



SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

ANNUAL REPORT 2017

CONTENTS

3	Corporate Profile
4	Chairman's Statement
7	Operations Review
11	Five Years Financial Summary
12	Corporate Information
13	Management Discussion & Analysis
18	Continuing Connected Transactions
19	Environmental, Social and Governance Report
25	Board of Directors
30	Joint Company Secretaries
31	Corporate Governance Report
45	Report of the Directors
54	Independent Auditors' Report
72	Consolidated Statement of Profit or Loss and Other Comprehensive Income
73	Consolidated Statement of Financial Position
75	Consolidated Statement of Changes in Equity
77	Consolidated Statement of Cash Flows
79	Notes to the Consolidated Financial Statements
191	Notice of Annual General Meeting

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

In 2017, the environmental protection industry witnessed a crucial period, while the promotion of environmental treatment approached a milestone, as various important government policies were introduced. According to the 19th National Congress of the Communist Party of China convened in 2017, it was explicitly proposed that green development should be carried on, an innovation system should be built for market-oriented green technologies, and green financing should be developed. The overall plan to advance the reform of the ecological civilization system and build a beautiful China according to the Five-sphere Integrated Plan will be the focus of environmental protection in the future. The notion that lucid waters and lush mountains are invaluable assets has been written into the party constitution, serving as the beacon for the future development of the environmental protection industry. Correspondingly, the government has promulgated various environmental laws and planning policies to boost the effective demand of the environmental protection industry. To this end, enforcement of environmental protection supervision is strengthened by increasing the cost of environmental violations, thereby creating fairer development opportunities for law-abiding and compliant enterprises. On the other hand, the introduction of environmental protection tax, alongside the 13th Five-Year Plan and other top-level measures such as laws and plans, will steer the environmental protection industry into a healthy development at an accelerated pace. To successfully implement the tax law, Premier Li Keqiang signed the “Regulations of the People’s Republic of China on the Implementation of the Environmental Protection Tax Law” promulgated by a decree of the State Council, which specifies taxes exemptions and reductions stipulated in the environmental protection tax law and stipulates the collection and administration of environmental protection taxes on the basis of the environmental protection tax law. In 2017, the brand new five-year undertaking of environmental protection began, while crucial action plans, such as “the Air Pollution Prevention and Control Action Plan”, “the Water Pollution Prevention and Control Action Plan” and “the Soil Pollution Prevention and Control Action Plan”, were fully implemented. Furthermore, the government successively promulgated a number of planning initiatives and measures, including the Ecological and Environmental Protection Plan during the 13th Five-Year Plan and the 13th Five-Year Plan for National Environmental Protection Standards. These actions has created an enormous market for the environmental protection industry, further shedding light on the development direction, structural layout and key undertakings of this industry. In 2017, support for energy conservation and environmental protection continued to grow by focusing on prevention and control of water, air and soil pollution, rural environmental remediation, as well as protection, restoration and treatment of key ecosystems, thereby providing necessary projects and financial support for the development of environmental industries. The enterprise income tax policy that is implemented in favour of special equipment for energy and water conservation and environmental protection has been further improved. During the Year, the government successively introduced a series of green financial policies, which further clarified the product design, operation mechanism and management system of green finance from issuing green bonds to developing key credit projects, thus improving the green financial policy system.

In 2017, the Ministry of Ecology and Environment successively circulated the “Guidelines on Promoting the Green “Belt and Road” Construction (《關於推進綠色「一帶一路」建設的指導意見》) and the “Belt and Road” Ecological Environment Protection Cooperation Plan (《「一帶一路」生態環境保護合作規劃》), which, as the guiding documents and the code of conduct for promoting the Green “Belt and Road” Construction in the PRC, provide new opportunities, huge potential market and capital guarantee for the “excursion” of the environmental protection industry in the PRC.

CHAIRMAN'S STATEMENT

As a new model for environmental protection, PPP has been in the spotlight since 2015, making waves in the industry. In 2017, some issues in the PPP development attracted a growing attention. According to the Circular 192 issued by the State-owned Assets Supervision and Administration Commission, central state-owned enterprises shall tighten risk control over the PPP projects, and it is emphasised that the life-long accountability system applies to significant decisions. The Ministry of Finance requires that the PPP project pipeline shall be sorted out in accordance with the normative principle. As result-oriented improvement and performance assessment became the key process of environmental remediation, the requirements for environmental remediation extend from the terminal to the entire industry chain, as well as from large and medium-sized cities in the east to small and medium-sized cities and towns in the central and western regions. In 2017, Sound Global faced numerous challenges. Against the strong competitive pressure, the Company continued to improve the proportion of water supply business and pipe network investments and operations by virtue of its own technical advantages and project implementation efforts. While continuously maintaining its traditional competitive advantages in the sewage and water supply business during the Year, the Company paid more attention to new market segments such as landscaping, pipeline repairs and underground drainage improvement. Meanwhile, the Company further moved towards the regional coordination and intensification model by adjusting its internal structure, further improving the integration of urban and rural areas. It successively established rural, industrial, municipal and ecological environmental business groups, extending its business coverage to industrial, domestic and rural sewage and wastewater treatment, contaminated and odorous water treatment, and comprehensive pipe construction and sponge city construction. Under the PPP model, the Company entered into strategic collaboration with various enterprises, and paid closer attention to projects with water quantity and feasibility service fees when selecting PPP projects. Exposed against increasing risks and unknown challenges, Sound Global timely improved its system, realigned its strategies and conducted visionary deployment to accommodate the market development. During the Year, Sound Global officially initiated its privatization, and actively assisted in and completed investigations into such matters that concern the relevant regulatory bodies, injecting impetus into the Company's strategic transformation.

Prospect

With new urbanization continuing across China, economic growth slowing down under new normal, and favorable national policies being introduced as guidance, the environmental market will witness new drivers, such as the comprehensive environmental remediation in small-medium cities and rural areas, comprehensive urban sewage treatment, as well as the integrated ecological chain and vertical subdivision of the environmental protection business. Following the introduction of the "13th Five-Year Plan", the "Action Plan for Water Pollution Prevention and Control" and the "New Urbanisation Plan of China", key urban and rural areas have raised new requirements for the environmental protection capacity, actively proposing the expansion of urban sewage treatment facilities and services to rural areas. The dire conditions required for environmental protection and the governmental efforts to promote "ecological civilisation construction" have injected new momentum to advance the environmental protection industry. As environmental protection gradually unravels regional monopolies and encourages more investments and mergers and acquisitions, industry players have gradually evolved from the single business model to integrated environmental operations, thus turning the environmental protection market into an appealing investment target. Seeing the new urbanization model turning into an important drive for economic growth in the future, 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. According to guidance issued by the National Development and Reform Commission in November 2017, private enterprises are encouraged to participate in PPP projects in various aspects. In line with the increasingly matured PPP model, the new normal of financial integration will be in a dominant position on the environmental industry capital chain. With green financial policies taking effect, the PPP model will explore an effective alternative for the sustainability of the environmental protection industry, which may affect the competitive landscape of the entire industry.

CHAIRMAN'S STATEMENT

Driven by the development trend of the environmental protection business in the aforesaid background, Sound Global maintained and further consolidated its leading position in China's water sector despite a challenging capital market in 2017. Looking into 2018, Sound Global will continue to implement the strategy of synergetic development, broaden the marketing pipeline, and gradually render the business technology support to all regions. Furthermore, Sound Global will continue to increase the exploration and deployment of "sponge city" development, contaminated and odorous water treatment, garden landscaping and pipeline repair. Driven by tremendous government support to promote the ecological civilization construction, we will cement collaboration with strategic partners in great efforts to achieve full coverage of large-volume water projects. As for the sewage treatment of industrial parks, we will gradually establish demonstration projects as the benchmark for sewage treatment within industrial parks. On the other hand, we will extend our business presence to the central and western provinces in advance on top of further improving the technological advancement and operating stability in the rural water treatment business. To enhance our competitiveness, we will constantly strengthen technological innovation for developing new business technologies, innovate operational management models, and improve products and service methods. Meanwhile, we will also enhance our core technological advantages, lead the future with technology, and nurture new growth drivers. By implementing brand strategy and technological innovation, we constantly raise the threshold and build barriers to counter the increasingly severe environmental pollution and the increasingly fierce competition in the industry. By utilising the "Sound Global Quality 2017" initiative, the Company will promote the quality year initiative and the quality engineering strategy, and 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, aiming to enhance the synergetic efficiency among the business segments, as well as the upstream and downstream of the industry chain. Furthermore, we will continue to explore the PPP model in depth to improve and develop new models of government-enterprise cooperation and equity cooperation under the PPP model, as well as integrated ecological platforms. In active response to the "Belt and Road" Initiative proposed by the government, we persist in the strategy of "going out" by continuing our international expansion and adventure, as well as exploring new international business models combining technology output and capital operation. 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, one of China's leading one-stop integrated turnkey water & wastewater treatment solutions providers, has been engaged in the wastewater treatment for more than 20 years, providing professional services to thousands of customers. In 2017, the promotion of environmental treatment approached a milestone. Over the year, we have been making contribution to the environmental protection through our continued exploration and innovation. The report of the 19th National Congress of the Communist Party of China has once again emphasized the construction of ecological civilization according to the Five-sphere Integrated Plan. The notion that lucid waters and lush mountains are invaluable assets has been written into the party constitution. It also has adhered to the harmonious symbiosis between man and nature, serving as the beacon for the future development of the environmental protection industry. As the guidance and tool to achieve the ecological civilization construction, the said notion reveals the mutual relationship between environment and economy in the process of evolution. In 2017, the government continued to push forward the "three major campaigns", which involved prevention and control of water, solid waste and air pollution. As a result, the first round of these campaigns safeguarded the blue sky. At the same time, various initiatives were adopted to promote market regulation and strengthen risk control over PPP projects. The rapid growth of PPP projects was adjusted to focus on quality standards. With an increasingly recognized concept of environmental protection in the market, the demand for comprehensive environmental protection services became noticeable. In addition, the market segmentation became increasingly intensified, as the hazardous waste area received attention due to an urgent need for remediation, the integration of sanitation market became a trend to meet comprehensive demand, and the water environment remediation entered a difficult period due to difficulties such as performance evaluation. Due to growing government efforts to treat and protect environment, further implementation of the emission permit system and increasingly frequent environmental inspections, the environmental protection industry ushered in enormous development opportunities. Besides being honored and privileged to share and review our 2017 performance with each shareholder, we also look forward to and make development plans for the year of 2018.

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. In the field of ecological environment, 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 focused more on new market areas such as garden landscaping, pipeline repair and underground drainage improvement. In the meanwhile, the Company adjusted its internal structure, moved towards a regional overall planning and intensification model, and further improved the layout of urban-rural integration. Sound Global's unique comprehensive treatment of the rural water environment has further covered the central and western provinces. 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. Sander Global officially launched the privatization process during the Year, actively cooperated with relevant regulatory agencies to complete the investigation of matters of concern, and fully promoted the publication of unpublished results. The Company's internal control management mechanism was further improved. 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. To constantly improve the Company's technical capabilities and maintain the technical leadership in the industry, the Company attracted high-caliber talents through multiple channels, while establishing an expert database system to carry out technical training, project consultation, scientific and technological innovation and other activities, which in return achieved the integration of resources and improved the Company's overall technical capability. The MNCR integrated equipment independently developed by the Company was successfully applied to Haikou and Fuzhou projects; new wheat processing kits for villages were developed and applied to Danyang, Fengdu and Xiangyang projects. SMART-PFBP multi-stage biological contact oxidation technology was successfully selected into Beijing Water Pollution Prevention and Control Technology Catalogue (2017 Edition) and has been successfully applied to major wastewater treatment projects such as Yaoxinzhuang Village in Beijing and Xishui in Guizhou, with the effluent quality meeting the leading national standards. 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 and water purification 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 2017, 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 environment group, industrial environment group, rural environment group and ecological environment group. During the Year, the ninth sewage treatment plant project undertaken by Sound Global in Jubail, Saudi Arabia was selected into the top nineteen major achievement exhibition, the sewage treatment station located in Yaoxinzhuang Village, Tongzhou District, Beijing was selected into the outstanding sewage treatment cases in rural areas, and the eighteen rural towns of Changsha County, Hunan Province were selected into the outstanding sewage treatment cases in rural townships. In addition, the PPP project "Water Environment Comprehensive Remediation for Meishe River-Shapo Reservoir" in Haikou City was successfully selected into the twenty-eight famous cases of odorous water body treatment in China. These cases were reported by several authoritative media bodies such as CCTV News, Morning News and CNC (新華社網絡電視). 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 several PPP projects involving water environment comprehensive treatment, including the sponge city pilot area (Licang District) (in term of Da Cun River Basin) in Qingdao City, a sewage treatment plant in the chemical industrial park in Chengwu County, and sewage treatment facilities and supporting pipe network in Zhengxian Village, Longchuan County (upper area/lower area). 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, developing online learning software such as “Sound College” and regularly organizing project learning and special lectures, with a view to enhancing talent cultivation and advancing the talent team development. By establishing the 1990s Employee Club and adopting other measures, the Company enhanced the training and guidance for young talents. 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. Through the planning of Sound Global Business Management (MBA) seminars for the middle and senior management personnel, the Company continued to improve its management standard and innovation capability. Under the new situation and the new norm, a leading market player needs leadership-driven talents to maintain its leading position. 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 optimize and improve its core talent team building through the combinations of internal training with external introduction of talents, and alternation of old and new talents with directional development.

DEVELOPMENT OBJECTIVES

According to the 19th National Congress of the Communist Party of China convened in 2017, it was explicitly proposed that green development should be carried on, and an innovation system should be built for market-oriented green technologies, which means that the overall plan to reform the ecological civilization system and build a beautiful China will be the focus of environmental protection in the future. With the introduction and implementation of “the Air Pollution Prevention and Control Action Plan”, “the Water Pollution Prevention and Control Action Plan”, “the Soil Pollution Prevention and Control Action Plan”, and other environmental measures, the integration of environmental remediation has become a trend and the development of environmental protection has entered a difficult period. Looking into 2018, the Company will continue to improve the development of its integrated innovation platform, while deepening in-house reforms based on technological innovation with a focus on market demand. In pursuit of the strategy to determine actions and omissions, we will thoroughly strengthen the internal control system, and improve the talent pool development. Meanwhile, the Company will accelerate its adaption to the new pattern, new mechanism, new momentum and new approaches under the new market conditions, and fully promote our privatization in accordance with the Company's established strategy. By upgrading the environmental and ecosystem development and straightening out the strategy choices for heavy assets and light assets in the platform, as well as self-reliance and cooperation, we will continue investing in the business segments of municipal water services, industrial water services, rural water services and ecological environmental management. Concurrently paying attention to the comprehensive pipe construction, river basin ecosystem treatment, and the contaminated and odorous water treatment, the Company continues to attach great importance to and advanced its presence in the sludge treatment technology, and manages the driving force and coordination between the integrated platform and the development of each segment business. On the other hand, the Company continues to improve the corporate governance structure and optimize the institutional process. Furthermore, the Company will improve our management standard and service system by taking great advantage of the collection and use of Internet cloud data, and enhance our corporate competitiveness through continued technical innovation. In addition, while expanding the scale of the industry, the Company aims to further reduce our carbon emissions for our sustainability development. By strengthening our efforts to further deepen the development of and increase the investment in miniaturized water supply and drainage technologies, we will achieve energy conservation and consumption reduction. We wish to explore extensive cooperation with various community members in building an integrated cooperative platform for comprehensive 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.

OPERATIONS REVIEW

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 family success, health and happiness in 2018.

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Restated)	(Restated)
Revenue	4,119,886	3,877,799	4,085,758	3,674,364	3,248,023
Gross profit	1,383,545	1,266,683	1,317,669	1,202,996	1,053,709
Profit before income tax	391,263	658,946	639,934	651,449	578,693
Income tax expenses	(184,383)	(160,498)	(180,640)	(147,518)	(143,890)
Profit for the year	206,880	498,448	459,294	503,931	434,803
Profit for the year attributable to					
Owners of the company	256,865	484,842	455,425	502,943	432,566
Non-controlling interests	(49,985)	13,606	3,869	988	2,237
	206,880	498,448	459,294	503,931	434,803
Earnings per share (in RMB cents)					
Basic	17.05	32.19	30.24	35.19	33.53
Diluted	17.05	32.19	30.24	34.73	32.99

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Restated)
Current assets	8,675,717	5,977,278	6,509,934	6,985,431	6,361,755
Non-current assets	9,745,925	7,943,129	5,551,143	3,120,686	2,603,054
Total assets	18,421,642	13,920,407	12,061,077	10,106,117	8,964,809
Current liabilities	6,564,957	4,756,567	5,770,603	4,377,886	2,656,408
Non-current liabilities	6,142,331	3,744,177	1,530,094	1,482,248	3,161,463
Total liabilities	12,707,288	8,500,744	7,300,697	5,860,134	5,817,871
Capital and reserves	5,714,354	5,419,663	4,760,380	4,245,983	3,146,938

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Wen Yibo (Chairman)
Luo Liyang
Zhou Hao
Liu Xiqiang
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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Branch Share Registrar in Hong Kong

Tricor Investor Services Limited
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183 Queen's Road East
Hong Kong

MANAGEMENT DISCUSSION & ANALYSIS

SIGNIFICANT TRENDS, COMPETITION AND EVENTS

Environmental issues have always been in the spotlight in China and even across the world. In 2017, the Ministry of Ecology and Environment, through regulation and supervision, scaled up its efforts to investigate non-compliant cases involving environment protection and imposed penalties, if any, with the revised “Water Pollution Prevention and Control Law of the People’s Republic of China” coming into force on 1 January 2018. Following the official introduction of the “Implementation Rules of the Environmental Protection Tax Law”, the system governing sewage discharge permits and the “environmental forerunner system” are also promoted and implemented. Meanwhile, the environmental monitoring reform continues to unfold. These initiatives emphasize the government responsibility for environmental quality, while motivating all stakeholders to protect the environment. Encouraged to adopt active precautions rather than passive treatment actions, enterprises will achieve green transformation, further facilitating the development of the environmental sector, as well as the research, development and applications of new technologies. Besides strengthening the treatment of air, water and soil pollution, the Ministry of Ecology and Environment continues to deepen and carry out the ecological and environmental reforms. Despite these initiatives, there continues to require substantial commitments to developing the environmental rule of law.

According to the 19th National Congress of the Communist Party of China convened in 2017, it was explicitly proposed that green development should be carried on, an innovation system should be built for market-oriented green technologies, and green financing should be developed. Furthermore, industries related to energy efficiency and environmental protection, clean production, and clean energy shall be fostered. These indicate that the reform of an ecological civilization system and the master plan to develop a beautiful China will constitute the major environmental work in the future, wherein “construction of an ecological civilization represents a millennial mission to national sustainability”, “the ecological environment shall be respected as much as the precious life”, and “a most stringent system shall take effect to protect the ecological environment”. As for environmental remediation in rural areas, the government increasingly recognizes the importance of comprehensive environmental treatment in rural areas, and encourages a growing number of environmental enterprises to undertake public-private partnership projects of the government. As a result, they join forces to address the sewage discharge and pollution issues in rural areas. In 2018 and beyond, with various government initiatives being implemented for ecological and environmental protection and the construction of ecological civilization taking shape, it is explicitly required in the “13th Five-year Plan for Integrated Environmental Remediation in Rural Areas” that more than 130,000 designated villages subject to comprehensive environmental remediation will have been added by 2020, accounting for one third of the total number of designated villages across the country. 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, as well as introduction of “the Air Pollution Prevention and Control Action Plan”, “the Water Pollution Prevention and Control Action Plan” and “the Soil Pollution Prevention and Control Action Plan”. By constantly deepening the environmental work, the Chinese government begins to shift from targeted control over environmental pollution to targeted improvement in environmental quality in connection with environmental management, as well as to formulate the environmental management system centering on sewage discharge permits for solid waste pollution.

MANAGEMENT DISCUSSION & ANALYSIS

In April 2017, the central government established Xiong'an New District in Hebei and determined it as a new town featured with green and ecological residence. In line with emerging sponge city construction across China, sponge city development has become an important driver for the ecological civilization development, as well as an integral role in striking a balance between city development and ecological environment. Sound Global also pays closer attention to new market sectors, such as garden landscaping, pipeline repair, and underground drainage improvement. Detailing arrangements for marketing, technology, production, operation and basic management during the year,, the Company proposed specific work requirements, including “nine measures for marketing”, “six measures for technology”, “ten measures for production”, “four measures for operation” and “five major tasks”. To create values during the new era, the approaches have undergone fundamental changes, as uncertainty has become a prominent symbol. As changes are driven by technologies, we can only keep abreast with the times through innovation. As a result, driven by “new era, new goals and new strategies”, we are required to build an innovative and open platform for ecological and environmental industries that cater to the future needs and resort to technology applications in an all-round way. Looking into the future and looking out for our customers, we shall address customer requirements and build a better life, which represents the key of creating values in the new era. Resorting to technology applications, we shall pursue technological originality, which will help achieve the industrialization of advanced technologies. 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.

The implementation of various environmental protection plans and measures, including “the Air Pollution Prevention and Control Action Plan”, “the Water Pollution Prevention and Control Action Plan” and “the Soil Pollution Prevention and Control Action Plan”, has created an enormous market for the environmental protection industry, further shedding light on the development direction, structural layout and key undertakings of this industry. Driven by national policies, the water and solid waste treatment industry is expected to embrace enormous market opportunities and development potential in the future. In 2017, government spending on energy conservation and environmental protection continued to increase, particularly with special funds granted by the central government in respect of environmental protection reaching RMB47.442 billion. These funds focus on prevention and control of water, air and soil pollution, rural environmental remediation, as well as protection, restoration and treatment of key ecosystems, and therefore provide necessary projects and financial support for the development of environmental industries. The government further improved the water supply pricing mechanism for rural areas to promote the sustainability of water resources and water conservation and emission reduction in urban and rural areas. The water supply, sewage treatment and solid waste treatment industries will benefit from the rapidly accelerating urbanization in China and government policy and support for the environmental protection industry. With the development, scale and growth level of these industries expanding further, investors in the capital market will pay growing attention to the environmental protection industry. In 2017, the Company further deepened its reforms under the new development strategy of “quality first, technological drivers and efficiency priority”. Looking into 2018, the Company will consistently strive to advance reforms, such as shifting its focus on a hierarchical structure and a flat business unit to a taskforce structure, and fully promote our quality-based, efficiency-enabled and momentum-driven reforms. Meanwhile, the Company will continue to increase its presence in the sponge city and urban-rural integration, and further improve the business layout in the sponge city. 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 increased by approximately RMB242.1 million or 6.2% from approximately RMB3,877.8 million in 2016 to approximately RMB4,119.9 million in 2017.

Turnkey revenue increased by approximately RMB2.4 million or 0.07% from approximately RMB3,034.3 million in 2016 to RMB3,036.7 million in 2017. The Group continues to be awarded and is fulfilling its Engineering, Procurement and Construction ("EPC") projects in PRC.

External revenue from equipment fabrication segment increased by approximately RMB48.1 million or 1,002.0% from approximately RMB4.8 million in 2016 to RMB52.9 million in 2017 as the contracts with external parties increased significantly during the year while inter-segment sales decreased.

Revenue from O&M segment increased by approximately RMB191.6 million or 22.8% from approximately RMB838.7 million in 2016 to approximately RMB1,030.3 million in 2017. Revenue increased as more BOT projects started operation and projects that have been operating earlier are gradually stable.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately RMB116.8 million or 9.2% from approximately RMB1,266.7 million in 2016 to approximately RMB1,383.5 million in 2017. The increase is resultant from the increase in revenue.

The gross profit margin increased slightly by approximately 0.9% from approximately 32.7% in 2016 to approximately 33.6% in 2017. 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 decreased by approximately RMB18.2 million or 20.0% from approximately RMB91.0 million in 2016 to approximately RMB72.8 million in 2017. The decrease in 2017 was mainly due to decrease in investment income on available-for-sale investments.

Other Gains and Losses

Other losses increased by approximately RMB204.4 million or 105.8% from approximately RMB193.2 million in 2016 to approximately RMB397.6 million in 2017. The increase mainly arose from the impairment losses recognized in service concession receivables and intangible assets.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately RMB32.0 million or 48.4% from approximately RMB66.1 million in 2016 to approximately RMB98.1 million in 2017. The increase mainly arose from: (1) consultation fees increased approximately RMB11.9 million, due to engagement of consultation services as Group's awarded new projects; (2) labour costs increased approximately RMB10.8 million as the Group expands its operation; and (3) fees paid to local agents for assisting the Group in its tender process at various locations increased approximately RMB4.9 million, fees vary depending on project size and negotiation, there is no clear identifiable trend.

MANAGEMENT DISCUSSION & ANALYSIS

Research and Development Expenses

Research and development expenses remained relatively consistent at approximately RMB48.2 million in 2016 and approximately RMB50.5 million in 2017.

Administrative Expenses

Administrative expenses increased by approximately RMB58.9 million or 24.5% from approximately RMB240.6 million in 2016 to approximately RMB299.5 million in 2017 mainly due to the increase in: (1) staff costs by approximately RMB33.7 million as Group's headcount increased; (2) bank handling fees in relation to borrowings and finance leases during the year of approximately RMB 8.9 million; and (3) due to cancellation of BOT projects, service concession receivables being recognised as administrative expenses at approximately RMB 20.1 million.

Finance Costs

Finance costs increased by approximately RMB68.7 million or 45.6% from approximately RMB150.5 million in 2016 to approximately RMB219.2 million in 2017. The increase was mainly due to addition of finance lease and borrowings during the year.

Income Tax Expenses

Income tax expenses increased by approximately RMB23.9 million or 14.9% from approximately RMB160.5 million in 2016 to approximately RMB184.4 million in 2017 despite a decrease in the profit for the year. Income tax expenses increased as business operations increased. The decrease in profit was partly resultant from the allowance for doubtful debts, impairment losses recognized in service concession receivables, intangible assets and investment in associates, the income tax effects of which were not recognized.

B) Review of Group's Financial Position:

Current Assets

Current assets increased by approximately RMB2,698.4 million or 45.1% from approximately RMB5,977.3 million as at 31 December 2016 to approximately RMB8,675.7 million as at 31 December 2017 mainly due to the increase in trade receivables, amounts due from customers for contract work and structured deposits of RMB500.0 million placed in a commercial bank.

Non-Current Assets

Non-current assets increased by approximately RMB1,802.8 million or 22.7% from approximately RMB7,943.1 million as at 31 December 2016 to approximately RMB9,745.9 million as at 31 December 2017. The increase mainly arose from increase in service concession receivables and intangible assets as investment in BOT projects increased.

Current Liabilities

Current liabilities increased by approximately RMB1,808.4 million or 38.0% from approximately RMB4,756.6 million as at 31 December 2016 to approximately RMB6,565.0 million as at 31 December 2017. The increase mainly arose from the increase in short term borrowings and trade payables.

Non-Current Liabilities

Non-current liabilities increased by approximately RMB2,398.1 or 64.0% from approximately RMB3,744.2 million as at 31 December 2016 to approximately RMB6,142.3 million as at 31 December 2017. The increase mainly arose from the increase in long term borrowings.

MANAGEMENT DISCUSSION & ANALYSIS

Capital and Reserves

Equity attributable to owners of the Company increased by approximately RMB262.5 million or 5.1% from approximately RMB5,186.6 million as at 31 December 2016 to approximately RMB5,449.1 million as at 31 December 2017. The increase was mainly due to the increase in the profit for the year attributable to owners of the Company of approximately RMB256.9 million.

FINANCIAL REVIEW

Gearing

	2017 RMB'000	2016 RMB'000
Borrowings (current)	2,372,097	1,483,726
Borrowings (non-current)	4,881,041	2,624,444
Obligation under finance lease (current)	261,527	188,092
Obligation under finance lease (non-current)	864,067	826,578
Total debts	<u>8,378,732</u>	<u>5,122,840</u>
Equity attributable to owners of the Company	<u>5,449,106</u>	<u>5,186,632</u>
Total debt to equity ratio	<u>1.54</u>	<u>0.99</u>

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 Listing 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

ABOUT THIS REPORT

We prepared this report 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”), aiming to provide investors with a better understanding of the Company’s policies, measures and performance regarding the Environmental, Social, and Governance (the “ESG”) Report (the “Report”). This is the second ESG report published by the Company, which is prepared in both Chinese and English and available on the website of the Stock Exchange and the Company’s website. By reading the Report, the investors may develop a better understanding of the contributions made by Sound Global Ltd. (Hong Kong Stock Code: 00967) (“Sound Global”) to the environmental protection and our ESG commitments. In pursuit of the principles of fairness and justice, Sound Global and its subsidiaries are committed to improving the Company’s performance and rationally expanding the interests of relevant investors. This report focuses on operating conditions during the period from 1 January 2017 to 31 December 2017. In addition to our active pursuit of long-term and stable development, the Company lays great emphasis on environment protection and complies with ethical requirements. We fully recognize that lucid waters and lush mountains are invaluable assets. By persisting in sustainability policies, we will safeguard environmental sustainability and reduce our carbon footprint. The board of directors (the “Board”) is responsible for assessing the ESG risks and determining the responsibilities thereof, while employees from functional departments of the Company, the management, and project companies were actively engaged in preparing the Report.

Environmental Sustainability

As a leading integrated provider of water supply and wastewater treatment solutions in China, we affirm the environmental and social commitments, persist in the practice of sustainability as the core guidance for our industry chain, and emphasize the harmonious co-existence between man and nature. We are committed to provide solutions for wastewater treatment, water supply, water ecological treatment, and many other areas. With our improving water processing capacity, we have the capability to ensure the water discharge meet the irrigation and drinking standard by applying wastewater treatment and water purification technologies. By integrating sustainable development into our daily business, we will provide high quality services to our customers. Meanwhile, we will actively promote and shoulder the responsibility for environmental protection, such as our best efforts to avoid wasting resources. We will encourage reuse of resources and implement a series of environmental initiatives throughout the Company. During the construction and operation of water plants, we ensure that our undertakings are completed to meet quality and quantity requirements, as well as the expectations of the owners. Our engineers strive to achieve low-carbon development by reducing carbon emissions during the processes of selecting materials, transporting cargos, and engaging construction and installation activities, thus avoiding secondary pollution. Complying with the relevant national laws and regulations, we also meticulously study national laws and policies relating to environmental protection. All operations, management, productions of the Company are in compliance with the government regulations, and we are actively making contribution to the development of environmental protection. During the reporting period, the Company did not identify any material non-compliant case in connection with environmental laws and regulations.

Waste Gas, Wastewater and Solid Waste Disposal

Emission of waste gas, wastewater and solid waste is closely connected to work and life. In response to the government initiative of a low-carbon economy, countries have set targets of energy conservation and emission reduction. Sound Global actively continues the development of its water treatment technologies by adopting measures to control the emissions generated from different stages, including the source, the middle process, and the final process, so that the emission standards are met. We pay attention to processing waste gas, wastewater, and solid waste, which are the major emissions from our operations, and prevent these substances from adversely affecting the living conditions of the residents in the neighborhood. General industrial wastewater and pharmaceutical industry wastewater are characterized by high concentration of COD, complex ingredients and poisonous substances. In addition, there are a high level of recalcitrant substances and more suspended solids. As for waste gas, our main approach is to reduce emissions. In case of exhaust gas generated from the transportation, we actively reduce the use of large trucks and minimize transportation activities. In case of waste gas generated from industrial processes, we adopt the aeration-based deodorization of activated sludge (曝氣式活性污泥脫臭法) to reduce malodor. Our renewable resources department of headquarters will recycle the obsolete working resources on a regular basis to maximize the reuse of these resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste Gas

Air pollutants produced by us primarily include exhaust gases from sewage treatment and exhaust emissions from transportation vehicles. During the wastewater treatment, in particular complicated industrial wastewater treatment, massive exhaust gas will be generated. In addition to investing in specialized agents, highly-efficient processing equipment, all-weather precision testing equipment, we will organize professional training sessions for our operation personnel so that the emission of exhaust gas can be efficiently and timely treated during our production. As for exhaust emissions from transportation vehicles, we mainly categorize the vehicles into different types according to the planned transportation routes and the differences of handling sites based on the nature and weight of transportation items. We intended to replace our old-model vehicles with our self-developed electric transportation vehicles in the future. As for the sewage treatment process, we upgrade and optimize the treatment facilities and processes, and organize training sessions for our employees. During the reporting period, we did not identify any case in connection with on-site mishandling of waste gas from our existing projects.

Wastewater

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 an integrated industry chain that involves various processes of the water environment, including municipal/industrial/rural water treatment, and water supply for urban contaminated and odorous water treatment, wastewater treatment, and in-depth recycle treatment. Our treated water emissions are able to meet the national emission standards regarding irrigation or directly enter the pipe network for reuse purposes.

Wastewater generated from our production operation activities mainly include a small amount of domestic sewage and washing water for equipment, which is recycled or directly discharged to municipal pipeline after being treated to meet the wastewater treatment standards within the factory premises of the Company. We comply with treatment and emission standards as set by the government, and implement the abovementioned treatment procedures to prevent secondary pollution of local water sources, as well as affecting the life of local residents.

Solid Waste Disposal

The Company stresses great importance to proper disposal of solid waste generating from our production and operation, for which, strict and detailed management measures, as well as monitoring systems for treatment processes, are formulated to prevent secondary pollution from the treatment processes. Solid waste being treated will be classified, sealed, stored, and attached with a warning sign in strict compliance with national policies and industrial standards. Disposal of all solid waste meets the relevant national policies and regulations. We encourage our employees to reduce the use of, reuse and recycle our resources. During the Year, the Company vigorously promotes paperless practices in offices to reduce paper waste, such as the office automation (OA) system to submit applications and grant approvals for our internal approval procedures. Our back office will regularly purchase office supplies for our employees according to the actual conditions. Use of disposable tableware has been discouraged in our cafeterias, and we encourage our employees to cherish food by choosing meals on demand.

Carbon Emissions

The Company actively implements various measures during its production and operation to lower carbon emissions and promote low-carbon practices. To reduce carbon emissions, we make active responses to national energy conservation and emission reduction initiatives by encouraging our employees at the headquarters to ride corporate shuttle buses to commute between their workplace and residence, as well as promoting active use of public transportation. We will constantly upgrade and improve our production management systems, as well as production and treatment facilities, for the purposes of minimizing energy consumption and using electricity safely. In doing so, the Group will ensure that all of its projects will achieve the targets of energy conservation and emission reduction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy and Water Consumption

By recognizing resources as a gift given by nature to man, we shall rationalize consumption and promote conservation. The Company formulated management rules in regard to water and electricity consumption for productions and offices, respectively, and introduced measures to conserve resources during the year. In accordance with the economic operation principles, strict control over energy consumption during our production and operation was carried out with efforts made to enhance the utilization rate of resources. As for energy conservation, the Company upgraded and transformed energy-intensive equipment deployed within the industry parks for sewage treatment and water supply, while continuing to invest in our research and development capacities with a view to reducing energy consumption of our productions. In case of electricity consumption for various operating projects, specific statistics officers will monitor the consumption of electricity and water, and regular reports on electricity and water consumption are delivered to the headquarters. The Company requires all departments to conduct internal inspection over safe use of electricity and power off unnecessary lighting facilities. In procuring electric equipment, the Company prioritizes the purchase of power-efficient products. To enhance the efficient utilization of water resources during our production and operation, we exercise stringent control over direct sewage discharge by recycling and reusing renewable and recycled water. All pipelines for spraying water within offices and supplying water at cafeterias are upgraded to water-saving models. While the property management department of the Company conducts regular assessment and inspection over use of consumables, as well as repairs and overhauls wherever necessary, we actively encourage water conservation among our employees. In addition to the implementation of a series of internal control, assessment, and management systems, we explore and develop efficient operating approaches in compliance with the low-carbon model.

Environmental Impact Management

We always conduct environmental impact valuation and assessment over our projects in progress and projects in the pipeline in strict compliance with national laws and regulations, as well as related policies, and implement real-time follow-up and monitoring initiatives, in which case, targeted precautions or measures to minimize negative environmental impacts will be introduced so that negative impacts brought by project construction to local residents and the environment can be minimized. Prior to commencement of all construction projects, the Company will conduct environmental impact valuation in accordance with the relevant laws, regulations, and polices, and our professional valuation engineers will execute full-cycle monitoring and management steps during the construction to minimize the environmental impact brought by the operation activities. We conduct strict internal reviews over the liability with respect to manufactured and designed products, and obtain major product certificates and permits required for distribution according to the law. The Company will conduct internal audit over our ISO practices every half year, and carefully procure all departments to implement the “Environmental Management System Requirements and Guide”. Over the course of project development and operation, the Company exercises strict control over water discharge and other waste to meet the emission standards, and adopt targeted treatment measures, including heat insulation and noise insulation, against noise pollution and thermal pollution.

Employee Recruitment

By recognizing the importance of team building, the Company has been committed to cultivating an employee-friendly workplace conditions, as well as improving the workplace well-being of the employees. By complying with and in accordance with the Labour Law of the People’s Republic of China, the Labour Contract Law of the People’s Republic of China, and other laws and regulations, we select talents with reference to actual conditions. We believe the joint efforts taken by team members will help improve our results, and therefore we respect each employee with fair and impartial treatment according to the laws so that each of the employees will not be discriminated against due to their religious beliefs, sex, age, race, or marriage. Furthermore, we oppose any discriminatory employment due to political background, disability, sex orientation, or social stratification. Our well-established employment and interview procedures, as well as the talent diversity development program, will ensure that each employee upon induction may gain fast growth at the Company and enjoy equal opportunities and equal treatment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In strict compliance with the relevant laws and regulations in regard to labour protection, the Company safeguards the rights of equal employment, and prohibits the employment of people under the age of 16. We will enter into the labour employment contract with each employee in strict compliance with labour laws and regulations to protect the interests of our employees. In accordance with the Social Insurance Law of the People's Republic of China, we contribute to various statutory social insurance in favor of each employee, and ensure that our employees are entitled to statutory holidays, paid annual leave, matrimonial leave, maternity leave, and others. On the other hand, the Company actively processes work and residence permits and public affordable housing paperwork for our eligible employees in accordance with the relevant policies and requirements as set by the Beijing government. In compliance with national regulations, the Company follows the 8-hour work schedule for daily office hours. During the reporting period, the Company did not identify any non-compliant case in connection with the relevant laws and regulations governing human resources.

Occupational Safety and Health

The Company attaches great importance to occupational safety and health of each employee. 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, as well as laws and regulations related to safety inspection on special equipment and other applicable national regulatory requirements, the Company implements internal production safety management policies and systems, and formulates comprehensive emergency rescue plans for production and safety accidents. During our production and operation, various levels of production safety responsibilities are adopted and designated. On the other hand, the Company will conduct internal audit on our ISO practices 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. Any employee who enters the operation zones is required to wear a safety helmet and belt, while non-operating personnel is prohibited from entering into the operation zones. All of these measures prevent safety accidents from occurring during our production process. In addition to a free-of-charge checkup for our employees every year, we will provide personal protective equipment on a regular basis. To raise the awareness of individual health among our employees, as well as to address the "suboptimal health" conditions arising from the workplace, we offer free-of-charge Chinese medical consultation activities. During the daily work break, the radio calisthenics and eye exercises will be arranged to release the work pressure. During the reporting period, the Company did not identify any non-compliant case in connection with any occupational health and safety.

Development and Training

We recognize the importance of talent development. By introducing the external training system and the online college programs, the Company has established scientific and effective training mechanisms, pursuant to which, the Company will publishes its annual training plan, quarter training plan, and separate training (temporary training) every year. We establishes a sound induction training system for our new employees, pursuant to which, the Company introduces the "master-apprentice" model for fresh graduates, in which case, each senior employee will coach two to three new trainees so that they can adapt to the workplace as soon as possible and master the required skills. Subject to the requirements for job grades at various departments and different position requirements, our online college is set up to plan out various training programs for our employees, who may engage in online learning by logging onto the "Sound Global College" through the intranet. Meanwhile, to further improve the expertise and leadership of the middle-level and senior-level management of the Company, the Company actively organizes Sound Global MBA seminars. To accommodate the business requirements of various departments, we also provide regular special training sessions, where in-house senior employees from various business divisions and external lecturers will deliver their presentations that target to improve workplace skills of the employees on an ongoing basis so that they can realize individual value in the Company and make contributions to the development of the Company. Furthermore, our year-end performance assessment over our employees, as well as evaluation over departmental performance, will serve as the basis of determining remuneration adjustment and professional title. In addition, the Company sets up the Sound Global Library, and encourages its employees to donate and share books. Considering the personality of fresh graduates and young employees amongst our newly recruited employees, the Company sets up the 1990s Employee Club, whereby organizing various forms of self-learning, cultural, and entertainment activities to enrich professional learning and recreation activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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. We conduct a background check against information as provided by the applicants to be hired, and no employment will proceed if such applicants are found committing forgery. 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

The Company acknowledges the importance of collaboration with the suppliers, and therefore formulates a series of measures, including the "Tender Management Measures" and the "Tender and Bidding Audit Management Measures". Pursuant to which, 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. We include environmental protection and social responsibility into the assessment process, and the tender evaluation committee selects qualified suppliers based on the score of each sub-item.

Product Responsibility

As a leading integrated provider of turkey 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, we provide tailor-made, cost-effective and practical solutions to address municipal, rural and industrial water and wastewater treatment across China. Customer trust and long established collaboration rest on the quality and safety of products and services. We cherish the values of prioritizing the product and service quality, 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.

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. We are building an effective channel for feedback on our services, wherein designated personnel will handle customer complaints with responses in a shorter period, while technical personnel will appear on site when malfunctions occur to deliver satisfying recovery services for the customers. We value the accumulation and protection of intellectual property rights in strict compliance with the Patent Law of the People's Republic of China. During the reporting period, we did not identify any product recall due to safety and health issues, nor did we receive any customer complaint.

Anti-bribery and Anti-corruption

As part of the rules for the effective operation of the market economy, equality, fairness and openness also represent an importance driver of promoting the corporate culture of clean and honest practices, as well as the key in measuring the 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. During the reporting period, the Company did not identify any case of corruption, bribery and misappropriation of public funding.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social Welfare

Sound Global always evangelizes, and takes the initiative to shoulder, the social responsibility and obligations. We actively collaborate with all levels of the community on promoting the development of the charity and welfare causes. Besides organizing a blood donation by our employees from the headquarters during the Year, we further improved our scholarship program for college students, aiming to encourage more poverty-stricken college students to accept better education. Furthermore, we promoted charity sales, the proceeds of which were donated to children in the poverty-stricken mountainous areas. Meanwhile, the Company organized caring reliefs and donations for sickened employees facing financial difficulties. To build a better future with all caring stakeholders in the community, we will continue to encourage our employees to participate in the social charity and welfare work.

BOARD OF DIRECTORS

WEN YIBO

Executive Director and Chairman

Mr. Wen Yibo, aged 53, 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 and legal representative of Tus-Sound Environmental Resources Co., Ltd and Beijing Sound Environmental Engineering Co., Ltd. (北京桑德環境工程有限公司). The shares of Tus-Sound Environmental Resources Co., Ltd (Shenzhen Stock Code : 000826) are listed on Shenzhen Stock Exchange and Beijing Sound Environmental Engineering Co., Ltd. is a wholly-owned subsidiary of the Company. He is also the director of Sound Water (BVI) Limited, a substantial shareholder 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 the 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, and he is currently studying for an executive MBA degree at Renmin University of China.

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. From March 2010 to February 2019, 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 acts as the president of the Company since 26 February 2019, responsible for the overall management 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.

ZHOU HAO **Executive Director**

Mr. Zhou Hao, aged 48, 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.

BOARD OF DIRECTORS

LIU XIQIANG **Executive Director**

Mr. Liu Xiqiang, aged 39, 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.

LI FENG **Executive Director**

Mr. Li Feng, aged 35, 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 63, 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.

JOINT COMPANY SECRETARIES

TAN WEI SHYAN

Joint Company Secretary

Mr. Tan Wei Shyan, aged 41, 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	53	7 November 2005	8 May 2018	Executive Director and Chairman	Executive Director and Chairman
Luo Liyang	45	2 February 2011	8 May 2018	Executive Director	President
Zhou Hao	48	12 August 2016	8 May 2018	Executive Director	Vice President
Liu Xiqiang	39	12 August 2016	8 May 2018	Executive Director	Vice President
Li Feng	35	26 July 2017	8 May 2018	Executive Director	Singapore Office Representative
Ma Yuanju	61	20 April 2015	9 October 2018	Independent Non-Executive Director	Professor of Capital University of Economics and Business
Zhang Shuting	63	9 July 2015	9 October 2018	Independent Non-Executive Director	Professor of Tianjin University

CORPORATE GOVERNANCE REPORT

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current occupation
Luo Jianhua	54	31 July 2015	9 October 2018	Independent Non-Executive Director	Secretary General of China Environment Service Industry Association

Changes in directors of the Company since 31 December 2017 and up to the date of this report are as follows:-

As at 31 December 2017, 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 2017, 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 2017 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	0	1	1	0
Wen Yibo	4	NA	1	NA	NA
Luo Liyang	4	NA	NA	NA	NA
Zhou Hao	4	NA	NA	NA	NA
Liu Xiqiang	4	NA	NA	NA	NA
Li Feng (appointed on 26 July 2017)	0	NA	NA	NA	NA
Liu Wei (resigned on 26 July 2017)	0	NA	NA	NA	NA
Ma Yuanju	4	NA	1	1	NA
Zhang Shuting	4	NA	NA	1	NA
Luo Jianhua	4	NA	1	1	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.

CORPORATE GOVERNANCE REPORT

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 2017, all Directors have received regular updates on the changes to and developments in the relevant laws and regulations applicable to the Directors. Mr. Li Feng had also upon appointment as Director 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

CORPORATE GOVERNANCE REPORT

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 and executive Director 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 all other 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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

The NC has established an appraisal process to assess 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

CORPORATE GOVERNANCE REPORT

Name of Director	Present Directorships	Past directorships for the past 3 year
Luo Liyang	NIL	NIL
Zhou Hao	Epure International Engineering Pte. Ltd. Advanced Resources Holdings Pte. Ltd. Advanced Water Engineering Pte. Ltd.	NIL
Liu Xiqiang	Qingdao Sound Sponge City Construction Engineering Co., Ltd. Zhaoyuan Sound Ecological Environment 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. Wen Yibo, Mr. Luo Liyang and Mr. Zhou Hao 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.

CORPORATE GOVERNANCE REPORT

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 2017 is set out below:

Remuneration bands (HK\$)	Number of persons
Nil to \$1,000,000	9
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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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 RMB3,216,000 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.

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 2017. 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 9 October 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 2017.

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.

CORPORATE GOVERNANCE REPORT

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 38b 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. Feng Ji, Deputy General Manager of the Securities Department 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.

CORPORATE GOVERNANCE REPORT

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 2017. 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 7, and Management Discussion and Analysis on pages 13 to 17.

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 2017 and the financial position of the Group at that date are set out in the financial statements on pages 72 to 74 of this annual report.

The Directors do not propose any final dividend in respect of the year ended 31 December 2017.

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.

REPORT OF THE DIRECTORS

6. 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 2017.

7. MAJOR SUPPLIERS AND CUSTOMERS

The purchase from the largest supplier of the Group for 2017 was approximately RMB175.8 million, which accounted for 7.6% of the total purchase of the Group for the year and the total purchase from the five largest suppliers was approximately RMB668.4 million, which accounted for 28.9% 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 2017 was approximately RMB270.1 million, which accounted for 6.6% of the total sales of the Group for the year and the total sales from the five largest customers was approximately RMB813.6 million, which accounted for 19.7% 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.

8. 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)

Luo Liyang

Liu Wei (Resigned on 26 July 2017)

Zhou Hao

Liu Xiqiang

Li Feng (Appointed on 26 July 2017)

Independent Non-Executive Directors

Ma Yuanju

Zhang Shuting

Luo Jianhua

Mr. Wen Yibo, Mr. Luo Liyang and Mr. Zhou Hao 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and SEHK were as follows:

Long Position in the Ordinary Shares ("Shares") of the Company and Associated Corporation are as follows:

(A) The Company

Name	Number of Shares/underlying Shares held, capacity and nature of interest			Total	Percentage to the issued share capital of the Company (%)
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Wen Yibo	114,854,000	9,000,000 ^{#2}	650,424,945 ^{#1}	774,278,945	51.41
Luo Liyang	610,000	-	-	610,000	0.04

Notes:

#1 This includes 616,190,000 Shares held by Sound Water (BVI) Limited, 22,729,945 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 22,729,945 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. Green Capital Holdings Limited was owned as to 50% by Ms. Zhang Huiming and 50% by Mr. Wen's daughter, Ms. Wen Siying.

#2 These Shares were held by Ms. Zhang Huiming.

REPORT OF THE DIRECTORS

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

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

Notes:

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

Save as disclosed above, as at 31 December 2017, 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.

10. 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.

REPORT OF THE DIRECTORS

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 2017, the number of shares in respect of which options had been granted under the Scheme was 90,000,000 (2016: 90,000,000), representing 6% (2016: 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 2017	Forfeited	Expired	Outstanding at 31 December 2017
9 December 2014	#4	#5	HKD8.11	58,090,000	1,556,000	56,534,000	-

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 2017	Forfeited	Expired	Outstanding at 31 December 2017
Director								
Luo Liyang	9 December 2014	#4	#5	HKD8.11	6,500,000	-	6,500,000	-
Liu Xiqiang	9 December 2014	#4	#5	HKD8.11	216,000	-	216,000	-
Zhou Hao	9 December 2014	#4	#5	HKD8.11	6,531,000	-	6,531,000	-
Liu Wei (Resigned on 26 July 2017)	9 December 2014	#4	#5	HKD8.11	130,000	130,000	-	-
Li Feng (Appointed on 26 July 2017)	9 December 2014	#4	#5	HKD8.11	108,000	-	108,000	-
Other employees	9 December 2014	#4	#5	HKD8.11	44,605,000	1,426,000	43,179,000	-

#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.

REPORT OF THE DIRECTORS

- #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. These share options expired on 30 September 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.

11. SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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	774,278,945 (L) ^{#6}	51.41 (L)
Sound Water (BVI) Limited	714,711,000 (L)	47.45 (L)
Changjiang Capital Fund	251,406,590 (L)	16.69 (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:

- #6 This includes 9,000,000 Shares directly held by Ms. Zhang Huiming, 114,854,000 Shares held by her husband, Mr. Wen Yibo, 616,190,000 Shares held by Sound Water (BVI) Limited, 22,729,945 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 2017, 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.

REPORT OF THE DIRECTORS

12. 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 2017 have been reviewed by the AC of the Company.

REPORT OF THE DIRECTORS

13. 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.

14. 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.

15. 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 2017.

16. 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.

17. 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.

18. 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.

REPORT OF THE DIRECTORS

19. 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.

20. 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.

21. 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

20 December 2018

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)



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

Disclaimer of Opinion

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 72 to 190, which comprise the consolidated statement of financial position as at 31 December 2017 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(i) 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(i) 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

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(i) 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 at a preliminary stage 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.

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 closing balances as at 31 December 2015 of the assets and liabilities of the Relevant PRC Subsidiaries entered into the determination of the financial performance and cash flows of the Relevant PRC Subsidiaries for the subsequent financial year ended 31 December 2016 and have carryforward effects on the closing balances of assets and liabilities of the Relevant PRC Subsidiaries as at 31 December 2016. Similarly, the closing balances as at 31 December 2016 may affect the financial performance and cash flows of the Relevant PRC Subsidiaries for the current year ended 31 December 2017 and the closing balances of assets and liabilities of the Relevant PRC Subsidiaries as at 31 December 2017.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

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)*

The amounts of the assets, liabilities, revenue, income, expenses and cash flows of the Relevant PRC Subsidiaries that have been included in the consolidated financial statements of the Group are disclosed in Note 3(i) 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 2017 and 2016 may be materially affected by the Damaged Documents for the reasons described above.

There were no alternative audit procedures that we could perform to obtain sufficient appropriate audit 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 2017 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 scope 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 2017 and the comparative figures for the preceding financial year and hence on the net assets of the Group as at 31 December 2017 and 2016 and the Group's profit attributable to the owners of the Company, other comprehensive income or loss and cash flows for the years ended 31 December 2017 and 2016.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(b) *Going concern*

As disclosed in Note 3(v) to the consolidated financial statements, the Group (i) incurred net cash outflows from operating activities of approximately RMB2,093,666,000 for the year ended 31 December 2017; and (ii) had total borrowings which exceeded the aggregate restricted bank balances and bank balances and cash by approximately RMB5,652,051,000 as at 31 December 2017. The Group recorded current and non-current borrowings of approximately RMB2,372,097,000 and RMB4,881,041,000 respectively and restricted bank balances and bank balances and cash of aggregate amount of approximately RMB1,601,087,000 as at 31 December 2017. In addition, the adjustments found to be necessary to the Group's financial performance for the years ended 31 December 2016 and 2017 and closing balances of assets and liabilities as at 31 December 2016 and 2017 of the matters described in paragraphs (a), and (c) to (h) 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 2017 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, and financial support from the controlling shareholder and 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 bases 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 as at 1 January 2017 and corresponding figures presented and disclosed in the consolidated financial statements are based on the figures presented and disclosed in the consolidated financial statements of the Group for the year ended 31 December 2016, in respect of which we expressed a disclaimer of opinion in our auditors' report dated 12 July 2018. The matters which resulted in us expressing the disclaimer of 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 2017 would have consequential effects on the consolidated profit, other comprehensive income and cash flows of the Group for the year ended 31 December 2017 and/or the net assets of the Group as at 31 December 2017 and the related disclosures thereof in the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

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 25 and 27 to the consolidated financial statements, as of the date of this report, (i) trade receivables with principal amounts of approximately RMB117,752,000, RMB181,004,000, RMB169,764,000, RMB101,736,000 and RMB1,763,937,000 which were recognised by the Group on or before 31 December 2013 and during the years ended 31 December 2014, 2015, 2016 and 2017 respectively were still outstanding and remained unsettled, (ii) amounts due from customers for contract work with amounts of approximately RMB28,743,000, RMB47,067,000, RMB87,230,000, RMB298,073,000 and RMB1,604,398,000 which were recognised by the Group on or before 31 December 2013 and during the years ended 31 December 2014, 2015, 2016 and 2017 respectively were still outstanding and no progress billings had been issued, and (iii) other receivables with amounts of approximately RMB57,644,000, RMB117,629,000, RMB205,398,000, RMB25,942,000 and RMB699,079,000 which were recognised by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015, 2016 and 2017 respectively were still outstanding and remained unsettled. During the year ended 31 December 2017, impairment loss of approximately RMB74,362,000 have been recognised for trade receivables.

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 2017 and the adequacy of the respective impairment loss being provided during the year ended 31 December 2017 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 and related revenue and expenses recognised in the consolidated financial statements as at and for the years ended 31 December 2017 and 2016 were valid and 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 2017 and 2016 and the consolidated profit and other comprehensive income or loss and cash flows of the Group for the years ended 31 December 2017 and 2016, and the related disclosures thereof in the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(e) *Inventories*

Included in work in progress inventories as at 31 December 2017 disclosed in Note 24 to the consolidated financial statements are approximately RMB395,968,000 of costs which were recorded as construction costs incurred due to additional construction works performed by the Group as per requisition from customers. However, the relevant additional contract prices are not yet agreed and approved by the customers and no requisition orders have been obtained by the Group in relation to these requisitions. We were unable to obtain sufficient appropriate audit evidence to support the occurrence, validity and commercial substance of these construction costs incurred as at the end of the reporting period. Further, no impairment assessment was performed on the recoverability of the work in progress and hence we were unable to be satisfied that the carrying amount as at 31 December 2017 was recoverable. Therefore, we were unable to satisfy ourselves as to whether the carrying amount of the work in progress as at 31 December 2017 was free from material misstatement. Any adjustments found to be required may have a consequential significant effect on the carrying amount of the work in progress as at 31 December 2017 and impairment loss on the work in progress to be recognised in consolidated profit of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements, and hence on the net assets of the Group as at 31 December 2017 and the profit and total comprehensive income and cash flows of the Group for the year then ended.

(f) *Intangible assets and the related revenue recognised*

The gross carrying amount of intangible assets as at 31 December 2017 disclosed in Note 18 to the consolidated financial statements includes an amount of approximately RMB117,755,000 which relates to an operating concession right held by Shanxian Huadu Water Co., Ltd (單縣華都水務有限公司) (“**Shanxian Huadu**”). The relevant construction revenue of approximately RMB117,755,000 has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2017. The Group recognised impairment loss of approximately RMB117,755,000 in the consolidated statement of profit or loss for the year ended 31 December 2017 to fully write down the entire balance of the carrying amount as at 31 December 2017 as the management of the Group was of the opinion that the carrying amount of this operating concession right as at 31 December 2017 was irrecoverable. However, no impairment assessment of this operating concession right as at 31 December 2017 was carried out to calculate the recoverable amount of the intangible asset. Further, we were not provided with supporting documentation and bases for the initial recognition of the intangible assets at its initial carrying amount of approximately RMB117,755,000 which was supposed to represent both its fair value as at initial recognition and fair value of consideration for construction services carried out. As a result, we have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the recoverable amount of this operating concession right of Nil as at 31 December 2017 was free from material misstatement and hence whether the accumulated amortisation and impairment and net carrying amount of the intangible assets as at 31 December 2017 and the related construction revenue and impairment loss on the intangible assets for the year ended 31 December 2017 were free from material misstatements. Any adjustments found to be necessary to these balances and impairment loss may have a consequential significant impact on the profit and cash flows of the Group for the year ended 31 December 2017 and the Group's net assets as at 31 December 2017, and the related disclosures thereof in the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(g) *Income tax and deferred taxation*

As disclosed in the consolidated statement of financial position and Notes 11 and 23 to the consolidated financial statements, during the year ended 31 December 2017, the Group had recognised PRC income tax expense for the current year and under provision in prior years of approximately RMB73,309,000 and RMB6,033,000 respectively, and deferred tax expenses of approximately RMB105,041,000, and as of that date, the Group had income tax payables of approximately RMB72,791,000, deferred tax assets of approximately RMB8,869,000 and deferred tax liabilities of approximately RMB397,223,000. We were unable to obtain sufficient appropriate audit evidence regarding the accuracy and adequacy of these tax expenses and the valuation of these current tax payables and deferred tax assets and liabilities because (i) there were inadequate supporting documentary evidence available in relation to the income tax computation, tax filings and the recognition of deferred tax assets and liabilities; and (ii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether these tax expenses and the related tax payables and deferred tax assets and liabilities were free from material misstatements. Any adjustments found to be required may have consequential significant impact on the profit and cash flows of the Group for the year ended 31 December 2017, the Group's net assets as at 31 December 2017 and the related disclosures thereof in the consolidated financial statements.

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules")*

(i) As disclosed in Note 35(b) 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. As a result of the non-consolidation of the Target Group, no non-controlling interests in the identifiable net assets of the Target Group has been measured or recognised at the date of acquisition and no non-controlling interests in respect of their share of the results and equity movements of the Target Group has been recognised in the consolidated statements of profit or loss and other comprehensive income or loss and changes in equity during the years ended 31 December 2017 and 2016. 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 treatment 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 years ended 31 December 2017 and 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 years ended 31 December 2017 and 2016 might 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" and impairment loss would be recognised on the goodwill and assets of the Target Group based on impairment assessments carried out in accordance with IAS 36 "Impairment of Assets". Also, non-controlling interests in the Target Group would have been measured at the date of acquisition and the results of the Target Group would have been allocated to the non-controlling interests during the years ended 31 December 2017 and 2016.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

- (h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*
- (i) (continued)

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, of the failure to recognise and allocate the non-controlling interests 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 the 70% equity interest of Zhongye Zhengyi and the fact that the vendors were not related to the 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 statement of 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 and reserves in relation to Zhongye Zhengyi and its subsidiaries as at 31 December 2017 and 2016 and impairment loss recognised in consolidated statement of profit or loss of the Group for the year ended 31 December 2016, and the related disclosures thereof in the consolidated financial statements, and hence on the net assets of the Group as at 31 December 2017 and 2016 and the consolidated profit and other comprehensive income or loss and cash flows for the years then ended.

Furthermore, the consolidated financial statements do not contain information about the nature and financial effects of the acquisition of the Target Group. The disclosure of such information is required by IFRS 3. Given the lack of financial information available, there were no practicable audit procedures that we could perform to assess the impact of such non-disclosure on the consolidated financial statements and also to 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*

(i) (continued)

In addition, as disclosed in Note 43 to the consolidated financial statements, for the year ended 31 December 2017, the Group recorded revenue from construction services rendered to the Target Group of approximately RMB206,790,000 (2016: Nil) and cost of sales arising from construction costs charged by the Target Group of approximately RMB164,942,000 (2016: Nil) and as at 31 December 2017, the Group's trade receivables due from the Target Group amounted to approximately RMB161,649,000 (2016: Nil), amounts due from customers for contract work of approximately RMB16,181,000 (2016: Nil), other receivables due from the Target Group amounted to approximately RMB21,200,000 (2016: 48,824,000), including bid and compliance deposits which amounted to approximately RMB1,200,000 (2016: Nil), trade payables due to the Target Group amounted to approximately RMB145,201,000 (2016: Nil) and other payables due to the Target Group amounted to approximately RMB252,000 (2016: Nil). Because the entities comprising the Target Group are subsidiaries of the Group, these transactions and balances of the Group with the Target Group should be eliminated in the consolidated financial statements of the Group for the year ended 31 December 2017. This accounting treatment is a departure from the requirements of IFRS 10 which requires elimination in full of intragroup assets and liabilities, equity, income, expenses and cash flows relating to balances and transactions between entities of the Group. Further, due to the lack of the complete books and records of the Target Group made available to us, we were unable to perform the necessary audit procedures, including obtaining inter-company confirmations from the Target Group, and there were no alternative audit procedures we could perform under the circumstances, to obtain sufficient appropriate audit evidence to satisfy ourselves about the validity and completeness of the recorded balances with the Target Group as at 31 December 2017 and the recorded transactions entered into with the Target Group during the year ended 31 December 2017. Any adjustments found to be required may have consequential significant effects on the recorded balances and recorded transactions with the Target Group and other related elements in the consolidated financial statements for the year ended 31 December 2017 and hence on the net assets of the Group as at 31 December 2017 and the profit and net cash flows for the year then ended.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*

- (ii) As disclosed in Note 36(e) 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 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 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 2017 and 2016 were related party balances and hence whether there had been non-compliance with the disclosure requirements of IAS 24 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.
- (iii) As disclosed in Notes 3(ii) and 44(c)(i) to the consolidated financial statements, subsequent to the end of the reporting period of 31 December 2017 and before the date of this report, the directors of the Company asserted that the Group disposed of 51% of the entire issued share capital of Fujian Ronghai Environmental Technology Co., Ltd. (福建省融海環境科技有限公司) (formerly known as "Fuqing Sound Water Co., Ltd." (福清桑德水務有限公司)) ("**Fujian Ronghai**") at a zero consideration (the "**Disposal**"). Upon completion of the Disposal, Fujian Ronghai ceases to be a subsidiary of the Company. Up to the date of this report, as per the records in State Administration for Industry & Commerce of the People's Republic of China ("**SAIC**"), Beijing Sound Environmental Engineering Co., Ltd., a wholly owned subsidiary of the Company, remained as the registered shareholder of 51% equity interest in Fujian Ronghai. This is contrary to the assertions of the directors of the Company that the Disposal has been completed subsequent to 31 December 2017 and that subsequent to the date of completion and up to the date of this report, the control and management of Fujian Ronghai has been transferred to the buyer and the Group has been unable to gain access to the sale and purchase agreement and the books and records of Fujian Ronghai.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*

(iii) (continued)

Given these circumstances, the directors of the Company believed that the Group does not have the relevant information and access necessary to ensure the accuracy and completeness of the financial information of Fujian Ronghai as consolidated in the consolidated financial statements of the Group and allocation of non-controlling interests of Fujian Ronghai for the year ended 31 December 2017. There were no practicable alternative audit procedures we could carry out to satisfy ourselves as to whether the financial information of Fujian Ronghai that has been included in the consolidated financial statements were free from material misstatements. In addition, we were unable to satisfy ourselves about the validity of the amounts due to the non-controlling interests of Fujian Ronghai of approximately RMB92,074,000 as at 31 December 2017 which are included in other payables of the Group and disclosed in note 29 to the consolidated financial statements.

Furthermore, because of the insufficient financial information of and access to Fujian Ronghai available to the Group, the information about the nature and financial effects of the disposal of Fujian Ronghai as required to be disclosed by the applicable IFRSs, including IAS 10 "Events after the Reporting Period", have not been disclosed in the consolidated financial statements, as the disclosure of such information requires updated financial information about Fujian Ronghai to be available. There were no practicable alternative audit procedures that we could perform to determine the financial effects involved.

In addition, we were not provided with sufficient appropriate audit evidences on the identity of the buyer and there were no practicable audit procedures that we could perform to assess whether the Disposal entered into by the Group was a related party transaction which requires separate disclosure in the consolidated financial statements under the requirements of IAS 24 in respect of related party transactions and balances. Further, we were not provided with sufficient appropriate audit evidence to satisfy ourselves as to the validity of the commercial terms, including the zero consideration, for the disposal of the 51% equity interests in Fujian Ronghai. For the same reasons, we were also unable to assess whether the Disposal 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.

(iv) As disclosed in Note 36(a) to the consolidated financial statements, during the year ended 31 December 2017, the Group acquired the remaining 20% of the entire issued share capital of Linfen Yiande Water Co., Ltd. (臨汾益安德水務有限公司) ("**Linfen Yiande**") from the non-controlling interests at zero consideration. Upon completion of the acquisition of additional interests, Linfen Yiande became a 100% wholly owned subsidiary of the Group.

We were not provided with sufficient appropriate audit evidences to satisfy ourselves as to the validity of the commercial terms, including the zero consideration, for the acquisition of the additional interests. Therefore, we were unable to satisfy ourselves as to whether the amounts presented in the consolidated financial statements of the Group for the year ended 31 December 2017 in relation to the acquisition of the additional equity interest in Linfen Yiande were free from material misstatements. Any adjustments found to be required may have a consequential effect on the reserve movement presented in the consolidated statement of changes in equity of the Group for the year ended 31 December 2017 and other elements in the consolidated financial statements for the year ended 31 December 2017 and hence on the net assets of the Group as at 31 December 2017.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*

- (v) As disclosed in Notes 3(iii) and 36(b) to the consolidated financial statements, during the year ended 31 December 2017, the Group disposed of 49% equity interests of 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**") to a buyer (the "**Buyer**") at zero consideration (the "**First Fuzhou City Dongxiang District Sound Disposal**"). Fuzhou City Dongxiang District Sound was principally engaged in construction, management and operation of the municipal wastewater projects in the PRC. Upon completion of the First Fuzhou City Dongxiang District Sound Disposal, Fuzhou City Dongxiang District Sound became a 51% owned subsidiary of the Company.

In addition, as disclosed in Note 44(c)(ii) to the consolidated financial statements, subsequent to the end of the reporting period of 31 December 2017 and before the date of this report, the Group further disposed the remaining 51% equity interest of Fuzhou City Dongxiang District Sound to the Buyer at zero consideration (the "**Second Fuzhou City Dongxiang District Sound Disposal**"). Upon completion of the Second Fuzhou City Dongxiang District Sound Disposal in January 2018, Fuzhou City Dongxiang District Sound ceased to be a subsidiary of the Company.

The directors of the Company have asserted that subsequent to the completion of the Second Fuzhou City Dongxiang District Sound Disposal, the operation and management of Fuzhou City Dongxiang District Sound have been transferred to the Buyer and the Group has been unable to gain access to the full books and records of Fuzhou City Dongxiang District Sound.

Given these circumstances, the directors of the Company have been unable to (i) consolidate the financial statements of Fuzhou City Dongxiang District Sound, including its assets and liabilities, income and expenses and cash flows, into the consolidated financial statements of the Group for the year ended 31 December 2017 and (ii) adjust the carrying amounts of the controlling and non-controlling interests to reflect the change in the Group's relative interests in Fuzhou City Dongxiang District Sound that arose from the completion of the First Fuzhou City Dongxiang District Sound Disposal. Had the financial information of Fuzhou City Dongxiang District Sound been consolidated in the Group's consolidated financial statements for the year ended 31 December 2017 and the equity transaction for the disposal of partial interest under the First Fuzhou City Dongxiang District Sound Disposal been recognised, (i) the retained earnings and the non-controlling interests recognised in the consolidated statement of changes in equity for the year ended 31 December 2017, (ii) assets and liabilities recognised in the consolidated statement of financial position as at 31 December 2017, (iii) income and expenses and cash flows recognised in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2017 and (iv) the profit or loss and total comprehensive income or loss for the year attributable to owners of the Company and the non-controlling interests subsequent to the completion of the First Fuzhou City Dongxiang District Sound Disposal recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 would be affected. The non-consolidation of Fuzhou City Dongxiang District Sound and non-recognition of the effects of the equity transaction for the disposal of partial interests in the subsidiary are departures from the requirements of IFRS 10, which requires the Group to consolidate all its subsidiaries and to adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in its relative interests in Fuzhou City Dongxiang District Sound.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*

(v) (continued)

The directors of the Company believed that the Group does not have the relevant information and access necessary to ensure the accuracy and completeness of the financial information of Fuzhou City Dongxiang District Sound to enable the inclusion of the financial information in the consolidated financial statements of the Group for the year ended 31 December 2017. There were no alternative audit procedures we could carry out to determine the financial effects of these matters, including the carrying amounts of assets and liabilities and balances of income, expenses and non-controlling interests in respect of Fuzhou City Dongxiang District Sound that should be included in the consolidated financial statements of the Group. Further, because of the insufficient financial information of Fuzhou City Dongxiang District Sound, the information about the nature and financial effects of the disposal of Fuzhou City Dongxiang District after the end of the reporting period have not been disclosed in the consolidated financial statements, which is a non-compliance with the disclosure requirement of the applicable IFRSs, including IAS 10, to disclose such information. Also, given the occurrence of the partial disposal and disposal under these circumstances, there were no practicable audit procedures that we could perform to estimate the quantification of the financial effects of the matters to which the non-compliance relate.

Moreover, we were not provided with sufficient appropriate audit evidences to satisfy ourselves as to the (i) validity of the commercial terms, including the zero consideration for both the First Fuzhou City Dongxiang District Sound Disposal and the Second Fuzhou City Dongxiang District Sound Disposal, and (ii) identity of the Buyer and its relationship with related parties of the Group. There were no practicable alternative audit procedures that we could perform to assess whether the First Fuzhou City Dongxiang District Sound Disposal and the Second Fuzhou City Dongxiang District Sound Disposal entered into by the Group were related party transactions which require separate disclosure in the consolidated financial statements under the requirements of IAS 24 in respect of related party transactions and balances. In addition, for the same reasons, we were also unable to assess whether the First Fuzhou City Dongxiang District Sound Disposal and the Second Fuzhou City Dongxiang District Sound Disposal 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.

(vi) As disclosed in Note 21 to the consolidated financial statements, during the year ended 31 December 2017, the Group formed two companies, namely Fuzhou City Cangshan Zhongyu Sangcheng Water Environment Technology Co., Ltd. (福州市倉山中閩桑誠水環境技術有限公司) ("**Cangshan Zhongyu Sangcheng**") and Fuzhou City Jinan Zhongyu Sancheng Water Environment Technology Co., Ltd. (福州市晉安中閩桑誠水環境技術有限公司) ("**Jinan Zhongyu Sancheng**") (collectively referred to as the "Fuzhou Entities"). The Group contributed RMB30,000,000 into each company as subscription monies for share capital, representing 30% of the registered share capital of each of the Fuzhou Entities.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*

(vi) (continued)

The directors of the Company have asserted that subsequent to the registration of the Fuzhou Entities and up to the date of this report, they have been unable to gain access to, or obtain information about, the statutory records and the books and records of the Fuzhou Entities. Given these circumstances, the directors of the Company have been unable to assess whether the Group has control, joint control or significant influence in the Fuzhou Entities. Further, the Group was unable to obtain the financial statements or management accounts of the Fuzhou Entities. In addition, impairment losses in respect of the investments in the Fuzhou Entities of RMB60,000,000 were recognised for the year ended 31 December 2017 to fully write down the cost of investment of the Group. Due to lack of information made available to us, we were unable to determine whether the accounting treatment adopted in the consolidated financial statements in respect of the investment in the Fuzhou Entities constituted a departure from the requirements of the applicable IFRS, including (i) IFRS 10, which requires all subsidiaries controlled by the Company and its subsidiaries to be included in the consolidated financial statements, (ii) IFRS 11 "Joint Arrangements", which requires a joint operator to account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses and a joint venturer to recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 "Investments in Associates and Joint Ventures", (iii) IAS 28, which requires all associates where the Company and its subsidiaries have significant influence in to be accounted for using the equity method of accounting in the consolidated financial statements; or (iv) IAS 39 "Financial Instruments: Recognition and Measurement" which requires equity investments within the scope of the standard to be measured at fair value or cost less impairment.

The Group should have accounted for its interests in the Fuzhou Entities in its consolidated financial statements for the year ended 31 December 2017 using one of the methods of accounting referred to in (i) to (iv) above, depending on whether it has control, joint control or significant influence, or none of these, over the Fuzhou Entities. Had the nature of the Group's interests in the Fuzhou Entities been assessed and the interests then properly accounted for, certain elements in the consolidated financial statements for the year ended 31 December 2017 would be affected. However, because of the insufficient information of the Fuzhou Entities 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 these matters 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 investments in the Fuzhou Entities on initial recognition of RMB60,000,000; (ii) the identities of the other shareholders holding 70% equity interest of each of Cangshan Zhongyu Sancheng and Jinan Zhongyu Sancheng and the fact that these other shareholders were not related to related parties of the Group in accordance with IAS 24; and (iii) the validity of the commercial terms arrived at in the investments in 30% equity interest of each of Cangshan Zhongyu Sancheng and Jinan Zhongyu Sancheng. Further, no impairment assessment was performed by the Group on the recoverability of the Group's interests in each of Cangshan Zhongyu Sancheng and Jinan Zhongyu Sancheng and we were unable to carry out alternative audit procedures to satisfy ourselves as to the recoverable amount of these interests of the Group as at 31 December 2017. Any adjustments found to be required may have a consequential significant effect on the carrying amounts of the assets and liabilities recognised, or that should be recognised, by the Group in relation to its interests in the Fuzhou Entities as at 31 December 2017 and impairment losses of RMB60,000,000 recognised in the consolidated statement of profit or loss of the Group for the year then ended and hence on the net assets of the Group as at 31 December 2017 and the consolidated profit and other comprehensive income and cash flows for the year then ended.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*

(vi) (continued)

Furthermore, the consolidated financial statements do not contain information about the Group's interests in the Fuzhou Entities which is required to be disclosed by IFRS 12 "Disclosure of Interests in Other Entities" if the Fuzhou Entities were found to be subsidiaries, joint ventures or associates of the Group, or if none of these, then IFRS 7 "Financial Instruments: Disclosures". Given the lack of information available, there were no practicable audit procedures that we could perform to also assess whether the investments in the Fuzhou Entities 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.

(vii) As disclosed in Note 35(a) to the consolidated financial statements, during the year ended 31 December 2017, the Group acquired 51% equity interests of Liaoning Qingqian Environmental Protection Engineering Co., Ltd. (遼寧清乾環保工程有限公司) ("**Liaoning Qingqian**") at zero consideration. Liaoning Qingqian is principally engaged in construction, management and operation of municipal wastewater projects in the PRC. Upon completion of the acquisition, Liaoning Qingqian became a 51% owned subsidiary of the Company and the acquisition resulted in a gain on bargain purchase of a subsidiary of approximately RMB3,397,000 recognised in consolidated statement of profit or loss. The Group measured the identifiable assets acquired and the liabilities assumed as at the acquisition date using the carrying amounts as recorded in the accounting records of Liaoning Qingqian. No fair value measurement has been performed by the Group to assess the fair values of the identifiable assets acquired and the liabilities assumed at the date of acquisition. This accounting treatment is a departure from the requirements of IFRS 3 which requires the Group to recognise the identifiable assets of Liaoning Qingqian acquired and the liabilities assumed on the date of acquisition at their acquisition-date fair values. We were unable to perform audit procedures to determine whether the carrying amounts of the identifiable assets acquired and the liabilities assumed at the date of acquisition were significantly different from their fair values as at that date. In addition, we have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity of the commercial terms in arriving at the zero consideration for the acquisition of the 51% equity interests in Liaoning Qingqian and hence the validity of the gain on bargain purchase recognised in consolidated statement of profit or loss. Any adjustments found to be required may have a consequential significant effect on the gain on bargain purchase recognised in consolidated statement of profit or loss in respect of the acquisition for the year ended 31 December 2017 and the assets and liabilities of Liaoning Qingqian included in the consolidated assets and liabilities of the Group, and the related elements in the consolidated financial statements for the year ended 31 December 2017 and hence on the profit and total comprehensive income and cash flows of the Group for the year then ended.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

(h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*

- (viii) As disclosed in Note 44(d) to the consolidated financial statements, subsequent to the end of the reporting period of 31 December 2017 and before the date of this report, the Group has acquired the entire equity interests of Yunxiao Changye Water Co., Ltd. (雲霄長業水務有限公司), Ping Changye Water Co., Ltd. (平和長業水務有限公司) and Changtai Changye Water Co., Ltd. (長泰長業水務有限公司) (collectively the "**Changye Group**") and the related shareholders' loans for a total consideration of RMB136,400,000. Up to the date of this report, the directors of the Company asserted that they have been unable to gain access to the books and records of the Changye Group. Given these circumstances, the directors of the Company have been unable to consolidate the financial statements or accounts of the Changye Group into the consolidated financial statements or accounts of the Group since the date of acquisition or to determine whether the acquisition has given rise to a loss to be recognised by the Group in its consolidated financial statements. Because of the insufficient financial information of the Changye Group, the directors of the Company have not disclosed in the consolidated financial statements of the Group for the year ended 31 December 2017 the information about the nature and financial effects of the acquisition of the Changye Group which is required to be disclosed by the applicable IFRSs, including IAS 10 and IFRS 3. Also, given these circumstances, there were no practicable alternative audit procedures that we could perform to satisfy ourselves about the completeness of the disclosures of the events after the reporting period in the consolidated financial statements. Further, given the lack of financial information available, there were no practicable alternative audit procedures that we could perform to assess whether the acquisition of the Changye Group had also 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.
- (ix) 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 2017 and 2016 and of the consolidated profit and other comprehensive income or loss and cash flows of the Group for the years then ended and the related disclosures thereof in the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

Basis for Disclaimer of Opinion (Continued)

- (h) *Non-compliance with accounting and disclosure requirements of IFRSs and the relevant requirements of Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") (Continued)*
- (x) As disclosed in Note 2 to the consolidated financial statements, the International Accounting Standards Board has issued new IFRSs including IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" which are effective for annual period beginning on 1 January 2018. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the Group is required to disclose known or reasonably estimable information relevant to assessing the possible impact that application of these new IFRSs will have on the Group's consolidated financial statements in the period of initial application. However, the Group is still assessing the impact of the application of these new IFRSs and has not determined the reasonably estimable information relevant to assessing the possible impact that application of these new IFRSs will have on the Group's consolidated financial statements in the period of initial application. As a result, no relevant possible impact as required by IAS 8 has been disclosed in the consolidated financial statements for the year ended 31 December 2017. Under these circumstances, we were not able to carry out alternative procedures to assess the possible impact of the application of these new IFRSs, including the impact on the related disclosures 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 Bases 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in the Republic of Singapore with limited liability)

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 Bases 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, 20 December 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	7	4,119,886	3,877,799
Cost of sales		(2,736,341)	(2,611,116)
Gross profit		1,383,545	1,266,683
Other income	8	72,753	90,915
Other gains and losses, net	9	(397,642)	(193,221)
Distribution and selling expenses		(98,113)	(66,116)
Research and development expenses		(50,497)	(48,247)
Administrative expenses		(299,546)	(240,555)
Finance costs	10	(219,237)	(150,513)
Profit before income tax		391,263	658,946
Income tax expenses	11	(184,383)	(160,498)
Profit for the year	12	206,880	498,448
Other comprehensive income (expense)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of financial statements of foreign operations		5,609	(11,786)
Total comprehensive income for the year, net of tax		212,489	486,662
Profit for the year attributable to:			
Owners of the Company		256,865	484,842
Non-controlling interests		(49,985)	13,606
		206,880	498,448
Total comprehensive income for the year attributable to:			
Owners of the Company		262,474	473,056
Non-controlling interests		(49,985)	13,606
		212,489	486,662
Earnings per share (in RMB cents)			
Basic and diluted	16	17.05	32.19

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSET			
Property, plant and equipment	17	232,180	175,239
Intangible assets	18	801,759	473,682
Land use rights	19	37,348	38,505
Goodwill	20	-	-
Interests in associates	21	-	-
Service concession receivables	22	8,655,378	7,245,861
Deferred tax assets	23	8,869	9,842
Restricted bank balances	28	10,391	-
		9,745,925	7,943,129
CURRENT ASSETS			
Inventories	24	416,840	204,327
Trade and other receivables	25	4,345,745	2,401,237
Land use rights	19	1,157	1,158
Available-for-sale investments	26	3,000	42,800
Amounts due from customers for contract work	27	2,318,279	1,797,114
Restricted bank balances	28	704,691	1,059,667
Bank balances and cash	28	886,005	470,975
		8,675,717	5,977,278
CURRENT LIABILITIES			
Trade and other payables	29	3,815,490	2,985,729
Tax payables		72,791	72,766
Derivative financial instruments	31	-	20,380
Borrowings	30	2,372,097	1,483,726
Obligations under finance lease	32	261,527	188,092
Amounts due to customers for contract work	27	43,052	5,874
		6,564,957	4,756,567
NET CURRENT ASSETS		2,110,760	1,220,711
TOTAL ASSETS LESS CURRENT LIABILITIES		11,856,685	9,163,840

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	23	397,223	293,155
Borrowings	30	4,881,041	2,624,444
Obligations under finance lease	32	864,067	826,578
		<u>6,142,331</u>	<u>3,744,177</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		<u>5,714,354</u>	<u>5,419,663</u>
CAPITAL AND RESERVES			
Issued capital	34	1,720,304	1,720,304
Reserves		<u>3,728,802</u>	<u>3,466,328</u>
Equity attributable to owners of the Company		5,449,106	5,186,632
Non-controlling interests		<u>265,248</u>	<u>233,031</u>
		<u>5,714,354</u>	<u>5,419,663</u>

The consolidated financial statements on pages 72 to 190 were approved and authorised for issue by the Board of Directors on 20 December 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 2017

	Attributable to owners of the Company							Non-controlling interests	Total
	Issued capital	Merger reserve	Capital reserve	Translation reserve	Statutory surplus reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	1,720,304	(198,082)	4,562	(7,163)	228,437	2,965,518	4,713,576	46,804	4,760,380
Profit for the 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 (Note 36(e))	-	-	-	-	-	-	-	84,150	84,150
Capital contributions from non-controlling interest (Note 36(f))	-	-	-	-	-	-	-	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
Profit for the year	-	-	-	-	-	256,865	256,865	(49,985)	206,880
Other comprehensive income	-	-	-	5,609	-	-	5,609	-	5,609
Total comprehensive income	-	-	-	5,609	-	256,865	262,474	(49,985)	212,489
Transfer to reserve fund	-	-	-	-	42,722	(42,722)	-	-	-
Acquisition of a subsidiary (Note 35(a))	-	-	-	-	-	-	-	3,263	3,263
Dividend paid to a non-controlling shareholder (Note 36(d))	-	-	-	-	-	-	-	(6,500)	(6,500)
Capital contributions from non-controlling interest (Note 36(c))	-	-	-	-	-	-	-	85,439	85,439
At 31 December 2017	1,720,304	(198,082)	4,562	(13,340)	308,537	3,627,125	5,449,106	265,248	5,714,354

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

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 2017

	Notes	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		391,263	658,946
Adjustments for:			
Depreciation of property, plant and equipment		18,626	12,673
Amortisation of intangible assets		9,670	3,296
Amortisation of land use right		1,158	1,157
Investment income on debt investments		(2,128)	(23,539)
Interest income		(12,612)	(8,227)
Finance costs		219,237	150,513
Allowance for doubtful debts		74,362	36,597
Allowance for doubtful debts written back		(2,619)	(18,305)
Impairment losses recognised in respect of goodwill		-	41,395
Impairment loss recognised in respect of service concession receivables		161,688	61,286
Impairment loss recognised in respect of intangible assets		119,627	-
Impairment loss recognised in respect of investment in subsidiaries		-	30,000
Impairment loss recognised in respect of interests in associates		60,000	-
Imputed interest income on service concession receivables		(416,659)	(343,970)
Gain on bargain purchase of a subsidiary		(3,397)	-
Foreign exchange loss (gain), net		2,637	(52,325)
Loss on disposal of property, plant and equipment		266	1,711
Fair value change in a swap contract		(5,451)	2,246
		<hr/>	<hr/>
Operating cash flows before movements in working capital		615,668	553,454
Increase in inventories		(212,513)	(106,405)
(Increase) decrease in trade and other receivables		(1,431,812)	340,188
Increase in service concession receivables		(1,236,941)	(1,716,602)
Increase in amounts due from customers for contract work		(521,165)	(283,243)
Increase in trade and other payables		735,236	57,903
Increase in amounts due to customers for contract work		37,178	5,791
		<hr/>	<hr/>
Cash used in operations		(2,014,349)	(1,148,914)
Income taxes paid		(79,317)	(125,615)
		<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES		(2,093,666)	(1,274,529)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES			
Interest received		14,740	8,227
Purchases of property, plant and equipment		(71,239)	(98,551)
Proceeds from disposal of property, plant and equipment		895	25
Addition of intangible assets		(457,374)	(419,116)
Net cash inflow from acquisitions of a subsidiary	35	1,490	-
Acquisitions of associates		(60,000)	-
Purchase of structured deposits		(500,000)	-
Purchase of available-for-sale investments		(9,000)	(42,800)
Proceeds from disposal of available-for-sale investments		48,800	975,540
Payment for deferred consideration on acquisitions of subsidiaries in previous year		-	(8,654)
Placement in restricted bank balances		(1,039,551)	(1,057,511)
Withdrawal from restricted bank balances		1,382,128	451,343
NET CASH USED IN INVESTING ACTIVITIES		(689,111)	(191,497)
FINANCING ACTIVITIES			
Interest paid		(127,075)	(130,897)
Capital contribution from non-controlling interest		85,439	88,471
Dividends paid to non-controlling shareholders		(6,500)	-
Disposal of partial interests in subsidiaries		-	84,150
Proceeds from sales and finance lease back arrangements		664,000	964,610
Repayments of obligation under finance lease		(553,076)	(10,002)
Borrowings raised		4,653,200	3,212,894
Repayments of borrowings		(1,506,555)	(3,051,746)
NET CASH GENERATED FROM FINANCING ACTIVITIES		3,209,433	1,157,480
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		426,656	(308,546)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		470,975	769,719
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(11,626)	9,802
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR REPRESENTED BY BANK BALANCES AND CASH		886,005	470,975

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

The Company (Singapore Registration Number 200515422C) is a limited liability company incorporated in the Republic of Singapore (“**Singapore**”) on 7 November 2005 under the Singapore Companies Act and its shares were 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 2017 are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2016 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.

IAS 7 (Amendments)	Disclosure Initiative
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 12 (Amendments)	As Part of the Annual Improvements to IFRSs 2014 – 2016 Cycle

Except as described below, the application of amendments to IFRS in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IAS 7 (Amendments) Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 48. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 48, the application of these amendments has had no impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2015-2017 Cycle ²
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions ¹
IFRS 3 (Amendments)	Definition of a Business ⁴
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
IFRS 9	Financial Instruments ¹
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation ¹
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁶
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 15 (Amendments)	Clarification to IFRS 15 ¹
IFRS 16	Leases ²
IFRS 17	Insurance Contracts ⁵
IAS 1 and IAS 8 (Amendments)	Definition of Material ³
IAS 19 (Amendments)	Plan amendments, curtailments or settlements ²
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures ²
IAS 28 (Amendments)	As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle ¹
IAS 40 (Amendments)	Transfers of Investment Property ¹
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC 23	Uncertainty over Income Tax Treatments ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2020

⁴ Effective for business combination for which the acquisition date is on or after the first annual periods beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

⁶ Effective for annual periods beginning on or after a date to be determined

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 (continued)

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 assessing the impact of IFRS 9.

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 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” 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 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

The impact on adoption of IFRS 16 is not expected to be material to the Group. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB122,000 as disclosed in Note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB208,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

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 2017, 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 year ended 31 December 2015, 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 included in the consolidated financial statements of the Group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

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.

On 3 August 2018, the Company announced that the Company had submitted a revised proposal to the Commission in late July 2018 in response to its comments on the Company's previous proposals with a view to address its concerns on the Discrepancies. Further announcement will be made by the Company as and when appropriate.

On 5 November 2018, the Company announced that on 1 November 2018, the Company received a reply from the Commission. The Company was seeking legal advice, and would endeavor to respond to the Commission as soon as possible. Further announcement would be made by the Company as and when appropriate.

On 30 November 2018, the Company announced that the Company was still in discussion with the Commission with a view to resolve the Commission's regulatory concerns regarding the Discrepancies and no agreement has been made. Further announcement will be made by the Company as 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 at in progress and no conclusive result was drawn in respect of the findings and conclusion of the Reviewer.

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 2017, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

The revenue, income, expenses and cash flows for the years ended 31 December 2017 and 2016 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:

	2017 RMB'000	2016 RMB'000
<i>Revenue, income and expenses for the years ended 31 December:</i>		
Revenue (note (a))	2,739,910	3,002,582
Cost of sales	(2,041,873)	(2,254,898)
Gross profit	698,037	747,684
Other income	22,643	44,013
Other gains and losses, net	(135,190)	(87,450)
Distribution and selling expenses	(96,571)	(64,752)
Research and development expenses	(49,238)	(48,247)
Administrative expenses	(150,305)	(115,879)
Finance costs	(138,652)	(79,392)
Profit before income tax	150,724	395,977
Income tax expenses	(47,482)	(59,843)
Profit and total comprehensive income for the year attributable to owners of the Company	103,242	336,134

note:

- (a) Included in the revenue of the Relevant PRC Subsidiaries for the year ended 31 December 2017 were revenue attributable to (i) operating segment of turnkey projects and services of approximately RMB2,686,983,000 (2016: RMB2,997,769,000), representing 88% (2016: 99%) of revenue in this segment. Such revenue included approximately RMB793,097,000 (2016: RMB2,271,612,000) related to revenue from service concession arrangements of the Group; and (ii) operating segment of Equipment Fabrications of approximately RMB52,927,000 (2016: RMB4,813,000), representing 100% (2016: 100%) of revenue from external customers in this segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

	2017	2016
	RMB'000	RMB'000
Assets and liabilities as at 31 December:		
NON-CURRENT ASSETS		
Property, plant and equipment	131,181	95,960
Land use rights	36,486	37,636
Services concession receivables	2,993,423	3,535,598
Deferred tax assets	5,819	6,514
Available-for-sale investments	51,800	-
	<u>3,218,709</u>	<u>3,675,708</u>
CURRENT ASSETS		
Inventories	385,270	196,442
Trade and other receivables	3,144,477	1,627,313
Land use rights	1,150	1,150
Amounts due from customers for contract work	2,318,279	401,323
Restricted bank balances	279,498	1,027,896
Bank balances and cash	298,596	260,442
	<u>6,427,270</u>	<u>3,514,566</u>
CURRENT LIABILITIES		
Trade and other payables	3,416,170	2,751,565
Tax payables	26,303	25,500
Borrowings	2,114,977	1,139,658
Amounts due to customers for contract work	43,052	-
	<u>5,600,502</u>	<u>3,916,723</u>
NET CURRENT ASSETS (LIABILITIES)	<u>826,768</u>	<u>(402,157)</u>
TOTAL ASSETS LESS		
CURRENT LIABILITIES	<u>4,045,477</u>	<u>3,273,551</u>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	4,305	4,401
Borrowings	737,978	424,355
	<u>742,283</u>	<u>428,756</u>
TOTAL ASSETS LESS TOTAL LIABILITIES	<u>3,303,194</u>	<u>2,844,795</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

	2017	2016
	RMB'000	RMB'000
<i>Cash flow for the years ended 31 December:</i>		
Net cash used in operating activities	(753,527)	(414,556)
Net cash generated from investing activities	736,873	284,251
Net cash generated from (used in) financing activities	1,217,934	(114,871)
	<u>1,201,280</u>	<u>(245,176)</u>

(ii) During the year ending 31 December 2018, the Group disposed of 51% of the entire issued share capital of Fujian Ronghai Environmental Technology Co., Ltd. (formerly known as “Fuqing Sound Water Co., Ltd.”) (“**Fujian Ronghai**”) (the “**Disposal**”). Upon completion of the Disposal, Fujian Ronghai ceased to be a subsidiary of the Company.

Up to the date of approval of the consolidated financial statements, as per the records in State Administration for Industry & Commerce of the People’s Republic of China (the “**SAIC**”), Beijing Sound remains as the registered shareholder of 51% equity interest in Fujian Ronghai. However, subsequent to the date of completion of the Disposal, the management of Fujian Ronghai has been transferred to the buyer and the Group has been unable to gain access to the sale and purchase agreement and the books and records of Fujian Ronghai. The current management of Fujian Ronghai did not respond to the Group’s requests and did not cooperate with the Group. The negotiation with the current management of Fujian Ronghai for accessing the sale and purchase agreement and the books and records of Fujian Ronghai is still in progress up to the date of approval of the consolidated financial statements.

Given these circumstances, the directors of the Company are of the opinion that they are unable to ensure that the financial information of Fujian Ronghai as consolidated in the consolidated financial statements of the Group for the year ended 31 December 2017 is free from misstatements. Because of the insufficient financial information of Fujian Ronghai, the consolidated financial statements do not contain disclosure of information about the nature and financial effects of the Disposal, which is required to be disclosed by the applicable IFRSs, including IAS 10 “Events after the Reporting Period”. Further, given the lack of financial information available, the directors of the Company consider that they cannot determine whether the Disposal 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 and related party transaction in accordance with IAS 24 “Related Party Disclosures”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

(ii) (continued)

The revenue, income, expenses and cash flows for the years ended 31 December 2017 and 2016 and the assets and liabilities as at those dates of Fujian Ronghai, excluding intra-group transactions and balances, which have been included in the consolidated financial statements of the Group are as follow:

	2017 RMB'000	2016 RMB'000
<i>Revenue, income and expenses for the years ended 31 December:</i>		
Revenue (note (a))	22,001	16,573
Cost of sales	(913)	-
	<hr/>	<hr/>
Gross profit	21,088	16,573
Other income	2,060	-
Other gains and losses, net	(7)	-
Distribution and selling expenses	(8)	-
Research and development expenses	(85)	-
Administrative expenses	(2,330)	-
Finance costs	(11,447)	-
	<hr/>	<hr/>
Profit before income tax	9,271	16,573
Income tax expenses	(4,370)	(4,143)
	<hr/>	<hr/>
Profit for the year	4,901	12,430
	<hr/> <hr/>	<hr/> <hr/>
Profit and total comprehensive income for the year attributable to:		
owners of the Company	2,500	6,339
non-controlling interest	2,401	6,091
	<hr/>	<hr/>
	4,901	12,430
	<hr/> <hr/>	<hr/> <hr/>

note:

- (a) Included in the revenue of Fujian Ronghai for the year ended 31 December 2017 were revenue attributable to operating segment of O&M of approximately RMB22,001,000 (2016: RMB16,573,000), representing 2% (2016: 2%) of revenue in this segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

(ii) (continued)

	2017 RMB'000	2016 RMB'000
Assets and liabilities as at 31 December:		
NON-CURRENT ASSETS		
Property, plant and equipment	144	46
Services concession receivables	302,318	296,592
	<u>302,462</u>	<u>296,638</u>
CURRENT ASSETS		
Trade and other receivables	37,421	42,476
Bank balances and cash	1,204	30
	<u>38,625</u>	<u>42,506</u>
CURRENT LIABILITIES		
Trade and other payables	71,099	59,427
Borrowings	20,000	19,000
	<u>91,099</u>	<u>78,427</u>
NET CURRENT LIABILITIES	<u>(52,474)</u>	<u>(35,921)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>249,988</u>	<u>260,717</u>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	8,524	4,154
Borrowings	152,000	172,000
	<u>160,524</u>	<u>176,154</u>
TOTAL ASSETS LESS TOTAL LIABILITIES	<u>89,464</u>	<u>84,563</u>
	2017 RMB'000	2016 RMB'000
Cash flow for the years ended 31 December:		
Net cash generated from (used in) operating activities	31,776	(78,942)
Net cash used in investing activities	(155)	(42)
Net cash (used in) generated from financing activities	(30,447)	71,000
	<u>1,174</u>	<u>(7,984)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

- (iii) During the year ended 31 December 2017, the Group disposed of 49% equity interests of 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**”) to a buyer (the “**Buyer**”) at zero consideration (the “**First Fuzhou City Dongxiang District Sound Disposal**”). Fuzhou City Dongxiang District Sound was principally engaged in construction, management and operation of the municipal wastewater projects in the PRC. Upon completion of the First Fuzhou City Dongxiang District Sound Disposal, Fuzhou City Dongxiang District Sound became a 51% owned subsidiary of the Company.

In addition, as disclosed in Note 44(c)(ii) to the consolidated financial statements, subsequent to the end of the reporting period of 31 December 2017 and before the date of this report, the Group further disposed the remaining 51% equity interest of Fuzhou City Dongxiang District Sound to the Buyer at zero consideration (the “**Second Fuzhou City Dongxiang District Sound Disposal**”). Upon completion of the Second Fuzhou City Dongxiang District Sound Disposal, Fuzhou City Dongxiang District Sound ceased to be a subsidiary of the Company.

In the opinion of the directors of the Company, subsequent to the completion of the Second Fuzhou City Dongxiang District Sound, the operation and management of Fuzhou City Dongxiang District Sound has been transferred to the Buyer and the Group has been unable to gain access to the full books and records of Fuzhou City Dongxiang District Sound.

Given these circumstances, the directors of the Company have been unable to (i) consolidated the financial statements of Fuzhou City Dongxiang District Sound including its assets, liabilities, income and expenses into the consolidated financial statements of the Group for the year ended 31 December 2017 and (ii) adjust the carrying amounts of the controlling and non-controlling interests to reflect the change in the Group's relative interests in Fuzhou City Dongxiang District Sound that arose from the completion of the First Fuzhou City Dongxiang District Sound Disposal. Had the financial information of Fuzhou City Dongxiang District Sound been consolidated to the Group's consolidated financial statements for the year ended 31 December 2017 and the equity transaction for the disposal of partial interest under the First Fuzhou City Dongxiang District Sound Disposal been recognised, (i) the retained earnings and the non-controlling interests recognised in the consolidated statement of changes in equity for the year ended 31 December 2017, (ii) assets and liabilities recognised in the consolidated statement of financial position as at 31 December 2017 and (iii) the profit and total comprehensive income for the year attributable to owners of the Company and the non-controlling interests subsequent to the completion of the First Fuzhou City Dongxiang District Sound Disposal recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 would be affected. The non-recognition of the effects of the equity transaction for the disposal of partial interests in the subsidiary is a departure from the requirements of IFRS 10 which requires the Group to adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in its relative interests in Fuzhou City Dongxiang District Sound.

Further, given the lack of financial information available, the directors of the Company consider that they cannot determine whether the First Fuzhou City Dongxiang District Sound Disposal and the Second Fuzhou City Dongxiang District Sound Disposal 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 and related party transaction in accordance with IAS 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION (CONTINUED)

- (iv) 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.
- (v) During the year ended 31 December 2017, the Group recorded net cash outflow from operating activities of approximately RMB2,093,666,000 (2016: RMB1,274,529,000) and as at 31 December 2017, the Group recorded total borrowings exceeding restricted bank balances and bank balances and cash of approximately RMB5,652,051,000 (2016: RMB2,577,528,000). The Group recorded current and non-current borrowings of approximately RMB2,372,097,000 (2016: RMB1,483,726,000) and RMB4,881,041,000 (2016: RMB2,624,444,000) and restricted bank balances and bank balances and cash of aggregate amount of approximately RMB1,601,087,000 (2016: RMB1,530,642,000) as at 31 December 2017.

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”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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.

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 acquiree (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

The Group as lessee (continued)

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	3% 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

Effective interest method

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 Company 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in these consolidated financial statements:

Fair value measurement

A number of assets and liabilities included in the Group's consolidated financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

Fair value measurement (continued)

The Group measures a number of items at fair value:

- Available-for-sale financial assets (Note 26); and
- Derivative financial liabilities (Note 31).

Income taxes

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

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 judgment 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 25 to the consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

ii. Key sources of estimation uncertainty (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

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 2017						
Revenue						
External sales	3,036,685	52,927	1,030,274	4,119,886	-	4,119,886
Inter-segment sales	-	192,584	-	192,584	(192,584)	-
Total revenue	<u>3,036,685</u>	<u>245,511</u>	<u>1,030,274</u>	<u>4,312,470</u>	<u>(192,584)</u>	<u>4,119,886</u>
Segment results	141,670	41,981	229,971	413,622	-	413,622
Unallocated income						346
Unallocated other gains and losses, net						(4,334)
Unallocated finance costs						(1,690)
Unallocated expenses						(16,681)
Profit before income tax						<u>391,263</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

	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	3,034,295	4,812	838,692	3,877,799	-	3,877,799
Inter-segment sales	-	362,941	-	362,941	(362,941)	-
Total revenue	3,034,295	367,753	838,692	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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2017						
Segment assets	16,997,795	692,958	8,920,320	26,611,073	(8,268,028)	18,343,045
Unallocated corporate assets (note i)						78,597
Consolidated assets						18,421,642
Segment liabilities	13,403,270	344,542	6,717,237	20,465,049	(8,268,028)	12,197,021
Deferred tax liabilities						63,625
Unallocated corporate liabilities (note ii)						446,642
Consolidated liabilities						12,707,288
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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2017					
Additions to non-current assets excluding financial instruments and deferred tax assets	466,868	33,764	38,949	10	539,591
Depreciation and amortisation	13,844	1,515	14,038	57	29,454
Interest income	(11,851)	(26)	(732)	(3)	(12,612)
Loss on disposal of property, plant and equipment	192	15	59	-	266
Finance costs	135,209	3,443	78,913	1,672	219,237
Imputed interest income included in revenue	-	-	(416,658)	-	(416,658)
Research and development expenses	38,869	10,368	1,260	-	50,497
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
Imputed interest income included in revenue	-	-	(343,971)	-	(343,971)
Research and development expenses	36,944	11,303	-	-	48,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's operations are located in the PRC, the People's Republic of Bangladesh ("Bangladesh") 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.

	2017 RMB'000	2016 RMB'000
Revenue from external customers		
The PRC	4,045,036	3,847,462
Bangladesh	74,850	29,038
Singapore	-	1,299
	<u>4,119,886</u>	<u>3,877,799</u>
 Non-current assets		
The PRC	<u>1,071,287</u>	687,426

No revenue from a single external customer amount to 10% or more of the Group's total revenue for the year ended 31 December 2017 (2016: Nil).

7. REVENUE

	2017 RMB'000	2016 RMB'000
Revenue from engineering, procurement and construction contracts (note (i))		
- Design service	10,644	51,307
- Sale of equipment	511,322	642,787
- Turnkey services	2,467,822	2,335,781
	<u>2,989,788</u>	<u>3,029,875</u>
 Revenue from sale of goods	52,927	4,812
Operating and maintenance income	613,616	494,721
Design service	46,897	4,420
Imputed interest income on service concession receivables	416,658	343,971
	<u>4,119,886</u>	<u>3,877,799</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. REVENUE (CONTINUED)

note:

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

	2017 RMB'000	2016 RMB'000
From contracts with external customers	1,763,993	758,263
From service concession arrangements of the Group	1,225,795	2,271,612
	<u>2,989,788</u>	<u>3,029,875</u>

8. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Government grants (note)	55,328	56,210
Interest income	12,612	8,227
Investment income on available-for-sale investments	2,128	23,539
Sundry income	2,685	2,939
	<u>72,753</u>	<u>90,915</u>

note:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. OTHER GAINS AND LOSSES, NET

	2017	2016
	RMB'000	RMB'000
Allowance for doubtful debts	74,362	36,597
Allowance for doubtful debts written back	(2,619)	(18,305)
Change in fair value of a swap contract	(5,451)	2,246
Loss on disposal of property, plant and equipment	266	1,711
Gain on bargain purchase of a subsidiary (Note 35(a))	(3,397)	-
Impairment loss recognised in respect of goodwill	-	41,395
Impairment loss recognised in respect of service concession receivables	161,688	61,286
Impairment loss recognised in respect of intangible assets	119,627	-
Impairment loss recognised in respect of interests in associates	60,000	-
Impairment loss recognised in respect of investment in subsidiaries	-	30,000
Net foreign exchange (gain) loss	(12,079)	36,145
Penalty and fine	4,797	2,050
Others	448	96
	397,642	193,221

10. FINANCE COSTS

	2017	2016
	RMB'000	RMB'000
Interest expenses on borrowings		
- wholly repayable within five years	147,366	103,920
- not wholly repayable within five years	44,698	26,569
Interest expenses on finance lease	27,173	20,024
	219,237	150,513

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. INCOME TAX EXPENSES

	2017	2016
	RMB'000	RMB'000
The charge comprises:		
Current tax		
- PRC income tax	73,309	84,861
Under (over) provision in prior years		
- PRC income tax	6,033	(11,306)
Deferred tax (Note 23)	105,041	86,943
	<u>184,383</u>	<u>160,498</u>

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 2016 and 2017, 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% (2016: 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 years ended 2016 and 2017, certain PRC subsidiaries of the Company enjoyed preferential income tax rates at 12.5%, 15% or tax exemption as follows:

	2017	2016
	%	%
Beijing Sound (note i)	15	15
Beijing Epure International Water Co., Ltd ("Beijing Epure") (note ii)	25	15
Beijing Hi-Standard Water Treatment Equipment Co., Ltd ("Hi-Standard Equipment") (note iii)	15	15
Hancheng City Sound Water Co., Ltd ("Hancheng Sound") (note iv)	25	12.5
Shangluo Sound Water Co., Ltd ("Shangluo Sound") (note iv)	25	12.5
Tongliao Sound (notes iv & vi)	15	12.5
Yulin City Jingzhou Water Co., Ltd ("Yulin Jingzhou") (note iv)	25	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	25
Jiangyan Qinlong Water Co., Ltd ("Jiangyan Qinlong") (note iv)	12.5	12.5
Anshan Qingchang Water Co., Ltd ("Anshan Qingchang") (note iv)	12.5	Exempted
Anshan Qinglang Water Co., Ltd ("Anshan Qinglang") (note iv)	12.5	Exempted
Anshan Tianqing Water Co., Ltd ("Anshan Tianqing") (note iv)	12.5	Exempted
Anyang Taiyuan Water Co., Ltd ("Anyang Taiyuan") (note iv)	12.5	Exempted

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. INCOME TAX EXPENSES (CONTINUED)

For the years ended 2016 and 2017, certain PRC subsidiaries of the Company enjoyed preferential income tax rates at 12.5%, 15% or tax exemption as follows:

	2017	2016
	%	%
Changsha Sound Water Co., Ltd (“ Changsha Sound ”) (note iv)	12.5	Exempted
Fushun Sound Water Co., Ltd (“ Fushun Sound ”) (note iv)	12.5	Exempted
Hailun Sound Water Co., Ltd (“ Hailun Sound ”) (note iv)	12.5	Exempted
Hongze Zeqing Water Co., Ltd (“ Hongze Zeqing ”) (note iv)	12.5	Exempted
Sound Hanzhong Yang County Water Co., Ltd (“ Hanzhong Yang County ”) (note iv)	12.5	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)	Exempted	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

notes:

- (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 2019 as it has successfully applied as a high-and-new-tech enterprise.

- (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% from 2013 to 2016 as it had successfully applied as a high-and-new-tech enterprise.

- (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 2019 as it has successfully applied as a high-and-new-tech enterprise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. INCOME TAX EXPENSES (CONTINUED)

notes: (continued)

- (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.

Hancheng Sound, Shangluo Sound, Tongliao Sound and Yulin Jingzhou have obtained the approval and were entitled to exempt from enterprise income tax in 2011, 2012 and 2013 and enjoyed 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 were entitled to exempt from enterprise income tax in 2012, 2013 and 2014 and enjoyed 12.5% preferential enterprise income tax rate in the following three years.

Daye Honglian and Jiangyan Qinlong have obtained the approval and were entitled to exempt from enterprise income tax in 2013, 2014 and 2015 and enjoyed 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.

- (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.

- (vi) 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, enterprises whose main business belongs to the scope of "Catalogue of Encouraged Industries in Western Regions" are levied enterprise income tax at 15%. Tongliao Sound was entitled to enjoy a preferential tax rate at 15% from 2017 to 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. INCOME TAX EXPENSES (CONTINUED)

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:

	2017 RMB'000	2016 RMB'000
Profit before income tax	<u>391,263</u>	<u>658,946</u>
Tax at the applicable income tax rate of respective tax jurisdictions	100,052	166,438
Tax effect of expenses not deductible for tax purpose	114,677	113,989
Tax effect of income not taxable for tax purpose	(12,351)	(74,742)
Effect of taxable profits taxed at preferential tax rates or subjected to tax exemption	(89,440)	(76,773)
Tax effect of unrecognised deductible temporary differences	52,818	24,687
Tax effect of tax losses not recognised	19,440	19,345
Utilisation of tax losses previously not recognised	(6,846)	(1,140)
Under (over) provision of current tax in prior years	6,033	(11,306)
Income tax expense	<u>184,383</u>	<u>160,498</u>

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2017 RMB'000	2016 RMB'000
Amortisation of intangible assets	9,670	3,296
Amortisation of land use rights	1,158	1,157
Auditors' remuneration		
Audit services	3,216	2,453
Non-audit services	70	70
Cost of inventories recognised as expenses	181,863	298,218
Depreciation for property, plant and equipment	18,626	12,673
Staff costs		
Directors' remuneration (Note 13)	2,586	2,904
Other staff costs		
Salaries and other benefits	229,110	182,415
Contributions to defined contribution plans	34,556	24,109
Total staff costs	<u>266,252</u>	<u>209,428</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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:

	2017 RMB'000	2016 RMB'000
Directors' fees	360	360
Directors' emoluments:		
- Salaries and other benefits	2,031	1,948
- Bonus	-	352
- Contributions to defined contribution plans	195	244
	<u>2,226</u>	<u>2,544</u>
Total	<u>2,586</u>	<u>2,904</u>

	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 2017						
Executive directors:						
WEN Yibo	-	602	-	51	-	653
LUO Liyang	-	336	-	51	-	387
LIU Wei (note iii)	-	200	-	23	-	223
ZHOU Hao (note iv)	-	331	-	20	-	351
LIU Xiqiang (note v)	-	381	-	50	-	431
LI Feng (note vi)	-	181	-	-	-	181
Independent non-executive directors:						
MA Yuanju	120	-	-	-	-	120
ZHANG Shuting	120	-	-	-	-	120
LUO Jianhua	120	-	-	-	-	120
	<u>360</u>	<u>2,031</u>	<u>-</u>	<u>195</u>	<u>-</u>	<u>2,586</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

	Directors' fee	Salaries and other benefit	Bonus	Contributions to defined contribution plans	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 iii)	-	543	-	61	-	604
ZHOU Hao (note iv)	-	132	-	15	-	147
LIU Xiqiang (note v)	-	96	-	18	-	114
Independent non-executive directors:						
MA Yuanju	120	-	-	-	-	120
ZHANG Shuting	120	-	-	-	-	120
LUO Jianhua	120	-	-	-	-	120
	360	1,948	352	244	-	2,904

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. Liu Wei resigned as an executive director of the Company on 26 July 2017.
- (iv) Mr. Zhou Hao was appointed as an executive director of the Company on 12 August 2016.
- (v) Mr. Liu Xiqiang was appointed as an executive director of the Company on 12 August 2016.
- (vi) Mr. Li Feng was appointed as an executive director of the Company on 26 July 2017.

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 2016 and 2017.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included one (2016: one) director for the year ended 31 December 2017. The emoluments of the directors are included in the disclosure in Note 13 above. The emoluments of the remaining four (2016: four) highest paid individuals for the year ended 31 December 2017 are as follows:

	2017	2016
	RMB'000	RMB'000
Salaries and other benefits	3,263	3,179
Bonus (note)	116	403
Contributions to defined contribution plans	177	237
	<u>3,556</u>	<u>3,819</u>

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	
	2017	2016
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	1

15. DIVIDENDS

No dividend has been proposed by the Board in respect of the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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:

	2017	2016
	RMB'000	RMB'000
Earnings for the purpose of basic and diluted earnings per share	<u>256,865</u>	<u>484,842</u>
	2017	2016
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>1,506,205</u>	<u>1,506,205</u>

Diluted earnings per share for the years ended 31 December 2017 and 2016 were the same as the basic earnings per share as the Company's outstanding share options granted did not have dilutive effects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2016	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
Acquisition of subsidiary (Note 35)	3,845	1,473	151	20	-	5,489
Additions	5,068	17,558	4,784	12,053	31,776	71,239
Disposal	-	(225)	(2,455)	(395)	-	(3,075)
Exchange alignment	-	(85)	(63)	(41)	-	(189)
At 31 December 2017	68,721	45,854	29,223	52,235	96,030	292,063
ACCUMULATED DEPRECIATION						
At 1 January 2016	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
Charge for the year	1,745	2,408	4,109	10,364	-	18,626
Disposal	-	(206)	(1,376)	(332)	-	(1,914)
Exchange alignment	-	(85)	(63)	(41)	-	(189)
At 31 December 2017	16,709	6,922	12,992	23,260	-	59,883
CARRYING AMOUNT						
At 31 December 2017	52,012	38,932	16,231	28,975	96,030	232,180
At 31 December 2016	44,844	22,328	16,484	27,329	64,254	175,239

At 31 December 2017, the Group has pledged land and buildings and buildings under construction in progress with carrying amount of approximately RMB26,001,000 and RMB88,485,000 (2016: RMB25,576,000 and RMB56,526,000) respectively to secure banking facilities granted to the Group.

The net carrying amounts of the Group's property, plant and equipment held under finance leases included in the total amounts of land and buildings and plant and machinery as at 31 December 2017 were approximately RMB17,898,000 (2016: RMBNil) and RMB15,810,000 (2016: RMBNil) respectively (Note 32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. INTANGIBLE ASSETS

	Patents	Operating concessions	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2016	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
Addition	-	457,374	457,374
At 31 December 2017	-	954,069	954,069
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2016	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
Amortisation for the year	-	9,670	9,670
Impairment loss recognised in profit and loss	-	119,627	119,627
At 31 December 2017	-	152,310	152,310
CARRYING AMOUNTS			
At 31 December 2017	-	801,759	801,759
At 31 December 2016	-	473,682	473,682

The patents represent various patents which protected the design and specification in the manufacturing of wastewater treatment equipment. Amortisation for the patents was 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 2017, operating concessions with cost and carrying amount of approximately RMB378,862,000 (2016: RMB419,116,000) have not yet commenced use as the plants to which the operating concessions relate were still under construction and will subsequently complete construction in 2018 and 2019 (2016: from 2017 to 2019).

Amortisation is provided on straight-line basis over the respective periods of the operating concessions granted to the Group of 17 to 29 years. Details of these operating concessions are set out in Note 22.

The operating concessions will be tested for impairment whenever there is an indication that it may be impaired. Operating concessions which relate to plants not yet commenced use are tested for impairment at least annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. INTANGIBLE ASSETS (CONTINUED)

At 31 December 2017, 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 concessions using the value-in-use calculation. The key assumptions for the value-in-use calculations are those regarding the discount rates and expected treatment charges based on the volume of water or wastewater treated and costs related to the operations of the wastewater treatment and recycling water plants during the forecasted period. The discount rates used were pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the intangible assets. Forecasted treatment charges based on the volume of water or wastewater treated and costs related to the operations of the wastewater treatment and recycling water plants are estimated based on past practices and expectations of future changes in the market. Based on the results of these impairment assessments, the Group determined that except for the operating concessions described below, there was no impairment of the operating concession intangible assets of the Group as at 31 December 2017 (2016: Nil).

Despite increase in revenue contribution by these operating concessions for the year ended 31 December 2017, the operating results of Shandong Chengwu Yingyuan Industrial Co., Ltd (“**Shandong Chengwu**”) had not reached the level as originally expected. Hence the directors of the Company have revised downward the profit forecast for the operating concessions of Shandong Chengwu and applied discount rate of 8.85% (2016: 10.32%). Based on the valuation report issued by Peak Vision Appraisals Limited, the recoverable amount of the operating concession based on its value in use was determined to be approximately RMB1,532,058,000 as at 31 December 2017 (2016: RMB889,909,000) and the Group has recognised an impairment loss of approximately RMB1,873,000 (2016: Nil).

Included in intangible assets as at 31 December 2017 are cost of approximately RMB117,755,000 (2016: Nil) related to operating concession right held by Shanxian Huadu Water Co., Ltd (單縣華都水務有限公司) (“**Shanxian Huadu**”). Impairment loss to fully write down the entire balance of the carrying value of approximately RMB117,755,000 as at 31 December 2017 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 as the management of the Group was of the opinion that the recoverable amounts of this operating concession right as at 31 December 2017 was insignificant.

At 31 December 2017, the Group has pledged operating concessions with carrying amount of approximately RMB169,012,000 (2016: RMB175,172,000) to secure banking facilities granted to the Group.

The net carrying amounts of the Group's operating concessions held under finance leases as at 31 December 2017 was approximately RMB214,299,000 (2016: RMB296,941,000) (Note 32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. LAND USE RIGHTS

	RMB'000
COST	
At 1 January 2016 and 31 December 2016 and 31 December 2017	<u>49,921</u>
ACCUMULATED AMORTISATION	
At 1 January 2016	9,101
Charge for the year	<u>1,157</u>
At 31 December 2016	10,258
Charge for the year	<u>1,158</u>
At 31 December 2017	<u>11,416</u>
CARRYING AMOUNTS	
At 31 December 2017	<u><u>38,505</u></u>
At 31 December 2016	<u><u>39,663</u></u>

	2017	2016
	RMB'000	RMB'000
Analysed for reporting purpose as:		
- Current asset	1,157	1,158
- Non-current asset	37,348	38,505
	<u>38,505</u>	<u>39,663</u>

The amount represents the prepayment of rentals for land use rights situated in the PRC. The leasehold land has lease terms ranging from 39 to 47 years.

At 31 December 2017, the Group has pledged land use rights with carrying amount of approximately RMB1,949,000 (2016: RMB2,012,000) to secure banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

20. GOODWILL

	RMB'000
COST	
At 1 January 2016 and 31 December 2016 and 31 December 2017	<u>41,395</u>
ACCUMULATED IMPAIRMENT	
At 1 January 2016	-
Impairment for the year	<u>41,395</u>
At 31 December 2016 and 31 December 2017	<u>41,395</u>
NET BOOK VALUE	
At 31 December 2017	<u>-</u>
At 31 December 2016	<u>-</u>

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 carrying amount of goodwill was fully impaired during the year ended 31 December 2016.

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 pre-tax discount rate of 14.19% at 31 December 2016. 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 recoverable 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. INTERESTS IN ASSOCIATES

	2017	2016
	RMB'000	RMB'000
Unlisted shares, at cost	60,000	-
Less: Allowance	(60,000)	-
	<u>-</u>	<u>-</u>

The following set out the particulars of the principal associates of the Group as at 31 December 2017:

Name	Place of incorporation/ establishment	Class of share held	Attribution equity interest held by the Group		Principal activities
			2017	2016	
Fuzhou City Cangshan Zhongyu Sangcheng Water Environment Technology Co., Ltd. 福州市倉山中閩桑誠水環境技術有限公司	The PRC	Ordinary shares	30%	-	Construction, management and operation of the municipal water projects
Fuzhou City Jinan Zhongyu Sancheng Water Environment Technology Co., Ltd. 福州市晉安中閩桑誠水環境技術有限公司	The PRC	Ordinary shares	30%	-	Construction, management and operation of the municipal water projects

During the year ended 31 December 2017, the Group formed two companies namely 福州市倉山中閩桑誠水環境技術有限公司 (Fuzhou City Cangshan Zhongyu Sangcheng Water Environment Technology Co., Ltd.) (“**Cangshan Zhongyu Sangcheng**”) and 福州市晉安中閩桑誠水環境技術有限公司 (Fuzhou City Jinan Zhongyu Sancheng Water Environment Technology Co., Ltd.) (“**Jinan Zhongyu Sancheng**”) (collectively referred to as the “**Fuzhou Entities**”) and it contributed share capital of RMB30,000,000 each, representing 30% of the registered share capital of each of the associates companies.

Despite the fact that the registration of shareholder of the registered capital of the Fuzhou Entities under the name of a subsidiary of the Company in the SAIC, the Group have been unable to gain access to the statutory records and the books and records, or financial information of the Fuzhou Entities subsequent to the registration of the Fuzhou Entities. The existing management of the Fuzhou Entities did not respond to the Group’s requests and did not cooperate with the Group. The negotiation with the existing management of the Fuzhou Entities for assessing statutory records and the books and records of the Fuzhou Entities was still in progress up to the date of the approval of the consolidated financial statements.

Given these circumstances, the Group was unable to determine whether the Group has control, joint control or significant influence in the Fuzhou Entities or neither of the above. Further, the Group was unable to account for, and hence have not accounted for, the financial statements or accounts of the Fuzhou Entities into the consolidated financial statements of the Group with effect from the date of the registration of the Fuzhou Entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. INTERESTS IN ASSOCIATES (CONTINUED)

Because of the insufficient information of the Fuzhou Entities, the information about the nature and financial information of the Fuzhou Entities which is required to be disclosed by IFRS 12 “Disclosure of Interests in Other Entities” or IAS 32 “Financial Instruments: Presentation”, as appropriate, have not been disclosed in the consolidated financial statements of the Group for the year ended 31 December 2017. Furthermore, the directors of the Company consider the registration of the Fuzhou Entities 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 related party transaction in accordance with IAS 24.

The Group was unable to assess the recoverability of the investments and therefore has provided full impairment loss of RMB60,000,000 during the year ended 31 December 2017 (2016: Nil).

22. SERVICE CONCESSION RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Service concession receivables	9,099,667	7,607,755
Less: Amounts due within one year shown under current assets (Note 25)	<u>(444,289)</u>	<u>(361,894)</u>
Service concession receivables due after one year	<u>8,655,378</u>	<u>7,245,861</u>

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 2017, the Group has 109 (2016: 91) BOT projects in progress, among which 63 (2016: 47) BOT projects were in the operation stage as at 31 December 2017. Those arrangements entitle the Group to 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 2017, the Group recognised construction revenue of approximately RMB793,097,000 (2016: RMB2,271,612,000) and construction profit of RMB245,052,000 (2016: RMB472,352,000) in connection with BOT projects under construction.

The expected collection schedule of receivables under service concession arrangements is as follows:

	2017	2016
	RMB'000	RMB'000
Within 1 year	444,289	361,894
1 to 2 years	596,610	422,886
2 to 5 years	1,874,007	1,429,743
Over 5 years	<u>6,184,761</u>	<u>5,393,232</u>
	<u>9,099,667</u>	<u>7,607,755</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

22. SERVICE CONCESSION RECEIVABLES (CONTINUED)

At 31 December 2017, certain BOT projects' charging rights under the service concession contracts of the Group with an aggregate carrying amount of approximately RMB4,159,371,000 (2016: RMB3,216,243,000) were pledged to secure certain bank borrowings granted to the Group (Note 30(i)).

The net carrying amounts of the Group's service concession receivables held under finance leases as at 31 December 2017 was approximately RMB1,465,842,000 (2016: RMB1,430,755,000) (Note 32).

23. 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 2016	10,715	(63,625)	(19,362)	(124,271)	173	(196,370)
Credit (charge) 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)
Credit (charge) to profit or loss	(973)	-	96	(104,164)	-	(105,041)
At 31 December 2017	8,696	(63,625)	(19,170)	(314,428)	173	(388,354)

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

	2017	2016
	RMB'000	RMB'000
Deferred tax assets	8,869	9,842
Deferred tax liabilities	(397,223)	(293,155)
	(388,354)	(283,313)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. DEFERRED TAXATION (CONTINUED)

At 31 December 2017, the Group has unused tax losses of approximately RMB594,812,000 (2016: RMB407,146,000) 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 RMB489,838,000 (2016: RMB357,346,000) at 31 December 2017 has no expiry date and the remainder will be expired as follows:

	2017 RMB'000	2016 RMB'000
2017	-	1,222
2018	7,822	6,391
2019	3,272	4,913
2020	9,514	7,174
2021	26,860	30,100
2022	57,506	-
	<u>104,974</u>	<u>49,800</u>

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, the undistributed profits of the PRC subsidiaries of approximately RMB4,122,861,000 (2016: RMB3,699,101,000) which was earned after 1 January 2008, have not been recognised at 31 December 2017, 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.

24. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	9,346	30,231
Work in progress	404,116	145,202
Finished goods	3,378	28,894
	<u>416,840</u>	<u>204,327</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. TRADE AND OTHER RECEIVABLES

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

	2017 RMB'000	2016 RMB'000
Trade receivables	2,882,170	1,466,925
Allowance for doubtful debts	(149,415)	(77,672)
	<u>2,732,755</u>	<u>1,389,253</u>
Other receivables:		
Bills receivable	88,172	14,226
Advance payments to suppliers and subcontractors	144,927	335,893
Bid and compliance deposits	144,783	88,355
Deposits for obligations under finance leases	32,635	35,518
Service concession receivables (Note 22)	444,289	361,894
Others (note)	758,184	176,098
Total	<u>4,345,745</u>	<u>2,401,237</u>

note:

At 31 December 2017, the balance mainly included (i) structured deposits of RMB500,000,000 (2016: Nil) placed in a commercial bank in the PRC carrying expected rates of return of 4.60% (2016: Nil) per annum, with maturity periods of 12 months. The deposits could be withdrawn any time prior to maturity at principal amounts plus interests; (ii) the aggregate amounts of the installment of secured bonds and interests of approximately RMB81,382,000 (2016: Nil) withheld by the bonds management; (iii) amount due from a non-controlling interest of RMB28,000,000 (2016: Nil) which is unsecured, interest free and repayable on demand; (iv) amount receivables from 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**”) of approximately RMB20,000,000 (2016: Nil); and (v) petty cash advanced to staff of approximately RMB21,689,000 (2016: RMB23,714,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2017	2016
	RMB'000	RMB'000
Trade receivables:		
Within 90 days	952,653	174,599
91 to 180 days	199,840	96,561
181 days to 1 year	500,793	283,943
1 to 2 years	425,991	463,325
2 to 3 years	337,209	352,535
More than 3 years	316,269	18,290
	<u>2,732,755</u>	<u>1,389,253</u>
 Bills receivable:		
Within 180 days	<u>88,172</u>	<u>14,226</u>

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented, based on the revenue recognition date.

	2017	2016
	RMB'000	RMB'000
Trade receivables:		
Within 90 days	889,145	163,914
91 to 180 days	173,643	106,987
181 days to 1 year	413,228	180,921
1 to 2 years	331,735	567,350
2 to 3 years	566,973	339,013
More than 3 years	358,031	31,068
	<u>2,732,755</u>	<u>1,389,253</u>

The Group has a policy of granting trade customers with credit of generally within 180 (2016: 180) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB1,036,733,000 (2016: RMB929,400,000) at 31 December 2017 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:

	2017 RMB'000	2016 RMB'000
181 days to 1 year	265,249	255,011
1 to 2 years	236,450	326,855
2 to 3 years	219,122	329,871
More than 3 years	315,912	17,663
	<u>1,036,733</u>	<u>929,400</u>

Movement in allowance for doubtful debts:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	77,672	59,380
Charge to profit or loss	74,362	36,597
Written back to profit or loss	(2,619)	(18,305)
Balance at end of the year	<u>149,415</u>	<u>77,672</u>

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 2017, trade receivables with carrying amount of approximately RMB148,689,000 (2016: RMB110,379,000) have been pledged as collateral for the obligation under finance lease (Note 32).

As of the date of the approval of the consolidated financial statements, (i) trade receivables with principal amounts of approximately RMB117,752,000, RMB181,004,000, RMB169,764,000, RMB101,736,000 and RMB1,763,937,000 which were recognised by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015, 2016 and 2017 respectively were still outstanding and remained unsettled; and (ii) other receivables with amounts of approximately RMB57,644,000, RMB117,629,000, RMB205,398,000, RMB25,942,000 and RMB699,079,000 which were recognised by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015, 2016 and 2017 respectively were still outstanding and remained unsettled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. AVAILABLE-FOR-SALE INVESTMENT

	2017	2016
	RMB'000	RMB'000
Debt investments	<u>3,000</u>	<u>42,800</u>

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 investment 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 4.80% (2016: 2.20% to 2.25%) per annum and were subsequently realised in 2018 (2016: 2017).

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

	2017	2016
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	6,844,487	5,371,732
Less: Progress billings	<u>(4,569,260)</u>	<u>(3,580,492)</u>
	<u>2,275,227</u>	<u>1,791,240</u>
Contract work in progress at the end of the reporting period:		
Amounts due from customers for contract work	2,318,279	1,797,114
Amounts due to customers for contract work	<u>(43,052)</u>	<u>(5,874)</u>
	<u>2,275,227</u>	<u>1,791,240</u>

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

At 31 December 2017, retentions held by customers for contract works amounted to approximately RMB228,415,000 (2016: RMB230,729,000).

At 31 December 2017, amounts due from customers for contract work with carrying amount of approximately RMB232,404,000 (2016: Nil) have been pledged as collateral for the obligation under finance lease (Note 32).

As of the date of the approval of the consolidated financial statements, amounts due from customers for contract work with amounts of approximately RMB28,743,000, RMB47,067,000, RMB87,230,000, RMB298,073,000 and RMB1,604,398,000 which were recognised by the Group on or before 31 December 2013, during the years ended 31 December 2014, 2015, 2016 and 2017 respectively were still outstanding and no progress billings had been issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

28. 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 rates, which ranged from 0.0001% to 0.385% (2016: 0.0001% to 0.385%) per annum as at 31 December 2017.

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 that are denominated in currency other than the functional currency are set out below:

	2017 RMB'000	2016 RMB'000
Bangladeshi Taka ("BDT")	5,456	11,827
Euro ("EUR")	23	22
Hong Kong Dollar ("HKD")	1,550	579
Japanese Yen ("JPY")	13,455	23,654
Saudi Riyal ("SAR")	719	4,807
Singapore Dollar ("S\$")	2,008	1,213
United States Dollar ("US\$")	<u>29,221</u>	<u>54,560</u>

Restricted bank balances

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

	2017 RMB'000	2016 RMB'000
Bills payables and banking facilities	262,754	1,017,424
Borrowings	10,391	-
Construction contracts	439,965	40,167
Merchandise agreements	1,040	1,176
Salaries payables	932	900
	<u>715,082</u>	<u>1,059,667</u>

The restricted bank balances bear interests at prevailing interest rates, which ranged from 0.30%-1.75% (2016: 0.35%-3.00%) per annum at 31 December 2017. The restricted bank balances of approximately RMB704,691,000 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. The remaining restricted bank balances of approximately RMB10,391,000 have been pledged to secure long-term borrowings and are therefore classified as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

28. 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:

	2017 RMB'000	2016 RMB'000
SAR	<u>29,763</u>	<u>31,771</u>

29. 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:

	2017 RMB'000	2016 RMB'000
Trade payables:		
Within 90 days	1,199,130	930,250
91 days to 180 days	276,918	260,735
181 days to 1 year	940,075	541,501
1 to 2 years	501,339	402,533
2 to 3 years	112,364	58,650
More than 3 years	147,780	103,493
	<u>3,177,606</u>	<u>2,297,162</u>
Other payables:		
Bills payable within 180 days	69,500	158,050
Advances from customers	109,235	66,491
Bid and compliance deposits	54,514	43,701
Borrowings interest payables	98,358	6,196
Other tax payables	3,350	91,445
Others (note)	302,927	322,684
	<u>3,815,490</u>	<u>2,985,729</u>

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

The average credit period on purchases of goods is 90 days (2016: 90 days).

note:

At 31 December 2017, the balance mainly included (i) amount due to Sound Water of approximately RMB7,662,000 (2016: Nil) which is unsecured, interest free and repayable on demand, (ii) amounts due to non-controlling interests of approximately RMB92,074,000 (2016: RMB72,855,000) which are unsecured, interest free and repayable on demand, (iii) considerations for the acquisitions of subsidiaries of approximately RMB59,105,000 (2016: RMB59,105,000), and (iv) accrued salaries and staff benefits of approximately RMB20,029,000 (2016: 18,561,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

30. BORROWINGS

	2017	2016
	RMB'000	RMB'000
Secured bank borrowings (note i)	1,686,158	1,441,873
Unsecured bank borrowings	1,945,930	1,558,447
Secured other borrowings (note ii)	1,252,850	1,062,850
Unsecured other borrowings	100,000	45,000
Secured bonds (note iii)	768,200	-
Unsecured bonds (note iv)	1,500,000	-
	7,253,138	4,108,170
Carrying amount repayable with a period of (note vi):		
Within one year	2,372,097	1,483,726
More than one year but not exceeding two years	366,249	336,003
More than two years but not exceeding five years	2,691,889	1,687,488
More than five years	1,822,903	600,953
Total borrowings	7,253,138	4,108,170
Less: Amounts due within one year	(2,372,097)	(1,483,726)
Amounts shown under non-current liabilities	4,881,041	2,624,444

The borrowings comprise:

	2017	2016
	RMB'000	RMB'000
Fixed-rate borrowings	4,283,050	1,398,850
Variable-rate borrowings (note v)	2,970,088	2,709,320
	7,253,138	4,108,170

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

	2017	2016
Fixed-rate borrowings	4.35% ~ 8.50%	4.79% ~ 8.50%
Variable-rate borrowings	3.84% ~ 9.25%	1.08% ~ 8.16%

notes:

- (i) At 31 December 2017, bank borrowings of approximately RMB122,000,000 (2016: RMB62,000,000) were mortgaged and secured by certain buildings, land use rights and buildings under construction in progress of the Group. Bank borrowings of approximately RMB1,564,158,000 (2016: RMB1,379,873,000) were secured by certain BOT subsidiaries' charging rights under the service concession contracts.
- (ii) At 31 December 2017, other borrowings of approximately RMB1,062,850,000 (2016: RMB1,062,850,000) were secured by equity interests of certain subsidiaries and RMB190,000,000 (2016: Nil) were secured by trade receivables of approximately RMB2,110,623,000 (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

30. BORROWINGS (CONTINUED)

notes: (continued)

- (iii) At 31 December 2017, bonds of approximately RMB768,200,000 (2016: Nil) were issued by Beijing Jingyushun Environment Co., Ltd. (北京京禹順環保有限公司) (“**Jingyushun**”), an indirect-wholly owned subsidiary of the Company, which were secured by Jingyushun’s charging rights over the service concession contract. The bonds will mature in 2027 and the annual interest rate was 6.50%.
- (iv) At 31 December 2017, bonds of approximately RMB1,500,000,000 were issued by Beijing Sound, of which approximately RMB1,000,000,000 (2016: Nil) will mature in 2018 and approximately RMB500,000,000 (2016: Nil) will mature in 2020. The bonds carry annual interest rate ranging from 5.00% – 6.80%.
- (v) The interest rates of variable-rate bank borrowings of the Group of approximately RMB2,955,778,000 and RMB14,310,000 (2016: RMB2,212,124,000 and RMB497,196,000) were varied according to the loan interest rates published by the People’s Bank of China (“**PBOC**”) and US Dollar London Interbank Offered Rate (“**LIBOR**”) respectively.
- (vi) The amounts due are based on scheduled repayment dates set out in the loan agreements.
- (vii) At 31 December 2017, the Group has borrowings of approximately RMB14,310,000 (2016: RMB497,196,000) which are denominated in US\$. All other borrowings are denominated in RMB, the functional currency of the entities of the Group which borrowed the monies.
- (viii) The borrowings at 31 December 2017 will be repayable from 2018 to 2034 (2016: 2017 to 2031).

31. DERIVATIVE FINANCIAL INSTRUMENTS

	2017	2016
	RMB’000	RMB’000
Financial liability		
Fair value of a swap contract (note (i))	-	20,380
Current	-	20,380

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 was matured in 2017. Under the contract, the Group would 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 Macro Economic 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. During the year ended 31 December 2017, the interest expenses incurred for the contract were approximately RMB14,929,000 (2016: RMB19,835,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. OBLIGATION UNDER FINANCE LEASE

The Group leased certain of the property, plant and equipment (Note 17) and plant and machineries used in its service concession arrangements under finance lease (Notes 18 and 22). The lease term is 3 to 8 (2016: 6) years. Interest rates underlying all obligations under finance are fixed at 5.00% to 6.50% (2016: 5.22% to 6.50%) 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	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance lease:				
Within one year	318,284	241,742	261,527	188,092
In more than one year and not more than five years	912,809	776,943	828,570	663,991
In more than five years	37,595	174,754	35,497	162,587
	1,268,688	1,193,439	1,125,594	1,014,670
Less: future finance charges	(143,094)	(178,769)	-	-
Present value of lease obligations	1,125,594	1,014,670	1,125,594	1,014,670
Less: Amount due for settlement within one year (shown under current liabilities)			(261,527)	(188,092)
Amount due for settlement after one year			864,067	826,578

The Group's obligations under finance lease with carrying amount of approximately RMB1,030,316,000 (2016: RMB895,331,000) are secured by the lessors' charging rights and the trade receivables on the service concession arrangements and amounts due from customers for contract work.

33. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank and other borrowings and bonds (Note 30) of the Group:

	2017	2016
	RMB'000	RMB'000
Land and buildings	25,362	25,576
Buildings under construction in progress	82,040	56,526
Land use right	1,949	2,012
Service concession receivables	4,159,371	3,216,243
Intangible assets – operating concession	169,012	175,172
Trade receivables	2,110,623	-
	6,548,357	3,475,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. ISSUED CAPITAL

	Number of shares	RMB'000
Issued and paid up		
At 1 January 2016, 31 December 2016 and 31 December 2017	<u>1,506,205,421</u>	<u>1,720,304</u>

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

(a) Acquisition of a subsidiary for the year ended 31 December 2017

On 6 June 2017, the Group acquired 51% equity interests of Liaoning Qingqian Environmental Protection Engineering Co., Ltd. (遼寧清乾環保工程有限公司) (“**Liaoning Qingqian**”) pursuant to a sales and purchase agreement dated 21 April 2017 at zero consideration.

As a result of the acquisition, the Group expects to diversify its business to capture the benefits from the trend of O&M in the PRC. No goodwill was arising from the acquisition of the Group.

The following table summarises the consideration paid for the acquisition and the amounts of assets acquired and liabilities assumed recognised at the date of acquisition.

	RMB'000
Recognised amounts of identifiable assets acquired and liabilities:	
Property, plant and equipment (Note 17)	5,489
Cash and cash equivalents	2,044
Deferred tax assets	1,490
Trade and other payables	<u>(2,363)</u>
	6,660
Less: non-controlling interests at proportionate share of assets acquired	<u>(3,263)</u>
Gain on bargain purchase of a subsidiary	<u>3,397</u>
 Total consideration satisfied by:	
Cash consideration paid	<u>-</u>
 Net cash inflows arising on the acquisition during the year:	
Cash consideration paid during the current year	-
Cash and cash equivalents acquired	<u>1,490</u>
	<u>1,490</u>

The gain on bargain purchase of a subsidiary has been recognised in “other gains and losses, net” in the consolidated statements of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(a) Acquisition of a subsidiary for the year ended 31 December 2017 (continued)

Acquisition-related costs of approximately RMB24,000 were charged to administrative expenses in the consolidated income statement for the year ended 31 December 2017.

During the year ended 31 December 2017, Liaoning Qingqian contributed approximately RMB6,718,000 to the Group's revenue since acquisition. The Group's profit in the consolidated income statement for the year ended 31 December 2017 included a profit of approximately RMB4,470,000 contributed by Liaoning Qingqian after the date of the acquisition. Had the acquisition been completed on 1 January 2017, the proforma revenue in the Group's consolidated income statement would be approximately RMB4,126,877,000 and the proforma profit in the Group's consolidated income statement would be approximately RMB571,189,000.

(b) 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 at a consideration of RMB30,000,000. Zhongye Zhengyi is an investment holding company and its subsidiaries were mainly engaged in industrial and civil construction, foundation, property management, rental service of construction machinery and equipment and equity investment management and consulting services 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 was registered in the SAIC; the Group has 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. TRANSACTION WITH NON-CONTROLLING INTEREST

(a) Acquisition of additional interest in a subsidiary for the year ended 31 December 2017

During the year ended 31 December 2017, the Group entered into a sale and purchase agreement with an independent third party to acquire 20% of the entire issued share capital of Linfen Yiande Water Co., Ltd. (臨汾益安德水務有限公司) (“Linfen Yiande”) from the non-controlling interests at zero consideration.

As a result of the acquisition, the Group owns 100% of Linfen Yiande. The acquisition was completed on 20 April 2017. The effect of changes in the ownership interest of Linfen Yiande on the equity attributable to owners of the company is summarised as follows:

	RMB'000
Consideration from non-controlling interests	-
Amount recognised as non-controlling interests	-
Movement on acquisition within equity	-

(b) Partial disposal of equity interests in a subsidiary for the year ended 31 December 2017

During the year ended 31 December 2017, the Group entered into a sale and purchase agreement with an independent third party to dispose 49% of the entire issued share capital of Fuzhou City Dongxiang District Sound.

As a result of the First Fuzhou City Dongxiang District Sound Disposal, the Group owns 51% of Fuzhou City Dongxiang District Sound. The First Fuzhou City Dongxiang District Sound Disposal was completed on 21 July 2017. There was no carrying amount of the non-controlling interest in Fuzhou City Dongxiang District Sound. The effect of changes in the ownership interest of Fuzhou City Dongxiang District Sound on the equity attributable to owners of the company is summarised as follows:

	RMB'000
Consideration from non-controlling interests	-
Amount recognised as non-controlling interests	-
Movement on partial disposal within equity	-

(c) Capital contributions from non-controlling interests for the year ended 31 December 2017

During the year ended 31 December 2017, the non-controlling shareholders of the non-wholly owned subsidiaries including Xinyang Sound Shenzhou Water Co., Ltd, Beijing Sound Zhongjian Environmental Engineering Company Limited, Fengdu County Sound Village Water Company Limited, Chongqing Yusang Environment Technology Co., Ltd., Tongzi Sound, Jishou Sound Water Company Limited, Fengdu County Sound Water Co., Ltd, Shanxian Sound Munsang Water Supply Co., Ltd., Huangpingqielan Sound Water Co., Ltd provided capital contributions to these subsidiaries based on their percentage of equity interests in these subsidiaries. The non-controlling interests has provided capital contribution of approximately RMB85,439,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. TRANSACTION WITH NON-CONTROLLING INTEREST (CONTINUED)

(d) Dividend paid to non-controlling interests for the year ended 31 December 2017

During the year ended 31 December 2017, the non-controlling shareholder of the non-wholly owned subsidiary, Chongqing Yusang Environment Technology Co., Ltd., received dividend based on the percentage of equity interests in this subsidiary. The non-controlling interests has received dividend of RMB6,500,000.

(e) Loans and partial disposal of equity interests in subsidiaries for the year ended 31 December 2016

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, 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.

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

(f) Capital contributions from non-controlling interests for the year ended 31 December 2016

During the year ended 31 December 2016, the non-controlling 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

	2017	2016
	RMB'000	RMB'000
Borrowings (current)	2,372,097	1,483,726
Borrowings (non-current)	4,881,041	2,624,444
Obligation under finance lease (current)	261,527	188,092
Obligation under finance lease (non-current)	864,067	826,578
Total debts	<u>8,378,732</u>	<u>5,122,840</u>
Equity attributable to owners of the Company	<u>5,449,106</u>	<u>5,186,632</u>
Total debt to equity ratio	<u>1.54</u>	<u>0.99</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. FINANCIAL INSTRUMENTS

38a. Categories of financial instruments

	2017	2016
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Service concession receivables	9,099,667	7,607,755
Trade receivables	2,732,755	1,389,253
Bills receivable	88,172	14,226
Bid and compliance deposits	144,783	88,355
Other receivables	758,184	211,616
Restricted bank balances	715,082	1,059,667
Bank balances and cash	886,005	470,975
	<u>14,424,648</u>	<u>10,841,847</u>
Available-for-sale financial asset		
Debt investments	3,000	42,800
Total	<u>14,427,648</u>	<u>10,884,647</u>
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	3,177,606	2,297,162
Bills payable	69,500	158,050
Other payables	302,927	322,684
Borrowings interest payables	98,358	6,196
Bid and compliance deposits	54,514	43,701
Borrowings	7,253,138	4,108,170
	<u>10,956,043</u>	<u>6,935,963</u>
Fair value through profit or loss		
Swap contract	-	20,380
Total	<u>10,956,043</u>	<u>6,956,343</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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, 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 33% (2016: 32%) of the carrying amount of trade receivables at 31 December 2017. 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 17% (2016: 19%) of the carrying amount of service concession receivables at 31 December 2017 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 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	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
S\$	7,662	-	2,497	1,877
US\$	14,310	496,197	29,221	54,560
BDT	-	-	5,456	11,827
HKD	-	-	1,595	696
JPY	-	-	13,455	23,654
SAR	-	-	30,482	36,578
EUR	-	-	23	22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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	
	2017	2016
	RMB'000	RMB'000
S\$	517	(188)
US\$	1,491	44,164
BDT	(546)	(1,183)
HKD	(160)	(70)
JPY	(1,346)	(2,365)
SAR	(3,048)	(3,658)
EUR	(2)	(2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk management (continued)

(ii) Interest rate risk management

The Group is mainly exposed to fair value interest rate risk in relation to its service concession receivables, fixed-rate borrowings, and obligations under finance leases (see Notes 22, 30 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 published by PBOC 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 RMB11,165,000 (2016: RMB8,108,000) for the year ended 31 December 2017.

If interest rates published by LIBOR 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 RMB54,000 (2016: RMB1,947,000) for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2017							
Trade payables	-	-	3,177,606	-	-	3,177,606	3,177,606
Bills payable	-	-	69,500	-	-	69,500	69,500
Other payables	-	-	302,927	-	-	302,927	302,927
Bid and compliance deposits	-	-	54,514	-	-	54,514	54,514
Borrowings							
Fixed-rate	5.40	-	1,384,163	2,712,629	1,449,991	5,546,783	4,283,050
Variable-rate	6.58	-	1,254,861	1,471,883	941,202	3,667,946	2,970,088
Total		-	6,243,571	4,184,512	2,391,193	12,819,276	10,857,685
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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 were 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 were 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
	2017	2016				
1) Swap contract classified as derivative financial instruments in the consolidated statement of financial position	Liabilities -	Liabilities 20,380	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. OPERATING LEASES COMMITMENTS

Lease payment recognised as an expense:

	2017	2016
	RMB'000	RMB'000
Minimum lease payments paid under operating lease recognised as an expense in the year	<u>122</u>	<u>2,308</u>

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

	2017	2016
	RMB'000	RMB'000
Within one year	122	1,721
In the second to fifth years inclusive	-	767
	<u>122</u>	<u>2,488</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms of one year (2016: one to two years) and rentals are fixed for lease terms of one year (2016: one to two years).

40. CAPITAL COMMITMENT

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

	2017	2016
	RMB'000	RMB'000
Construction of buildings: Contracted but not provided for	<u>4,055</u>	<u>33,007</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. RETIREMENT BENEFIT PLANS (CONTINUED)

During the year ended 31 December 2017, 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:

	2017 RMB'000	2016 RMB'000
Contributions to defined contribution plan	<u>34,751</u>	<u>24,330</u>

At 31 December 2017, the contribution due in respect of the year that had not been paid to the schemes is approximately RMB201,000 (2016: RMB132,000).

42. SHARE-BASED PAYMENT TRANSACTIONS

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.

As at 31 December 2017, there were no shares outstanding in respect of which options had been granted under the Scheme.

As at 31 December 2016, the number of shares in respect of which options had been granted under the Scheme was 58,090,000, representing 3.86% 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 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/ending 31 December 2014, 2015 and 2016 to 30 September 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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, be 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 ending 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 2017 are as follow:

Date of grant	Outstanding at 1 January 2017	Granted during 2017	Forfeited during 2017	Lapsed during 2017	Exercised during 2017	Outstanding at 31 December 2017
9 December 2014	58,090,000	-	(1,556,000)	(56,534,000)	-	-
Exercisable at the end of the year						-
Weighted average exercise price	HK\$8.11	N/A	N/A	N/A	N/A	N/A

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

Date of grant	Outstanding at 1 January 2017	Granted during 2016	Forfeited during 2016	Lapsed during 2017	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	N/A	HK\$8.11

The Group did not recognise any share-based payment expenses for the year ended 31 December 2017 (2016: Nil) in relation to the share option granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere in the consolidated financial statements, 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
Target Group	Deconsolidated subsidiaries (Note 35(b))

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

	2017 RMB'000	2016 RMB'000
Revenue from engineering, procurement and construction contracts		
Sound Group and its subsidiaries	66,995	55,111
Tus-Sound and its subsidiaries	102,459	79,837
Target Group	206,790	-
	<u>376,244</u>	<u>134,948</u>
Revenue from sales of goods		
Sound Group and its subsidiaries	-	45
Tus-Sound and its subsidiaries	-	315
	<u>-</u>	<u>360</u>
Revenue from design service		
Sound Group and its subsidiaries	-	4,311
Tus-Sound and its subsidiaries	1,155	759
	<u>1,155</u>	<u>5,070</u>
Equipment procurement		
Sound Group and its subsidiaries	759	47,285
Tus-Sound and its subsidiaries	26	20,882
	<u>785</u>	<u>68,167</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2017 RMB'000	2016 RMB'000
Trade receivables		
Sound Group and its subsidiaries	139,956	151,719
Tus-Sound and its subsidiaries	81,946	23,095
Target Group	161,649	-
	<u>383,551</u>	<u>174,814</u>
Other receivables:		
Advance to supplier and subcontractors		
Tus-Sound and its subsidiaries	10	4
Target Group	-	48,242
	<u>10</u>	<u>48,246</u>
Bid and compliance deposits		
Target Group	<u>1,200</u>	-
Others		
Target Group	<u>20,000</u>	-
Amounts due from customers for contract work		
Target Group	<u>16,181</u>	-

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

	2017 RMB'000	2016 RMB'000
Trade payables		
Tus-Sound and its subsidiaries	4,238	33,706
Target Group	145,201	-
	<u>149,439</u>	<u>-</u>
Other payables:		
Advance from customers		
Sound Group and its subsidiaries	1	-
Tus-Sound and its subsidiaries	-	3,589
	<u>1</u>	<u>3,589</u>
Other		
Sound Group and its subsidiaries	-	9,225
Controlling shareholder	7,662	-
Target Group	252	-
	<u>7,914</u>	<u>9,225</u>

During the year ended 31 December 2016, the maximum balance outstanding for amount due to Luo Liyang was approximately RMB121,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 RMB'000	2017 RMB'000
Fee, wages and salaries	3,918	3,675
Performance related incentive payments	-	352
Contributions to defined contribution plan	195	260
	<u>4,113</u>	<u>4,287</u>

- (e) Guarantees

At the end of the reporting period, borrowings amounting to approximately RMB3,762,088,000 (2016: RMB1,475,253,000) 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 26 January 2018 announcement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(a) (continued)

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.

Key findings of the Reviewer

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(a) (continued)

The 1 February 2018 announcement (continued)

Key findings of the Reviewer (continued)

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.

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, 6 June and 4 July 2018 announcements

On 7 May, 6 June and 4 July 2018, the Company announced that the Company had 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.

The 3 August, 3 September and 4 October 2018 announcements

On 3 August, 3 September and 4 October 2018, the Company announced that the Company had submitted a revised proposal to the Commission in late July 2018 in response to its comments on the Company's previous proposals with a view to address its concerns on the Discrepancies. Further announcement will be made by the Company as and when appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

- (a) (continued)

The 5 November 2018 announcement

On 5 November 2018, the Company announced that, on 1 November 2018, the Company received a reply from the Commission. The Company was seeking legal advice, and would endeavor to respond to the Commission as soon as possible. Further announcement would be made by the Company as and when appropriate.

The 30 November 2018 announcement

On 30 November 2018, the Company announced that the Company was still in discussion with the Commission with a view to resolve the Commission's regulatory concerns regarding the Discrepancies and no agreement has been made. Further announcement will be made by the Company as and when appropriate.

- (b) 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) Disposal of subsidiaries

(i) Fujian Ronghai

In 2018, the directors of the Company asserted that the Group disposed 51% of the entire issued share capital of Fujian Ronghai. Upon completion of the Disposal, Fujian Ronghai ceased to be a subsidiary of the Company. However, up to the date of this report, as per the records in the SAIC, Beijing Sound remained as the registered shareholder of 51% equity interest in Fujian Ronghai.

(ii) Fuzhou City Dongxiang District Sound

In January 2018, the Group disposed of 51% equity interest of Fuzhou City Dongxiang District Sound at zero consideration. Upon completion of the Disposal, Fuzhou City Dongxiang District Sound ceased to be a subsidiary of the Company.

- (d) Acquisition of subsidiaries

In October 2018, the Group acquired the entire equity interest of Yunxiao Changye Water Co., Ltd. (雲霄長業水務有限公司), Ping Changye Water Co., Ltd. (平和長業水務有限公司) and Changtai Changye Water Co., Ltd. (長泰長業水務有限公司) (collectively the "**Changye Group**") and the related shareholders' loans for a total consideration of RMB136,400,000. The Changye Group is mainly engaged in construction, management and operation of the municipal wastewater projects in the PRC.

The directors of the Company have been unable to gain access to the books and records of the Changye Group. Given these circumstances, the directors of the Company have been unable to consolidate the financial statements of the Changye Group into the consolidated financial statements or accounts of the Group since the date of acquisition or to determine whether the acquisition has given rise to a loss to be recognised by the Group in its consolidated financial statements. Because of the insufficient financial information of the Target Group, the information about the nature and financial effects of the acquisition of the Changye Group which is required to be disclosed by the applicable IFRSs, including IAS 10 and IFRS 3, are not disclosed in these consolidated financial statements of the Group. Further, given the lack of financial information available, the directors of the Company consider that they cannot determine whether the acquisition of the Changye 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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	RMB34,116,900	-	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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 大冶鴻連水務有限公司	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\$14,000,000	-	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	RMB19,688,160	-	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	RMB47,128,540	-	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Hunan Epure Environmental Engineering Co., Ltd. 湖南伊普環境工程有限公司	The PRC	RMB30,000,000	-	-	-	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
Taizhou Qinlong Sound Water Co., Ltd 泰州秦龍桑德水務有限公司	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	RMB114,608,560	-	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	US\$3,150,000	100	-	100	-	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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
Fujian Ronghai 福建省融海環境科技有限公司	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	RMB17,655,840	-	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	US\$7,200,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Fuyang 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. 北京京甬水務有限公司	The PRC	RMB25,060,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Beijing Jingyuyang Water Co., Ltd. 北京京甬水務有限公司	The PRC	RMB34,580,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Beijing Jingyushun Environment Co., Ltd. 北京京甬順環保有限公司 ("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 山東省成武盛源實業有限公司	The PRC	RMB36,880,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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 Sound 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")	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Leyang Sound Water Co., Ltd. 萊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")	The PRC	US\$4,050,000	-	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")	The PRC	RMB112,260,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Taihe Sound Water Treatment Co., Ltd. 太和桑德水務有限公司	The PRC	RMB40,260,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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")	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	RMB39,000,000	-	97	-	97	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	US\$12,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			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 臨汾益安德水務有限公司	The PRC	RMB97,000,000	-	100	-	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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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")	The PRC	US\$12,000,000	-	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")	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司 ("Fu'an Sound")	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
Zhejiang Sound Zhenqing Water Co., Ltd 浙江桑德鎮清水務有限公司	The PRC	RMB10,000,000	-	-	-	70	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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	RMB51,966,450	-	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
Bazhong Sound Water Co., Ltd 巴中桑德水務有限公司	The PRC	RMB33,598,243	-	100	-	100	Construction, management and operation of the wastewater and water supply projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
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")	The PRC	RMB46,470,000	-	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")	The PRC	RMB35,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Bazhong Sound Sewage Treatment Co., Ltd 巴中桑德污水處理有限公司 ("Bazhong Sound Sewage Treatment")	The PRC	RMB15,310,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Xishui Sound Water Co., Ltd 習水桑德水務有限公司 ("Xishui Sound")	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	-	70	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
Huazhou City Tongqing Sound Water Co., Ltd 化州市同慶桑德水務有限公司 ("Huazhou City Tongqing Sound")	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Jingxian Sound Water Treatment Co., Ltd 景縣桑德淨水有限公司 ("Jingxian Sound Water Treatment")	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")	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	-	67	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")	The PRC	RMB24,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Shanxian Huadu Water Co., Ltd 單縣華都水務有限公司 ("Shanxian Huadu")	The PRC	RMB30,000,000	-	70	-	70	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")	The PRC	RMB10,000,000	-	100	-	100	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")	The PRC	RMB58,604,000	-	80	-	80	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Lianshui Lianqing Water Co., Ltd 漣水連清水務有限公司 ("Lianshui Lianqing")	The PRC	US\$5,000,000	-	96	-	96	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")	The PRC	US\$9,350,000	-	100	-	100	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")	The PRC	US\$5,900,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Fuzhou City Dongxiang District Sound 撫州市東鄉區桑德水務有限公司	The PRC	RMB25,130,000	-	51	-	100	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")	The PRC	RMB32,880,000	-	100	-	100	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")	The PRC	RMB62,500,000	-	70	-	70	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")	The PRC	RMB73,000,000	-	70	-	70	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Shantou City Tongyu Sound Water Co., Ltd 汕頭市銅孟桑德水務有限公司 ("Shantou City Tongyu Sound")	The PRC	RMB65,000,000	-	70	-	70	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")	The PRC	RMB148,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Haikou Sound Wuyuan Environmental Engineering Co., Ltd 海口桑德五源環保工程有限公司 ("Haikou Sound Wuyuan")	The PRC	RMB158,000,000	-	100	-	100	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")	The PRC	RMB5,000,000	-	100	-	100	Labor subcontracting
Xinyang Sound Shenzhou Water Co., Ltd 信陽桑德申州水務有限公司 ("Xinyang Sound")	The PRC	RMB102,180,300	-	80	-	80	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")	The PRC	RMB1,000,000	-	100	-	100	Environmental construction related to water treatment
Linfen Sound Water Co., Ltd 臨汾桑德水務有限公司 ("Linfen Sound")	The PRC	RMB40,670,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Yanchi County Sound Water Co., Ltd 鹽池縣桑德水務有限公司 ("Yanchi County Sound")	The PRC	RMB18,900,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Baoji Sound Water Co., Ltd 寶雞桑德水務有限公司 ("Baoji Sound")	The PRC	RMB38,000,000	-	100	-	100	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")	The PRC	RMB200,000,000	-	100	-	100	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")	The PRC	RMB500,000,000	-	100	-	100	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")	The PRC	RMB100,000,000	-	100	-	100	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")	The PRC	RMB100,000,000	-	100	-	100	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")	The PRC	RMB64,810,000	-	62	-	62	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up/registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Sound Construction Group Company Limited 桑德建設集團有限公司 ("Sound Construction Group")	The PRC	RMB116,000,000	-	70	-	70	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 Zhengyi")	The PRC	RMB2,000,000	-	70	-	70	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")	The PRC	RMB1,000,000	-	70	-	70	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")	The PRC	RMB5,000,000	-	70	-	70	Leasing of construction machinery and equipment
Longchuan Sound Water Environment Management Company Limited 龍川桑德水環境治理有限公司 (note ii)	The PRC	RMB142,500,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Fusui Sound Village Water Company Limited 扶綏桑德村鎮水務有限公司 (note ii)	The PRC	RMB13,500,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Fengdu County Sound Village Water Company Limited 豐都縣桑德村鎮水務有限公司 (note ii)	The PRC	RMB40,000,000	-	90	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Yanjin Sound Water Company Limited 鹽津桑德水務有限公司 (note ii)	The PRC	RMB9,689,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Guangan Sound Water Company Limited 廣南桑德水務有限公司 (note ii)	The PRC	RMB15,000,000	-	60	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Jishou Sound Water Company Limited 吉首桑德水務有限公司 (note ii)	The PRC	RMB99,560,000	-	90	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Huinan Sound Environmental Engineering Company Limited 輝南桑德環境工程有限公司 (note ii)	The PRC	RMB93,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Liaoning Qingqian Environmental Protection Engineering Company Limited 遼寧清乾環保工程有限公司 (note ii)	The PRC	RMB5,000,000	-	51	N/A	N/A	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Taihe County Sound Sewage Treatment Company Limited 太和縣桑德污水處理有限公司 (note ii)	The PRC	RMB33,600,000	-	80	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Shanxian Sound Munsang Water Supply Co., Ltd. 單縣桑德民生自來水有限公司 ("Shanxian Sound Munsang") (note ii and vi)	The PRC	RMB6,000,000	-	49	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Beijing Sangtang International Landscape and Architectural Planning and Design Company Limited 北京桑塘國際景觀與建築規劃設計有限公司 (note ii)	The PRC	RMB8,000,000	-	66	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Jilin City Sound Water Company Limited 吉林市桑德水務有限公司 (note ii)	The PRC	RMB131,765,900	-	67	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Pingxiang Sound Water Technology Company Limited 萍鄉桑德水務科技有限公司 (note ii)	The PRC	RMB10,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Changchun Sound Green New Water Company Limited 長春桑德綠新水務有限公司 (note ii)	The PRC	RMB46,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Quzhou Sound Green Water Company Limited 衢州桑德綠發水務有限公司 (note ii)	The PRC	RMB81,312,000	-	65	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Yanjindu Sanke Water Company Limited 鹽津桑科水務有限公司 (note ii)	The PRC	RMB30,000,000	-	85	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Jinzhou Sound Water Technology Company Limited 晉州市桑德水務科技有限公司 (note ii)	The PRC	RMB117,650,000	-	99	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Danyang Sound Dancqing Water Company Limited 丹陽桑德丹清水務有限公司 (note ii)	The PRC	RMB10,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Pan'an Sound Sewage Treatment Company Limited 磐安桑德污水處理有限公司 (note ii)	The PRC	RMB10,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Tai'an Sound Qingyuan Water Company Limited 台安桑德清源水務有限公司 (note ii)	The PRC	RMB8,640,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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				Principal activities
			31 December 2017		31 December 2016		
			Direct %	Indirect %	Direct %	Indirect %	
Liuhe Sound Water Company Limited 柳河桑德水务有限公司 (note ii)	The PRC	RMB56,824,100	-	99.99	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Chengwu Sound Biqing Water Company Limited 成武桑德碧清水务有限公司 (note ii)	The PRC	RMB18,610,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Khorchin Youyi Qianqi Sound Water Company Limited 科爾沁右翼前旗桑德水务有限公司 (note ii)	The PRC	RMB48,000,000	-	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. PARTICULAR OF SUBSIDIARIES (CONTINUED)

The directors of the Company made an assessment as at the date of initial application of IFRS 12 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) Those entities are newly incorporated or established in the current year.
- (iii) Those entities are acquired in the current year.
- (iv) Those entities are de-registered in the current year.
- (v) 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%.
- (vi) The above represented effective interest indirectly held by the Group. Shanxian Sound Munsang was a 70% owned subsidiary of Shanxian Huadu, a 70% owned subsidiary of the Group and therefore the directors of the Company consider that the Company can exercise control over Shanxian Sound Munsang through control of Shanxian Huadu.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Note	2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Equipment		9	57
Investments in subsidiaries		767,522	767,522
Amounts due from subsidiaries		632,373	676,263
		<u>1,399,904</u>	<u>1,443,842</u>
Current assets			
Trade and other receivables		6,896	11,986
Amounts due from subsidiaries		1,277,487	1,275,864
Cash at banks		10,236	3,010
		<u>1,294,619</u>	<u>1,290,860</u>
Total assets		<u>2,694,523</u>	<u>2,734,702</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	34	1,720,304	1,720,304
Reserves		38,199	20,187
Total equity		<u>1,758,503</u>	<u>1,740,491</u>
Current liabilities			
Derivative financial instruments		-	20,380
Trade and other payables		29,216	19,061
Amounts due to subsidiaries		906,804	954,770
		<u>936,020</u>	<u>994,211</u>
Total liabilities		<u>936,020</u>	<u>994,211</u>
Total equity and liabilities		<u>2,694,523</u>	<u>2,734,702</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

The financial statements on pages 188 to 189 were approved and authorised for issue by the Board of Directors on 20 December 2018 and are signed on its behalf by:

<hr/> Zhou Hao Director	<hr/> Liu Xiqiang Director		
Reserve movement of the Company			
	Capital reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	7,010	(3,653)	3,357
Profit for the year	-	16,830	16,830
At 31 December 2016	7,010	13,177	20,187
Profit for the year	-	18,012	18,012
At 31 December 2017	7,010	31,189	38,199

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. 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 aggregate amounts of approximately RMB59,105,000 (2016: RMB59,105,000) had not been paid in cash at the end of the reporting period.

During the year ended 31 December 2017, the Company raised borrowings under finance lease of RMB81,000,000 had been received in bank acceptance bills which the maturity date is within 180 days.

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Loans from borrowings RMB'000	Obligations under finance lease RMB'000	Interest payable RMB'000	Total RMB'000
At 1 January 2017	4,108,170	1,014,670	6,196	5,129,036
Financing cash flows	3,146,645	110,924	(127,075)	3,130,494
Exchange alignment	(1,677)	-	-	(1,677)
Total interest	-	-	219,237	219,237
At 31 December 2017	7,253,138	1,125,594	98,358	8,477,090

49. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 20 December 2018.

NOTICE OF ANNUAL GENERAL MEETING



SOUND GLOBAL LTD.

桑德國際有限公司*

(Incorporated in the Republic of Singapore with limited liability)

(Company Registration No. 200515422C)

Hong Kong Stock Code: 00967

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 Thursday, 11 April 2019 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 2017 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 2017 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. Wen Yibo as an Executive Director (Article 89) **(Ordinary Resolution 3)**
Mr. Luo Liyang as an Executive Director (Article 89) **(Ordinary Resolution 4)**
Mr. Zhou Hao as an 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 2017 (2016: RMB360,000/–). **(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, 12 March 2019

* for identification purpose only

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) With reference to item 3 above:

- (a) Mr. Wen Yibo will upon re-election as an Executive Director of the Company, remain as a member of the Nomination Committee.

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 11 April 2019 (Thursday), the register of members of the Company will be closed from 8 April 2019 (Monday) to 11 April 2019 (Thursday), 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 4 April 2019 (Thursday).

As at the date of this Notice, the Executive Directors are Wen Yibo, Luo Liyang, Zhou Hao, Liu Xiqiang and Li Feng; and the Independent Non-executive Directors are Ma Yuanju, Luo Jianhua and Zhang Shuting.