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SOUND GLOBAL LTD.

桑德國際有限公司*

*(Incorporated in the Republic of Singapore with limited liability)
(Singapore Company Registration Number 200515422C)
(Hong Kong Stock Code: 00967)*

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

AND

CONTINUED SUSPENSION OF TRADING

The board of directors (the “Board”) of Sound Global Ltd. (the “Company”) hereby announce its unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019 together with the comparative figures for the corresponding period of the immediately preceding financial year:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended	
		30 June 2019 RMB'000 (unaudited)	30 June 2018 RMB'000 (unaudited)
Revenue	5	2,431,300	2,602,944
Cost of sales		(1,469,946)	(1,734,329)
Gross profit		961,354	868,615
Other income	6	27,428	59,855
Other gains and losses, net	7	(32,276)	(4,843)
Distribution and selling expenses		(25,362)	(38,665)
Research and development expenses		(20,592)	(14,423)
Administrative expenses		(109,813)	(156,078)
Finance costs	8	(193,705)	(170,423)
Profit before income tax		607,034	544,038
Income tax expenses	9	(117,827)	(108,212)
Profit for the period	10	489,207	435,826
Other comprehensive income (loss)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of financial statements of foreign operations		533	(1,756)
Total comprehensive income for the period, net of tax		489,740	434,070
Profit for the period attributable to:			
Owners of the Company		463,690	427,088
Non-controlling interests		25,517	8,738
		489,207	435,826
Total comprehensive income for the period attributable to:			
Owners of the Company		464,223	425,332
Non-controlling interests		25,517	8,738
		489,740	434,070
Earnings per share (in RMB cents)			
Basic and diluted	12	30.79	28.36

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	13	266,834	266,929
Intangible assets	14	793,822	780,094
Land use rights		41,727	36,191
Goodwill		17,365	-
Investment in associates		95,305	-
Financial asset at fair value through profit and loss		5	-
Service concession receivables	15	11,284,616	10,094,889
Deferred tax assets		8,869	8,869
Restricted bank balances		-	25,998
		12,508,543	11,212,970
CURRENT ASSETS			
Inventories		448,664	449,858
Trade and other receivables	16	8,395,072	7,935,583
Land use rights		1,434	1,157
Amounts due from customers for contract work		2,142,625	2,056,798
Restricted bank balances		164,656	190,160
Bank balances and cash		392,354	503,337
		11,544,805	11,136,893
CURRENT LIABILITIES			
Trade and other payables	17	7,158,029	5,709,796
Tax payables		144,730	108,934
Borrowings	18	2,940,070	5,399,265
Obligation under finance lease		400,855	409,856
Amounts due to customers for contract work		43,736	187
		10,687,420	11,628,038
NET CURRENT ASSETS/(LIABILITIES)		857,385	(491,145)
TOTAL ASSETS LESS CURRENT LIABILITIES		13,365,928	10,721,825
NON-CURRENT LIABILITIES			
Deferred tax liabilities		572,294	517,445
Borrowings	18	6,654,931	4,446,864
Obligation under finance lease		674,381	926,136
		7,901,606	5,890,445
TOTAL ASSETS LESS TOTAL LIABILITIES		5,464,322	4,831,380
CAPITAL AND RESERVES			
Issued capital		1,720,304	1,720,304
Reserves		3,228,867	2,652,282
Equity attributable to owners of the Company		4,949,171	4,372,586
Non-controlling interests		515,151	458,794
		5,464,322	4,831,380

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Issued capital	Merger reserve	Capital reserve	Translation reserve	Statutory surplus reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	1,720,304	(198,082)	4,562	(13,340)	308,537	3,627,125	5,449,106	265,248	5,714,354
Adjustments	-	-	-	-	-	(65,413)	(65,413)	(112)	(65,525)
At 1 January 2018 (Restated)	1,720,304	(198,082)	4,562	(13,340)	308,537	3,561,712	5,383,693	265,136	5,648,829
Profit for the period	-	-	-	-	-	427,088	427,088	8,738	435,826
Other comprehensive loss for the period	-	-	-	(1,756)	-	-	(1,756)	-	(1,756)
Total comprehensive income for the period	-	-	-	(1,756)	-	427,088	425,332	8,738	434,070
Contributions from non-controlling interest	-	-	-	-	-	-	-	16,237	16,237
Balance at 30 June 2018 (unaudited)	1,720,304	(198,082)	4,562	(15,096)	308,537	3,988,800	5,809,025	290,111	6,099,136
Balance at 1 January 2019	1,720,304	(198,082)	4,562	(18,487)	317,331	2,546,958	4,372,586	458,794	4,831,380
Profit for the period	-	-	-	-	-	463,690	463,690	25,517	489,207
Other comprehensive income for the period	-	-	-	533	-	-	533	-	533
Total comprehensive income for the period	-	-	-	533	-	463,690	464,223	25,517	489,740
Transfer to reserve fund	-	-	-	-	2,071	(2,071)	-	-	-
Disposal of a subsidiary	-	109,786	2,576	-	-	-	112,362	-	112,362
Dividends paid to a non-controlling interest	-	-	-	-	-	-	-	(3,974)	(3,974)
Contributions from non-controlling interest	-	-	-	-	-	-	-	34,814	34,814
Balance at 30 June 2019 (unaudited)	1,720,304	(88,296)	7,138	(17,954)	319,402	3,008,577	4,949,171	515,151	5,464,322

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Notes:

- (i) The merger reserve arose, 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.
- (ii) The balance reflects (a) the fair value of the 2,157,000 shares of the Company transferred to an initial public offering consultant at a nominal value of S\$1.00 during the listing on the Singapore Exchange Securities Trading Limited in 2006; (b) the difference between the consideration of RMB18,000,000 in relation to the acquisition of 40% interest in Anyang Zongcun Sound Water Co., Ltd. ("Anyang Zongcun Sound"), a subsidiary, by the Group and the carrying amount on the non-controlling interest; and (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.
- (iii) In accordance with the Articles of Association of certain subsidiaries established in the People's Republic of China (the "PRC"), those subsidiaries are required to transfer 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2019

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	363,577	(1,917,956)
INVESTING ACTIVITIES		
Interest received	5,393	4,589
Net cash outflow from disposal of subsidiaries	(749)	-
Net cash inflow from acquisition of a subsidiaries	995	-
Purchases of property, plant and equipment	(7,803)	(39,121)
Proceeds from disposal of property, plant and equipment	6	205
Net proceeds from disposal of subsidiaries	152,445	-
Purchase of financial asset at fair value through profit or loss	(5)	(6,000)
Proceeds from disposal of financial assets at fair value through profit or loss	-	6,081
Placement in restricted bank balances	(280,331)	(136,550)
Withdrawal in restricted bank balances	331,833	443,777
Acquisition of subsidiaries	(35,300)	-
Investment in associate	(95,305)	-
NET CASH FROM INVESTING ACTIVITIES	71,179	272,981
FINANCING ACTIVITIES		
Interest paid	(193,316)	(129,052)
Capital contribution from non-controlling interest	34,814	16,237
Dividends paid to a non-controlling interest	(3,974)	-
Borrowings raised	1,974,854	2,076,900
Repayment of borrowings	(2,231,782)	(1,211,740)
Repayments of obligation under finance lease	(126,269)	(166,972)
Proceeds from sales and finance lease back arrangements	-	460,000
NET CASH USED IN/FROM FINANCING ACTIVITIES	(545,673)	1,045,373
NET DECREASE IN CASH AND CASH EQUIVALENTS	(110,917)	(599,602)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	503,337	886,005
Effect of foreign exchange rate changes	(66)	(321)
CASH AND CASH EQUIVALENTS AT 30 JUNE		
REPRESENTED BY BANK BALANCES AND CASH	392,354	286,082

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

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

On 2 June 2017, the Company announced that the finance department of the Group discovered on 31 May 2017 that some of the financial documents of the Group were missing and the Group was in the course of verifying the relevant details. On 19 June 2017, the Company further announced that (i) the finance department of the Group reported that on 25 November 2016 an accident occurred when certain financial documents of the Group were being transported to a new file storage facility and as a result certain financial documents of the Group were lost and/or damaged (the "**Accident**"); (ii) the Group was in the course of verifying the relevant details and ascertaining the scope of loss.

The directors of the Company have determined that the Accident was a fire accident which damaged financial documents of five subsidiaries engaged in (i) research and development of water treatment technologies, provision of water treatment technology consultation services and construction of water treatment plant, which contributed to the operating segment of turnkey projects and services; and (ii) manufacturing water treatment equipment which contributed to the operating segment of equipment fabrications (the "**Relevant PRC Subsidiaries**"). The financial documents which were lost included vouchers with supporting documents, bank statements and related bank reconciliations for the financial years 2010 to 2015 (the "**Damaged Documents**"). As of the date of approval for issuance of the consolidated financial statements of the Group for the year ended 31 December 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

On 1 February 2018, the Company announced that the Reviewer had on 8 January 2018 issued a report of their investigation findings on 8 January 2018. The Reviewer had identified discrepancies between the records shown in the list of bank accounts of the Group which was updated by the finance department after the Accident and the Group's audited consolidated bank balances, as well as discrepancies in the bank balances shown on the list of bank accounts of the Group provided by the Company and the records obtained by the Commission. Based on the information obtained by the Reviewer, the Reviewer identified that the balances of the Bank Accounts shown on the records obtained by the Commission as at 31 December 2012 and 2013 were lower than the corresponding balances shown on the lists of bank accounts of the Group provided by the Company, and the differences were respectively around RMB2.1 billion as at 31 December 2012 and around RMB2.7 billion as at 31 December 2013.

The Reviewer also stated that it did not receive responses from the relevant banks on confirmation requests for most of the bank balances as at 31 December 2012, 2013 and 2014 and that the extent of work performed by the Reviewer on tracing bank transactions to supporting records was constrained due to unavailability of related financial documents and records as a result of the Accident.

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

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

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

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.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. BASIS OF PREPARATION (CONTINUED)

(i) (continued)

Based on the circumstances as abovementioned and the fact that the Bank Accounts to which the Bank Balances Discrepancies relate were bank accounts of the Relevant PRC Subsidiaries, the directors of the Company were unable to assess the impact of the Bank Balances Discrepancies on the Group's consolidated financial statements for the year ended 31 December 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.

(ii) During the year ended 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 "**Fujian Ronghai Disposal**"). Upon completion of the Fujian Ronghai 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 Fujian Ronghai 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 and the loss on disposal of Fujian Ronghai as recognised in the consolidated profit or loss for the year ended 31 December 2018 are free from misstatements. Further, given the lack of financial information available, the directors of the Company consider that they cannot determine whether the Fujian Ronghai 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".

(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.

During the year ended 31 December 2018, the Group further disposed of 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. BASIS OF PREPARATION (CONTINUED)

(iii) (continued)

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) consolidate 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 six months ended 30 June 2018 and the year ended 31 December 2018 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 six months ended 30 June 2018 and the year ended 31 December 2018 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 six months ended 30 June 2018 and the year ended 31 December 2018, (ii) assets and liabilities recognised in the consolidated statement of financial position as at 30 June 2018 and 31 December 2018 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 six months ended 30 June 2018 and the year ended 31 December 2018 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. BASIS OF PREPARATION (CONTINUED)

- (iv) During the year ended 31 December 2016, the Group acquired 70% equity interests of Zhongye Zhengyi Group Limited (中冶正益集團有限公司) (now known as Sound Construction Group Company Limited (桑德建設集團有限責任公司)) (“**Zhongye Zhengyi**”) 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 Zhongye Zhengyi and its subsidiaries (collectively the “**Zhongye Zhengyi Group**”) subsequent to the completion of the acquisition of Zhongye Zhengyi. The existing management of Zhongye Zhengyi Group did not respond to the Group’s requests and did not cooperate with the Group. The negotiation with the existing management of the Zhongye Zhengyi 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 Zhongye Zhengyi Group into the consolidated financial statements or accounts of the Group since the date of acquisition.

- (v) 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.
- (vi) During the year ended 31 December 2017, the Group was involved in the formation of 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.

During the year ended 31 December 2018, the Group was involved in the formation of two companies namely 溧陽中建桑德環境治理有限公司 (Liyang Zhongjian Sound Environment Management Co., Ltd) (“**Liyang Zhongjian Sound**”) and 重慶渝隆環保有限公司 (Chongqing Yulong Environmental Protection Co., Ltd) (“**Chongqing Yulong**”) and contributed share capital of RMB38,000,000 and RMB750,000 respectively, representing 36% and 15% of the registered share capital of Liyang Zhongjian Sound and Chongqing Yulong respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. BASIS OF PREPARATION (CONTINUED)

(vi) (continued)

Despite the fact that the registration of shareholder of the registered capital of the Fuzhou Entities, Liyang Zhongjian Sound and Chongqing Yulong 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, Liyang Zhongjian Sound and Chongqing Yulong subsequent to the registration of the Fuzhou Entities, Liyang Zhongjian Sound and Chongqing Yulong respectively. The existing management of the Fuzhou Entities, Liyang Zhongjian Sound and Chongqing Yulong 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, Liyang Zhongjian Sound and Chongqing Yulong for assessing statutory records and the books and records of the Fuzhou Entities, Liyang Zhongjian Sound and Chongqing Yulong 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, Liyang Zhongjian Sound and Chongqing Yulong 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, Liyang Zhongjian Sound and Chongqing Yulong into the consolidated financial statements of the Group with effect from the date of the registration of the Fuzhou Entities and Chongqing Yulong.

Because of the insufficient information of the Fuzhou Entities, Liyang Zhongjian Sound and Chongqing Yulong, the information about the nature and financial information of the Fuzhou Entities, Liyang Zhongjian Sound and Chongqing Yulong 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 years ended 31 December 2018 and 2017. Furthermore, the directors of the Company consider the registration of the Fuzhou Entities, Liyang Zhongjian Sound and Chongqing Yulong 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 RMB38,000,000 and RMB750,000 in Liyang Zhongjian Sound and Chongqing Yulong respectively (2017: RMB60,000,000 in the Fuzhou Entities) during the year ended 31 December 2018.

During the six months ended 30 June 2019, the Group contributed RMB95,305,000 to the share capital of Liyang Zhongjian. The Group's total equity interest in Liyang Zhongjian remained at 36%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual audited consolidated financial statements for the year ended 31 December 2018.

In the current interim period, the Group has considered the new or revised standards and interpretations ("new or revised IFRSs") issued by International Accounting Standards Board that are mandatorily effective for the current interim period.

The application of amendments to IFRS in the current interim period is not expected to have material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

4. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") in order to allocate resources to the segments and to assess their performance.

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's CODM for the purposes of resource allocation and assessment of performance.

The Group is primarily engaged in three operating segments, namely (1) turnkey projects and services, (2) manufacturing ("Equipment Fabrications"), and (3) operations and maintenance of water supply and wastewater treatment facilities ("O&M").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

4. SEGMENT INFORMATION (CONTINUED)

The accounting policies of the operating segments are the same as the Group's accounting policies described in the Group's annual consolidated financial statements for the year ended 31 December 2018. Segment results represent the profits earned by each segment without allocation of central administration costs, directors' remuneration, other income, other gains and losses and finance costs at corporate level.

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

	Turnkey projects and services RMB'000	Equipment Fabrications RMB'000	O&M RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
<u>For the six months ended 30 June 2019 (unaudited)</u>						
Revenue						
External sales	1,611,701	3,177	816,422	2,431,300	-	2,431,300
Inter-segment sales	-	24,657	-	24,657	(24,657)	-
Total revenue	1,611,701	27,834	816,422	2,455,957	(24,657)	2,431,300
Segment results	188,515	(7,649)	433,580	614,446	-	614,446
Unallocated income						33
Unallocated other gains and losses, net						(1,246)
Unallocated finance costs						-
Unallocated expenses						(6,199)
Profit before income tax						607,034
<u>For the six months ended 30 June 2018 (unaudited)</u>						
Revenue						
External sales	1,878,592	7,246	717,106	2,602,944	-	2,602,944
Inter-segment sales	-	46,283	-	46,283	(46,283)	-
Total revenue	1,878,592	53,529	717,106	2,649,227	(46,283)	2,602,944
Segment results	197,886	(9,711)	364,423	552,598	-	552,598
Unallocated income						8
Unallocated other gains and losses, net						49
Unallocated finance costs						-
Unallocated expenses						(8,617)
Profit before income tax						544,038

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. REVENUE

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers		
Revenue from engineering, procurement and construction contracts		
- Design service	12,122	59,272
- Sales of equipments	237,624	202,602
- Turnkey services	1,259,376	1,613,013
Revenue from sale of equipment	3,177	7,246
Operating and maintenance income	553,489	477,155
Design service	102,579	3,705
Total revenue from contracts with customers (note (i))	2,168,367	2,362,993
Imputed interest income on service concession receivables	262,933	239,951
	2,431,300	2,602,944

note:

- (i) Timing of revenue from contracts with customers

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Over time	1,927,566	2,153,145
At a point in time	240,801	209,848
	2,168,367	2,362,993

6. OTHER INCOME

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	5,393	4,589
Government grant	21,514	55,133
Sundry income	521	133
	27,428	59,855

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

7. OTHER GAINS AND LOSSES, NET

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Allowance for doubtful debts	-	1,233
Fair value changes of financial assets at fair value through profit or loss	-	(81)
Loss on disposal of property, plant and equipment	56	214
Loss on disposal a subsidiary	25,372	-
Net foreign exchange losses/(gains)	1,662	(2,025)
Penalty and fine	4,114	4,934
Others	1,072	568
	32,276	4,843

8. FINANCE COSTS

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest expenses on borrowings		
- wholly repayable within five years	140,921	107,778
- not wholly repayable within five years	30,140	32,346
Interest expenses on finance lease	22,644	30,299
	193,705	170,423

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

9. INCOME TAX EXPENSES

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax		
PRC income tax	51,425	48,197
Under provision in prior period		
PRC income tax	717	-
Deferred tax	65,685	60,015
	117,827	108,212

The Singapore income tax represents income tax in Singapore which is calculated at the prevailing tax rate on the taxable income of companies established in Singapore. For current interim period, the tax rate was 17% (2018: 17%).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25%. For the six months ended 30 June 2019, certain PRC subsidiaries enjoy preferential income tax rates at 15%, 12.5% or tax exempted (2018: 15%, 12.5% or tax exempted).

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

10. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Amortisation of intangible assets	17,592	6,209
Amortisation of land use rights	602	578
Depreciation for property, plant and equipment	9,725	8,531

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

11. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period. The directors of the Company have determined that no interim dividend will be proposed in respect of the six months ended 30 June 2019 (2018: nil).

12. EARNINGS PER SHARE

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

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings for the purpose of basic and diluted earnings per share	463,690	427,088
	'000	'000
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	1,506,205	1,506,205
	RMB cents	RMB cents
	(unaudited)	(unaudited)
Earnings per share Basic and diluted	30.79	28.36

13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The additions during the six months ended 30 June 2019 was approximately RMB7,803,000 (31 December 2018: RMB39,121,000).

As at 30 June 2019, the Group has pledged land and buildings and buildings under construction in progress with carrying amount of approximately RMB25,652,000 and RMB109,897,000 (31 December 2018: RMB25,315,000 and RMB109,897,000) 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 30 June 2019 were approximately RMB17,425,000 (31 December 2018: RMB21,491,000) and RMB16,430,000 (31 December 2018: RMB18,846,000) respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

14. INTANGIBLE ASSETS

Operating concessions represent the rights to operate sewage and water treatment plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on straight-line basis over the respective periods of the operating concessions granted to the Group of 17 to 29 years. Details of these operating concessions are set out in Note 15.

At 30 June 2019, the Group has pledged operating concessions with carrying amount of approximately RMB260,914,000 (31 December 2018: RMB166,261,000) to secure general banking facilities granted to the Group.

The net carrying amounts of the Group's operating concessions held under finance leases as at 30 June 2019 was approximately RMB423,600,000 (31 December 2018: RMB235,481,000).

15. SERVICE CONCESSION RECEIVABLES

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Service concession receivables	12,071,520	10,938,736
Less: Amounts due within one year shown in trade and other receivables	(786,904)	(843,847)
	11,284,616	10,094,889

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

At 30 June 2019, certain BOT projects' charging rights under the service concession contracts of the Group with an aggregate carrying amount of approximately RMB7,524,828,000 (31 December 2018: RMB4,921,730,000) were pledged to secure certain bank borrowings granted to the Group.

The net carrying amounts of the Group's service concession receivables held under finance leases as at 30 June 2019 was approximately RMB1,556,017,000 (31 December 2018: RMB2,096,215,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

16. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing trade customers with credit normally within 180 days except for construction project for which settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. Overdue balances are reviewed regularly by the Group's management.

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

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Trade receivables:		
Within 90 days	377,657	436,834
91 to 180 days	641,208	734,783
181 days to 1 year	237,499	440,911
1 to 2 years	923,748	1,187,288
2 to 3 years	685,479	113,449
More than 3 years	323,988	272,836
	3,189,579	3,186,101
Bills receivables:		
Within 180 days	1,590	3,983

At 30 June 2019, trade receivables with carrying amount of approximately RMB194,038,000 (31 December 2018: RMB159,649,000) have been pledged as collateral for the obligation under finance lease.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. TRADE AND OTHER PAYABLES

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

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Trade payables:		
Within 90 days	1,479,506	1,128,659
91 to 180 days	576,921	204,641
181 days to 1 year	742,462	1,308,907
1 to 2 years	907,435	1,012,414
2 to 3 years	467,158	261,730
More than 3 years	337,177	145,560
	4,510,659	4,061,911
Bills payables:		
Within 180 days	275,000	250,000

18. BORROWINGS

During the current interim period, the Group obtained new borrowings amounting to approximately RMB1,970,654,000 (31 December 2018: RMB4,868,894,000) and repaid borrowings of approximately RMB2,230,982,000 (31 December 2018: RMB2,275,903,000).

19. CAPITAL COMMITMENT

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

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Construction of buildings:		
Contracted but not provided for	12,059	3,857

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. RELATED PARTY TRANSACTIONS

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

Name of party	Relationship
Sound Group	Companies under common control of Mr. Wen Yibo
Tus-Sound Environmental Resources Co. Ltd ("Tus-Sound")	Mr. Wen Yibo act as legal representative
Zhongye Zhengyi Group Limited and its subsidiaries ("Zhongye Zhengyi Group")	Unconsolidated subsidiaries

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

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from engineering, procurement and construction contracts		
Sound Group and its subsidiaries	-	101,485
Tus-Sound and its subsidiaries	-	20,681
Zhongye Zhengyi Group	46,835	97,900
	46,835	220,066
Revenue from sale of equipment		
Sound Group and its subsidiaries	24,138	423
Tus-Sound and its subsidiaries	-	3
	24,138	426
Cost for engineering, procurement and construction contracts		
Zhongye Zhengyi Group	57,178	-
Finance cost		
Tus-Sound and its subsidiaries	5,706	-

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	30 June 2019	As at 31 December 2018
	RMB'000 (unaudited)	RMB'000 (audited)
Trade receivables		
Sound Group and its subsidiaries	148,464	120,330
Tus-Sound and its subsidiaries	55,089	47,411
Zhongye Zhengyi Group	433,756	409,705
	637,309	577,446
Other receivables:		
<i>Advance to supplier and subcontractors</i>		
Sound Group and its subsidiaries	953,687	876,165
Zhongye Zhengyi Group	1,231,027	1,224,557
	2,184,714	2,100,722
<i>Others</i>		
Sound Group and its subsidiaries	-	755
Zhongye Zhengyi Group	46,720	43,138
	46,720	43,893

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) (continued)

	30 June 2019	As at 31 December 2018
	RMB'000 (unaudited)	RMB'000 (audited)
Trade payables		
Sound Group and its subsidiaries	2,800	-
Tus-Sound and its subsidiaries	12,439	8,032
Zhongye Zhengyi Group	161,271	107,092
	176,510	115,124
Other payables:		
Advance from customers		
Sound Group and its subsidiaries	-	7,107
Other		
Controlling shareholder	4,821	4,833
Zhongye Zhengyi Group	495	160
Sound Group and its subsidiaries	34,735	-
Tus-Sound and its subsidiaries	5,706	-
	45,757	4,993

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel

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

	Six months ended	
	30 June 2019	30 June 2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Wages and salaries	1,779	2,402
Contributions to defined contribution plan	114	79
	1,893	2,481

(d) Guarantees

As at 30 June 2019, the borrowings amounting to approximately RMB3,663,746,000 (31 December 2018: RMB2,506,707,000) of the Group was guaranteed by Sound Group.

(e) Licensing of trademarks

Since 2002, the Group (previously being registered owner of certain trademarks) uses its trademarks for its water and wastewater treatment business. These trademarks are also used by Beijing Sound for its investments in environmental protection and its subsidiary, by Beijing Sound Water Technology Co., Ltd. for the processing of purified drinking water at nil consideration before March 2006.

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

(I) MANAGEMENT DISCUSSION AND ANALYSIS

Review of Group's Financial Performance:

Revenue

The Group's revenue decreased by approximately RMB171.6 million or 6.6% from approximately RMB2,602.9 million for the six months ended 30 June 2018 to approximately RMB2,431.3 million for the six months ended 30 June 2019.

Turnkey revenue decreased by approximately RMB266.9 million or 14.2% from approximately RMB1,878.6 million for the six months ended 30 June 2018 to approximately RMB1,611.7 million for the six months ended 30 June 2019. Despite the decrease in revenue, the Group continues to be awarded and is fulfilling its Engineering, Procurement and Construction ("EPC") projects in PRC.

Revenue from O&M segment increased by approximately RMB99.3 million or 13.8% from approximately RMB717.1 million for the six months ended 30 June 2018 to approximately RMB816.4 million for the six months ended 30 June 2019 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 RMB92.8 million or 10.7% from approximately RMB868.6 million for the six months ended 30 June 2018 to approximately RMB961.4 million for the six months ended 30 June 2019.

The gross profit margin increased by approximately 6.1% from approximately 33.4% for the six months ended 30 June 2018 to approximately 39.5% for the six months ended 30 June 2019. 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. The increase in gross profit margin is mainly due to the increase in contribution by the O&M segment representing 33.6% of the group's revenue in for the six months ended 30 June 2019, increased from 27.5% for the six months ended 30 June 2018. Generally, O&M segment generates a higher gross profit margin compared to turnkey projects and services segment.

Other Income

Other income decreased by approximately RMB32.5 million or 54.3% from approximately RMB59.9 million for the six months ended 30 June 2018 to approximately RMB27.4 million for the six months ended 30 June 2019 mainly due to an one off government grant for the re-construction of a wastewater treatment plant during the six month ended 30 June 2018.

Other Gains and Losses, net

Other losses increased by approximately RMB27.5 million or 573.0% from approximately RMB4.8 million for the six months ended 30 June 2018 to approximately RMB32.3 million for the six months ended 30 June 2019 mainly due to loss on disposal of a subsidiary.

Distribution and Selling Expenses

Distribution and selling expenses decreased by approximately RMB13.3 million or 34.4% from approximately RMB38.7 million for the six months ended 30 June 2018 to approximately RMB25.4 million for the six months ended 30 June 2019. The decrease for the six months ended 30 June 2019 mainly arose as the Group streamline its operations and business operations reduces.

Research and Development Expenses

Research and development expenses increased by approximately RMB6.2 million or 43.1% from approximately RMB14.4 million for the six months ended 30 June 2018 to approximately RMB20.6 million for the six months ended 30 June 2019. The research and development expenses are depending on the development of its dynamic technological trends of water treatment industry and the Company's needs in market development. There is no clear identifiable trend.

Administrative Expenses

Administrative expenses decreased by approximately RMB46.3 million or 29.7% from approximately RMB156.1 million for the six months ended 30 June 2018 to approximately RMB109.8 million for the six months ended 30 June 2019. The decrease for the six months ended 30 June 2019 mainly arose as the Group streamline its operations and business operations reduces.

Finance Costs

Finance costs increased by approximately RMB23.3 million or 13.7% from approximately RMB170.4 million for the six months ended 30 June 2018 to approximately RMB193.7 million for the six months ended 30 June 2019 mainly due to new borrowings during the six months ended 30 June 2019 and towards end of 2018.

Income Tax Expenses

Income tax expenses increased by approximately RMB9.6 million or 8.9% from approximately RMB108.2 million for the six months ended 30 June 2018 to approximately RMB117.8 million for the six months ended 30 June 2019. Income tax expenses increased as a result of an increase in the Group's profit.

Profit Attributable to Owners of the Company

As a result of the above, profit attributable to owners of the Company increased by approximately RMB36.6 million or 8.6% from approximately RMB427.1 million for the six months ended 30 June 2018 to approximately RMB463.7 million for the six months ended 30 June 2019.

Review of Group's Financial Position:

Current Assets

Current assets remained relatively consistent at approximately RMB11,136.9 million as at 31 December 2018 and approximately RMB11,544.8 million as at 30 June 2019.

Non-Current Assets

Non-current assets increased by approximately RMB1,295.5 million or 11.6% from approximately RMB11,213.0 million as at 31 December 2018 to approximately RMB12,508.5 million as at 30 June 2019 mainly arose from increased in service concession receivables as investment in BOT projects increased.

Current Liabilities

Current liabilities decreased by approximately RMB940.6 million or 8.1% from approximately RMB11,628.0 million as at 31 December 2018 to approximately RMB10,687.4 million as at 30 June 2019 mainly arose from the decrease in short term borrowings as the Group borrows long term.

Non-Current Liabilities

Non-current liabilities increased by approximately RMB2,011.2 million or 34.1% from approximately RMB5,890.4 million as at 31 December 2018 to approximately RMB7,901.6 million as at 30 June 2019 mainly due to increase in borrowings.

Capital and Reserves

Equity attributable to owners of the Company increased by approximately RMB576.6 million or 13.2% from approximately RMB4,372.6 million as at 31 December 2018 to approximately RMB4,949.2 million as at 30 June 2019 mainly due to the retained profits of approximately RMB463.7 million.

(II) FINANCIAL REVIEW

Gearing

	30 June 2019	31 December 2018
	RMB'000	RMB'000
Borrowings (current)	2,940,070	5,399,265
Borrowings (non-current)	6,654,931	4,446,864
Obligation under finance lease (current)	400,855	409,845
Obligation under finance lease (non-current)	674,381	926,136
Total debts	10,670,237	11,182,110
Equity attributable to owners of the Company	4,949,171	4,372,586
Total debt to equity ratio	2.16	2.56

(III) OPERATION REVIEW AND OUTLOOK

Under the influence of macro-policies such as deleveraging and strong supervision in 2019, an icy period has descended upon the enterprises in certain industries which have encountered unprecedented pressures. Faced with the increasingly complex and changing external environment, the Company, bearing its original aspiration in mind, adhered to the concept of creating value for shareholders. Always based on the field of water pollution treatment, the Company strove to explore its potential to make progress at a steady and tenacious pace. All employees of the Company actively responded to difficulties and challenges in a cohesive way by changing their ideas and optimizing strategies to counter risks, which made various businesses achieved stable and progressive development. The Company further deepened the adjustment of its strategic structure through comprehensive self-inspection, and it also optimized its organizational structure in order to enhance its own financing capabilities and build an efficient and healthy team for the purpose of meeting the challenges of the new era. On the one hand, the Company accelerated the construction progress of the project under construction on the premise of ensuring a reasonable schedule, and it also created more cash flow by shortening the terms of payment collection and dealing with the historical problems. On the other hand, the Company tapped into the potentials of its operating projects to create the added value, in order to make profits from operations, technology and management. Employees of the Company were encouraged to further increase profit margins through innovation and reduction of energy consumption, provided that the national standards are met. In response to the ever-tightening external financing environment, the Company further adjusted its financial strategies to reduce the impact of funding constraints on its operations, and sought multiple channels to resolve the cash flow crisis.

In the second half of 2019, on the basis of further revitalizing existing assets, the Company focused on the development of light-asset model projects. Taking advantage of its accumulated experience in technology research and development, management and operation for many years, the Company maintained its leading position in the field of comprehensive governance of water environment with a more focused, professional and collaborative attitude. In the future, the Company will also focus on launching newly incubated professional companies in the subdivided fields and continue to increase the exploration and layout of the "Sponge City" and the black and odorous water treatment. Leading the future with technology, the Company will develop and update the technologies of its main business to create new growth points and expect a promising future.

(IV) SUPPLEMENTARY INFORMATION

Audit Committee

The audit committee of the Company (the "Audit Committee") has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The unaudited interim results for the six months ended 30 June 2019 have been reviewed by the Audit Committee.

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

During the six months ended 30 June 2019, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Compliance with the Corporate Governance Code

The Company devotes to the best practice on corporate governance, and has complied with the Code Provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2019 except for the deviations from the following Code Provisions:

- a) Code Provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election. Although the independent non-executive directors are not appointed for a specific term, all directors shall submit themselves for re-election at least once every three years pursuant to the Company's Articles of Association. Under the Company's Articles of Association, any new director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall be then eligible for re-election at the meeting.
- b) Code Provision E.1.2 of the CG Code stipulates that the chairman should attend the annual general meeting. The chairman of the Company did not attend the annual general meeting held on 11 April 2019 due to other work commitment. He will use his best endeavours to attend all future shareholders' meetings of the Company.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and its amendments from time to time as its own code of conduct regarding securities transactions by the directors. The Board confirms that, having made specific enquiries with all directors of the Company, during the six months ended 30 June 2019, all directors of the Company have complied with the required standards of the Model Code.

Employees and Remuneration Policy

As at 30 June 2019, there were 3,202 (2018: 3,788) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

Significant Investment Held, Material Acquisitions and Disposals of Subsidiaries

Save for those disclosed in this announcement, there were no significant investments held as at 30 June 2019, nor other material acquisitions and disposals of subsidiaries during the period.

Continued Suspension of Trading

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

Disclosure on the Websites of the HKEx and the Company

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

By Order of the Board
Sound Global Ltd.
Wen Yibo
Chairman

Hong Kong, 29 April 2020

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

** For identification purposes only*