the carrying amount of service concession receivables at 31 December 2016 are from top five largest grantors which are government bodies in the PRC. The directors of the Company consider that the associated credit risk is low as the corresponding grantors are all government bodies in the PRC, which either pay or guarantee the payments to the Group.

The credit risk in relation to the Group's bank balances is not significant as the corresponding banks are reputable financial institutions.

38. FINANCIAL INSTRUMENTS (CONTINUED)

38b. Financial risk management objectives and policies (continued)

Market risk management

The Group's activities expose primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Foreign currency risk management

The Group undertake certain financing and treasury transactions in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of foreign currency denominated monetary assets of restricted bank balances and bank balances and cash and monetary liabilities of borrowings and senior notes that are denominated in currencies other than the respective group entities functional currencies at the end of the reporting period are as follows:

	Liabilities		**Assets**	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
S$	**-**	1,858	**1,877**	27,961
US$	**496,197**	1,643,615	**54,560**	193,287
BDT	**-**	-	**11,827**	2,250
HKD	**-**	1,228	**696**	802
AUD	**-**	-	**-**	1,078
JPY	**-**	-	**23,654**	15,033
SAR	**-**	-	**36,578**	1,892
EUR	-	-	**22**	-

38. FINANCIAL INSTRUMENTS (CONTINUED)

38b. Financial risk management objectives and policies (continued)

Market risk management (continued)

(i) Foreign currency risk management (continued)

Sensitivity analysis

The following table details the sensitivity to a 10% increase and decrease in functional currency against the relevant foreign currency. 10% is the sensitivity rate used and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit where functional currency strengthens 10% against the relevant currency. For a 10% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	Profit for the year	
	2016	2015
	RMB'000	RMB'000
S$	**(188)**	(2,610)
US$	**44,164**	145,033
BDT	**(1,183)**	225
HKD	**(70)**	43
AUD	**-**	(108)
JPY	**(2,365)**	(1,503)
SAR	**(3,658)**	(189)
EUR	**(2)**	-

38. FINANCIAL INSTRUMENTS (CONTINUED)

38b. Financial risk management objectives and policies (continued)

Market risk management (continued)

(ii) <u>Interest rate risk management</u>

The Group is mainly exposed to fair value interest rate risk in relation to its fixed-rate borrowings and senior notes (see Notes 29 and 33 for details).

The Group is also exposed to cash flow interest rate risk in relation to their variable-rate borrowing and bank balances which carry prevailing market interest rates. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of loan interest published by PBOC and LIBOR.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate borrowings. Bank balances are excluded from the sensitivity analyses since the management of the Group considered that they are not sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB10,055,000 (2015: RMB13,703,000) for the year ended 31 December 2016.

38. FINANCIAL INSTRUMENTS (CONTINUED)

38b. Financial risk management objectives and policies (continued)

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. To the extent that interest flows are variable-rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate %	On demand RMB'000	Within one year RMB'000	1 - 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2016							
Trade payables	**-**	**-**	**2,297,162**	**-**	**-**	**2,297,162**	**2,297,162**
Bills payable	**-**	**-**	**158,050**	**-**	**-**	**158,050**	**158,050**
Other payables	**-**	**-**	**322,684**	**-**	**-**	**322,684**	**322,684**
Bid and compliance deposits	**-**	**-**	**43,701**	**-**	**-**	**43,701**	**43,701**
Borrowings							
Fixed-rate	**7.99**	**-**	**273,286**	**1,532,236**	**117,403**	**1,922,925**	**1,401,610**
Variable-rate	**4.48**	**-**	**1,423,688**	**1,132,565**	**637,684**	**3,193,937**	**2,712,756**
Total		**-**	**4,518,571**	**2,664,801**	**755,087**	**7,938,459**	**6,935,963**
At 31 December 2015							
Trade payables	-	-	2,032,292	-	-	2,032,292	2,032,292
Bills payable	-	-	153,190	-	-	153,190	153,190
Other payables	-	-	375,938	-	-	375,938	375,938
Bid and compliance deposits	-	-	43,764	-	-	43,764	43,764
Borrowings							
Fixed-rate	4.86	-	380,397	79,921	88,831	549,149	475,000
Variable-rate	4.01	-	2,456,774	1,053,203	373,312	3,883,289	3,485,253
Total		-	5,442,355	1,133,124	462,143	7,037,622	6,565,437

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

38. FINANCIAL INSTRUMENTS (CONTINUED)

38c. Fair value measurements of financial instruments

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

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

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
	2016	2015				
1) Swap contract classified as derivative financial instruments in the consolidated statement of financial position	**Liabilities 20,380**	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

There is no transfer between level 2 and level 3 during the current and prior years.

(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

39. OPERATING LEASES COMMITMENTS

Lease payment recognised as an expense:

	2016	2015
	RMB'000	RMB'000
Minimum lease payments paid under operating lease recognised as an expense in the year	**2,308**	3,782

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**1,721**	2,201
In the second to fifth years inclusive	**767**	1,535
	2,488	3,736

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms of one to two years and rentals are fixed for lease terms of one to two years.

40. CAPITAL COMMITMENT

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

	2016	2015
	RMB'000	RMB'000
Construction of buildings:		
Contracted but not provided for	**33,007**	48,850

41. RETIREMENT BENEFIT PLANS

The Group's full-time employees in the PRC and Singapore are respectively covered by a government-sponsored defined contribution pension scheme and a comprehensive social security savings plan, which includes a retirement scheme. The employees are entitled to a monthly pension from their retirement dates. The PRC Government and Singapore Government are responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plans of a prescribed amount of employees' salaries, which are charged as an expense when the employees have rendered services entitling them to the contributions.

41. RETIREMENT BENEFIT PLANS (CONTINUED)

During the year ended 31 December 2016, the total amounts contributed by the Group to the schemes and charged to profit or loss represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes and are as follows:

	2016	2015
	RMB'000	RMB'000
Contributions to defined contribution plan	**24,330**	23,633

At 31 December 2016, the contribution due in respect of the year that had not been paid to the schemes is approximately RMB132,000 (2015: RMB151,000).

42. SHARE-BASED PAYMENT TRANSACTIONS

(A) Sound Global Share Option Scheme (the "Scheme")

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 Company 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. 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.

At 31 December 2016, the number of shares in respect of which options had been granted under the Scheme was 58,090,000 (2015: 88,205,000) representing 3.86% (2015: 5.86%) of the shares of the Company in issue at that date.

Details of the options are as follows:

Date of grant	**Vesting period**	**Exercise period**	**Exercise price**
9 December 2014	#1	#2	HK$8.11

#1 Vesting period is from 9 December 2014 to the 7th day after the Company announced its annual results for each of the financial years ended 31 December 2014, 2015 and 2016 to 30 September 2017.

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

42. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(A) Sound Global Share Option Scheme (the "Scheme") (continued)

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:

(a) 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 (b) below), and

(b) 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 ended 31 December 2014, 2015 and 2016 respectively, excluding all exceptional items in the statement of profit or loss. 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.

Movements in the share options in the year ended 31 December 2016 are as follow:

Date of grant	Outstanding at 1 January 2016	Granted during 2016	Forfeited during 2016	Exercised during 2016	Outstanding at 31 December 2016
9 December 2014	88,205,000	-	(30,115,000)	-	58,090,000
Exercisable at the end of the year					-
Weighted average exercise price	HK$8.11	N/A	N/A	N/A	HK$8.11

Movements in the share options in the year ended 31 December 2015 are as follow:

Date of grant	Outstanding at 1 January 2015	Granted during 2015	Forfeited during 2015	Exercised during 2015	Outstanding at 31 December 2015
9 December 2014	90,000,000	-	(1,795,000)	-	88,205,000
Exercisable at the end of the year					-
Weighted average exercise price	HK$8.11	N/A	N/A	N/A	HK$8.11

The Group has not recognised any share-based payment expenses for the year ended 31 December 2016 (2015: Nil) in relation to the share options granted by the Company.

42. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

The Group adopted the Epure Scheme on 15 August 2007 and the Epure Scheme was terminated upon listing on the HKEX. No further options are available for issue under the Epure Scheme at 31 December 2015.

At 31 December 2016, no shares options had been granted under the Epure Scheme (2015: Nil).

Details of the options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price
23 July 2010	23 July 2010 to 22 July 2014	23 July 2011 to 22 July 2015	S$0.745

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

(a) The options will be exercisable in four equal tranches, commencing one year from the date of grant and on each anniversary of the date of grant up to fifth anniversary;

(b) The increase in profit after tax for each of the financial years ended 31 December 2013 and 2014 must be at least 10% excluding all exceptional items; and

(c) The compounded growth rate for profit after tax, based on profit after tax for the financial year ended 31 December 2009, for each of the financial years ended 31 December 2010, 2011, 2012 and 2013 must be at least 25%, 25%, 15% and 15% respectively, excluding all exceptional items.

Movements in the share options in the year ended 31 December 2015 are as follow:

Date of grant	Outstanding at 1 January 2015	Granted during 2015	Lapsed during 2015	Exercised during 2015	Outstanding at 31 December 2015
23 July 2010	27,845,400	-	(21,408,400)	(6,437,000)	-
Exercisable at the end of the year					-
Weighted average exercise price	S$0.745	N/A	S$0.745	S$0.745	N/A

The Group has not recognised any share-based payment expenses for the year ended 31 December 2016 (2015: Nil) in relation to the share options granted by the Company.

42. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The number of the share options granted expected to vest has been reduced to reflect directors' best estimation at the end of the reporting period and accordingly the share option expense has been adjusted.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Expected volatility was determined with reference to the historical price volatility data from the date of valuation back to the period equal to the life of option. As the Company has a trading history shorter than the life of option and thus, the calculation of volatility is based on the longest available historical pricing data.

Granted to	Employees	Directors
Grant date	9 December 2014	9 December 2014
Stock price	HK$7.27	HK$7.27
Strike price	HK$8.11	HK$8.11
Risk free rate	0.681%	0.681%
Amortised dividend yield	0.853%	0.853%
Expected volatility	42.446%	42.446%
Exercise multiple	1.60	2.47
Post-vesting exit rate	9%	0%
Unit option value	1.46-1.69	1.69
	179,618	161,424

43. 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

43. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2016	2015
	RMB'000	RMB'000
Revenue from engineering, procurement and construction contracts		
Sound Group and its subsidiaries	**55,111**	147,767
Tus-Sound and its subsidiaries	**79,837**	21,457
	134,948	169,224
Revenue from sales of goods		
Sound Group and its subsidiaries	**45**	504
Tus-Sound and its subsidiaries	**315**	-
	360	504
Revenue from design service		
Sound Group and its subsidiaries	**4,311**	3,536
Tus-Sound and its subsidiaries	**759**	3,154
	5,070	6,690
Equipment procurement		
Sound Group and its subsidiaries	**47,285**	-
Tus-Sound and its subsidiaries	**20,882**	10,818
	68,167	10,818
Disposal of property, plant and equipment		
Tus-Sound and its subsidiaries	**-**	11

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

43. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Trade receivables		
Sound Group and its subsidiaries	**151,719**	119,054
Tus-Sound and its subsidiaries	**23,095**	26,925
	174,814	145,979
Advance to supplier and subcontractors		
Tus-Sound and its subsidiaries	**4**	-
Other receivables		
Tus-Sound and its subsidiaries	**-**	400
Director:		
Jiang Anping	**-**	32
	-	432

The maximum balance outstanding for amount due from Jiang Anping during the year was RMB48,000 (2015: approximately RMB32,000). Mr. Jiang Anping resigned as an executive director of the Company on 12 August 2016. (See Note 13 for details).

	2016 RMB'000	2015 RMB'000
Trade payables		
Tus-Sound and its subsidiaries	**33,706**	11,676
Advance from customers		
Sound Group and its subsidiaries	**-**	153
Tus-Sound and its subsidiaries	**3,589**	9,168
	3,589	9,321
Other payables		
Sound Group and its subsidiaries	**9,225**	20,660
Director:		
Luo Liyang	**-**	121
	9,225	20,781

The maximum balance outstanding for amount due to Luo Liyang during the year was RMB121,000 (2015: approximately RMB121,000).

43. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Compensation of key management personnel

The emoluments of key management during the year including the directors and chief executive disclosed in Note 13 were as follows:

	2016	2015
	RMB'000	RMB'000
Fee, wages and salaries	**3,675**	2,356
Performance related incentive payments	**352**	24
Contributions to defined contribution plan	**260**	243
	4,287	2,623

(e) Guarantees

At the end of the reporting period, borrowings amounting to approximately RMB1,475,253,000 (2015: RMB1,579,725,000) of the Group were guaranteed by Sound Group.

(f) Licensing of trademarks

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

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

44. EVENTS AFTER THE REPORTING PERIOD

(a) 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 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.

44. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(a) (continued)

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 dates of the respective announcements, 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.

44. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(a) (continued)

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 was 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.

44. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(a) (continued)

The 1 February 2018 announcement (continued)

Key findings of the Reviewer

The key findings of the Reviewer are 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.

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.

44. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(a) (continued)

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 Commission 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 Commission'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 Commission with a view to address its concerns on the Discrepancies. The Commission finds that the proposal does not satisfactorily address the Commission'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.

(b) 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.

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) 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.

(d) Resignation of directors and chief executive officer

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

(e) Appointment of directors

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

45. PARTICULAR OF SUBSIDIARIES

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Beijing Sound 北京桑德環境工程有限公司	The PRC	RMB500,000,000	75	25	75	25	Environmental construction related to water treatment
Beijing Epure 北京伊普國際水務有限公司	The PRC	US$20,000,000	100	-	100	-	Research and development of water treatment technologies and provision of services of technology consultation
Sound International Investment Holdings Limited (“**Sound Investment**”)	The BVI	US$1	100	-	100	-	Investment holding
Sound International Engineering Ltd. (“**Sound International Engineering**”)	The BVI	US$1	100	-	100	-	Investment holding
Epure International Engineering Pte. Ltd. (“**Epure International Engineering**“)	Singapore	S$1	100	-	100	-	Investment holding
Beijing Epure Sound Environmental Engineering Technology Co., Ltd 北京伊普桑德環境工程技術有限公司	The PRC	RMB15,000,000	-	100	-	100	Research and development of water treatment technologies and provision of services of technology consultation
Hi-Standard Equipment 北京海斯頓水處理設備有限公司	The PRC	RMB66,000,000	-	100	-	100	Manufacture of wastewater treatment equipment
Xi’an Hu County Sound 西安戶縣桑德水務有限公司	The PRC	RMB24,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	Indirect %	31 December 2015 Direct %	Indirect %	Principal activities
Xi'an Chang'an Sound 西安長安桑德水務有限公司	The PRC	RMB51,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Guangxi Sound 廣西桑德水務有限公司	The PRC	US$5,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Hangcheng 韓城市桑德水務有限公司	The PRC	RMB14,200,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Shangluo 商洛桑德水務有限公司	The PRC	RMB13,800,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Yulin Jingzhou 榆林市靖洲水務有限公司	The PRC	RMB31,030,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Taizhou Sound 泰州桑德水務有限公司 (note i)	The PRC	RMB145,800,000	-	76.8	-	76.8	Construction, management and operation of the municipal wastewater projects
Fushun Sound Water Co., Ltd 撫順桑德水務有限公司	The PRC	US$13,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Hainan Sound Water Co., Ltd 海南桑德水務有限公司	The PRC	RMB5,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Anyang Zongcun 安陽宗村桑德水務有限公司	The PRC	RMB45,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Yantai Bihai Water Co., Ltd 煙臺碧海水務有限公司	The PRC	RMB38,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Daye Honglian Water Co., Ltd 大冶鴻漣水務有限公司	The PRC	RMB18,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Changsha Sound Water Co., Ltd. 長沙桑德水務有限公司	The PRC	RMB43,524,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Hongze Zeqing Water Co., Ltd. 洪澤澤清水務有限公司	The PRC	US$12,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xi'an Trade & Logistics Park 西安港務區桑德水務有限公司	The PRC	US$3,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Sound Hanzhong Yang County Water Co., Ltd. 桑德漢中洋縣水務有限公司	The PRC	US$7,280,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Anyang Taiyuan Water Co., Ltd. 安陽泰元水務有限公司	The PRC	RMB30,000,000	-	90	-	90	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Hunan Epure Environmental Engineering Co., Ltd. 湖南伊普環境工程有限公司	The PRC	RMB30,000,000	-	100	-	100	Research and development of water treatment technologies and provision of services of technology consultants
Anshan Tianqing Water Co., Ltd 鞍山天清水務有限公司	The PRC	RMB30,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Anshan Qinglang Water Co., Ltd 鞍山清朗水務有限公司	The PRC	RMB102,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Anshan Qingchang Water Co., Ltd 鞍山清暢水務有限公司	The PRC	RMB92,350,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Jiangyan Qinlong Water Co., Ltd 姜堰市溱瀧水務有限公司	The PRC	RMB43,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Sound Siyang Water Co.,Ltd. 桑德泗陽水務有限公司	The PRC	USD$18,300,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Quanzhou Sound Water Co., Ltd 泉州桑德水務有限公司	The PRC	RMB30,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Sound Global (Hong Kong) Limited	Hong Kong	USD$3,150,000	100	-	100	-	Investment holding

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Hailun Sound Water Co., Ltd 海倫桑德水務有限公司	The PRC	RMB9,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Liangping Sound Water Co., Ltd 梁平桑德水務有限公司	The PRC	RMB12,400,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xianyang Xingping Sound Water Co., Ltd 咸陽興平桑德水務有限公司	The PRC	RMB38,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Fuqing Sound Water Co., Ltd 福清桑德水務有限公司	The PRC	RMB72,100,000	-	51	-	51	Construction, management and operation of the municipal wastewater projects
Quanzhou Sound Water Investment Co., Ltd 泉州桑德自來水投資有限公司	The PRC	RMB28,550,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xinghua City Sound Water Co.,Ltd 興化市桑德水務有限公司	The PRC	RMB36,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xintai Sound Biqing Water Co.,Ltd 新泰碧清水務有限公司	The PRC	USD2,680,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xintai Sound Zhengyuan Water Co.,Ltd 新泰桑德正源水務有限公司	The PRC	USD7,200,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Fuqing Sound Rongqing Water Co.,Ltd 福清桑德融清水務有限公司	The PRC	RMB10,040,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Beijing Jingyushi Water Co., Ltd. 北京京禹石水務有限公司	The PRC	RMB25,060,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Beijing Jingyuyang Water Co., Ltd. 北京京禹陽水務有限公司	The PRC	RMB34,580,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Beijing Jingyushun Environment Co., Ltd. 北京京禹順環保有限公司 (“**Beijing Jingyushun**”) (note ii)	The PRC	RMB176,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Siyang Siqing Water Co., Ltd. 泗陽泗清水務有限公司	The PRC	RMB2,400,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Sanming Sound Water Co., Ltd. 三明桑德水務有限公司	The PRC	RMB3,100,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Fuyang Sound Water Co., Ltd. 阜陽桑德水務有限公司 (“**Fuyang Sound**”) (note iii)	The PRC	RMB90,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Shandong Chengwu Yingyuan Industrial Co., Ltd. 山東省成武盈源實業有限公司	The PRC	RMB36,880,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Luoyuan Beimei Water Co., Ltd. 羅源北美水務有限公司	The PRC	RMB5,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Luoyuan Beimei (Phase II) Water Co., Ltd. 羅源北美二期水務有限公司	The PRC	RMB10,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xunyang Sound Water Co., Ltd. 旬陽桑德水務有限公司	The PRC	RMB3,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Tacheng City Sound Water Co., Ltd. 塔城市桑德水務有限公司	The PRC	RMB20,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Tongliao City Sound Water Co., Ltd. 通遼市桑德水務有限公司	The PRC	RMB53,500,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xishui County Xianqing Water Co., Ltd. 習水縣黔清水務有限公司 ("**Xishui County Xianqing**") (note iv)	The PRC	RMB26,350,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Huangping County Sound Water Co., Ltd. 黃平縣桑德水務有限公司	The PRC	RMB6,250,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xiangxiang Sound Water Co., Ltd. 湘鄉桑德水務有限公司	The PRC	RMB8,640,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Leiyang Sound Water Co., Ltd. 耒陽桑德水務有限公司	The PRC	RMB103,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Changbaishan Protection and Development Zone Sound Water Co., Ltd. 長白山保護開發區桑德水務有限公司	The PRC	RMB15,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Fuqing Qingxi Water Co., Ltd. 福清清溪水務有限公司	The PRC	RMB1,700,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xintai Sound Water Co., Ltd. 新泰桑德水務有限公司 (“**Xintai Sound**”)	The PRC	RMB17,750,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Urumqi Sound Water Co., Ltd. 烏魯木齊桑德水務有限公司 (“**Urumqi Sound**”)	The PRC	RMB40,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Yulin Sound Water Co., Ltd. 榆林桑德水務有限公司 (“**Yulin Sound**”) (note v)	The PRC	USD4,050,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xinghua Huqing Water Co., Ltd. 興化湖清水務有限公司 (“**Xinghua Huqing**”) (note vi)	The PRC	RMB112,260,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Taihe Sound Water Treatment Co., Ltd. 太和桑德淨水有限公司	The PRC	USD$6,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Tongling Sound Water Co., Ltd. 銅陵桑德水務有限公司	The PRC	RMB30,000,000	-	80	-	80	Construction, management and environment construction related water treatment
Changbaishan Protection and Development Zone Sound Water Supply Co., Ltd. 長白山保護開發區桑德自來水有限公司	The PRC	RMB13,500,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Yining City Huize Water Co., Ltd. 伊寧市惠澤水務有限責任公司 (“**Yining City**”) (note vii)	The PRC	RMB77,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xingren County Sound Water Co., Ltd. 興仁縣桑德水務有限公司	The PRC	RMB6,200,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Jilin Sound Water Co., Ltd. 吉林桑德水務有限公司	The PRC	RMB3,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Beijing Epure Environment Engineering Co., Ltd. 北京伊普環境工程有限公司	The PRC	RMB20,000,000	20	80	20	80	Research and development of water treatment technologies and provision of services of technology consultation
Baoding Sound Water Treatment Co., Ltd. 保定桑德水處理有限公司	The PRC	RMB20,800,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xishui County Xianyuan Water Co., Ltd. 習水縣黔源水務有限公司	The BVI	USD12,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016		31 December 2015		Principal activities
			Direct %	Indirect %	Direct %	Indirect %	
Huangping County Qianjing Water Co., Ltd. 黃平縣黔京水務有限公司	The PRC	RMB17,500,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Dazhou Sound Water Co., Ltd. 達州桑德水務有限公司	The PRC	RMB10,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Linfen Yiande Water Co., Ltd. 臨汾益安德水務有限公司	The PRC	RMB2,000,000	-	80	-	80	Construction, management and operation of the water supply projects
Ankang Sound Water Co., Ltd. 安康桑德水務有限公司	The PRC	RMB25,240,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Huoqiu Sound Water Co., Ltd. 霍邱桑德水務有限公司	The PRC	RMB13,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Advanced Resources	Singapore	S$8,822,000	100	-	100	-	Investment holding
Advanced Engineering	Singapore	S$420,000	100	-	100	-	Investment holding
Jinjiang Sound Water Co., Ltd 晉江桑德水務有限公司	The PRC	RMB36,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Anhui Sound Water Co., Ltd 安徽桑德水務有限公司	The PRC	RMB5,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater project
Shanxian Sound Xinnong Water Co., Ltd 單縣桑德新農水務有限公司	The PRC	RMB17,700,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Zhaoyuan Sound Water Co., Ltd 招遠市桑德水務有限公司 (“**Zhaoyuan Sound**”) (note viii)	The PRC	US$12,000,0000	-	80	-	80	Construction, management and operation of the municipal wastewater projects
Lanxi Sound Water Co., Ltd 蘭溪桑德水務有限公司 (“**Lanxi Sound**”) (note ix)	The PRC	RMB97,500,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Hongze Sound 洪澤桑德水務有限公司	The PRC	RMB1,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Fu’an Sound Water Co., Ltd 福安桑德水務有限公 (“**Fu’an Sound**”) (note x)	The PRC	RMB18,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Wuyi Sound Water Co., Ltd 武義桑德水務有限公司	The PRC	US$8,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Sound Wellmind Jiangsu Water Co., Ltd 桑德維爾美江蘇水務有限公司	The PRC	RMB10,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Zhejiang Sound Zhenqing Water Co., Ltd 浙江桑德鎮清水務有限公司	The PRC	RMB10,000,000	-	70	-	70	Construction, management and operation of the municipal wastewater projects
Xingping City Hualu Water Co., Ltd 興平市華陸水務有限公司	The PRC	RMB10,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xi'an Changqing Sound Water Co., Ltd 西安長清桑德水務有限公司	The PRC	RMB50,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Ankang Wuli Sound Water Co., Ltd 安康五里桑德水務有限公司	The PRC	RMB11,400,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Tongjiang Sound Water Co., Ltd 通江桑德水務有限公司	The PRC	US$8,500,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Tongzi Sound 桐梓桑德水務有限公司	The PRC	RMB45,000,000	-	56	-	56	Construction, management and operation of the municipal wastewater projects
Shuicheng Sound Water Co., Ltd 水城桑德水務有限公司	The PRC	RMB5,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Bazhong Sound Environment Investment Co., Ltd 巴中桑德環保投資有限公司	The PRC	RMB10,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Bazhong Sound Water Co., Ltd 巴中桑德水務有限公司	The PRC	US$5,200,000	-	100	-	100	Construction, management and operation of the wastewater and water supply projects
Bazhong Sound Mingjiang Water Co., Ltd 巴中桑德銘江水務有限公司	The PRC	RMB10,000,000	-	64	-	64	Construction, management and operation of the municipal wastewater projects
Fengdu County Sound Water Co., Ltd 豐都縣桑德水務有限公司 (“**Fengdu County Sound**”) (note xi)	The PRC	RMB40,000,000	-	90	-	90	Construction, management and operation of the municipal wastewater projects
Tongzi Sound Panlong Water Co., Ltd 桐梓桑德蟠龍水務有限公司	The PRC	RMB40,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Advanced Pengxi 蓬溪愛文思水務有限公司	The PRC	US$3,000,000	-	100	-	100	Construction, management and operation of the water supply projects
Advanced Reclamation 成都愛文思水質淨化有限公司	The PRC	S$2,700,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Advanced Water Technologies (Chengdu) Co., Ltd 成都愛文思水務科技有限公司	The PRC	S$400,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Dazhu Sound Water Co., Ltd 大竹桑德水務有限公司 (“**Dazhu Sound**”) (note xii)	The PRC	RMB35,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	Indirect %	31 December 2015 Direct %	Indirect %	Principal activities
Bazhong Sound Sewage Treatment Co., Ltd 巴中桑德污水處理有限公司 (“**Bazhong Sound Sewage Treatment**”) (note xiii)	The PRC	RMB15,310,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xishui Sound Water Co., Ltd 習水桑德水務有限公司 (“**Xishui Sound**”) (note xiv)	The PRC	RMB90,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Yangchun City Sound Water Co., Ltd 陽春市桑德水務有限公司	The PRC	RMB9,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Huazhou Sound Water Co., Ltd 化州桑德水務有限公司	The PRC	RMB7,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Huizhou Sound Water Co., Ltd 惠州桑德水務有限公司	The PRC	RMB50,000,000	-	70	-	100	Construction, management and operation of the water supply projects
Fusui Sound Water Co., Ltd 扶綏桑德水務有限公司	The PRC	RMB8,400,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Fogang Sound 佛岡桑德水務有限公司	The PRC	RMB25,200,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Huazhou City Tongqing Sound Water Co., Ltd 化州市同慶桑德水務有限公司 (“**Huazhou City Tongqing Sound**”) (note xv)	The PRC	RMB7,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Gucheng Sound Water Co., Ltd 故城桑德水務有限公司	The PRC	RMB48,000,000	-	100	-	100	Construction, management and operation of the water supply projects
Jingxian Sound Water Treatment Co., Ltd 景縣桑德淨水有限公司 (“**Jingxian Sound Water Treatment**”) (note xvi)	The PRC	RMB21,600,000	-	100	-	100	Construction, management and operation of the water supply projects
Xinshao Sound Water Co., Ltd 新邵桑德水務有限公司 (“**Xinshao Sound**”) (note xvii)	The PRC	RMB70,580,000	-	100	-	100	Construction, management and operation of the water supply projects
Tai’an Sound Water Co., Ltd 台安桑德水務有限公司	The PRC	RMB33,270,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Zhaodong Sound Water Co.,Ltd 肇東桑德水務有限公司	The PRC	RMB129,810,000	-	67	-	100	Construction, management and operation of the water supply projects
Helong Sound Water Co., Ltd 和龍桑德水務有限公司 (“**Helong Sound**”) (note xviii)	The PRC	RMB24,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Shanxian Huadu Water Co., Ltd 單縣華都水務有限公司 (“**Shanxian Huadu**”) (note xix & xliii)	The PRC	RMB30,000,000	-	70	N/A	N/A	Construction, management and operation of the water supply projects
Bazhong Baisite Tap Water Co., Ltd 巴中百斯特自來水有限公司 (“**Bazhong Baisite Tap**”) (note xx & xliii)	The PRC	RMB10,000,000	-	100	N/A	N/A	Construction, management and operation of the water supply projects
Suqian Sound Water Co., Ltd 宿遷桑德水務有限公司 (“**Suqian Sound**”) (note xxi & xliii)	The PRC	RMB58,604,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Lianshui Lianqing Water Co., Ltd 漣水漣清水務有限公司 (“**Lianshui Lianqing**”) (note xxii & xliii)	The PRC	USD5,000,000	-	96	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Lianshui Biqing Water Co., Ltd 漣水碧清水務有限公司 (“**Lianshui Biqing**”) (note xxiii & xliii)	The PRC	USD9,350,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Taizhou Yanqing Sound Water Co., Ltd 泰州堰清桑德水務有限公司 (“**Taizhou Yanqing Sound**”) (note xxiv & xliii)	The PRC	USD5,900,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Fuzhou City Dongxiang District Sound Water Co., Ltd 撫州市東鄉區桑德水務有限公司 (“**Fuzhou City Dongxiang District Sound**”) (note xxv & xliii)	The PRC	RMB25,130,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Gaozhou City Sound Water Co., Ltd 高州市桑德水務有限公司 (“**Gaozhou City Sound**”) (note xxvi & xliii)	The PRC	RMB32,880,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Shantou City Guanbu Sound Water Co., Ltd 汕頭市關埠桑德水務有限公司 (“**Shantou City Guanbu Sound**”) (note xxvii & xliii)	The PRC	RMB62,500,000	-	70	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Shantou City Heping Sound Water Co., Ltd 汕頭市和平桑德水務有限公司 (“**Shantou City Heping Sound**”) (note xxviii & xliii)	The PRC	RMB73,000,000	-	70	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Shantou City Tongyu Sound Water Co., Ltd 汕頭市銅盂桑德水務有限公司 (“**Shantou City Tongyu Sound**”) (note xxix & xliii)	The PRC	RMB65,000,000	-	70	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Haikou Sound Meisha Environmental Engineering Co., Ltd 海口桑德美沙環保工程有限公司 (“**Haikou Sound Meisha**”) (note xxx & xliii)	The PRC	RMB148,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Haikou Sound Wuyuan Environmental Engineering Co., Ltd 海口桑德五源環保工程有限公司 (“**Haikou Sound Wuyuan**”) (note xxxi & xliii)	The PRC	RMB158,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Beijing Dezhonghui labor Subcontracting Co., Ltd 北京德中惠勞務分包有限公司 (“**Beijing Dezhonghui labor**”) (note xxxii & xliii)	The PRC	RMB5,000,000	-	100	N/A	N/A	Labor subcontracting
Xinyang Sound Shenzhou Water Co., Ltd 信陽桑德申州水務有限公司 (“**Xinyang Sound**”) (note xxxiii & xliii)	The PRC	RMB102,180,300	-	80	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Jilin Province Sound Environmental Engineering Design Co., Ltd 吉林省桑德環境工程設計有限公司 (“**Jilin Province Sound**’) (note xxxiv & xliii)	The PRC	RMB1,000,000	-	100	N/A	N/A	Environmental construction related to water treatment
Linfen Sound Water Co., Ltd 臨汾桑德水務有限公司 (“**Linfen Sound**”) (note xxxv & xliii)	The PRC	RMB40,670,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Yanchi County Sound Water Co., Ltd 鹽池縣桑德水務有限公司 (“**Yanchi County Sound**”) (note xxxvi & xliii)	The PRC	RMB18,900,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Baoji Sound Water Co., Ltd 寶雞桑德水務有限公司 ("**Baoji Sound**") (note xxxvii & xliii)	The PRC	RMB38,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Linzhi Sound Water Co., Ltd 林芝桑德水務有限公司 ("**Linzhi Sound**") (note xxxviii & xliii)	The PRC	RMB200,000,000	-	100	N/A	N/A	Research and development of water treatment technologies and provision of services of technology consultation
Xizang Sound Water Co., Ltd 西藏桑德水務有限公司 ("**Xizang Sound**") (note xxxix & xliii)	The PRC	RMB500,000,000	-	100	N/A	N/A	Research and development of water treatment technologies and provision of services of technology consultation
Xizang Sound Environment Development Co., Ltd 西藏桑德環境發展有限公司 ("**Xizang Sound Environment Development**") (note xl & xliii)	The PRC	RMB100,000,000	-	100	N/A	N/A	Research and development of water treatment technologies and provision of services of technology consultation
Xizang Sound Environmental Engineering Co., Ltd 西藏桑德環境工程有限公司 ("**Xizang Sound Environmental Engineering**") (note xli & xliii)	The PRC	RMB100,000,000	-	100	N/A	N/A	Research and development of water treatment technologies and provision of services of technology consultation
Huangpingqielan Sound Water Co., Ltd 黃平且蘭桑德水務有限公司 ("**Huangpingqielan Sound**") (note xlii & xliii)	The PRC	RMB64,810,000	-	62	N/A	N/A	Construction, management and operation of the municipal wastewater projects

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up issued capital/registered capital	Equity interest attributable to the Company as at 31 December 2016 Direct %	31 December 2016 Indirect %	31 December 2015 Direct %	31 December 2015 Indirect %	Principal activities
Sound Construction Group Company Limited 桑德建設集團有限責任公司 (“**Sound Construction Group**”) (note xlvi & xliv)	The PRC	RMB116,000,000	-	70	N/A	N/A	Industrial and residential properties construction, engineering design and construction, sale of building materials, leasing of properties and construction machinery and computer software development
Jiaxing City Zhengyi Equity Investment Management Company Limited 嘉興市正益股權投資管理有限公司 (“**Jiaxing City Zhengy**”) (note xlvii & xliv)	The PRC	RMB2,000,000	-	70	N/A	N/A	Equity investment management and consulting services
Jiaxing Zhenghao Property Service Company Limited 嘉興正皓物業服務有限公司 (“**Jiaxing Zhenghao**”) (note xlviii & xliv)	The PRC	RMB1,000,000	-	70	N/A	N/A	Property management and maintenance
Jiaxing Zhengxing Machinery and Equipment Leasing Company Limited 嘉興正興機械設備租賃有限公司 (“**Jiaxing Zhengxing**”) (note xlix & xliv)	The PRC	RMB5,000,000	-	70	N/A	N/A	Leasing of construction machinery and equipment

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

None of the subsidiaries had issued any debt securities at the end of the reporting period.

The directors of the Company made an assessment as at the date of initial application of IFRS 12 "Disclosure of Interests in Other Entities" and at the end of the reporting period. In the opinion of the directors, there is no subsidiary that has non-controlling interest individually that are material to the Group and therefore no information is disclosed for these non-wholly owned subsidiaries.

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

notes:

(i) Pursuant to the contract for Chinese-foreign contractual joint venture between the owners of Taizhou Sound, the Company has control over Taizhou Sound and is entitled to 100% of the dividend distributed by this entity.

(ii) The registered capital of Beijing Jingyushun is RMB176,000,000, of which RMB144,000,000 has been paid as at 31 December 2016.

(iii) The registered capital of Fuyang Sound is RMB90,000,000, of which RMB8,694,153 has been paid as at 31 December 2016.

(iv) The registered capital of Xishui County Xianqing is RMB26,350,000, of which RMB8,350,000 has been paid as at 31 December 2016.

(v) The registered capital of Yulin Sound is USD 4,050,000, of which USD2,584,524 has been paid as at 31 December 2016.

(vi) The registered capital of Xinghua Huqing is RMB112,260,000, of which RMB 58,947,500 has been paid as at 31 December 2016.

(vii) The registered capital of Yining City is RMB77,000,000, of which RMB49,087,500 has been paid as at 31 December 2016.

(viii) The registered capital of Zhaoyuan Sound is USD12,000,000, of which USD10,560,000 has been paid as at 31 December 2016.

(ix) The registered capital of Lanxi Sound is RMB97,500,000, of which RMB84,980,000 has been paid as at 31 December 2016.

(x) The registered capital of Fu'an Sound is RMB18,000,000, of which RMB17,000,000 has been paid as at 31 December 2016.

(xi) The registered capital of Fengdu County Sound is RMB40,000,000, of which RMB22,000,000 has been paid as at 31 December 2016.

(xii) The registered capital of Dazhu Sound is RMB35,000,000, of which RMB35,000,000 has been paid as at 31 December 2016.

(xiii) The registered capital of Bazhong Sound Sewage Treatment is RMB15,310,000, of which RMB 15,310,000 has been paid as at 31 December 2016.

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

notes: (continued)

(xiv) The registered capital of Xishui Sound is RMB90,000,000, of which RMB41,000,000 has been paid as at 31 December 2016.

(xv) The registered capital of Huazhou City Tongqing Sound is RMB7,000,000, of which RMB7,000,000 has been paid as at 31 December 2016.

(xvi) The registered capital of Jingxian Sound Water Treatment is RMB21,600,000, of which RMB20,600,000 has been paid as at 31 December 2016.

(xvii) The registered capital of Xinshao Sound is RMB70,580,000, of which RMB22,580,000 has been paid as at 31 December 2016.

(xviii) The registered capital of Helong Sound is RMB24,000,000, of which RMB9,000,000 has been paid as at 31 December 2016.

(xix) The registered capital of Shanxian Huadu is RMB30,000,000 and nil has been paid as at 31 December 2016.

(xx) The registered capital of Bazhong Baisite Tap is RMB10,000,000 and nil has been paid as at 31 December 2016.

(xxi) The registered capital of Suqian Sound is RMB58,604,000, of which RMB58,604,000 has been paid as at 31 December 2016.

(xxii) The registered capital of Lianshui Lianqing is USD5,000,000, of which RMB4,000,000 has been paid as at 31 December 2016.

(xxiii) The registered capital of Lianshui Biqing is USD9,350,000, of which RMB8,000,000 has been paid as at 31 December 2016.

(xxiv) The registered capital of Taizhou Yanqing Sound is USD5,900,000, of which USD5,900,000 has been paid as at 31 December 2016.

(xxv) The registered capital of Fuzhou City Dongxiang District Sound is RMB25,130,000 and nil has been paid as at 31 December 2016.

(xxvi) The registered capital of Gaozhou City Sound is RMB32,880,000 and nil has been paid as at 31 Decemeber 2016.

(xxvii) The registered capital of Shantou City Guanbu Sound is RMB62,500,000 of which RMB62,500,000 has been paid as at 31 December 2016.

(xxviii) The registered capital of Shantou City Heping Sound is RMB73,000,000 of which RMB73,000,000 has been paid as at 31 December 2016.

(xxix) The register capital of Shantou City Tongyu Sound is RMB65,000,000 of which RMB65,000,000 has been paid as at 31 December 2016.

(xxx) The registered capital of Haikou Sound Meisha is RMB148,000,000, of which RMB101,500,000 has been paid as at 31 December 2016.

(xxxi) The registered capital of Haikou Sound Wuyuan is RMB158,000,000, of which RMB101,500,000 has been paid as at 31 December 2016.

(xxxii) The registered capital of Beijing Dezhonghui labor is RMB5,000,000 and nil has been paid as at 31 Decmeber 2016.

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

notes: (continued)

(xxxiii) The registered capital of Xinyang Sound is RMB102,180,300 and nil has been paid as at 31 December 2016.

(xxxiv) The registered capital of Jilin Province Sound is RMB1,000,000 and nil has been paid as at 31 December 2016.

(xxxv) The registered capital of Linfen Sound is RMB40,670,000 and nil has been paid as at 31 December 2016.

(xxxvi) The registered capital of Yanchi County Sound is RMB18,900,000 and nil has been paid as at 31 December 2016.

(xxxvii) The registered capital of Baoji Sound is RMB38,000,000 and nil has been paid as at 31 December 2016.

(xxxviii) The registered capital of Linzhi Sound is RMB200,000,000 and nil has been paid as at 31 December 2016.

(xxxix) The registered capital of Xizang Sound is RMB500,000,000, of which RMB485,422,356.75 has been paid as at 31 December 2016.

(xl) The registered capital of Xizang Sound Environment technology consultation Development is RMB100,000,000 and nil has been paid as at 31 December 2016.

(xli) The registered capital of Xizang Sound Environmental technology consultation Engineering is RMB100,000,000 and nil has been paid as at 31 December 2016.

(xlii) The registered capital of Huangpingqielan Sound is RMB64,810,000 and nil has been paid as at 31 December 2016.

(xliii) Those entities are newly incorporated or established in the current year.

(xliv) Those entities are avquired in the current year.

(xlv) The registered capital of Huangpingqielan Sound is RMB64,810,000 and nil has been paid as at 31 December 2016.

(xlvi) The registered capital of Sound Construction Group is RMB116,000,000.

(xlvii) The registered capital of Jiaxing City Zhengy is RMB2,000,000.

(xlviii) The registered capital of Jiaxing Zhenghao is RMB1,000,000.

(xlix) The registered capital of Jiaxing Zhengxing is RMB5,000,000.

(l) Except for Taizhou Sound, the equity interests in other subsidiaries are same with the voting rights in the subsidiaries. The equity interest of the Company in Taizhou Sound is 76.8%, while the voting right in Taizhou Sound is 100%.

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Note	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Equipment		**57**	120
Investments in subsidiaries		**767,522**	767,522
Amounts due from subsidiaries		**676,263**	638,080
		1,443,842	1,405,722
Current assets			
Trade and other receivables		**11,986**	6,176
Amounts due from subsidiaries		**1,275,864**	1,457,750
Cash at banks		**3,010**	53,328
		1,290,860	1,517,254
Total Assets		**2,734,702**	2,922,976
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	36	**1,720,304**	1,720,304
Reserves		**20,187**	3,357
Total equity		**1,740,491**	1,723,661
Non-current liabilities			
Derivative financial instrument		**-**	37,969
Current liabilities			
Derivative financial instruments		**20,380**	-
Trade and other payables		**973,831**	968,652
Borrowings		**-**	192,694
		994,211	1,161,346
Total liabilities		**994,211**	1,199,315
Total equity and liabilities		**2,734,702**	2,922,976

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

The financial statements on pages 170 to 171 were approved and authorised for issue by the Board of Directors on 12 July 2018 and are signed on its behalf by:

Zhou Hao
Director

Liu Xiqiang
Director

Reserve movement of the Company

	Capital reserve RMB'000	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	7,010	30,713	65,354	103,077
Loss for the year	-	-	(92,620)	(92,620)
Exercise of share options	-	(7,100)	-	(7,100)
Lapse of share options	-	(23,613)	3,613	-
At 31 December 2015	7,010	-	(3,653)	3,357
Profit for the year	-	-	16,830	16,830
At 31 December 2016	**7,010**	**-**	**13,177**	**20,187**

47. MAJOR NON-CASH TRANSACTIONS

Save as disclosed elsewhere and below which are not reflected in the consolidated statement of cash flow, the Group did not have major non-cash transactions.

Considerations in respect of the Group's acquisition of subsidiaries with an amount of approximately RMB9,317,000 (2015: RMB12,875,000) had not been paid in cash at the end of the reporting period (Note 35).

During the year ended 31 December 2015, the proceed in respect of the Group's disposal of 49% equity interest in Fuqing Sound with an amount of approximately RMB7,066,000 was settled by other payables of Fuqing Sound (Note 36).

48. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 12 July 2018.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of **SOUND GLOBAL LTD.** (the "**Company**") will be held at National Environmental Protection Industry Zone, Maju Qiao County, Tongzhou District, Beijing 101102, People's Republic of China on Tuesday, 9 October 2018 at 10:30 a.m. (the "**Annual General Meeting**") for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and Audited Financial Statements of the Company for the year ended 31 December 2016 together with the Auditors' Report thereon. **(Ordinary Resolution 1)**

2. To receive and adopt the Report of the Directors and Audited Consolidated Financial Statements of the Company and its subsidiaries for the year ended 31 December 2016 together with the Auditors' Report thereon. **(Ordinary Resolution 2)**

3. To re-elect the following Directors retiring pursuant to the Company's Constitution (the "**Constitution**"):

   Mr. Ma Yuanju as an Independent Non-Executive Director (Article 89) **(Ordinary Resolution 3)**
   Mr. Zhang Shuting as an Independent Non-Executive Director (Article 89) **(Ordinary Resolution 4)**
   Mr. Luo Jianhua as an Independent Non-Executive Director (Article 89) **(Ordinary Resolution 5)**
   See Explanatory Note (i)

4. To approve the payment of Directors' fees of RMB360,000/– for the year ended 31 December 2016 (2015: S$92,025/–). **(Ordinary Resolution 6)**

5. To authorise the board of Directors (the "Board") to fix the Directors' remuneration. **(Ordinary Resolution 7)**

6. To re-appoint HLB Hodgson Impey Cheng Limited, Hong Kong and Foo Kon Tan LLP, Singapore as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 8)**

7. To transact any other ordinary business which may properly be transacted at an annual general meeting.

By Order of the Board
SOUND GLOBAL LTD.
Tan Wei Shyan
Company Secretary

Singapore, 31 August 2018

* *for identification purpose only*

Explanatory Notes:

(i) With reference to item 3 above:

(a) Mr. Ma Yuanju will upon re-election as an Independent Non-Executive Director of the Company, remain as chairman of the Audit Committee and Nomination Committee and a member of the Remuneration Committee. He will be considered independent for the purposes of Rule 3.13 of the Listing Rules.

(b) Mr. Zhang Shuting will upon re-election as an Independent Non-Executice Director of the Company, remain as a member of the Audit Committee and Remuneration Committee. He will be considered independent for the purposes of Rule 3.13 of the Listing Rules.

(c) Mr. Luo Jianhua will upon re-election as an Independent Non-Executice Director of the Company, remain as chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. He will be considered independent for the purposes of Rule 3.13 of the Listing Rules.

Notes:

1. A Shareholder of the Company is entitled to attend and vote at the Annual General Meeting is entitled to appoint more than one proxy to attend and vote in his/her stead. A proxy need not be a Shareholder of the Company.

2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the registered office of the Company at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542, or at the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting, or any adjournment thereof.

4. For determining the entitlement to attend and vote at the Annual General Meeting of the Company to be held on 9 October 2018 (Tuesday), the register of members of the Company will be closed from 4 October 2018 (Thursday) to 9 October 2018 (Tuesday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Annual General Meeting, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on 3 October 2018 (Wednesday).

As at the date of this Notice, the Executive Directors are Wen Yibo, Zhou Hao, Liu Xiqiang, Luo Liyang and Li Feng; and the Independent Non-executive Directors are Ma Yuanju, Luo Jianhua and Zhang Shuting.