

## Sound Global – a Water Specialist in Deep Water

February 4, 2015

The Basics		Emerson Analytics Estimates
Ticker:	HK:00967	<b>Target Price: HK\$2.4 (-70%)</b>
Recent Price:	HK\$8.00	
Market Cap:	HK\$12.1bn	

Sound Global is one of the players in the Chinese wastewater treatment industry and is engaged in the construction and operation of treatment plants, either as a contractor or as a BOT (build-operate-transfer) operator. A lumpy business segment allows it to slip in 40% of non-existent revenue and hide many cases of revenue exaggeration.

### 1. Bogus revenue: unknown company does Rmb1bn of undisclosed technology business a year

An appraisal report on Sound Global for Chinese regulators but somehow put in the public domain unveils a “secret” segment of “engineering technology service” that Sound Global has never discussed with its shareholders despite the “fact” that it supposedly accounted for roughly 40% of the listco’s revenue during 2011-13. We certainly have not been able to find enough projects to account for the listco’s revenue. Instead, we’ve found a mysterious subsidiary that leaves no trace in the Chinese water industry, a strong indication that the revenue just didn’t exist.

### 2. Catch-22: the Anshan mystery

All evidence suggests Sound Global completed the Anshan plants in 2012 but the company says Anshan was its biggest revenue source in 2013. We are convinced that the company had accounted for Anshan in 2012 as a BOT project on percentage completion basis, which then leaves a hole in the 2013 revenue with no big projects to account for. But if the company had not accounted for Anshan in 2012, that raises the question of which projects contributed to the 2012 revenue and additions of service concession receivables. Either way, there’s a hole somewhere in Sound Global’s accounts.

### 3. Confusing accounting: reporting profit before building anything

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We suspect Sound Global simply makes up its stories as it feels the need to impress investors. In the 2010 Hong Kong listing document, it shows that 90% of revenue from two Jingzhou projects has been booked in 2008. However, the company did not sign the construction contract until early 2009. We also examine two other cases that raise questions over the management's trustworthiness.

#### **4. Interest income fails the acid test**

All these issues above suggest that Sound Global has been doctoring its books for many years and that a substantial amount of its revenue just doesn't exist. The exceedingly low interest income suggests that the company's real cash/bank balances probably averaged merely one-third of the amounts disclosed. This is another strong indicator that the revenue and profit figures have been significantly inflated.

#### **5. True 2013 profitability merely one third of announced**

By ignoring the mysterious Rmb1bn "engineering technology service" revenue and the Rmb380m hole left by Anshan, we estimate that Sound Global's real profitability in 2013 was just about Rmb113m, or slightly more than a quarter of the amount that it announced. Adjusting for the non-existent cash/bank balance, true 2013 net book value would be slightly less than Rmb1bn.

#### **6. Stock worth about HK\$2.4 per share**

Applying the prevailing historical 2013 P/E of 23x on Sound Global's reported numbers to our adjusted profit estimate, we are of the opinion that the stock is worth about HK\$2.4 per share.

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## Disclaimer

We are a group of seasoned equities analysts with many years of experience in the research of economic and political trends as well as individual stocks around the world. With background in various international investment banks, we have followed the development of the Chinese equities market right from day one.

We are determined to expose as much of the fraud in the Chinese stock market as we can. The most widespread and serious fraud is probably that undertaken by listed companies, in fabricating non-existent businesses and stealing shareholders money, among other tricks.

In exposing these crimes we challenge the listed companies to prove the integrity of their announcements and financial statements. The listed companies, of course, want everybody to believe that their announcements and financial statements are true. Their auditors, employees, independent directors, lawyers, shareholders and even the general public all hope that these announcements and financial statements are true.

We have made our best effort to ascertain that everything we say in this report is accurate. We have obtained our information from public sources that we believe to be accurate and reliable, or from sources whom we believe are not insiders or connected parties to the companies mentioned herein. However, we are certainly NOT in business of making investment recommendations. This is not an investment report and should not be regarded as such. Read and use our reports at your own risk. Most important of all, DO YOUR OWN RESEARCH BEFORE YOU COMMIT OTHER PEOPLE'S MONEY.

We and/or our associates/partners may have long or short positions in the equities mentioned and/or their derivatives at the time of publication of our reports, and we and/or our associates/partners may maintain or change our positions at any time.

# Sound Global – a Water Specialist in Deep Water

## Part 1. Where are All the Third-Party Turnkey Projects?

Sound Global is part of the waste management “empire” built up by chairman Wen Yibo and his wife Zhang Huiming from the early 1990s. In 2006, Wen listed certain freshwater and wastewater treatment businesses in Singapore through Epure International Ltd. Epure was subsequently renamed Sound Global and in 2010 obtained a listing in Hong Kong.

The company reports its revenue as follows. By lumping more than 90% of revenue into a huge category called “turnkey projects”, Sound Global makes it almost impossible for outsiders to analyze its revenue sources. Even after excluding equipment sales, turnkey services still accounted for 82.6% of total revenue in 2013. This is a perfect set up to inflate the numbers by slipping in non-existent revenue, especially when this is coupled with the percentage completion accounting method.

**Exhibit 1 – Sound Global Revenue Breakdown, 2007-13**

Year end Dec (Rmb k)	2007	2008	2009	2010	2011	2012	2013
Turnkey projects	684,597	855,184	1,132,487	1,563,258	2,115,751	2,374,318	2,799,992
- Turnkey services	505,146	700,226	1,006,519	1,352,218	1,763,577	2,157,012	2,593,237
- Sales of equipment	179,451	154,958	125,968	211,040	352,174	217,306	206,755
Equipment percentage	26.2%	18.1%	11.1%	13.5%*	16.6%	9.2%	7.4%
Equipment fabrications		102,730	125,382	124,406	58,191	111,991	63,756
Operation and Maintenance			5,677	30,647	59,776	94,306	192,808
Design service	12,744	66,894	29,930	47,361	53,857	71,641	82,944
<b>Total</b>	<b>697,341</b>	<b>1,024,808</b>	<b>1,293,476</b>	<b>1,765,672</b>	<b>2,287,575</b>	<b>2,652,256</b>	<b>3,139,500</b>

Sources: Sound Global annual reports

\* The 2010 split of 13.5% between turnkey services and sales of equipment is a rough average of the 2009 and 2011 splits

But this kind of obfuscating presentation raises suspicion, and we have investigated into its business thoroughly:

- **We’ve searched through the Internet and found very few projects that Sound Global had not announced;**
- **We have added up all the known projects, whether announced by Sound Global or not, and found a huge gap between the contract values and the reported financial performance; and**
- **A “public” document, purportedly prepared with Sound Global’s participation, shows different business segmentation and offers clues to revenue exaggeration.**

We then analyzed Sound Global’s turnkey services by distinguishing between internal projects and third-party projects. From 2009, the proportion of revenue from internal projects has fallen rapidly, from 80%+ to less than a quarter, even though the total amount has held broadly steady at the Rmb400m level. The proportion of revenue from third-party projects has surged, on the back of a staggering 69.8% compound annual growth rate during 2007-2013.

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**Exhibit 2 – Analysis of Turnkey Services Revenue, 2007-13**

Year end Dec (Rmb k)	2007	2008	2009	2010	2011	2012	2013
<b>Internal projects</b>	<b>414,505</b>	<b>466,095</b>	<b>230,119</b>	<b>327,575</b>	<b>437,704</b>	<b>555,019</b>	<b>423,572</b>
- Contracts of BOT projects		54,425	120,720	145,894	390,766*	537,778	396,120
- Contracts from related parties	301,871	384,483	102,486	100,304	46,938	17,241	27,452
- Sub-contracts from related parties	112,634	27,187	6,913	81,377			
<b>Third-party projects</b>	<b>90,641</b>	<b>234,131</b>	<b>776,400</b>	<b>1,024,643</b>	<b>1,325,873</b>	<b>1,601,993</b>	<b>2,169,665</b>
- Overseas contracts**				167,869	330,455	104,459	55,785
- Domestic contracts***	90,641	234,131	776,400	856,774	995,418	1,497,534	2,113,880
<b>Total</b>	<b>505,146</b>	<b>700,226</b>	<b>1,006,519</b>	<b>1,352,218</b>	<b>1,763,577</b>	<b>2,157,012</b>	<b>2,593,237</b>
<b>Proportion of internal projects</b>	<b>82.1%</b>	<b>66.6%</b>	<b>22.9%</b>	<b>24.2%</b>	<b>24.8%</b>	<b>25.7%</b>	<b>16.3%</b>

Sources: Sound Global listing document and annual reports

\* The construction value of BOT projects is assumed to be 90% of additions to concession service receivables

\*\* Our analysis is based on the assumption that overseas projects do not include any sales of equipment revenue. As the sales of equipment only account for a small proportion of turnkey project revenue while overseas projects are also a small part of total revenue, this assumption has little impact on the overall analysis.

\*\*\* Including the pipe network contracts done on BT (build-transfer) model in the relevant wastewater projects

## 1.1. Sound Global Announces Few Third-Party Projects

During 2010-2013, Sound Global achieved an aggregate of Rmb6.12bn of revenue from third-party projects, accounting for 62.2% of total revenue during those four years. These third-party projects are mostly located within Mainland China, totaling Rmb5.46bn. However, as at March 31, 2010, according to the [2010 listing document](#) prepared for Sound Global's Hong Kong listing, domestic order book amounted to merely Rmb300m. This implies that during 2010-13, the company managed to secure orders totaling Rmb5.16bn.

Over the years, Sound Global has announced few third-party projects. These include only three stand-alone third-party projects and three other third-party contracts related to BOT projects, which are summarized below.

**Exhibit 3 – Third-party EPC Contracts Announced Since Hong Kong Listing**

Project Name	Date announced	Total investment (Rmb m)	Of which internal EPC* value (Rmb m)	Third-party EPC value (Rmb m)
Changsha rural wastewater, Hunan	1/28/11	275	115**	160
Fushun rural environmental improvement, Liaoning	5/27/11	225		225
Jiangyan rural water supply network/wastewater, Jiangsu	10/24/11	480	48***	432
Siyang rural wastewater, Jiangsu	10/29/12	240	91****	149
Changchun No.6 Water Treatment Plant, Jilin	12/14/12	2,035		2,035
Quanzhou Nanshan water supply, Fujian	2/8/13	95		95

Sources: Sound Global announcements, Emerson Analytics estimates

Note: Construction work on last three projects yet to commence as at end-2013

\* Engineering, procurement and construction

\*\* <http://www.water8848.com/news/201406/02/18301.html>

\*\*\* <http://www.jysjsj.gov.cn/web/ShowArticle.asp?ArticleID=751>, assuming wastewater plant accounts for 40% of total investment

\*\*\*\* <http://www.syzbb.com/syzbtb/infodetail/?siteid=1&categoryNum=004001&inforid=02fe11b4-f25f-4a6f-adf7-7340bbc92588>

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## 1.2. Ex-Staff Know of Few Third-party Projects

We have met with three engineers who used to work for Sound Global. Two of them were on the staff of Beijing Sound Environmental Engineering Co. Ltd. (Sound Engineering), the main contractor that handles the construction work, while the third was on the staff of Beijing Hi-Standard Water Treatment Equipment Co. Ltd (Hi-Standard), an equipment manufacturer.

All three told us in separate meetings that Sound Global mainly worked on its own BOT projects and had very few third-party projects. When we asked them to cite some examples of third-party projects that they knew of, one could not remember any, while another cited some projects done in 2006-07.

An English transcript of one of our conversations (**Audio Evidence 1**) is attached below.

### **Exhibit 4 – English Transcript of Conversation with Ex-Sound Global Engineer X**

Our investigator:	Does Sound Global have a lot of EPC contracts?
Engineer X:	Previously we used to have quite many. Now, there are few. Most projects including those in small towns are now our own investments.
Our investigator:	By previously, you mean a long time ago?
Engineer X:	Yes, I meant in the 2000s, in 2001, 2002, 2003, 2005, even in 2008 for third parties. They included Jigang (Jilin Iron and Steel), Baogang (Baotou Iron and Steel) and Tanggang (Tangshan Iron and Steel) that I've mentioned earlier.
Our investigator:	So, generally speaking, corporate clients give EPC contracts?
Engineer X:	Yes. Generally, BOTs are contracts with government.
Our investigator:	In recent years there are very few EPC contracts?
Engineer X:	Yes, they are mainly BOTs.

*Source: Emerson Analytics*

Our conversations with the three engineers have been taped but we will not make public these audio clips in order to protect their personal safety. We are, however, sharing Audio Evidence 1, plus Engineer X's name, contact details and the date of our meeting, with the Securities and Futures Commission (SFC) of Hong Kong.

## 1.3. China DoWater Reveals Few Third-party Projects for Sound Global

We have searched the Internet extensively and found only a few tender results related to Sound Global on [www.dowater.com](http://www.dowater.com) (中國汙水處理工程網), a leading website on the Chinese water industry. A list of all tenders submitted by Sound Global since its Hong Kong listing till the end of 2014, as disclosed in China DoWater, can be found in Appendix III. The following are third-party projects won by Sound Global in 2013 but undisclosed by the company.

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**Exhibit 5 – Third-party Projects in 2013 Unannounced by Sound Global**

<b>Date Published</b>	<b>Projects under tender</b>	<b>Investment (Rmb m)</b>	<b>Model</b>
12/2/13	Shenghua Group Inner Mongolia First Coking Plant biological water treatment (2x50t/hour)	N/A	EPC
11/15/13	Xunyang County wastewater treatment plant in Shaanxi province (equipment procurement and installation contract)	30.0	EPC
10/17/13	Yancheng Tinghu three township and Environmental Protection Industrial Park wastewater plants in Jiangsu province	42.0	EPC
5/2/13	Donghai County six township wastewater treatment plants and relevant pipe network project in Jiangsu province	27.9	BT
4/9/13	Laohekou City Chenbu wastewater treatment phase 1 design and main contractor project in Hubei province	29.3	EPC

Source: [www.dowater.com](http://www.dowater.com)

There is little doubt that one can find very few third-party projects on Chinese website. They simply do not add up to the Rmb1.5bn to Rmb2.1bn size annually during 2012-13 that Sound Global pretends to have in its financial statements released in Hong Kong.

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## Part 2. Phony Technology Sales of Beijing Epure

If Sound Global hasn't got that many third-party projects, then how does the company achieve all that revenue? In this section, we'll discuss an obscure Sound Global subsidiary, Beijing Epure International Water Co. Ltd. (Beijing Epure). We are convinced that it supplies Sound Global with about Rmb1bn of phony revenue in technology service.

In addition to quoting information on Sound Engineering and Beijing Epure from the State Administration of Industry and Commerce (SAIC), we'll also present data from an important document, an appraisal report on Sound Global itself.

Last September 11, chairman Wen unveiled a series of inter-locking transactions to restructure his waste management empire. Through a combination of new issue and sale of old shares, Sound Global will become 31.2% controlled by Sound Environmental Resources Co. Ltd. (Sound Environmental, SZ: 000826), the Shenzhen-listed A-share company controlled by Wen. In turn, Sound Environmental will sell a number of water-related BOT projects in the Mainland to the Hong Kong listco, thus reducing connected transaction and avoiding competition.

Sound Environmental's acquisition of a 31.2% stake in Sound Global is subject to independent shareholders' approval. To facilitate this, Sound Environmental appointed China Regal Assets Appraisal Company Limited (中瑞國際資產評估(北京)有限公司) to perform an asset appraisal on Sound Global.

The appraisal report, entitled “桑德環境資源股份有限公司 – 擬收購桑德國際有限公司部分股權項目 – 資產評估說明(Sound Environmental Resources Co. Ltd. – Proposed Acquisition of a Partial Stake in Sound Global Limited – Asset Appraisal Explanations)” and dated September 9, can be found on many Chinese financial websites, and we obtained our copy on [www.cninfo.com.cn](http://www.cninfo.com.cn), a leading Chinese financial website appointed by the China Securities Regulatory Commission for information disclosure. The following link is provided for our readers' convenience, but a Google search will yield dozens of other links to the same document:

<http://www.cninfo.com.cn/finalpage/2014-09-29/1200266645.PDF>

A disclaimer by China Regal at the beginning of the report says that the report is intended only for the regulators and no one else, and is not to be made public. However, we regard this document as effectively in the public domain regardless of the disclaimer.

### 2.1. Rmb1bn of Unheard-of Technologies Revenue

The 88-page CR appraisal report contains extensive information on Sound Global. After combing the document in detail, we have come up with a few surprises.

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The first surprise is that the management actually reviews its business segments in a way different from that reported in Sound Global’s annual reports. The second surprise is that a significant business segment accounting for some 35-50% of total revenue is undertaken by an obscure company.

Sound Global’s 2013 annual report shows that Beijing Epure is mainly engaged in “*research and development of water treatment technologies and provision of services of technology consultation*”, as shown below:

**Exhibit 6 – Beijing Epure’s Principal Activities According to Sound Global 2013 Annual Report**

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
			December 31, 2013		December 31, 2012		
			Direct %	Indirect %	Direct %	Indirect %	
Beijing Sound 北京桑德环境工程有限公司	The PRC	RMB500,000,000	75	25	75	25	Environmental construction related to water treatment
Beijing Epure 北京伊普国际水务有限公司	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

Source: Sound Global 2013 annual report, p.164

According to the CR appraisal report, Beijing Epure is engaged in “technology and holding”, which is similar to what Sound Global’s annual report says.

**Exhibit 7 – Beijing Epure’s Principal Activities According to the CR Appraisal Report**

62	福清清溪水务有限公司	100%	是	在建+BOT
63	三明桑德水务有限公司	100%	是	在建+BOT
64	商洛桑德水务有限公司	100%	是	运营+BOT
65	安阳宗村桑德水务有限公司	100%	是	运营+BOT
66	北京伊普国际水务有限公司	100%	是	技术+控股
67	榆林市靖洲水务有限公司	100%	是	运营+BOT
68	韩城市桑德水务有限公司	100%	是	运营+BOT
69	大冶鸿涟水务有限公司	100%	是	托管运营
70	Sound Global Lt桑德国际有限公司		是	母公司+控股

Source: CR appraisal report, p.58

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The CR appraisal report also shows that both “engineering technology revenue” (the first item within the red square in the figure below) and “engineering construction revenue” (the third item) were undertaken by one corporate entity, respectively. In 2013, their sales were Rmb1.06bn and Rmb1.83bn, respectively.

**Exhibit 8 – Sound Global Revenue Breakdown, Historical and Forecasts, in CR Appraisal Report**

产品类别	单位个数	2011年	2012年	2013年	2014年1-6月	2014年7-12月	2015年	2016年	2017年	2018年	2019年
bot营运收入	24.00	7,078.45	9,351.82	17,870.55	10,070.95	10,433.96	23,654.12	26,706.96	28,675.54	29,474.27	30,282.75
成长性		0.00%	32.12%	91.09%	14.74%	14.74%	15.36%	12.91%	7.37%	2.79%	2.74%
在建bot营运收入	19.00	0.00	0.00	0.00	0.00	0.00	9,692.51	12,740.29	15,642.72	17,627.76	18,730.97
成长性		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	31.44%	22.78%	12.69%	6.26%
托管营运收入	14.00	1,660.01	2,131.96	3,661.83	2,416.41	2,586.49	5,146.15	5,238.48	5,276.80	5,315.13	5,353.45
成长性		0.00%	28.43%	71.76%	36.62%	36.62%	2.86%	1.79%	0.73%	0.73%	0.72%
工程技术收入	1.00	102,491.95	117,268.77	106,244.03	39,525.91	39,526.00	83,005.00	85,495.00	87,205.00	87,205.00	87,205.00
成长性		0.00%	14.42%	-9.40%	-25.59%	-25.59%	5.00%	3.00%	2.00%	0.00%	0.00%
工程施工收入	1.00	85,039.26	121,260.80	183,167.53	112,504.37	112,504.00	247,509.00	272,260.00	299,486.00	329,435.00	362,379.00
成长性		0.00%	42.59%	51.05%	22.84%	22.84%	10.00%	10.00%	10.00%	10.00%	10.00%
设备销售收入	1.00	24,003.06	22,919.48	19,917.41	9,422.68	1,856.00	3,712.00	3,712.00	3,712.00	3,712.00	3,712.00
成长性		0.00%	-4.51%	-13.10%	-43.37%	-43.37%	-67.09%	0.00%	0.00%	0.00%	0.00%
收入合计	60.00	220,272.73	272,932.83	330,861.35	173,940.32	166,906.45	372,718.78	406,152.73	439,998.07	472,769.16	507,663.18

Source: CR appraisal report, p.71

\* Units in Rmb10,000.

The “engineering construction revenue” in the CR appraisal report matches almost exactly the numbers reported by Sound Engineering to SAIC for 2011-2013. For “engineering technology revenue”, the numbers in the CR appraisal report also matches those reported by Beijing Epure to a very high degree, except for 2012 where Beijing Epure’s reported number was 24% lower than that in the appraisal report. The two companies’ SAIC filings are attached at Appendices I and II for our readers’ reference.

**Exhibit 9 – Revenue Comparison: SAIC and CR Appraisal Report Numbers**

Year end Dec (Rmb k)	2011	2012	2013
Construction revenue (from Appraisal Report)	850,393	1,212,608	1,831,675
Revenue of Beijing Sound Engineering (from SAIC)	850,449	1,212,636	1,831,736
Deviation (%)	0.0%	0.0%	0.0%
Technology revenue (from Appraisal Report)	1,024,920	1,172,688	1,062,440
Revenue of Beijing Epure International (from SAIC)	1,048,809	891,714	1,061,666
Deviation (%)	2.3%	-24.0%	-0.1%

Sources: CR appraisal report, p.71, SAIC filings by Sound Engineering and Beijing Epure

It is obvious that Beijing Epure is a technology service company with annual revenue of about Rmb1bn. Its business is quite different from that of Sound Engineering, its revenue growth has been slower and more volatile than that of the latter, and the CR appraisal report treats the two segments separately.

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At the same time, the Sound Global management takes a conservative view on the technology business, forecasting its revenue growth to fall to zero by 2018 from a 5% growth in 2015. On the other hand, the management remains upbeat on the construction business and sees its revenue growth holding at 10% a year from 2015 through 2019.

Meanwhile, a plow through Sound Global’s annual reports and listing document reveals no information whatsoever about its “engineering technology” business. Perhaps this is included in the “turnkey services” segment, as shown in the 2013 annual report below.

**Exhibit 10 – Sound Global Revenue Breakdown, 2013**

6. REVENUE	The Group	
	2013 RMB'000	2012 RMB'000
Revenue from construction contracts		
- Turnkey services	2,593,237	2,157,012
- Sales of equipment	206,755	217,306
Revenue from sale of goods	63,756	111,991
Operating and maintenance income	192,808	94,306
Design service	82,944	71,641
	<b>3,139,500</b>	<b>2,652,256</b>

Source: Sound Global 2013 annual report, p.116

But if this Rmb1bn technology service revenue really exists, why isn't it separated from the construction revenue, as the two don't seem to correlate much with each other?

Is the company trying to hide something?

And what sort of technology service business has generated Rmb1bn revenue a year?

## 2.2. A Mysterious and Untraceable Company

We have done some extensive investigation into Beijing Epure, and have found the following:

- We have asked many Sound Global entities, but no one could provide us with a telephone number for Beijing Epure (in fact some had never heard of this fellow subsidiary);
- We have searched the Internet and have found no news about Beijing Epure submitting or winning any tenders;

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- In November 2011, Beijing Epure was reported to have missed its social security payment totaling Rmb0.21m for having “insufficient fund” in its relevant bank account, despite reporting a cash and bank balance of Rmb777.5m for the end of 2011;
- Beijing Epure had very little fixed assets, merely Rmb0.085m, Rmb0.097m and Rmb0.184m at the end of 2011-13, respectively.

Based on the above, it would seem that Beijing Epure is a shell company.

### 2.3. A “Shell” Company for Booking Revenue?

We have presented conclusive evidence that Beijing Epure is a “technology service” company that reports revenue of some Rmb1bn a year. One may be tempted to regard this entity as a shell company for the booking of revenue arising from certain engineering work undertaken by other Sound Global subsidiaries. But is this possible?

First, there is no evidence that Beijing Epure has ever submitted or won any tenders. It therefore should not have any significant revenue from external customers.

As for Sound Global’s EPC contracts, Sound Engineering is usually the subsidiary that wins the tenders. If Beijing Epure were a sub-contractor to Sound Engineering, their respective revenues would be eliminated upon consolidation, rather than added together as in the CR appraisal report.

For BOT projects, again Sound Engineering is the usually the main contractor, not Beijing Epure, as illustrated in the following example.

Sound Siyang Water Co. Ltd., a Sound Global subsidiary, built 14 rural wastewater treatment plants in Siyang County, Jiangsu province. On April 15, 2014, Siyang Water invited tenders<sup>1</sup> for the EPC contract in two villages. Sound Engineering won the tenders, as shown below.

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<sup>1</sup><http://www.bidcenter.com.cn/newscontent-15525495-1.html>

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## Exhibit 11 – Sound Siyang Tender Results

搜狐财经 > 21世纪100周年纪念特刊 > 21世纪·能源

宏观 | 金融 | 公司 | 产业 | 财经人物

桑德污水

热门搜索

热词：跨代贫穷 社保非万能 欧盟实习 扮女装代考

### 桑德国际2106万元中标江苏泗阳两乡镇污水项目

正文 我来说两句 (0人参与) 扫描到手机

2014-05-28 13:45:00 来源：大智慧阿思达克通讯社

手机客户端 | 保存到博客 | 评论 | 分享

大智慧阿思达克通讯社5月28日讯，桑德国际（00987.HK）子公司北京桑德环境工程有限公司中标江苏省泗阳县2个污水处理厂建设工程，工程总造价约2106.36万元。

大智慧通讯社（微信号：DZH\_news）从桑德国际了解到，公司确认中标江苏省新袁镇、王集镇污水处理厂建设工程，项目日处理污水3000吨，其中新袁镇污水处理厂中标价1057.02万元，王集镇污水处理厂中标价为1049.34万元。

一位熟悉桑德集团的券商研究员表示，该公司是最早大规模进入中小城镇污水处理市场的上市公司，研制的SMART小型污水处理系统已成功推向市场，湖南、江苏等地是其重点目标市场。

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Source: <http://business.sohu.com/20140528/n400154629.shtml>

To conclude, it must be said that:

- Sound Global management has a different set of business segmentation that it has never revealed to Hong Kong regulators and investors;
- This raises our suspicion that the management intentionally groups 90% of revenue into a huge business segment when reporting to investors to facilitate its revenue exaggeration;
- A significant segment that accounted for some 40% of total revenue during 2011-13 was undertaken by a mysterious company, Beijing Epure, that few Sound Global employees have ever heard of;
- Beijing Epure has left few traces on the Internet, certainly no evidence of submitting or winning any tenders. As we'll show later, a company with Rmb1bn of annual revenue missed its social security payment in late 2011 because its relevant bank account had "insufficient funds"!

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## Part 3. The Anshan “BOT” Mystery

### 3.1. Service Concession Receivables Analysis

To understand and analyze Sound Global’s financial performance, one must face the complicated issue of accounting for service concession arrangements that cover its BOT projects.

The following table shows the changes in Sound Global’s service concession receivables over the years.

**Exhibit 12 – Sound Global Service Concession Receivables Analysis**

Year end Dec (Rmb k)	2008	2009	2010	2011	2012	2013
Year begin	0	153,140	295,132	665,118	1,083,659	1,643,483
+ Acquisition	98,668	0	120,615	1,200	0	207,724
<b>+ Additions*</b>	<b>54,472</b>	<b>135,290</b>	<b>240,819</b>	<b>434,184</b>	<b>597,338</b>	<b>433,000</b>
+ Imputed interest	0	6,702	17,972	21,372	41,068	78,822
- Current portion	0	0	-9,420	-38,215	-78,582	-125,891
<b>Yearend</b>	<b>153,140</b>	<b>295,132</b>	<b>665,118</b>	<b>1,083,659</b>	<b>1,643,483</b>	<b>2,237,138</b>

Sources: Sound Global listing document and annual reports

\* = Increase in service concession receivables in cash flow + current portion of service concession receivables in trade and other receivables. Using 2013 as an example, 433,000=307,109+125,891

Sound Global says in p.55 of its Hong Kong listing document: “The revenue recognized from the construction phase of a BOT phase is also recognized as a service concession receivable.....”

The relationship between revenue from construction phase recognized in the income statement and additions to service concession receivables in the balance sheet is shown below:

**Exhibit 13 – Revenue from Construction Phase and Additions to Concession Receivables**

Year end Dec (Rmb k)	2008	2009
Turnkey services	54,425	120,720
Equipment	0	9,915
<b>Revenue from construction phase</b>	<b>54,425</b>	<b>130,635</b>
Adjustment	0	4,700*
<b>Total</b>	<b>54,425</b>	<b>135,335</b>
<b>Additions to concession receivables</b>	<b>54,472</b>	<b>135,290</b>
Deviation (%)	-0.1%	0.0%

Source: Sound Global listing document

\* = 15,200-10,500 (According to p.56 of Sound Global listing document, Rmb15.2m for miscellaneous payments...were partially offset by Rmb10.5m of advance payments received from the local governments)

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Based on the total investment amount of a BOT project, we can arrive at an estimate for the construction revenue. We can also estimate the progress of the construction work based on the timing of project commencement and completion. Thus, we can arrive at an estimate of additions to concession receivables during 2011-13.

**Exhibit 14 – Additions to Service Concession Receivables – Booking Anshan in 2012**

Project Name	Capacity (k tons/day)	Total investment (Rmb m)	2011	2012	2013
<b>Anshan Dagushan Wastewater, Liaoning Province</b>	<b>30</b>	<b>94.0</b>		<b>79.9</b>	
<b>Anshan Ningyuan Wastewater, Liaoning Province</b>	<b>80</b>	<b>190.0</b>		<b>161.5</b>	
<b>Anshan Dongtai Wastewater, Liaoning Province</b>	<b>100</b>	<b>202.7</b>		<b>172.3</b>	
Fushun Wastewater, Liaoning Province	100	239.0	135.4		
Jiangyan Rural Wastewater, Jiangsu Province	13	120.0	5.1	35.7	
Hongze Wastewater, Jiangsu Province	20	130.0	93.1		
Quanzhou Quangang Petrochem Zone Wastewater, Fujian Province	25	133.0			113.1
Yantai Wastewater, Shandong Province	50	120.0	51.0	51.0	
Anyang Hi-tech Wastewater, Henan Province	50	120.0	25.5	25.5	51.0
Changsha Rural Wastewater, Hunan Province	29.4	115.0	55.3		
Liangping Shuanggui Wastewater, Chongqing City	15	50.0			25.5
Xingping Wastewater Phase 2, Shaanxi Province	50	123.5			104.9
Yang County Wastewater, Shaanxi Province	20	59.8		25.4	25.4
Xi'an Trade & Logistics Park Wastewater, Shaanxi Province	25	107.0	78.0		
Yulin Jingbian County Wastewater Phase 2, Shaanxi Province	15	81.5			69.3
Hancheng Wastewater Upgrading, Shaanxi Province		20.0			17.0
Xi'an Chang'an District Wastewater Phase 2, Shaanxi Province	50	58.6		49.8	
<b>Revenue from BOT projects*</b>			<b>443.3</b>	<b>601.1</b>	<b>406.2</b>
<b>Additions to Service Concession Receivables</b>			<b>434.2</b>	<b>597.3</b>	<b>433.0</b>
Deviation (%)			2.1%	0.6%	-6.2%

Sources: Sound Global announcements, Emerson Analytics estimates

\*Construction phase

## 3.2. Overview of Anshan BOT Projects

We'll now use the Anshan BOT projects to illustrate our analysis of Sound Global's business.

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## 3.2.1. Anshan EPC Contract Value

In October through December 2011, Sound Global made three separate announcements that it had won three wastewater treatment projects using the BOT model from the Anshan Environmental Protection Agency in Anshan city of Liaoning province. They comprised a 100k-ton per day project named Dongtai for Rmb202.7m, an 80k-ton project named Ningyuan for Rmb190m and a 30k-ton project named Dagushan for Rmb94m. That's a grand total of Rmb486.7m. All were 30-year concessions.

Usually, a BOT project involves the treatment plant only. Pipes and ducts connecting the plant are usually excluded as they are part of the state monopoly. Nevertheless, the government often awards the pipe network contract to parties related to the BOT project using the BT method. For the three Anshan projects in question, the relevant pipe network of 18 km called for a total investment of about Rmb200m. Construction was scheduled for October 10, 2012 through July 30, 2013<sup>2</sup>.

In addition to the EPC contract value, the cost of land, cost of works supervision and interest cost during construction phase are all included in the total investment cost. Sound Global presents certain relevant information on its BOT projects in p.154 of its Hong Kong listing document. For such projects, the EPC contract values averaged 70.9% of total investment amount. However, completed projects and on-going projects may be subject to changes in work done, thus affecting the proportion of EPC contract to total investment amount. For the two projects yet to commence construction (the Yantai wastewater project in Shandong and the Fushun wastewater project in Liaoning), the proportion of EPC contract to the total investment amount was budgeted at 85.6% and 85.2%, respectively. In our calculations we assume that Anshan's EPC value was 85% of total investment cost, giving Sound Global the benefits of the doubt.

**Exhibit 15 – Sound Global's EPC Contract Value**

<b>Project Name</b>	<b>Total Investment (Rmb m)</b>	<b>EPC Contract for the BOT project (excluding VAT) (Rmb m)</b>	<b>EPC Contract percentage</b>
Shandong Yantai Wastewater	95.0	81.3	85.6%
Liaoning Fushun Wastewater	151.0	128.6	85.2%

Source: Sound Global Hong Kong listing document, p.154

On this basis, the EPC contract value of three Anshan wastewater plants is estimated at a total Rmb413.7m (85% of the total Rmb486.7m investment).

<sup>2</sup>[http://www.lntb.gov.cn/Article\\_Show.asp?ArticleID=101262](http://www.lntb.gov.cn/Article_Show.asp?ArticleID=101262)

# Sound Global – a Water Specialist in Deep Water

## 3.2.2. Construction Commencement Date

Sound Global announced the tender results of the three Anshan projects in the last quarter of 2011, and set up the project companies in February and May of 2012. We therefore believe that the projects did not commence work until early 2012. The Liaoning government website disclosed that construction work at the three wastewater plants were in full swing as of early May, 2012.

Exhibit 16 – Liaoning Provincial Government Website Reports on Construction of Anshan Projects

社会

当前位置: 首页 -> 政府信息 -> 全省各地 -> 鞍山 -> 社会

【字体大小: 大 中 小】 【打印文章】 【关闭窗口】

### 鞍山城区污水处理率由不足50%提升至90%以上

信息来源: 鞍山市政府网站 发布时间: 2012年12月18日

15日, 从鞍山市东台、宁远、大孤山污水处理厂暨“大浑太”工程集体竣工新闻发布会上获悉, 随着东台、宁远和大孤山三座新建污水处理厂和达道湾污水处理厂提标改造工程同时竣工, 鞍山市城区污水处理能力由近10年的20万吨/日增至46万吨/日, 提升了26万吨/日, 提标改造了20万吨/日。随着污水厂的全部运营, 鞍山市城区污水处理厂出水将全部达到国家一级A排放标准, 城市污水处理率由原来不足50%提升至90%以上。

今年4月, 按照省政府“年底辽河干流及主要支流达到四类水质、全流域消灭劣五类水体、从根本上改善‘大浑太’流域水质、彻底摘掉辽河流域重度污染帽子、退出全国‘三江三湖’治理名单”的总体部署, 鞍山市委市政府专门成立了“大浑太”流域治理工作领导小组, 实施项目法人制、工程项目监理制、工程管理合同制和工程项目招标制, 确定了工程建设“环保组织实施、财政资金保障、部门相互配合”的基本原则, 做出了征地动迁“同步设计、同步复核、同步拨款”的重大决策。5月初, 几座污水处理厂全面开工建设。

“大浑太”流域治理工程共19个治理项目, 总投资11亿元。新建的东台、宁远、大孤山污水处理厂工程和达道湾污水处理厂提标改造工程均是确保河流水质达标的重要工程。东台污水处理厂处理规模10万吨/

Source: [http://www.ln.gov.cn/zfxx/qsgd/ass/ans4/2012/12/20121218\\_1023498.html](http://www.ln.gov.cn/zfxx/qsgd/ass/ans4/2012/12/20121218_1023498.html)

## 3.2.3. Project Completion Date

The above article also shows that the three wastewater plants were completed simultaneously on December 15, 2012. According to the “全國投運城鎮污水處理設施清單” (“Complete List of Operating Urban and Rural Wastewater Treatment Plants in China”) released by Ministry of Environmental Protection in April, 2014, the three projects became operational in November 2012.

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There is a slight deviation between these two sources, but there is little doubt that the three projects were completed at the end of 2012.

**Exhibit 17 – Ministry of Environmental Protection Data on Anshan Projects**

序号	省份	市(区、地、州)	项目名称	主体处理工艺	投运时间	设计处理能力 (万立方米/日)	平均处理水量 (万立方米/日)
663	辽宁	大连市	大连付家庄污水处理有限公司	A/O	2001年4月	1.00	0.84
664	辽宁	大连市	东达集团庄河水务有限公司	CAST	2010年7月	3.00	2.76
665	辽宁	大连市	大孤山污水处理厂	二级生化	2010年9月	7.00	5.02
666	辽宁	大连市	大连清再生水有限公司	改良A <sup>2</sup> O	2010年10月	0.50	0.22
667	辽宁	大连市	大连天津污水处理有限公司	A <sup>2</sup> O	2012年7月	4.00	4.00
668	辽宁	大连市	大连德泰小窑湾污水处理有限公司	A <sup>2</sup> O	2012年11月	2.50	1.17
669	辽宁	大连市	大连旅顺三涧堡污水处理有限公司	CAST	2012年7月	1.00	0.85
670	辽宁	大连市	大连东晟虎滩新区污水处理有限公司	CAST	2012年11月	3.00	2.88
671	辽宁	大连市	大连长兴岛临港工业区中法水务环境服务有限公司	CAST	2012年12月	2.00	0.93
672	辽宁	鞍山市	鞍山市达道湾污水处理厂	A/O	2010年5月	10.00	8.48
673	辽宁	鞍山市	鞍山市水务运营有限公司(西部第二污水厂一期)	SBR	2008年5月	10.00	4.67
674	辽宁	鞍山市	海城市瀚海环境工程有限公司	百乐克	2005年1月	6.00	6.51
675	辽宁	鞍山市	海城汇通污水处理有限公司(感王污水处理厂)	生物膜法	2010年6月	4.00	1.75
676	辽宁	鞍山市	鞍山腾鳌污水处理有限公司	A <sup>2</sup> O	2010年10月	2.50	0.83
677	辽宁	鞍山市	鞍山市大孤山污水处理厂	A/O	2012年11月	2.50	0.29
678	辽宁	鞍山市	鞍山市东台污水处理厂	A/O	2012年11月	5.00	0.96
679	辽宁	鞍山市	鞍山市宁远污水处理厂	A/O	2012年11月	5.00	1.26
680	辽宁	鞍山市	台安县污水处理厂	A/O	2013年7月	3.00	1.51

Source: <http://www.zhb.gov.cn/gkml/hbb/bgg/201404/W020140415399348916037.pdf>, p.38

### 3.2.4. Recognition of Service Concession Receivables

In p.55 of its Hong Kong listing document, Sound Global has this to say:

*We use the percentage of completion method to recognize and account for the revenue derived from our construction contracts in process, including **the construction of our BOT projects.*** (Emphasis ours – editor)

Based on percentage completion method, revenue from the three Anshan projects should have been recognized in 2012 with a corresponding increase in service concession receivables on the balance sheet, as shown in Exhibit 14 above.

### 3.3. Anshan Inflates Sound Global 2013 Revenue by Rmb380m

In its 2013 annual report, Sound Global makes the following disclosure about its revenue:

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## **Exhibit 18 – Anshan Projects – Biggest Revenue Contributor in 2013**

Revenue from AnShan Environmental Protection Agency in turnkey projects and services segment contributed 17.52% of the Group's total revenue for the year ended December 31, 2013 (2012: Revenue from Jiangyan City Housing and Urban Construction Bureau in turnkey projects and services segment contributed 10.73% of the Group's total revenue for that year). Except for this, no other single customers contributed 10% or more to the Group's total revenue for the year ended December 31, 2013.

*Source: Sound Global 2013 annual report, p.115*

With total revenue of Rmb3,139.5m in 2013, Sound Global is saying that it recognized Rmb550m revenue from the three Anshan projects that year. As we have already mentioned earlier, the relevant pipe network using the BT model was worth Rmb200m and mainly built in 2013. Taking out Rmb170m (85% of the Rmb200m total investment) for the pipe network EPC contract value, the balance from the Anshan BOT projects was Rmb380m. (There should have been a bit of O&M (operation and maintenance) revenue but the amount was negligible).

But we know that the three Anshan wastewater treatment plants were completed in 2012 and the relevant construction revenue and service concession receivables should have been recognized in that year. So, where did this Rmb380m come from? Did Sound Global obtain further contracts from Anshan Environmental Protection Agency?

We have talked to Sound Engineering's engineer who worked on the Anshan plants and he confirmed that Sound Global had no further projects in Anshan other than the three wastewater treatment plants and their relevant pipe network. A copy of the audio clip (**Audio Evidence 2**) of the conversation has been sent to the SFC of Hong Kong.

At Anshan Environmental Protection Agency, the wastewater administration center is in charge of all wastewater matters in the city. Their contact methods can be seen below. The head of the wastewater administration center has also confirmed to us that Sound Global had no other projects in Anshan except for the three wastewater plants. A copy of the audio clip (**Audio Evidence 3**) of the conversation has been sent to the SFC of Hong Kong.

# Sound Global – a Water Specialist in Deep Water

Exhibit 19 – Anshan Environmental Protection Agency Contact Details

The screenshot shows the website of the Anshan Environmental Protection Agency (ASEPB). The header includes the agency's logo and name in Chinese: 鞍山市环境保护局 (Anshan Environmental Protection Agency) and the website address: WWW.ASEPB.GOV.CN. The navigation bar contains links for '首页' (Home), '政府信息公开' (Government Information Disclosure), '网上服务' (Online Services), '信息发布' (Information Release), and '公众互动' (Public Interaction). The date is 2015年1月23日 星期五 农历腊月初四. The main content area is titled '机构主要职责' (Institutional Main Responsibilities) and lists several departments and their functions. The '污水管理中心' (Wastewater Management Center) and '经济开发区分局' (Economic Development Zone Branch) are highlighted with red boxes. The '污水管理中心' section lists three main responsibilities: 1. 负责开展城市、城镇污水处理厂的环境形势分析工作; 2. 负责城市、城镇污水处理厂的运营、监督和在线监控工作; 3. 负责城镇污水处理厂先进技术的推广等工作. The phone number 5234937 is also listed. The '经济开发区分局' section lists two main responsibilities: 1. 负责制定经济开发区辖区内的环境保护规划建设项目的环境审批及竣工验收; 2. 负责辖区内的环境污染事故、纠纷的调解、处理及日常环境监督管理.

Source: <http://www.asepb.gov.cn/NewsSingle.aspx?id=7337>

Is it possible that even though the three wastewater plants in Anshan were completed at the end of 2012, Sound Global decided to recognize their contribution in 2013 rather than 2012?

No! Because that would cause two serious problems:

- For 2012, Sound Global recognized Rmb538m of BOT construction revenue and a like amount of additions to service concession receivables. Without the Anshan projects (which together contributed Rmb414m or 77% of the total), what other projects contributed to the 2012 results? But we know Sound Global has no other major projects to fill the void.
- More important, except for the service concession receivables, no other item on the 2012 balance sheet was big enough to accommodate the construction cost of the three Anshan plants.

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To understand the second point, we first estimate the construction cost of the three Anshan plants. We put it at Rmb298m, which is derived from the 72% cost to revenue ratio, based on Sound Global's disclosure (in p.129 of its 2013 annual report) that it recognized construction revenue of Rmb538m and construction profit of Rmb152m for its BOT projects.

Only the following four items exceeded Rmb200m on Sound Global's 2012 balance sheet:

## Exhibit 20 – Selected Items on Sound Global 2012 Balance Sheet

Year end Dec (Rmb k)	2012
Service concession receivables	1,643,483
Trade and other receivables	1,433,015
Amounts due from customers for contract work	584,436
Bank balances and cash	2,912,077

Source: Sound Global 2012 annual report

Obviously, the construction cost of the three Anshan projects could not have been carried on the 2012 balance sheet as cash and bank balances. Neither could it be carried as trade and other receivables, as they were “*primarily the balances due from our external customers*”.

What about “amounts due from customers for contract work”? In p.273 of Sound Global's Hong Kong listing document, the company says:

*Amount due from customers for contract work refer to the amount of contract costs incurred plus recognized profit less recognized loss related to our EPC projects (excluding the construction phase of our BOT projects) ... (Emphasis ours – editor)*

Thus, the Anshan BOT construction cost could only have been carried as service concession receivables in 2012. That means Sound Global had recognized the three Anshan projects in 2012 in its construction revenue and service concession receivables.

To conclude, Sound Global could not have derived Rmb550m of revenue from Anshan Environmental Protection Agency in 2013. It simply inflated its revenue by Rmb380m that year.

### 3.4. Anshan Projects are NOT “BOTs”?

Sound Global's disclosure on Anshan Environmental Protection Agency's revenue contribution in 2013 prompts us to make a bold assumption: could those projects be EPC contracts rather than BOT arrangements?

The engineer who worked on the Anshan plants hinted to us that the projects are funded by the government (**Audio Evidence 4**). This suggests that they are not BOT projects.

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We have talked to the head of wastewater management division at the Anshan Environmental Protection Agency. While discussing other issues relating to the three projects, he volunteered that Sound Global's three projects in Anshan were originally planned to be BOT projects but later changed into EPC contracts. An English transcript of the relevant part of our conversation follows:

### **Exhibit 21 – English Transcript of Conversation with Anshan Wastewater Chief**

Our investigator:	So the Dongtai, Dagushan, Ningyuan and Yongning* treatment plants were all built by BOT method, right?
Wastewater chief:	Yongning is BOT. Dongtai, Dagushan and Ningyuan are operated and maintained by a third party.
Our investigator:	Who built Dongtai, Dagushan and Ningyuan?
Wastewater chief:	The government built it.
Our investigator:	The government built it?
Wastewater chief:	Yes.
Our investigator:	The information I see suggests that it did this together with Sound Global?
Wastewater chief:	Sound Global is operating the plants.
Our investigator:	Sound Global is operating them?
Wastewater chief:	Yes.
Our investigator:	But you just said Dongtai, Dagushan and Ningyuan were not BOTs, then ...
Wastewater chief:	Who told you they were BOTs?
Our investigator:	Well, I found some tender invitations and tender results announcements.
Wastewater chief:	They were originally BOTs, but then they were contracted out as they became government investments.
Our investigator:	So, they were originally BOTs?
Wastewater chief:	Yes, but then the BOTs were cancelled.
Our investigator:	Then who did the EPC as the main contractor?
Wastewater chief:	The main contractor was Sound Global, and the agreement was signed with the Environmental Protection Agency, the Anshan city government.
Our investigator:	Oh, Sound Global did the EPC?
Wastewater chief:	Yes.

Source: Emerson Analytics

\* The Yongning treatment plant is a BOT built by Beijing Enterprises Water Group Limited (HK: 00371)

An audio clip of this conversation (**Audio Evidence 5**) is being sent to the SFC of Hong Kong.

Obviously, with regard to whether the Anshan projects are BOT arrangements or EPC contracts, the wastewater chief is an authoritative source and his information is highly reliable. If the Anshan projects are really done on the EPC model, then:

- Where did the BOT construction revenue and additions to concession service receivables in 2012 come from?
- The Anshan projects account for 20% of Sound Global's total wastewater capacity. If there is a material change in the nature of the project, isn't there a need to disclose this to investors?
- Sound Global keeps saying that it will focus on BOT investments. Is this credible?

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## Part 4. The Strange Case of Jingzhou and Other Inconsistencies

In addition to inflating its 2013 results with non-existent Rmb1bn “engineering technology service” revenue and bogus Anshan projects, Sound Global has over the years misled regulators and investors by misrepresenting crucial facts and numbers. Here we look at a few cases that we have unearthed.

### 4.1. Jingzhou Projects Make a Mockery of Percentage Completion Accounting

In its 2010 listing document, Sound Global lists its top three projects for 2008 as the Jilin Iron and Steel Group industrial water treatment plant (Rmb102.8m), the Jingzhou (a city in Hubei province) pipe network project (Rmb70m) and the Jingzhou wastewater treatment plants (Rmb90.65m). According to the listing document, the Jingzhou pipe network was to be completed in the first quarter of 2009 and the plants in the second quarter of 2010. These two projects in Jingzhou were worth a total of Rmb161m.

The listing document further disclosed that Sound Global recognized Rmb140.5m of revenue from the Jingzhou projects in 2008 (likely the biggest contributor that year at 13.7% of total revenue), with another Rmb14.6m in 2009. Thus, a total of Rmb155.1m was recognized in two years. They were also the biggest connected transactions in those years, as shown below.

**Exhibit 22 – Jingzhou Projects Revenue Recognition in Sound Global Listing Document**

#### 38. RELATED PARTY TRANSACTIONS

(a) During the Track Record Period, the Group entered into the following significant transactions with related parties:

	Year ended December 31,		
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
<b>Revenue from construction contracts</b>			
<i>From fellow subsidiaries:</i>			
Anyang Mingbo .....	1,462	49,488	17,532
Baotou Lucheng Water Co., Ltd (“Baotou Lucheng”) .....	49,252	—	5,134
Daye Qingbo Water Co., Ltd (“Daye Qingbo”) .....	—	36,300	8,283
E'zhou Eqing Environmental Engineering Co., Ltd. (“E'zhou Eqing”) .....	—	52,910	2,864
Huzhou Zheqing Water Co., Ltd (“Huzhou Zheqing”) .....	46,441	—	—
Jiayu Jiaqing Water Co., Ltd. (“Jiayu Jiaqing”) .....	—	—	30,769
Jingmen Xiajiawan Water Co., Ltd (“Jingmen Xiajiawan”) .....	—	24,390	5,682
<b>Jingzhou Jingqing Water Co., Ltd (“Jingzhou Jingqing”) .....</b>	<b>—</b>	<b>140,499</b>	<b>14,618</b>
Tongliao Bibo Water Co., Ltd (“Tongliao Bibo”) .....	113,930	10,517	3,104
Xi'an Qingqing Water Co., Ltd (“Xi'an Qingqing”) * .....	27,622	32,031	—
Xianning Ganyuan Water Co., Ltd (“Xianning Ganyuan”) .....	32,206	7,422	2,500
Xi'an Huqing* .....	—	23,343	—
Xiangfan Hanshui Qiyi Water Co., Ltd (“Xiangfan Qingyi”) .....	30,958	7,583	—
Hubei Jichu Water Co., Ltd (“Hubei Jichu”) .....	—	—	12,000
	<u>301,871</u>	<u>384,483</u>	<u>102,486</u>

Source: Sound Global Hong Kong listing document, p.1-61

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The Jingzhou projects were EPC contracts from Sound Environmental, the A-share listed company. In its 2008 annual report, Sound Environmental has this to say:

### Exhibit 23 – Sound Environmental 2008 Annual Report Disclosure

(6) 2008年12月, 公司控股子公司荆州市荆清水务有限公司通过邀请招标程序确定荆州市污水处理工程(荆州市草市及城南污水处理工程)总承包项目中标方为关联方北京桑德环境工程有限公司, 中标合同总价为16056.6万元人民币(公司该日常经营性关联交易事项于2008年12月19日披露于《中国证券报》、《证券时报》及巨潮资讯网, 公告编号: 2008-54), 该事项经公司董事会提交公司于2009年1月4日召开的2009年第一次临时股东大会审议通过。

Source: Sound Environmental 2008 annual report, P.55

According to Sound Environmental's annual report, Jingzhou Jingqing Water Co. Ltd., decided to award a main contractor's contract on two wastewater treatment projects in Jingzhou to Sound Engineering, a connected party, for Rmb160.6m in December 2008. The contract had been announced on December 19, 2008 and was subject to shareholders' approval at an extraordinary general meeting on January 4, 2009.

So, the project owner, a connected party, awarded the contract to Sound Global at the end of 2008, but the latter dared recognize the overwhelming majority of the contract value as soon as the ink was dry, before much work was done!

But what really happened in Jingzhou? We searched the web and found several relevant news reports and official announcements. They all point to one thing: completion took place at the end of 2009!

On March 7, 2009, the *Jingzhou News* website reported that the Chengnan wastewater treatment plant (one of the two projects undertaken by Sound Global) and the pipe network project were progressing slowly with about Rmb55m of capital expenditure – about 90% of the civil engineering work and 20% of the machinery/equipment work – having been done. In the last paragraph, it said that the other project (Caoshi treatment plant) had spent Rmb28.7m of capital expenditure with 20% of the civil engineering work being done. In aggregate, Rmb83.7m of capital expenditure had been done, or just over half of the Rmb161m total contract value.

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## Exhibit 24 – Update on the Jingzhou Projects in Jingzhou News

### 城南污水处理厂3月底试运行

http://www.jznews.com.cn 发布时间：2009-03-07 19:50 进入论坛 -我要纠错-我要爆料



荆州新闻网消息(杨莉馨 张新)经过将近一年的建设,荆州城南污水处理厂已经初具规模,土建工程大部分已经完成,工艺设备安装正在紧张有序的进行,污水处理厂的建成将大大提升荆州市污水处理能力和水资源综合利用水平。

前段时间的阴雨天气,致使城南污水处理厂以及污水管网配套工程施工进展缓慢,乘着晴好天气,工人们日夜加班,各项建设已经进入冲刺阶段。城南污水处理厂自开工建设以来,已累计完成投资额5553万元。土建工程完成总工程量的90%,工艺设备安装完成总工程量的20%。

服务热线 0716-8451000 13451233078

——建网站就到荆州新闻网



城南污水处理厂建设工程包括沉淀池、氧化沟及提升泵房等,总计有16座混凝土构筑物,建成后,每日可处理污水5万吨。在提升泵房建设中,施工单位采取沉井施工的方法,保证了施工进度。

城区另一大污水处理厂——草市污水处理厂累计完成投资额2865万元,土建工程已完成总工程量的20%,计划今年8月底试水运行。这两座污水处理厂建成后,所有原来直接流进护城河和荆沙河的污水都会进入处理厂集中处理,城区水生态环境将得到极大改善。

Source: <http://www.jznews.com.cn/comnews/system/2009/03/07/000287151.shtml>

Then on November 11, 2009, the Jingzhou city government's website reported that the Chengnan wastewater plant had been put into trial run on November 5, as can be seen below:

## Exhibit 25 – Jingzhou City Government Announces Chengnan Plant Trial Run

荆州市人民政府  
www.jingzhou.gov.cn

网站 荆州 行政区划 旅游荆州 政务 政府领导 职能部门 政民 在线咨询 网上调查 网上 个人办事 企业办事  
首页 概况 历史沿革 民风民俗 公开 政府要事 发展规划 互动 公众诉求 领导信箱 办事 办事大厅 事件查询

当前位置: 荆州市人民政府网站 >> 新闻中心 >> 新闻速递 >> 荆州要闻 >> 党委报道

### 城南污水处理厂已开始投入试运行

【发布时间: 2009年11月11日】 阅读次数: 144 【我要打印】 【关闭】

经多方努力,通过近一时期城市管网改造,城南污水处理厂于11月5日开始接纳荆州城区生活污水和部分生产废水,此次一次性接纳水量为每天5万吨。

Source: <http://www.jingzhou.gov.cn/article/news001003/17095.html>

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Finally, according to the “Complete List of Operating Urban and Rural Wastewater Treatment Plants in China” released by Ministry of Environmental Protection, the two Jingzhou wastewater treatment plants were completed in November 2009 and March 2010, respectively.

**Exhibit 26 – Ministry of Environmental Protection Data on Jingzhou Plants**

序号	省份	市(区、地、州)	项目名称	主体处理工艺	投运时间	设计处理能力 (万立方米/日)	平均处理水量 (万立方米/日)
2639	湖北	孝感市	应城市污水处理厂	氧化沟	2009年1月	3.00	3.21
2640	湖北	孝感市	安陆市污水处理厂	A <sup>2</sup> O	2010年11月	3.00	3.02
2641	湖北	孝感市	湖北大悟科亮环保科技有限公司(大悟县城区污水处理厂)	生物膜法	2010年5月	2.00	1.80
2642	湖北	孝感市	孝感市污水处理厂	A <sup>2</sup> O	2007年7月	14.00	8.17
2643	湖北	孝感市	孝昌菲力污水处理有限责任公司	氧化沟	2010年6月	2.50	2.32
2644	湖北	孝感市	云梦县城市污水处理有限责任公司	卡鲁塞尔氧化沟	2011年9月	2.50	2.82
2645	湖北	孝感市	汉川市清泉环保科技有限公司	A <sup>2</sup> O	2010年1月	5.00	5.79
2646	湖北	孝感市	湖北川东环保能源开发有限公司	二级生化	2010年7月	2.00	0.89
2647	湖北	荆州市	荆州市中环保有限公司	卡鲁塞尔氧化沟	2007年4月	10.00	9.54
2648	湖北	荆州市	荆州市中环水业有限公司	A <sup>2</sup> O	2008年8月	3.00	0.29
2649	湖北	荆州市	荆州市荆清水务有限公司(城南)	改良A <sup>2</sup> O	2009年11月	5.00	3.85
2650	湖北	荆州市	荆州市荆清水务有限公司(草市)	改良A <sup>2</sup> O	2010年3月	3.00	2.71
2651	湖北	荆州市	江陵威德水质净化有限公司	A <sup>2</sup> O	2010年6月	1.90	1.23
2652	湖北	荆州市	松滋市科亮污水处理有限公司	生物膜法	2009年5月	2.00	1.61
2653	湖北	荆州市	公安县佳源水务有限公司	改良A <sup>2</sup> O	2009年9月	6.00	4.61
2654	湖北	荆州市	石首市城北污水处理厂	BAF曝气生物滤池	2010年6月	1.10	1.19
2655	湖北	荆州市	洪湖市创业水务有限公司	氧化沟	2003年6月	7.00	3.20
2656	湖北	荆州市	鄂城城区污水处理厂(现改为荆津水务有限公司)	卡鲁塞尔氧化沟	2012年1月	3.00	2.24
2657	湖北	荆州市	石首市城南污水处理厂	生化处理+生物滤池	2012年1月	2.00	2.00

Source: <http://www.zhb.gov.cn/qkml/hbb/bgg/201404/W020140415399348916037.pdf>, p.142

We are, therefore, convinced that the Jingzhou projects were completed at the end of 2009, and that most of the revenue should have been booked in that year rather than a year earlier:

- According to Sound Environmental, Sound Global’s A-share listed sibling, the construction contract was not approved until the beginning of 2009. Of course we understand that work can start before a contract is approved or even put up for tender, but the deviation cannot be too huge;
- According to *Jingzhou News*, about half of the contract value was done by early March, 2009; and
- According to the Ministry of Environmental Protection, the two plants were completed in November 2009 and March 2010, respectively.

Sound Global claims to use the so-called percentage completion accounting method to recognize construction contract revenue. However, it is clear from the Jingzhou projects that this is complete nonsense. Our earlier analysis on the Anshan projects points to a similar conclusion.

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We suspect that when Sound Global began to prepare for the Hong Kong listing in early 2010, it realized that it didn't have any significant projects to impress investors. It therefore decided to bring the Jingzhou projects forward to fill the void.

## 4.2. The Guangxi Chongzuo Hole

According to Sound Global's 2010 Hong Kong listing document published in June, trial operation had just begun on a 30k-ton wastewater treatment plant in Chongzuo City in Guangxi province. The document shows that the project cost a total of Rmb68.2m. At the time of the listing, Sound Global had fully recognized the EPC revenue of Rmb56.1m excluding VAT.

**Exhibit 27 – Guangxi Chongzuo Project in Listing Document**

Project Name	Nature of Investment	Our Equity interest in the project	Commencement of operations	Capacity/ planned capacity (tonnes/day)	Concession Period (years)	Estimated total amount of investment required to be made by our Group in the project (RMB million)	Estimated outstanding amount of investment as of March 31, 2010 (RMB million)	The value of our Group's EPC Contract for the BOT project (including value added tax) (RMB 'Million)	Cumulative revenue recognized from the construction phase of the project on an EPC basis before our Group's acquisition (excluding value added tax) (RMB million)	Our Group's cumulative revenue recognized from the construction phase of the project as of March 31, 2010 (excluding value added tax) (RMB million)	Estimated amount of backlog from the outstanding portions of the construction phase (excluding value added tax) (RMB million)	Financing arrangement	Utilized borrowing by the project company as of March 31, 2010 (RMB million)
Guangxi Chongzuo City Wastewater Treatment Project (廣西崇左市污水處理項目)	Wastewater Treatment	100%	Trial Operation (commercial operation estimated from July 2010)	30,000	26	68.2	6.7	57.0	—	56.1	—	Bank loan: RMB20 million. IPC loan: approximately RMB34.8 million. The balance from internal resources	20

Source: Sound Global listing document, p. 154

However, according to the “Complete List of Operating Urban and Rural Wastewater Treatment Plants in China” released by Ministry of Environmental Protection last April, the Chongzuo wastewater treatment plant's designed capacity is only 15k tons.<sup>3</sup>

Four years late, on August 15, 2014, Sound Global proudly announced a contract for the construction of stage 2 of phase 1 of the Chongzuo plant.

<sup>3</sup><http://www.zhb.gov.cn/gkml/hbb/bgg/201404/W020140415399348916037.pdf>, p.177

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## Exhibit 28 – Sound Global's August 2014 Announcement on the Chongzuo Project

### ANNOUNCEMENT ON APPROVAL OF EXPANSION OF SOUND GLOBAL'S JIANGNAN SEWAGE TREATMENT PLANT IN CHONGZUO CITY, GUANGXI PROVINCE

Sound Global Ltd. ("Sound Global" or the "Company") hereby announces that, in August, the construction of Stage II of Phase I BOT project of its Jiangnan Sewage Treatment Plant in Chongzuo City, Guangxi Province has been approved.

The total sewage treatment capacity of the project is designed to be 60,000 tonnes per day, and the aggregate investment is approximately RMB68.21 million, for a concession period of 26 years. The Stage I of Phase I of the project, funded and constructed by Sound Global in 2008, is equipped with a sewage treatment capacity of 15,000 tonnes per day and serves Chengnan New Area at the south bank of Zuojiang River as well as Jiangnan old town area, which cover 21.25 square kilometers with a population of 100,000. With progressive improvements in the construction of the pipeline network in Chongzuo City and the rapid growth of its population and industries, according to the original designed capacity of 30,000 tonnes per day, the construction of Stage II of Phase I expansion project with a sewage treatment capacity of 15,000 tonnes per day has been approved by the Municipal Government of Chongzuo City, Guangxi Province, and is expected to be commenced in September.

Source: <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0815/LTN201408151011.pdf>

As can be seen above, the Chongzuo facility is supposed to have a total capacity of 60k tons for a total investment of Rmb68.2m. Stage 1 of phase 1 was built by Sound Global in 2008 with a capacity of 15k tons, while stage 2 of phase 1 would now be built to add 15k tons of capacity, bringing the total of phase 1 to 30k tons.

This announcement raises several questions:

- The 2010 listing document simply lists the Chongzuo project as having 30k tons of capacity. But the Ministry of Environmental Protection and Sound Global's August 2014 announcement clearly indicate that the existing capacity is 15k tons. May be there was a change in plan after the publication of the listing document No! Because at the latest practicable date of the listing document (June 14, 2010) the project was already in trial with commercial operation scheduled in about a month's time. Didn't the management know exactly how much capacity was in place at that time?
- Exactly how much did Sound Global spent on the earlier bit (stage 1 of phase 1) of the project? The listing document says clearly that it was Rmb68.2m, which works out to Rmb2,273 per ton on the disclosed capacity of 30k tons. This is in line with the cost of a typical wastewater BOT project at that time. However, if Sound Global had only built 15k tons of capacity, did it actually spend all that Rmb68.2m? If so, it would have worked out to Rmb4,546 per ton, an exorbitant sum at that time! If not, where did all that money go? Don't forget, slight more than half of the investment was supposedly financed by an Rmb34.8m loan from International Finance Corp, the World Bank affiliate.
- Finally, how much will stage 2 of phase 1 cost? According to the August 2014 announcement, the entire proposed project of 60k tons costs Rmb68.2m, similar to the amount disclosed in the listing document for the 30k tons (in reality only 15k tons) already "completed" at that time! Do the

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directors ever look at their numbers before they announce them to the investing public? Do they know what they are talking about?

We do not believe that this is simply a case of carelessly mixing up some numbers or typographical error. It just goes on to show that the management simply makes up its numbers as it goes along with its lies to impress investors with inflated profits.

## 4.3. The Shaanxi Hancheng Exaggeration

On October 31, 2012, Sound Global announced that it had entered into a BOT agreement for upgrading a wastewater plant in Hancheng of Shaanxi province. The wording of this announcement is confusing and misleading, and if one is not careful and check this announcement against Sound Global's existing project in Hancheng, one may think that the company has just secured a new project worth Rmb98m.

### *Exhibit 29 – Sound Global's October 2012 Announcement on the Hancheng Project*

#### **ANNOUNCEMENT ON THE BOT PROJECT OF MUNICIPAL WASTEWATER TREATMENT UPGRADING PROJECT IN HANCHENG CITY, SHAANXI PROVINCE**

The Board of Directors (the "Board") of Sound Global Ltd. ("Sound Global" or the "Company") wishes to announce that in October 2012, the Company entered into a licensing agreement for the build, operate and transfer ("BOT") project relating to municipal wastewater treatment upgrading project in Hancheng City, Shaanxi Province, the People's Republic of China ("PRC").

Located at Taishi Avenue East, Hancheng City, Shaanxi Province, the project will be invested and built by Sound Global. The wastewater treatment plant project which requires a total investment of RMB 98 million will be invested, built, operated and transferred as a BOT project. The water discharge quality will comply with the Class I A discharge standard prescribed by the "Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant" (《城鎮污水處理廠污染物排放標準》 (GB18918-2002)). The construction of this project will play a significant role in reducing the total discharge of local pollutants, giving full play to the advantages of local tourist resources as well as continuously improving the quality of the water environment in the Yellow River wetland.

Source: <http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1031/LTN20121031382.pdf>

The use of simple future tense ("... the project will be invested and built ... which requires a total investment of Rmb98m will be invested, built and operated ...") gives the impression that this is a new project waiting to materialize, and that Rmb98m will be spent in the coming year to two.

However, we are convinced that this is merely a contract to upgrade an existing facility for about Rmb20m. In the 2010 listing document, Sound Global reveals that the Hancheng project was about to

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begin trial operation on 25k tons of capacity as at the latest practicable date. The total investment was budgeted at Rmb77.4m and Rmb28.5m of the EPC revenue had been recognized. There was also no timetable for phase 2's 25k tons of capacity.

The 2012 announcement makes no mention of any capacity number, which is a clear indication that the project is not the proposed phase 2 expansion of 25k tons. The only possibility is that it is a simple upgrade of treatment standards on an existing facility. It also means that the relevant investment is only Rmb20m, being the difference between the total of Rmb98m and the original budget of Rmb77m.

**Exhibit 30 – Shaanxi Hancheng Project in Listing Document**

Project Name	Nature of Investment	Our Equity interest in the project	Commencement of operations	Capacity/ planned capacity (tonnes/day)	Concession Period (years)	Estimated total amount of investment required to be made by our Group in the project (RMB million)	Estimated outstanding amount of investment as of March 31, 2010 (RMB million)	The value of our Group's EPC Contract for the BOT project (including value added tax) (RMB 'Million)	Cumulative revenue recognized from the construction phase of the project on an EPC basis before our Group's acquisition (excluding value added tax)	Our Group's cumulative recognized revenue from the construction phase of the project as of March 31, 2010 (excluding value added tax) (RMB million)	Estimated amount of backlog from the outstanding portion of the construction phase (excluding value added tax) (RMB million)	Financing arrangement	Utilized borrowing by the project company as of March 31, 2010 (RMB million)
Shaanxi Hancheng City Wastewater Treatment Project (陝西韓城市污水處理項目)	Wastewater Treatment	100%	Phase I – Trial Operation estimated from June 2010 Phase II – Not yet determined	Phase I: 25,000 Phase II: 25,000	27	77.4	48.0	42.4	—	28.5	14.4	IFC loan: approximately RMB29.0 million. The balance from internal resources	—

Source: Sound Global listing document, p. 154

Reports by local websites have confirmed our analysis above: this is a simple upgrade, for a total of only Rmb20m.

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Exhibit 31 – Web Report on the Hancheng Project

The screenshot shows a news article on the website '韩城之窗' (Hancheng Window). The article title is '市污水处理厂工程提标改造项目开工' (City Wastewater Treatment Plant Upgrade Project Starts). The text states that the project is a BOT mode implementation by Sane Group Hancheng Water Treatment Company, with a total investment of 20 million yuan. The project includes secondary treatment upgrades, phosphorus and nitrogen removal, and new fiber rotary filter tanks. A red box highlights the text: '市污水处理厂提标升级改造项目是在原来的基础上进行的，属省市重点环保升级改造项目，由北京桑德集团韩城水质水务公司以BOT模式进行实施，项目升级改造总投资2000万元，工程建设包括：对原处理污水的二级提升设施，磷氮脱氮生物填料技术进行改造，新增纤维转盘滤池深度处理设施等项目。' (The wastewater treatment plant upgrade project is carried out on the original basis, belonging to a key environmental protection upgrade project in the province and city, implemented by Beijing Sane Group Hancheng Water Quality and Water Service Company in BOT mode. The total investment for the project upgrade and reconstruction is 20 million yuan. The construction includes: upgrading the secondary treatment facilities for the original treated sewage, phosphorus and nitrogen removal biological filter media technology, and adding fiber rotary filter tanks for deep treatment facilities, etc.)

Source: <http://www.hancheng.ccoo.cn/news/local/1562562.html>

We are convinced that this is just another case of intentionally misleading the investing public, not one of carelessly mixing up some numbers.

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## Part 5. Financial Analysis and Valuation

### 5.1. Sound Global Management’s Profit Forecasts – Price-sensitive Information

As we have cited earlier in section 2.1, the CR appraisal report contains a five-year profit forecast. It is important to draw our readers’ attention to this declaration in the CR appraisal report:

#### **Exhibit 32 – Declaration on Financial Forecasts in CR Appraisal Report**

以上财务预测为被评估单位管理层根据企业目前经营情况及未来发展潜力、战略规划等进行综合分析编制而成，被评估单位对预测的合理性、真实性及可实现性承担责任。

Source: CR appraisal report, p.35

Our translation follows:

*“The above financial forecasts are prepared by the management of the entity being appraised, and are compiled after a comprehensive analysis based on the entity’s current operating conditions and its future development potential. The entity being appraised takes responsibility for the reasonableness, accuracy and feasibility of the forecasts.”*

This is clearly price sensitive information and all parties concerned should have followed stringent procedures in every step of the process.

Sound Global may not be responsible for this “leak”, but we’ll be surprised if its management, and/or that of the Chinese listco, is not aware of this. They should have taken remedial action and advised overseas investors accordingly. Better yet, they should have provided all investors, Chinese and overseas, with an official profit forecast.

### 5.2. The Acid Test of Cash and Bank Balances

A usually reliable indicator of accounting fraud is the relationship between interest income and the amount of cash and bank balances.

As can be seen below, Sound Global has steadily built up a huge cash pile over the last few years, although there was usually a moderate dip of 5-12% from the year-begin level at the interim stage, probably due to seasonal factors. It would seem that the company could afford to park a considerable amount of its bank balances in three-month deposits if not of longer maturities in order to generate more interest income. We also take the view that even though it has many subsidiaries, most of the cash and bank balances are held by Sound Engineering, Beijing Epure, and Sound Global the parent company itself.

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However, Sound Global as a whole only managed an average deposit rate of less than 0.5% over the last few years, which was in our view far too low, suggesting that a large part of its cash or bank balances simply didn't exist.

**Exhibit 33 – Sound Global Cash and Bank Balances Vs. Interest Income, 2011-13**

Year end Dec 31 (Rmb m)	2010	2011H1	2011	2012H1	2012	2013H1	2013
<b>Bank balances and cash</b>	<b>2,027</b>	<b>1,788</b>	<b>2,074</b>	<b>1,990</b>	<b>2,912</b>	<b>2,585</b>	<b>3,534</b>
Rmb	1,780		2,005		2,721		2,937
foreign currency	248		70		191		597
<b>Restricted bank balances</b>	<b>315</b>	<b>102</b>	<b>57</b>	<b>53</b>	<b>81</b>	<b>60</b>	<b>109</b>
Rmb	5		12		45		78
foreign currency	310		45		35		32
<b>Total</b>	<b>2,342</b>	<b>1,890</b>	<b>2,131</b>	<b>2,043</b>	<b>2,993</b>	<b>2,644</b>	<b>3,643</b>
Interest income			10.0		9.5		11.4
<b>Interest rate</b>			<b>0.47%</b>		<b>0.40%</b>		<b>0.37%</b>

Sources: Sound Global annual and interim reports

The People's Bank of China lowered interest rates a few times during 2011 and 2012. After cutting savings deposit rate to 0.35% from 0.4% and three-month deposit rate to 2.6% from 2.85% on July 6, 2012, the central bank left interest rates unchanged until November 2014. Thus, if one had placed half of one's money in savings accounts and another half in three-month deposits during 2013, one would have achieved an average deposit rate of 1.48% in 2013.

We generously assume that Sound Global earned no interest income whatsoever from its foreign currency holdings. If the company's Rmb11.4m interest income in 2013 was all derived domestically on an average deposit rate of 1.48% throughout the year, the company should have had an average Rmb768.6m of cash and bank balances outstanding during the year. Adding back the Rmb427.4m average foreign currency holdings, theoretically the company should have had total cash and bank balances averaging Rmb1.2bn during the year. That's just a bit more than one-third of the average Rmb3.3bn cash and bank balances that the company supposedly had during the year!

**Exhibit 34 – Sound Global Cash and Bank Balances Estimates**

Year end Dec 31 (Rmb k)	2013
Interest income	11,375
/ Average interest rate	1.48%
Cash and cash equivalents	768,581
+ Foreign currency	427,397
<b>Total</b>	<b>1,195,978</b>
Cash Gap	2,121,934

Source: Emerson Analytics estimates

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This situation reminds us of the case of China Lumena New Materials (HK: 00067). We used exactly the same method to demonstrate that China Lumena's actual cash/bank balances were at least Rmb2bn less than the amount claimed by the company. Subsequent developments (the stock remains suspended eight months after the publication of our report) show that our method was right and that we were probably too conservative.

If Sound Global really had average cash of Rmb3.32bn earning a mere Rmb11.4m in interest income during 2013, then the management was plain stupid to pay Rmb285m of interest expenses (equivalent to 67% of its reported net income) on average gross debts of Rmb3.29bn. The only explanation for such an irrational behavior by the management is this: Sound Global simply didn't have all that cash/bank balances that it claimed to have.

### 5.3. Insufficient Funds in Beijing Epure Social Security Account

The suspiciously low interest income is not the only thing that raises questions about Sound Global's real cash level, which in turn raises questions about its real profitability and extent of businesses. Our investigations also unearthed an interesting episode to illustrate that the company did not really have the cash that it claimed to have: Beijing Epure missed its social security payment in 2011.

According to Beijing Epure's filings with SAIC, it had Rmb777m of cash and bank balances at the end of 2011 and Rmb1.13bn at the end of 2012, equivalent to about one third of Sound Global's consolidated cash and bank balance position. This suggests that it is an important part of Sound Global.

Surprisingly, Beijing Epure couldn't afford to pay its social security and medical insurance in November 2011, because the bank account had "insufficient funds"! This is evident in the following four exhibits.

Did Beijing Epure really have that much cash that it claimed to have? If not, did Sound Global have the cash?

Was this a simple unfortunate one-off slip? Perhaps, but maybe it was also an indication that this company didn't really do anything at all.

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**Exhibit 35 – Beijing Epure Cash Balance in SAIC Filings**

企业基本信息					
组织机构代码:	796700837	企业名称:	北京伊普国际水务有限公司		
年度报告年度:	2012	申报机构类型:	会计事务所		
制表信息					
填表日期:	2013-05-28	制表人:	王慧		
会计主管:	张希泉	法定代表人:	文一波		
企业联系人:	王慧	企业联系电话:	60507231		
备注栏					
资产负债表					
货币单位: 人民币CNY					
资产	年初余额	期末余额	负债和所有者权益 (或股东权益)	年初余额	期末余额
<b>流动资产:</b>			<b>流动负债:</b>		
货币资金	777,537,964.25	1,133,515,145.08	短期借款	0.00	0.00
交易性金融资产	0.00	0.00	交易性金融负债	0.00	0.00
应收票据	0.00	0.00	应付票据	0.00	0.00
应收账款	666,718,057.49	769,658,688.06	应付账款	169,323,550.45	118,841,730.66

Source: SAIC

**Exhibit 36 – Beijing Epure Social Security Account Number**

北京经济技术开发区社会保险基金管理中心  
记录一生 保障一生 服务一生

关于领取二采表的通知

发布时间: 2010-09-29

凡有未领取二采表的单位, 请于**10月8、9、11日**三天携**社保登记证**至开发区社保中心收缴部领取, 如有疑问, 请到开发区社保中心柜台进行咨询, 二采联系电话: 67880911。

附件:  
未领取二采表单位名单

序号	社保登记证号	单位名称	二采比 对人数
1	110231001554	北京普诺德科技有限公司	1
2	110231001644	北京迈吉德博多媒体技术有限公司	1
3	110231001657	北京伊普国际水务有限公司	1
4	110231001870	深圳市通晓实业发展有限公司北京分公司	2

Source: <http://bdacsi.bda.gov.cn/cms/sbxw/73147.htm>

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## Exhibit 37 – Insufficient Funds in Beijing Epure Medical Insurance Account

北京经济技术开发区社会保险基金管理中心  
记录一生 保障一生 服务一生

2015.1.22 星期四下午6:52:31

社保新闻

### 2011年11月医疗退票信息汇总表

发布时间: 2011-12-12

贵单位11月医疗保险费托收未成功,原因为余额不足或账号户名不符或未签署托收协议等,根据社保规定,7月1日起欠费的,30日内不还款,将加收滞纳金。请务必于12月20日前重新缴费,12月15日前可采用支票、刷卡等方式缴费、12月20日前可采用刷卡方式缴费。如有疑问,请到开发区社保中心柜台进行咨询或到开发区社保中心网站查询退票原因和金额。

序号	组织机构代码	单位名称	金额	退票原因
1	11023100004	巨能制药	8,558.40	空头
2	110108015177	世华国际金融	136,454.82	空头
54	110100005261	中牧科技	1,180.44	未授权
55	110106121264	爱农家加(北京)	19,106.40	帐号冻结等
56	110231000682	信远行地产	611.04	清户
57	110231001594	北京鑫坤锐德	3,971.76	帐号冻结等
58	110231001657	伊普水务	61,249.08	空头
59	110231001950	嘉德行	611.04	空头
60	110231010102	北京世纪瀚动力	305.52	空头

Source: <http://bdacsi.bda.gov.cn/cms/sbxw/56962.htm>

## Exhibit 38 – Insufficient Funds in Beijing Epure Social Security Account

北京经济技术开发区社会保险基金管理中心  
记录一生 保障一生 服务一生

2015.1.22 星期四下午7:20:38

社保新闻

### 2011年11月四险退票信息汇总表

发布时间: 2011-12-12

贵单位11月四险保险费托收未成功,原因为余额不足或账号户名不符或未签署托收协议等,根据社保规定,7月1日起欠费的,30日内不还款,将加收滞纳金。请务必于12月20日前重新缴费,12月15日前可采用支票、刷卡等方式缴费、12月20日前可采用刷卡方式缴费。如有疑问,请到开发区社保中心柜台进行咨询或到开发区社保中心网站查询退票原因和金额。

组织机构代码	单位简称	险种	收款合计金额	入帐标志/退票原因
55144487	中基博尔电气(北	养老	940.8	出票人账户余额不足以支付票据?
55144487	中基博尔电气(北	失业	40.32	出票人账户余额不足以支付票据?
55144497	中基博尔电气(北	工伤	516.0	出票人账户余额不足以支付票据?
79670083	伊普国际水务	养老	139478.36	出票人账户余额不足以支付票据?
79670083	伊普国际水务	失业	5933	出票人账户余额不足以支付票据?
79670083	伊普国际水务	工伤	1509.53	出票人账户余额不足以支付票据?
79670083	伊普国际水务	生育	1759.53	出票人账户余额不足以支付票据?

Source: <http://bdacsi.bda.gov.cn/cms/sbxw/73158.htm>

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To conclude, questions over interest income and cash/bank balances suggest that there was a big hole of about Rmb2bn in Sound Global's balance sheet. That would dent its shareholders' equity by two-thirds.

### 5.4. Sound Global's Real Profitability

Given the suspiciously low interest income that Sound Global earned, and given all the confusing and bogus accounting that we have seen earlier, we are convinced that Sound Global has been doctoring its books for many years.

So, how big is the hole?

For 2013, we eliminate the bogus Rmb1bn "engineering technology service" revenue and take out the Rmb380m revenue that Sound Global claimed to have come from the Anshan BOT projects. Note that we have largely ignored the hole in the Rmb1.8bn of "engineering construction service" revenue in the CR appraisal report.

This eliminates about Rmb414m of gross profit, assuming the same 30% gross margin. Leaving other expenses unchanged and applying the same 25% effective tax rate to the adjusted pretax profit, the bottom line is now Rmb113m, or just more than a quarter of the original number claimed by the company.

**Exhibit 39 – Estimation of Sound Global's Real Profitability, 2013**

Year end Dec 31, 2013 (Rmb m)	Reported	Our adjustment	Deviation
<b>Revenue</b>	<b>3,140</b>	<b>1,760</b>	
Cost of sales	(2,181)	(1,215)	
<b>Gross profit</b>	<b>958</b>	<b>544</b>	<b>-43.2%</b>
Other income	95	95	
Other gains and losses	(11)	(11)	
Distribution and selling expenses	(38)	(38)	
Research and development expenses	(20)	(20)	
Administrative expenses	(132)	(132)	
Share of result of an associate	0	0	
Gain on disposal of an associate	0	0	
Finance costs	(285)	(285)	
<b>Profit before income tax</b>	<b>566</b>	<b>152</b>	<b>-73.1%</b>
Income tax expenses	(141)	(38)	
Profit for the year	425	114	
Exchange difference	1	1	
Total comprehensive income	427	115	
<b>Profit attributable to owners of the company</b>	<b>425</b>	<b>113</b>	<b>-73.3%</b>
Non-controlling interests	2	2	

Sources: Sound Global 2013 annual report, Emerson Analytics estimates

## Sound Global – a Water Specialist in Deep Water

As for the balance sheet, we take out Rmb2bn of non-existent cash and bank balances, as shown in section 5.2 above. That leaves Sound Global with shareholders equity of about Rmb952m and total assets of about Rmb6.68bn at the end of 2013, thus putting the company in a precarious financial position of having debts at three times of equity.

**Exhibit 40 – Estimation of Sound Global's Real Financial Position, 2013**

As at Dec 31, 2013 (Rmb m)	Reported	Elimination	Adjusted	Deviation
Total equity	3,074	-2,122	952	-69.0%
LT liabilities	3,154		3,154	
Current liabilities	2,569		2,569	
Total equity and liabilities	8,797	-2,122	6,675	-24.1%
Total debts	3,753		3,753	
Net debt	679		2,801	312.6%
Net debt to equity	22.1%		294.1%	

Sources: Sound Global 2013 annual report, Emerson Analytics estimates

### 5.5. Valuation

With Sound Global's doggy accounts and questionable management integrity, we are not in a position to make any forecast on the company's profit for 2014 and beyond, despite the management's guidance included in the CR appraisal report.

At the close on February 3, 2015, the stock was valued at 23x of Sound Global's 2013 net profit and 3.2x of net book value originally reported. Using these same historical benchmarks, we believe the stock is worth about HK\$2.4 (on P/E) before accounting for any other irregularities. That's a downside of about 70%.

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## Appendix I – Beijing Epure Filings with SAIC

### Beijing Epure Filings with SAIC (2012)

企业基本信息					
组织机构代码:	796700337	企业名称:	北京伊普国际水务有限公司		
年度报告年度:	2012	申报机构类型:	会计师事务所		
制表信息					
填表日期:	2013-05-23	制表人:	王慧		
会计主管:	张希康	法定代表人:	文一波		
企业联系人:	王慧	企业联系电话:	60507231		
备注栏					
<div style="border: 1px solid black; width: 100px; height: 100px; margin: auto;"></div>					
资产负债表					
货币单位: 人民币CNY					
资产	年初余额	期末余额	负债和所有者权益 (或股东权益)	年初余额	期末余额
<b>流动资产:</b>			<b>流动负债:</b>		
货币资金	777,537,964.25	1,133,515,145.00	短期借款	0.00	0.00
交易性金融资产	0.00	0.00	交易性金融负债	0.00	0.00
应收票据	0.00	0.00	应付票据	0.00	0.00
应收账款	666,718,057.49	769,650,638.06	应付账款	169,303,550.45	118,641,730.66
预付账款	563,310.00	19,896,076.23	预收账款	30,106,732.45	54,354,302.45
应收利息	0.00	0.00	应付职工薪酬	849,592.36	901,790.84
应收股利	0.00	0.00	应交税费	25,206,490.40	26,721,150.52
其他应收款	0.00	155,091,264.50	应付利息	0.00	0.00
存货	0.00	0.00	应付股利	0.00	0.00
一年内到期的非流动资产	0.00	0.00	其他应付款	215,054,091.64	424,196,393.37
其他流动资产	0.00	0.00	一年内到期的非流动负债	0.00	0.00
<b>流动资产合计</b>	<b>1,444,819,331.74</b>	<b>2,070,151,973.95</b>	其他流动负债	0.00	0.00
<b>非流动资产:</b>			<b>流动负债合计</b>	<b>445,540,452.30</b>	<b>625,095,367.84</b>
可供出售金融资产	0.00	0.00	<b>非流动负债:</b>		
持有至到期投资	0.00	0.00	长期借款	107,241,318.00	146,976,412.95
长期应收款	0.00	0.00	应付债券	0.00	0.00
长期股权投资	257,824,800.00	271,804,800.00	长期应付款	0.00	0.00
投资性房地产	0.00	0.00	专项应付款	0.00	0.00
固定资产	85,065.48	97,250.38	预计负债	0.00	0.00
在建工程	0.00	0.00	递延所得税负债	0.00	0.00

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Beijing Epure Filings with SAIC (2012) – continued

工程物资	0.00	0.00	其他非流动负债	0.00	0.00
固定资产清理	0.00	0.00	非流动负债合计	107,241,318.00	146,976,412.95
生产性生物资产	0.00	0.00	负债合计	555,781,776.30	772,071,780.79
油气资产	0.00	0.00			
无形资产	0.00	0.00	所有者权益(或 股东权益)		
开发支出	0.00	0.00	实收资本(或股 本)	145,573,296.00	145,573,296.00
商誉	0.00	0.00	资本公积	37,360,000.00	37,360,000.00
长期待摊费用	0.00	0.00	减:库存股	0.00	0.00
递延所得税资产	0.00	0.00	盈余公积	23,954,972.10	23,954,972.10
其他非流动资产	0.00	0.00	未分配利润	936,059,152.82	1,367,093,975.44
非流动资产合计	257,909,565.48	271,902,050.38	所有者权益(或 股东权益)合计	1,146,947,420.92	1,577,982,243.54
资产总计	1,702,729,197.22	2,350,054,024.33	负债和所有者权 益(或股东权益) 总计	1,702,729,197.22	2,350,054,024.33

### 利润表

货币单位: 人民币CNY

	本年金额	上年金额
营业收入	891,713,527.88	1,048,808,884.95
减: 营业成本	329,831,830.31	634,115,000.00
营业税金及附加	14,644,241.90	16,163,476.83
销售费用	1,972,714.47	1,107,593.00
管理费用	84,655,674.32	10,391,304.66
财务费用	-2,578,793.25	-8,755,453.47
资产减值损失	0.00	0.00
加: 公允价值变动收益	0.00	0.00
投资收益	0.00	0.00
其中: 对联营企业和合营企业的投资收益	0.00	0.00
营业利润	463,187,060.13	395,796,559.93
加: 营业外收入	47,250.00	2,415,000.00
减: 营业外支出	0.00	0.00
其中: 非流动资产处置损失	0.00	0.00
利润总额	463,235,110.13	398,201,559.93
减: 所得税费用	32,000,287.51	29,938,462.07
净利润	431,034,822.62	368,263,096.06
每股收益	0.00	0.00
基本每股收益	0.00	0.00
稀释每股收益	0.00	0.00

### 外商投资企业外方权益统计表

货币单位: 人民币CNY

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Beijing Epure Filings with SAIC (2012) – continued

指标	期初数	期末数
外方投资者实际出资额	149,573,296.00	149,573,296.00
其中：外方实缴注册资本	149,573,296.00	149,573,296.00
外方享有的公积金及留存收益额	997,374,124.92	1,428,408,947.54
资本公积	37,360,000.00	37,360,000.00
盈余公积	23,954,972.10	23,954,972.10
未分配利润	936,059,152.82	1,367,093,973.44
应付外方股利	0.00	0.00

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Beijing Epure Filings with SAIC (2013)

基本信息表					
企业代码:	796700037	企业名称:	北京伊普国际水务有限公司		
年度报告年度:	2013	申报机构类型:	会计师事务所		
填表日期:	2014-05-20				
企业联系人:	王慧	企业联系电话:	60507231		

  

代理信息			
代理申报机构代码:	101604587	代理申报机构名称:	北京中平建华会计师事务所有限公司
代理申报机构联系人:	吴娜	代理申报机构联系电话:	60056199

  

资产负债表					
货币单位: 人民币CNY					
资产	年初余额	期末余额	负债和所有者权益 (或股东权益)	年初余额	期末余额
<b>流动资产:</b>			<b>流动负债:</b>		
货币资金	1,133,515,145.08	1,289,036,273.57	短期借款	0.00	0.00
交易性金融资产	0.00	0.00	交易性金融负债	0.00	0.00
应收票据	0.00	0.00	应付票据	0.00	0.00
应收账款	769,650,600.06	873,494,171.46	应付账款	110,841,730.66	290,347,504.72
预付账款	19,806,076.23	106,141,060.67	预收账款	54,354,302.45	34,400,569.60
应收利息	0.00	0.00	应付职工薪酬	801,790.04	1,130,536.65
应收股利	0.00	0.00	应交税费	26,721,150.52	20,106,303.57
其他应收款	155,091,264.50	157,654,966.75	应付利息	0.00	0.00
存货	0.00	0.00	应付股利	0.00	0.00
一年内到期的非流动资产	0.00	0.00	其他应付款	424,196,393.37	399,121,073.51
其他流动资产	0.00	0.00	一年内到期的非流动负债	0.00	0.00
<b>流动资产合计</b>	<b>2,070,151,973.85</b>	<b>2,436,377,234.45</b>	其他流动负债	0.00	0.00
<b>非流动资产:</b>			<b>流动负债合计</b>	<b>625,095,367.04</b>	<b>761,180,760.07</b>
可供出售金融资产	0.00	0.00	<b>非流动负债:</b>		
持有至到期投资	0.00	0.00	长期借款	146,976,412.95	142,353,790.00
长期应收款	0.00	0.00	应付债券	0.00	0.00
长期股权投资	271,804,800.00	299,096,800.00	长期应付款	0.00	0.00
投资性房地产	0.00	0.00	专项应付款	0.00	0.00
固定资产	97,280.30	103,576.51	预计负债	0.00	0.00
在建工程	0.00	0.00	递延所得税负债	0.00	0.00
工程物资	0.00	0.00	其他非流动负债	0.00	0.00
固定资产清理	0.00	0.00	<b>非流动负债合计</b>	<b>146,976,412.95</b>	<b>142,353,790.00</b>
生产性生物资产	0.00	0.00	<b>负债合计</b>	<b>772,071,780.79</b>	<b>903,534,550.07</b>

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Beijing Epure Filings with SAIC (2013) – continued

油气资产	0.00	0.00			
无形资产	0.00	721,488.82	所有者权益（或股东权益）		
开发支出	0.00	0.00	实收资本（或股本）	149,573,296.00	149,573,296.00
商誉	0.00	0.00	资本公积	37,360,000.00	37,360,000.00
长期待摊费用	0.00	0.00	减：库存股	0.00	0.00
递延所得税资产	0.00	0.00	盈余公积	23,954,972.10	23,954,972.10
其他非流动资产	0.00	0.00	未分配利润	1,567,093,975.44	1,621,940,234.73
非流动资产合计	271,902,050.38	300,001,035.33	所有者权益（或股东权益）合计	1,577,902,243.54	1,830,836,502.83
资产总计	2,350,054,024.33	2,736,379,069.78	负债和所有者权益（或股东权益）总计	2,350,054,024.00	2,736,379,069.78

### 利润表

货币单位：人民币CNY

	本年金额	上年金额
营业收入	1,061,666,332.78	891,713,527.88
减：营业成本	656,779,365.78	329,831,530.31
营业税金及附加	11,454,388.13	14,644,241.90
销售费用	2,815,883.28	1,972,714.47
管理费用	107,584,991.89	84,655,674.33
财务费用	-9,245,998.29	-2,578,793.25
资产减值损失	0.00	0.00
加：公允价值变动收益	0.00	0.00
投资收益	0.00	0.00
其中：对联营企业和合营企业的投资收益	0.00	0.00
营业利润	292,278,401.99	463,187,560.13
加：营业外收入	1,438,900.00	47,250.00
减：营业外支出	0.00	0.00
其中：非流动资产处置损失	0.00	0.00
利润总额	293,717,301.99	463,235,110.13
减：所得税费用	38,863,042.70	32,200,287.51
净利润	254,854,259.29	431,034,822.62
每股收益	0.00	0.00
基本每股收益	0.00	0.00
稀释每股收益	0.00	0.00

### 外商投资企业外方权益统计表

货币单位：人民币CNY

指标	期初数	期末数
一、本企业权益数据		

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Beijing Epure Filings with SAIC (2013) – continued

(一)、外方投资者实际出资额	149,573,296.00	149,573,296.00		
外方实缴注册资本	149,573,296.00	149,573,296.00		
(二)、外方享有的公积金及留存收益额	1,428,408,947.54	1,633,263,206.83		
2.1 资本公积	37,360,000.00	37,360,000.00		
2.2 盈余公积	23,954,972.10	23,954,972.10		
2.3 未分配利润	1,367,093,975.44	1,621,948,234.73		
(三)、应付外方股利	0.00	0.00		
<b>二、附注：（此部分数据仅投资性外商投资企业须填写）</b>				
权益法	应付股利	未分配利润	资本公积	盈余公积
核算子公司中享有的权益期末数	0.00	0.00	0.00	0.00
成本法	应付股利	未分配利润	资本公积	盈余公积
核算子公司中享有的权益期末数	0.00	0.00	0.00	0.00
<b>外方股东持股比例</b>				
外方股东持股比例	100.00%	当前外汇系统中 中外方实缴资本 金额(CNY)		122,754,000.73

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Appendix II – Sound Engineering Filings with SAIC

### Sound Engineering Filings with SAIC (2012)

企业基本信息					
组织机构代码:	700226364	企业名称:	北京桑德环境工程有限公司		
年度报告年度:	2012	申报机构类型:	会计事务所		
制表信息					
填表日期:	2013-06-04	制表人:	王慧		
会计主管:	张希康	法定代表人:	文一波		
企业联系人:	王慧	企业联系电话:	60507231		
备注栏					
资产负债表应付股利147000000元全部为以前年度应付外方的股利,中方股利已在以前年度分配时支付,所以已分配但未汇出的外方股利余额是147000000元。					
资产负债表					
货币单位:人民币CNY					
资产	年初余额	期末余额	负债和所有者权益(或股东权益)	年初余额	期末余额
<b>流动资产:</b>			<b>流动负债:</b>		
货币资金	1,102,892,733.11	1,291,348,224.49	短期借款	175,000,000.00	227,000,000.00
交易性金融资产	0.00	0.00	交易性金融负债	0.00	0.00
应收票据	0.00	10,830,000.00	应付票据	0.00	35,000,000.00
应收账款	594,973,518.71	990,104,031.33	应付账款	476,368,664.53	595,385,396.29
预付账款	27,572,861.21	37,391,869.01	预收账款	132,702,546.54	162,667,248.91
应收利息	0.00	0.00	应付职工薪酬	0.00	2,000,000.00
应收股利	0.00	0.00	应交税费	9,920,110.21	11,781,482.06
其他应收款	275,373,762.31	448,907,867.70	应付利息	922,254.82	1,586,920.39
存货	3,218,416.57	6,486,463.53	应付股利	147,000,000.00	147,000,000.00
一年内到期的非流动资产	0.00	0.00	其他应付款	449,583,269.51	616,467,825.21
其他流动资产	0.00	0.00	一年内到期的非流动负债	0.00	0.00
<b>流动资产合计</b>	<b>2,004,131,291.91</b>	<b>2,755,060,456.06</b>	其他流动负债	0.00	0.00
<b>非流动资产:</b>			<b>流动负债合计</b>	<b>1,391,496,845.61</b>	<b>1,790,888,872.96</b>
可供出售金融资产	0.00	0.00	<b>非流动负债:</b>		
持有至到期投资	0.00	0.00	长期借款	0.00	409,600,000.00
长期应收款	0.00	0.00	应付债券	0.00	0.00
长期股权投资	321,799,200.00	547,069,200.00	长期应付款	0.00	0.00
投资性房地产	0.00	0.00	专项应付款	0.00	0.00
固定资产	16,318,505.74	16,144,784.37	预计负债	0.00	0.00
在建工程	0.00	0.00	递延所得税负债	0.00	0.00

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Sound Engineering Filings with SAIC (2012) – continued

工程物资	0.00	0.00	其他非流动负债	0.00	0.00
固定资产清理	0.00	0.00	非流动负债合计	0.00	409,600,000.00
生产性生物资产	0.00	0.00	负债合计	1,391,496,045.61	2,208,488,872.96
油气资产	0.00	0.00			
无形资产	2,327,495.68	2,264,445.40	所有者权益(或 股东权益)		
开发支出	0.00	0.00	实收资本(或股 本)	500,000,000.00	500,000,000.00
商誉	0.00	0.00	资本公积	20,708,759.66	20,708,759.66
长期待摊费用	0.00	0.00	减:库存股	0.00	0.00
递延所得税资产	0.00	0.00	盈余公积	20,670,213.39	20,670,213.39
其他非流动资产	0.00	0.00	未分配利润	411,700,674.67	600,679,042.92
非流动资产合计	340,445,201.42	565,470,432.77	所有者权益(或 股东权益)合计	953,079,647.72	1,142,059,015.97
资产总计	2,344,576,493.33	3,350,546,888.83	负债和所有者权益 (或股东权益)总计	2,344,576,493.33	3,350,546,888.83

### 利润表

货币单位: 人民币CNY

	本年金额	上年金额
营业收入	1,212,626,048.00	850,448,506.44
减: 营业成本	823,316,756.40	624,526,962.74
营业税金及附加	18,017,712.40	8,905,453.28
销售费用	30,367,098.71	18,858,904.95
管理费用	108,089,479.54	28,629,790.71
财务费用	18,506,680.15	10,579,970.58
资产减值损失	-3,190,637.84	0.00
加: 公允价值变动收益	0.00	0.00
投资收益	0.00	46,238.13
其中: 对联营企业和合营企业的投资收益	0.00	0.00
营业利润	217,528,958.64	148,993,656.31
加: 营业外收入	888,086.40	200.00
减: 营业外支出	2,122.80	80,389.20
其中: 非流动资产处置损失	0.00	0.00
利润总额	218,414,922.24	148,913,467.11
减: 所得税费用	29,426,553.99	22,899,506.16
净利润	188,978,368.25	126,013,960.95
每股收益	0.00	0.00
基本每股收益	0.00	0.00
稀释每股收益	0.00	0.00

### 外商投资企业外方权益统计表

货币单位: 人民币CNY

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Sound Engineering Filings with SAIC (2012) – continued

指标	期初数	期末数
外方投资者实际出资额	375,000,000.00	375,000,000.00
其中：外方实缴注册资本	375,000,000.00	375,000,000.00
外方享有的公积金及留存收益额	329,809,735.79	481,543,511.98
资本公积	15,531,569.75	15,531,569.75
盈余公积	15,502,660.04	15,502,660.04
未分配利润	308,775,506.00	450,509,282.19
应付外方股利	147,000,000.00	147,000,000.00

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Sound Engineering Filings with SAIC (2013)

基本信息表					
企业代码:	700226764	企业名称:	北京泰德环境工程有限公司		
年度报告年度:	2013	申报机构类型:	会计师事务所		
填表日期:	2014-05-28				
企业联系人:	仇旭辉	企业联系电话:	60507221		
代理信息					
代理申报机构代码:	101604567	代理申报机构名称:	北京中平建华路会计师事务所有限公司		
代理申报机构联系人:	吴娜	代理申报机构联系电话:	60056199		
资产负债表					
货币单位: 人民币CNY					
资产	年初余额	期末余额	负债和所有者权益 (或股东权益)	年初余额	期末余额
<b>流动资产:</b>			<b>流动负债:</b>		
货币资金	1,291,348,224.49	1,502,202,557.59	短期借款	227,000,000.00	407,060,000.00
交易性金融资产	0.00	0.00	交易性金融负债	0.00	0.00
应收票据	10,830,000.00	2,360,000.00	应付票据	35,000,000.00	55,116,600.00
应收账款	990,104,031.33	1,533,000,315.46	应付账款	595,305,396.29	851,678,424.68
预付账款	37,391,869.01	32,521,537.36	预收账款	162,667,248.91	144,026,618.18
应收利息	0.00	0.00	应付职工薪酬	2,000,000.00	2,000,000.00
应收股利	0.00	0.00	应交税费	11,781,482.06	40,513,211.43
其他应收款	448,907,587.70	413,451,540.99	应付利息	1,506,920.39	2,516,560.00
存货	6,486,462.53	10,679,285.16	应付股利	147,000,000.00	147,000,000.00
一年内到期的非流动资产	0.00	0.00	其他应付款	616,467,825.21	763,415,005.65
其他流动资产	0.00	0.00	一年内到期的非流动负债	0.00	0.00
<b>流动资产合计</b>	<b>2,785,068,436.06</b>	<b>3,484,223,236.56</b>	其他流动负债	0.00	0.00
<b>非流动资产:</b>			<b>流动负债合计</b>	<b>1,798,888,872.86</b>	<b>2,413,326,729.94</b>
可供出售金融资产	0.00	0.00	<b>非流动负债:</b>		
持有至到期投资	0.00	0.00	长期借款	409,600,000.00	387,180,000.00
长期应收款	0.00	0.00	应付债券	0.00	0.00
长期股权投资	547,069,200.00	792,157,400.00	长期应付款	0.00	0.00
投资性房地产	0.00	0.00	专项应付款	0.00	0.00
固定资产	16,144,784.37	15,596,204.33	预计负债	0.00	0.00
在建工程	0.00	0.00	递延所得税负债	0.00	0.00
工程物资	0.00	0.00	其他非流动负债	0.00	500,000.00
固定资产清理	0.00	0.00	<b>非流动负债合计</b>	<b>409,600,000.00</b>	<b>387,680,000.00</b>
生产性生物资产	0.00	0.00	<b>负债合计</b>	<b>2,208,488,872.86</b>	<b>2,801,006,729.94</b>

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Sound Engineering Filings with SAIC (2013) – continued

油气资产	0.00	0.00			
无形资产	2,264,448.40	2,201,401.12	所有者权益(或股东权益)		
开发支出	0.00	165,862.40	实收资本(或股本)	500,000,000.00	500,000,000.00
商誉	0.00	0.00	资本公积	20,708,759.66	20,708,759.66
长期待摊费用	0.00	0.00	减:库存股	0.00	0.00
递延所得税资产	0.00	0.00	盈余公积	20,670,213.29	20,670,213.29
其他非流动资产	0.00	0.00	未分配利润	600,679,042.92	961,958,401.42
非流动资产合计	565,475,432.77	810,120,067.85	所有者权益(或股东权益)合计	1,142,058,015.97	1,503,337,374.47
资产总计	3,350,546,888.83	4,304,344,104.41	负债和所有者权益(或股东权益)总计	3,350,546,888.00	4,304,344,104.41

### 利润表

货币单位: 人民币CNY

	本年金额	上年金额
营业收入	1,831,735,697.86	1,212,636,048.00
减: 营业成本	1,155,272,370.42	823,316,756.40
营业税金及附加	28,970,574.96	18,017,712.40
销售费用	29,261,091.27	30,367,098.71
管理费用	160,324,948.29	108,009,479.54
财务费用	40,386,396.75	18,506,600.15
资产减值损失	3,400,822.73	-3,190,637.84
加: 公允价值变动收益	0.00	0.00
投资收益	0.00	0.00
其中: 对联营企业和合营企业的投资收益	0.00	0.00
营业利润	414,119,493.34	217,528,958.64
加: 营业外收入	583,137.29	888,086.40
减: 营业外支出	12,322.50	2,122.80
其中: 非流动资产处置损失	0.00	0.00
利润总额	414,690,308.13	218,414,922.24
减: 所得税费用	53,410,949.63	29,436,553.99
净利润	361,279,358.50	188,978,368.25
每股收益	0.00	0.00
基本每股收益	0.00	0.00
稀释每股收益	0.00	0.00

### 外商投资企业外方权益统计表

货币单位: 人民币CNY

指标	期初数	期末数
一、本企业权益数据		

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Sound Engineering Filings with SAIC (2013) – continued

(一)、外方投资者实际出资额	375,000,000.00	375,000,000.00		
外方实缴注册资本	375,000,000.00	375,000,000.00		
(二)、外方享有的公积金及留存收益额	481,543,511.98	752,503,030.88		
2.1 资本公积	15,531,569.75	15,531,569.75		
2.2 盈余公积	15,502,660.04	15,502,660.04		
2.3 未分配利润	450,509,282.19	721,468,801.06		
(三)、应付外方股利	147,000,000.00	147,000,000.00		
<b>二、附注：（此部分数据仅投资性外商投资企业须填写）</b>				
权益法	应付股利	未分配利润	资本公积	盈余公积
核算子公司中享有的权益期末数	0.00	0.00	0.00	0.00
成本法	应付股利	未分配利润	资本公积	盈余公积
核算子公司中享有的权益期末数	0.00	0.00	0.00	0.00
<b>外方股东持股比例</b>				
外方股东持股比例	75.00%	当前外汇系统中外方实缴资本金额(CIT)	338,633,488.27	

Source: SAIC

# Sound Global – a Water Specialist in Deep Water

## Appendix III – Sound Global’s Projects

<b>Sound Global’s Projects</b>					
<b>Published date</b>	<b>Projects under tender</b>	<b>Tender results</b>	<b>Total investment (Rmb m)</b>	<b>Model</b>	<b>Note</b>
12/25/14	贵州毕节肥田矿井一、二期工程生活水净化站、地下水及生活污水处理站项目	Winner		EPC	U
12/24/14	湖南耒阳市白洋渡污水处理工程 5.2 公里主截污干管项目	Winner		BT	U
12/5/14	河南漯河市沙北污水处理厂二期扩建工程	Second place			
12/4/14	广东阳春市五个镇级污水处理厂建设项目(一期)	Winner	44.0	BOT	U
11/28/14	湖北黄石山南污水处理厂托管运营单位招标	Second place			
11/17/14	辽宁丹东新区污水处理厂一期工程项目 (BOT) 特许经营权	Third place			
10/21/14	四川荣县度佳镇等 12 个乡镇生活污水处理厂 BOT 新建项目	Second place			
10/10/14	安徽合肥市十五里河污水处理厂三期新建及一期提标改造工程设备采购及安装	Winner	96.1	EPC	A
9/11/14	宁夏银川污水处理有限公司 TOT 项目、银川滨河新区污水处理厂 BOT 项目	Second place			
8/8/14	湖南耒阳市污水处理厂二期 (BOT) 项目	Winner	330.0	BOT	A
7/22/14	黑龙江绥化市污水处理厂特许经营授权项目	Third place			
7/8/14	福建厦门市东部固体废弃物处理中心渗滤液处理站二期工程预中标(重新公示)	Disqualified			
6/27/14	辽宁本溪满族自治县高官镇 2 万吨/日污水处理工程一期 (EPC 总承包)	Second place			
6/26/14	山西临汾市龙祠水源净水厂改扩建工程特许经营项目	Winner	323.0	BOT	A
6/18/14	福建霞浦台湾水产品集散中心污水处理厂 BOT 项目	Second place			
6/16/14	海南白沙黎族自治县污水处理厂技术改造工程	Winner	4.0	EPC	A
6/12/14	四川南充市文峰污水处理厂一期工程 BOT 项目	Third place			
6/12/14	四川达州市农产品加工集中区污水处理厂 BOT 项目	Winner	42.8	BOT	A
6/9/14	河北迁安市沙河驿镇污水处理厂 smart 工艺设备采购中标公示	Winner	5.3	EPC	U
5/28/14	广东清远市洲心污水处理厂特许经营权 (BOT) 项目法人预中标	Disqualified			
5/12/14	辽宁鞍山市永宁污水处理厂特许经营权项目	Second place			
4/25/14	贵州黄平县乡镇污水处理工程特许经营项目 中标公示	Winner	56.0	BOT	A
2/27/14	安徽亳州市谯城区涡北污水处理厂委托运营项目 (二次招标)	Second place			
2/27/14	安徽太和经济开发区供水工程 BOT 建设项目	Winner	88.9	BOT	A
1/16/14	吉林郭家店污水处理工程项目	Winner	55.0	BOT	A

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1/9/14	安徽利辛县污水处理厂运营管理项目	Second place			
1/9/14	陕西安康建民污水处理厂 BOT 项目	Winner	50.0	BOT	A
12/2/13	内蒙古神华蒙西焦化一厂生化水处理 2x50m3/h 新建工程	Winner		EPC	U
11/15/13	陕西旬阳县污水处理工程厂区设备采购、安 装调试工程招标	Winner	30.0	EPC	U
11/8/13	黑龙江哈尔滨市群力污水处理厂扩建工程(二 期)BOT 项目中标公示	Second place			
10/28/13	北京房山区乡镇污水处理厂建设运营项目	Third place			
10/21/13	河北秦皇岛港(六、七、九公司)含尘污水回 用改造含煤污水处理场污水处理设计、设备 采购及安装中标	Did not win			
10/17/13	江苏盐城市亭湖区 3 乡镇、环保产业园区污 水处理厂施工图设计与施工总承包	Winner	42.0	EPC	U
10/11/13	河北南和县生活污水处理厂有运营资质第三 方政府采购	Winner	(30k tons/day)	O&M	U
10/9/13	陕西未来能源化工有限公司污水处理场及回 用水处理工程总承包预中标	Third place			
9/29/13	北京门头沟区镇中心区污水处理厂建设运营 项目	Third place			
9/23/13	湖北宜昌高新区白洋工业园污水处理工程沙 湾污水处理厂 BOT 项目	Winner*	240.0	BOT	U
9/17/13	内蒙古包头市南郊污水处理厂提标改造及二 期扩建工程总承包项目	Second place			
8/13/13	泰州市兴化市戴窑等乡镇污水处理厂 BOT 及厂外配套管网 BT 项目	Winner		BT&BOT	A
8/9/13	福建福州青口新区环境工程（污水处理厂） 机电设备采购、安装及调试项目	Second place			
7/18/13	江苏淮安市金湖县镇级污水处理厂委托运营 项目	Winner	5.0	O&M	U
6/14/13	浙江平阳县水头、萧江和东海污水处理厂 BOT 项目	Second place			
5/22/13	河南郑州市二七区环境保护局关于污水处理 站运行管理服务项目（二次）	Winner	2.5	O&M	U
5/10/13	河北保定电谷新区污水处理厂 BOT 项目施 工	Winner	70.0	BOT	A
5/2/13	江苏东海县石梁河镇等六个乡镇污水处理设 施及配套管网工程（建设-移交）项目	Winner	27.9	BT	U
4/28/13	陕西榆神工业区清水工业园污水处理厂一期 工程 BOT 项目	Second place			
4/9/13	湖北老河口市陈埠污水处理厂一期工程设 计、施工总承包	Winner	29.3	EPC	U
2/26/13	陕西镇坪县污水处理厂托管运营项目	Winner	1.1	O&M	U
2/1/13	福建泉港区南山片自来水厂 BT	Winner	95.0	BT	A
1/25/13	辽宁丹东金山污水处理一期工程（污水处 理厂）项目工程总承包	Third place			
1/6/13	吉林长春市第六净水厂工程	Winner	2035.8	BT	A
11/28/12	北京市顺义区镇级再生水厂建设运营项目	Third place			

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11/23/12	安徽淮南市东部生活垃圾卫生填埋场渗滤液处理站升级改造设计施工一体化工程	Winner	17.0	EPC	U
11/15/12	吉林蛟河市天岗镇污水处理工程设计	Winner	0.8	Design	U
10/24/12	辽宁北方华丰特种化工有限公司综合废水处理工程项目	Second place	(0.6k tons/day)		
10/13/12	江苏泗阳县 14 乡镇污水处理厂及厂外配套管网项目	Winner	240.0	BT&BOT	A
6/28/12	湖北枝江市城西污水处理厂 BOT 项目	Third place			
5/31/12	福建泉港区南山片区污水处理厂 BOT 项目 (二次)	Winner	133.0	BOT	A
4/20/12	唐山中浩化工有限公司污水生化处理库工程	Second place			
1/20/12	辽宁昌图县 2012 年环境保护工程(污水)施工	Winner**		EPC	U
12/2/11	河北定州市污泥无害化处理项目工程设计	Second place			
11/4/11	辽宁鞍山市宁远污水处理厂 BOT 项目	Winner	190.0	BOT	A
10/8/11	辽宁本溪县田师付地区 1 万吨/日污水治理工程 (EPC 总承包)	Second place			
7/18/11	湖北钟祥市污水处理厂 TOT 特许经营项目	Second place			
6/27/11	江西宜春丰城新高焦化有限公司 110 万吨/年焦化项目废水生化处理工程总承包 (EPC)	Second place			
6/23/11	河北承德丰宁满族自治县清源污水处理厂二期工程	Third place			
1/17/11	湖南长沙县乡镇污水处理厂及管网工程进行项目法人招标	Winner	275.0	BT&BOT	A
12/9/10	山东胶南市灵山卫污水处理厂 BOT 项目	Third place			
9/21/10	湖南常德市德山污水处理厂项目	Winner	150.0	EPC	U
8/6/10	辽宁抚顺市海新河污水处理厂提标改造一期工程总承包项目	Winner	10.8	EPC	U
8/4/10	湖南常德桃树岗生活垃圾卫生填埋场渗滤液处理系统升级改造项目二次	Winner		EPC	U

Source: [www.dowater.com](http://www.dowater.com)

Note: A = Announced by Sound Global, U = Unannounced by Sound Global

\* Reportedly Sound Environmental's BOT project

\*\* Tender in total of 12 lots, Sound Global won the fourth lot for wastewater treatment projects in three townships