

# The House of Wen



Photo Credit: <http://the-word-well.com/>

# Summary

- Company Name: Sound Global Ltd.
  - Ticker: 967 HK
  - Current Price: HKD 8.49
  - Price Target: HKD 2.82
  - Recommendation: Strong Sell
- 
- Sound Global is involved in numerous undisclosed fraudulent related party transactions that serve the dual purposes of enriching the company's Chairman/Founder Wen Yibo and artificially inflating revenues
  - While Sound Global does own real assets, its claimed profitability is entirely fake
    - The company reports profitability that is much higher than peers while its earnings are not backed by any cash flow
  - The company employs a Ponzi based on building wastewater treatment plants for purported third parties at inflated prices and then purchasing those same projects back at a premium
    - This is further enabled by the company's aggressive accounting for its own BOT projects through use of an artificially low discount rate in order to inflate the present value of a portfolio of concession assets that would otherwise not meet its cost of capital
  - Sound Global has all the hallmarks of a financial fraud, including but not limited to: frequent management turnover, a backdoor listing onto the Hong Kong Stock Exchange and documented stock manipulation
  - Shareholders who choose not to heed the recommendation to sell stock are strongly advised to vote against the planned transaction between Sound Global and Sound Environmental Resources as it not only allows for Chairman/Founder Wen Yibo to further cash out but also destroys long-term shareholder value

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# 1. Company Introduction

- Full Name: Sound Global Ltd. (桑德国际)
- Country of Domicile: Singapore
- Ticker: 967 HK
- Exchange: Hong Kong Stock Exchange
  
- Sound Global provides wastewater treatment turnkey solutions for municipal, industrial and rural projects primarily in China
- Sound Global engages in four business segments: engineering, procurement, and construction (EPC), build-operate-transfer (BOT), operation & management (O&M), and equipment manufacturing.
- Construction of EPC and BOT projects in China are the primary businesses of the company, accounting for over 90% of revenue
- Sound Global is controlled by its Chairman and Founder, Wen Yibo, who currently owns 52% of shares outstanding

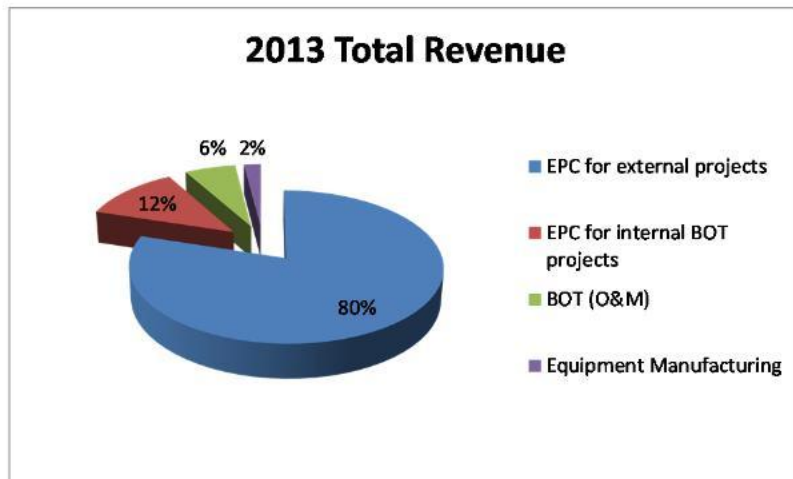
# a. Financial Overview

Sound Global Limited			Historical						Street Consensus		
967 HK		cny millions	2009	2010	2011	2012	2013	LTM	2014E	2015E	2016E
Share Price (HKD)	\$8.49	Revenue	1,293	1,766	2,288	2,652	3,140	3,300	3,869	4,784	5,601
52 Week High (HKD)	\$9.47	growth	26.2%	36.6%	29.6%	15.9%	18.4%	10.9%	23.2%	23.6%	17.1%
52 Week Low (HKD)	\$4.34	Total Receivables	1,040	1,802	2,632	3,661	4,903	5,389			
Shares Outstanding (mm)	1,467.3	growth	15.5%	73.2%	46.1%	39.1%	33.9%	20.3%			
		Gross Profit	376	536	722	800	958	1,015	1,223	1,542	1,817
Market Cap (HKD mm)	12,457.4	margin	29.1%	30.4%	31.6%	30.2%	30.5%	30.7%	31.6%	32.2%	32.4%
Cash (HKD mm)	(4,688.7)	EBITDA	321	400	605	693	868	854	1,034	1,288	1,529
Debt (HKD mm)	4,426.9	margin	24.8%	22.7%	26.4%	26.1%	27.6%	25.9%	26.7%	26.9%	27.3%
Preferred & Other (HKD mm)	5.5	Net Income	283	289	414	428	425	491	563	766	979
Enterprise Value (HKD mm)	12,201.1	margin	21.9%	16.4%	18.1%	16.1%	13.5%	14.9%	14.6%	16.0%	17.5%
Float (mm)	555.0	EPS (HKD)	\$0.22	\$0.22	\$0.32	\$0.33	\$0.33	\$0.37	\$0.39	\$0.50	\$0.67
3 Month ADTV(mm)	4.2	EV/EBITDA			4.8	6.0	5.9	11.9	9.8	7.8	6.6
3 Month ATDV(USD mm)	4.6	P/E			7.6	9.0	10.4	21.0	18.3	13.4	10.5
Short Interest (%)	7%										

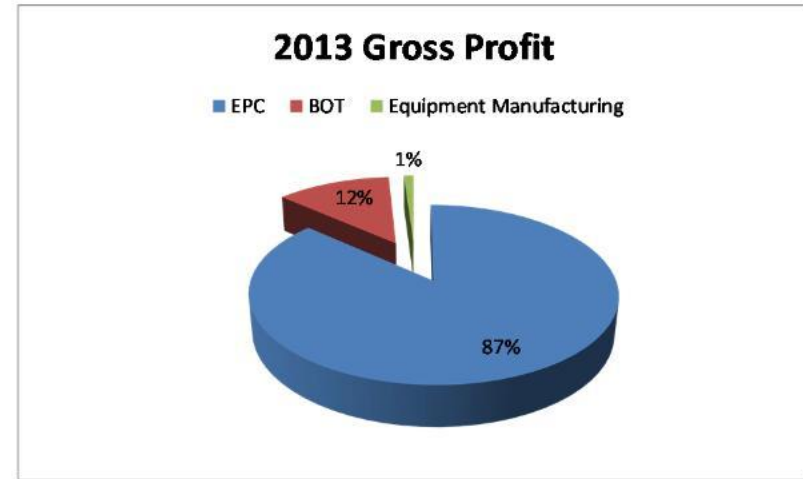
## b. Revenue Split

- 92% of Sound Global's revenue and 87% of gross profit is from EPC construction projects, resulting in an EPC segment gross profit margin of 29%
- EPC revenue is recognized based on percentage of completion and BOT revenue is based on concession accounting

*Despite frequent company press releases announcing Sound Global's BOT project wins, its EPC division is still the primary revenue driver, contributing 92% of the company's total revenue and 87% of the company's total gross profit*



Source: Sound Global 2013 Annual Report



Source: Sound Global 2013 Annual Report

Sound Global	2013 Gross Margin
Construction	29%
O&M	61%
Equipment Manufacturing	15%

Source: Sound Global 2013 Annual Report

## c. Company History

- In September 2006, the company originally IPOed on the Singapore Stock Exchange under the name Epure International
- In March 2010, the company rebranded itself “Sound Global”
- In April 2010, the International Finance Corporation (IFC) provided USD 70mm in project financing to Sound Global and received an equity stake, the IFC currently owns 6% of share outstanding
- In May 2010, Sound Global began the process of dual-listing on the Hong Kong Stock Exchange
- In September 2010, after several delays and postponements due to a lack of investor interest, Sound Global was dual-listed by introduction in Hong Kong
- In January 2014, Sound Global de-listed from the Singapore Stock Exchange
- Founder, Chairman, and controlling shareholder Wen Yibo currently owns 52% of shares outstanding

## 2. Sound Global Reports Above Market Sales and Margins

- Sound Global reports margins and sales performance that are inconsistent with peers
  - Sound Global reports a 29% gross margin for its EPC segment while both Chinese and global peers report an average 14% gross margin for this segment
  - Sound Global claims steady and consistent construction revenue growth over the past 4 years while Chinese peers reported construction revenue declines in 2010, 2011 and 2013 driven by declining demand from industrial and municipal customers
  - The municipal market already reached a high saturation level as wastewater treatment rates already passed 90%
  - The industrial market was heavily impacted by a weakening overall economy as well as overcapacity
  - In this type of poor business environment of decreasing profitability, wastewater treatment spending is typically among the first items to be cut out of company budgets
- Sound Global artificially inflates margins through a concession accounting Ponzi (Section 4) and fraudulent related party EPC contracts (Section 7)

# a. Global Peer Gross Margins

*Sound Global reports gross margins for its construction segment (EPC) that are more than twice as high as Chinese and global peers*

12/17/2014					FY2013	
Ticker	Company	Country	Share Price	Market Cap (usd mm)	EPC Segment Gross Margin	O&M Segment Gross Margin
<u>International Peers</u>						
VIE FP EQUITY	VEOLIA ENVIRONNE	FR	14.4	10,030	15%	61%
SIIC SP EQUITY	SIIC ENVIRONMENT	SI	0.142	1,036	8%	63%
UENV SP EQUITY	UNITED ENVIROTEC	SI	1.605	1,176	15%	60%
International Average					13%	61%
<u>China Peers</u>						
371 HK EQUITY	BJ ENT WATER	HK	5.27	5,920	11%	68%
257 HK EQUITY	CHINA EVERBR INT	HK	11.42	6,605	14%	66%
6136 HK EQUITY	KANGDA ENV	CH	3.44	917	19%	63%
600008 CH EQUITY	BEIJING CAP CO-A	CH	10.98	3,902	18%	59%
China Average					16%	64%
<b>Overall Average</b>					<b>14%</b>	<b>63%</b>
<b>Sound Global</b>					<b>29%</b>	<b>61%</b>

# b. Exhibit 1: Saudi Arabia Project Reveals True EPC Margins

- Sound Global's main international operations consist of an EPC contract worth a total of RMB 620 million to construct a water treatment plant in Saudi Arabia
- Financials for this one honest third party project show that it made a negative gross profit in 2013 and a gross margin of only 14.6% in 2012 and has total accumulated losses of RMB 51.8 million since inception
  - Sound Global's only other international project is an EPC contract announced in May 2011 worth a total of RMB 300 million to construct a water treatment plant in Bangladesh, this project has still not been completed to date
- Based on Sound Global's disclosed company tree, its Singaporean subsidiary Epure International Engineering is wholly responsible for the Saudi Arabian project

LOCAL COMPANY TRANSACTIONS Page 1 of 8

**FILING OF ANNUAL RETURN**

Name of Company: **EPURE INTERNATIONAL ENGINEERING PTE. LTD.**

Registration No.: 200911509R

Company Type during Financial Period Concerned: LIMITED PRIVATE COMPANY

Please select applicable option  
 Active  
 Dormant

Registered Office Address  
 1, ROBINSON ROAD  
 #17- 00 AIA TOWER  
 SINGAPORE(048542)

LOCAL COMPANY TRANSACTIONS Page 2 of 8

**FILING OF ANNUAL RETURN**

Particulars of Directors, Managers, Secretaries, Auditors, Shareholders as at: 22/07/2014

S/No.	Name Address	Identification No.	Date of Appointment Nationality
1	WEN YIBO RM 422-3, NO. 2 YUHUI ROAD, CHAOYANG DISTRICT BEIJING, CHINA	G36939392	21/03/2012 CHINESE



Source: Sound Global 2013 Annual Report

## b. Exhibit 1: Saudi Arabia Project Reveals True EPC Margins (Cont.)

- Financials for Epure International Engineering show that Sound Global's Saudi Arabian EPC project made a negative gross profit in 2013 and had a gross margin of 14.6% in 2012, far less than the claimed 29% gross margins for its EPC division
  - Sound Global's Saudi Arabian operations had net losses for both 2013 and 2012
  - As of 31 December 2013, total accumulated losses for the Saudi Arabian operations have increased to RMB 51.8 million

### EPURE INTERNATIONAL ENGINEERING PTE LTD

#### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME Year ended December 31, 2013

	Note	2013 SAR	2012 SAR
Revenue	16	20,810,364	57,117,931
Cost of sales		(25,245,945)	(48,772,602)
<b>Gross (loss) profit</b>		<b>(4,435,581)</b>	<b>8,345,329</b>
Other operating income	17	189,303	9,568
Administrative expenses		(7,361,610)	(17,863,325)
Loss before income tax	18	(11,607,888)	(9,508,428)
Income tax	19	-	-
<b>Loss for the year, representing total comprehensive loss for the year</b>		<b>(11,607,888)</b>	<b>(9,508,428)</b>

Source: Epure International Engineering Pte. Ltd. (Singapore) 2013 Annual Report

### EPURE INTERNATIONAL ENGINEERING PTE LTD

#### STATEMENT OF CHANGES IN EQUITY Year ended December 31, 2013

	Share capital SAR	Deemed capital SAR	Accumulated losses SAR	Net SAR
Balance at January 1, 2012	3	-	(9,997,561)	(9,997,558)
Deemed capital contribution from holding company (Note 15)	-	93,448,676	-	93,448,676
Loss for the year, representing total comprehensive loss for the year	-	-	(9,508,428)	(9,508,428)
Balance at December 31, 2012	3	93,448,676	(19,505,989)	73,942,690
Deemed capital repayment to holding company (Note 15)	-	(7,037,887)	-	(7,037,887)
Deemed capital distribution to holding company (Note 15)	-	(5,027,970)	-	(5,027,970)
Loss for the year, representing total comprehensive loss for the year	-	-	(11,607,888)	(11,607,888)
Balance at December 31, 2013	<u>3</u>	<u>81,382,819</u>	<u>(31,113,877)</u>	<u>50,268,945</u>

Source: Epure International Engineering Pte. Ltd. (Singapore) 2013 Annual Report

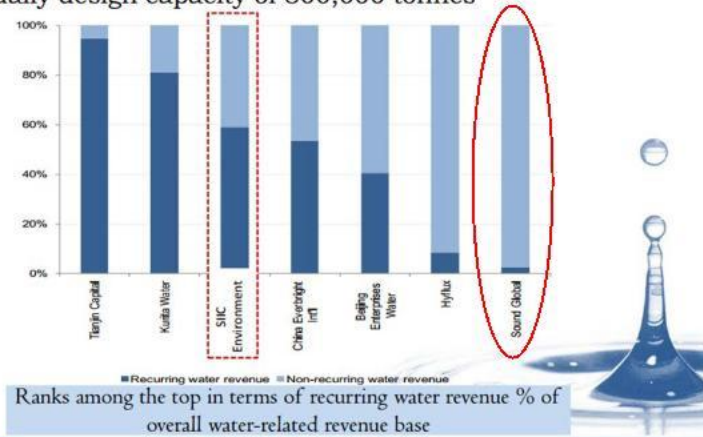
## c. Inferior Revenue Mix

- The majority of Sound Global's revenue is construction revenue (EPC division), which is the lowest margin segment
- Companies that have a higher percentage of concession revenue (O&M division), which is the highest margin segment, should have a higher blended gross margin
- If Sound Global reported accurate EPC margins that were in-line with competitors, it would achieve a blended 17% gross margin

*Relative to competitors, Sound Global has the lowest percentage of revenue from O&M (recurring revenue)  
O&M is the highest margin segment (average 63% gross profit margin)*

### How is SIIC Environment's outlook? (Continued)

- Strong recurring income
- Single largest waste water treatment plant in Wuhan with a total daily design capacity of 800,000 tonnes

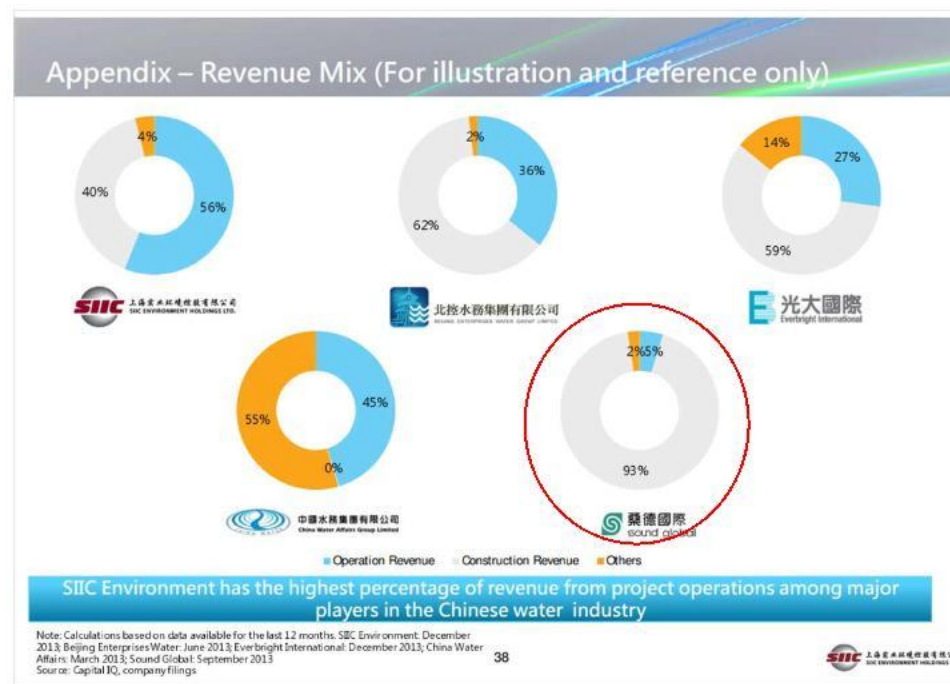


**SIIC** SIIC Environment Holdings Ltd.

# d. Comparison of Revenue Mix and Profitability by Segment

- Singapore listed competitor SIIC Environment derives 56% of revenue from its O&M segment and 40% of revenue from its EPC segment
- SIIC Environment reports a 63% gross margin on its O&M segment and an 8% gross margin on its EPC segment, resulting in a blended gross margin of 37%
- Sound Global derives 92% of revenue from its EPC segment and only 8% of revenue from its O&M segment, yet claims a blended gross margin of 30%

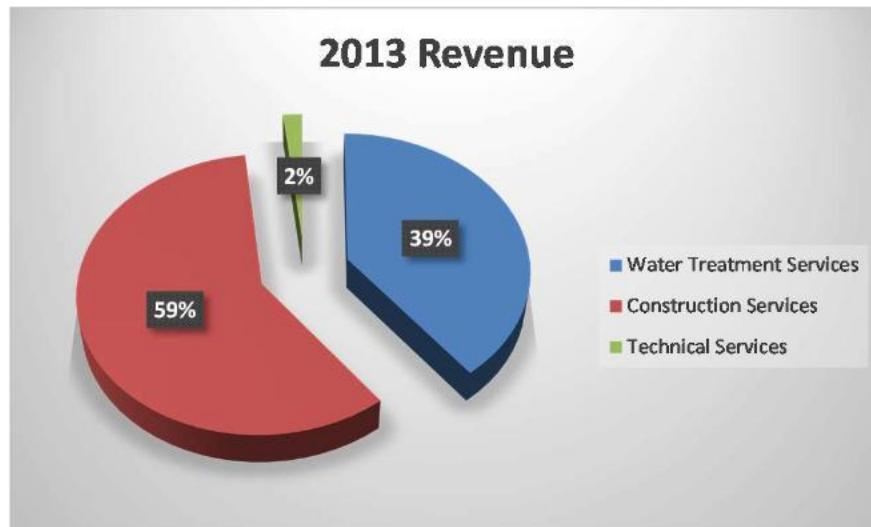
*Relative to competitors, construction revenue comprises the majority of Sound Global's revenue*



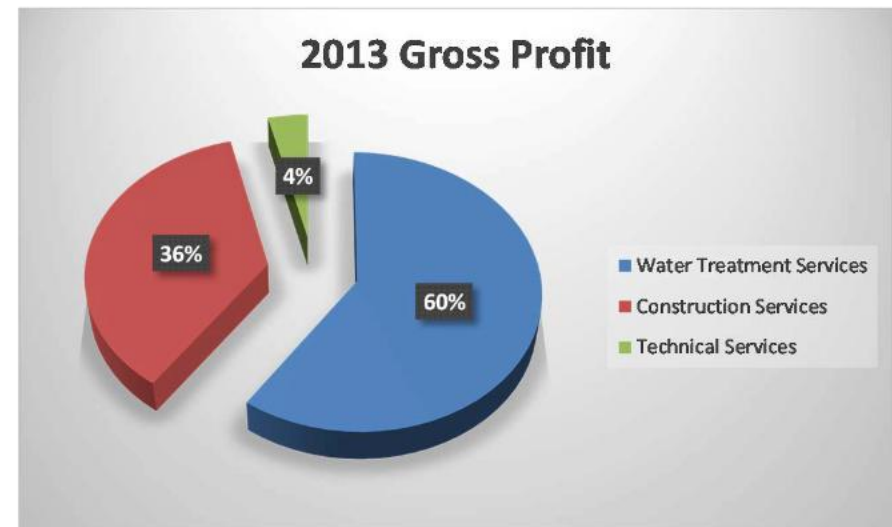
Source: SIIC Environment Investor Presentation

## d. Comparison Revenue Mix and Profitability by Segment (Cont.)

- For number one player in the wastewater treatment space Beijing Enterprises Water Group, its O&M segment (Water treatment services) is the highest margin business segment, comprising only 39% of revenue but contributing 60% of gross profit
- Its EPC segment (Construction services) is the lowest margin business segment, comprising 59% of revenue but contributing only 36% of gross profit



Source: Beijing Enterprises Water 2013 Annual Report



Source: Beijing Enterprises Water 2013 Annual Report

## e. Above Market Revenue Growth

- Sound Global reports construction revenue growth from 2010–2013 that is inconsistent with that of industry leader Beijing Enterprises Water Group as well as other top players Beijing Capital and Everbright International
- Industrywide wastewater treatment related construction revenue declines have been driven by declining demand from industrial and municipal customers as the municipal market attained wastewater treatment rates above 90% and the industrial market was heavily impacted by a weakening overall economy as well as overcapacity
- In this type of poor business environment of decreasing profitability, wastewater treatment spending is typically among the first items to be cut out of company budgets

*In 2010 and 2011, Beijing Enterprises Water Group, Everbright International and Beijing Capital all reported yoy wastewater treatment construction revenue declines.*

*In contrast, Sound Global reported yoy BOT construction revenue growth of 39% in 2010 and 35% in 2011*



Source: Beijing Enterprise Water Group Annual Reports, Sound Global Annual Reports

# f. Calls with Competitors Confirm Discrepancies

*Sound Global claims a dominant market share in rural wastewater treatment projects. If this segment of the market is so lucrative, why have competitors not entered as well?*

Company	Description	Contact	Key Points
United Envirotech	Singapore listed competitor involved in wastewater EPC and BOT projects in China	Investor Relations	<ul style="list-style-type: none"> <li>They are able to achieve 15% gross margin on construction segment because they do the entire EPC process in-house</li> </ul>
ChinaWater Investment Co.	China Ministry of Water Resources affiliated entity involved in water project investments	Senior Manager	<ul style="list-style-type: none"> <li>Municipal wastewater treatment rates have already passed 90% in 2014</li> <li>Smaller cities and rural townships are very risky for BOT projects because of poor financial situation of local governments and their inability to pay on time</li> </ul>
Beijing Enterprises Water Group	Hong Kong listed competitor and number one player in the wastewater treatment sector in China	Senior Project Manager	<ul style="list-style-type: none"> <li>Since 2010, the number of new wastewater treatment projects has been decreasing each year</li> <li>They bid very aggressively for any new projects, in some cases willing to bid construction segment of a project at zero margin</li> </ul>
Beijing Capital Co.	Shanghai listed competitor involved in wastewater EPC and BOT projects in China	Senior Engineering Manager	<ul style="list-style-type: none"> <li>There is almost no technological differentiation as all the domestic players in the industry possess similar technology</li> <li>Foreign competitors have the best technology</li> </ul>
Easen International	Environmental and infrastructure investment consultancy in China	Founder	<ul style="list-style-type: none"> <li>Construction of rural wastewater treatment projects have the lowest gross margin, typically less than 10%</li> </ul>
Veolia	Number one international player in the wastewater treatment sector globally	Senior Project Manager	<ul style="list-style-type: none"> <li>They stopped bidding for most wastewater treatment projects in China a few years ago because price competition has become too extreme</li> <li>They now only do projects which require a very high level of technical expertise that domestic players are unable to achieve</li> </ul>

# 3. Sound Global Checks the Box of a Financial Fraud

- ☑ Poor earnings quality
  - ☑ Earnings with no cash flow
  - ☑ Total receivables growing faster than revenue
  - ☑ Unbilled receivables growing faster than total receivables
- ☑ Massive and increasing debt load
  - ☑ Reported high cash balance yet has increased borrowing by 84% per year

## a. Poor Earnings Quality

- Despite reporting positive net income over the past 5 years, Sound Global has not made positive operating cash flow since 2009
- Sound Global's business should be generating operating cash flow, but instead, the company's reported yearly increase in cash has all come from taking on additional debt each year
- This does not make sense because:
  - Construction projects take anywhere from 1 to 1.5 years to complete, while costs are typically paid in 3 installments, one before construction starts, one halfway through and the remainder upon completion
  - There should be no construction related receivables past project completion date
  - Concessions are like toll roads, a cash flow generative business that collects recurring tariff payments based on the total volume of wastewater treated

cny millions	2009	2010	2011	2012	2013	1H14
Net Income	283	289	414	428	425	240
Cash From Operating Activites	382	(239)	(322)	(207)	(126)	(200)
Cash From Investing Activites	294	(245)	247	(29)	(161)	28
Cash From Financing Activites	(211)	1,274	123	1,073	909	392
Net Change in Cash	465	790	47	837	622	220

Source: Sound Global Annual Reports

## b. Large Increase in Trade Accounts Receivable and Unbilled Receivables

- Over the past 4 years, Sound Global has had a 272% increase in trade accounts receivable while revenue has grown by only 155%
  - Accounts receivable days have increased to 147 days
  - Sound Global accounts for construction revenue based on percentage of completion
  - The company's construction projects typically take anywhere from 12 – 18 months to complete
  - This buildup in trade accounts receivable shows that company is likely having difficulty collecting payment from construction project clients
- Its provisions for doubtful accounts have barely changed since 2009
  - Provisions for doubtful accounts have declined to only 3.1% of trade and other receivables
- Unbilled receivables (amounts due from customers for contract work) have grown by 441% since 2009
  - This shows that the company is likely accelerating revenue recognition before projects are actually completed and employing aggressive percentage of completion accounting

cny millions	2009	2010	2011	2012	2013
Trade and other receivables	422	809	1,120	1,433	1,569
growth		91.7%	38.5%	27.9%	9.5%
Accounts receivable days	118	108	128	151	147
Allowance for doubtful debts	(48)	(48)	(48)	(51)	(49)
growth		0.0%	0.0%	6.3%	-3.9%
as a % of trade and other receivables	11.4%	5.9%	4.3%	3.6%	3.1%
Amounts due from customers for contract work	203	328	428	584	1,097
growth		61.7%	30.4%	36.7%	87.6%

# c. Insufficient Impairment Provisions

- Sound Global's policy is to extend credit terms of 90 days for customers
- RMB 410mm of trade accounts receivable are past due, of which RMB 347mm are more than 1 year past due
- There has been no impairment provision for these any of these past due trade accounts receivable

*Trade accounts receivable balance continues to grow, while the quality continues to deteriorate*

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

	The Group	
	December 31, 2013	December 31, 2012
	RMB'000	RMB'000
Trade receivables:		
Within 90 days	409,975	243,561
91 to 180 days	223,083	347,257
181 days to 1 year	269,207	341,725
1 to 2 years	343,710	242,574
2 to 3 years	3,592	28,709
	<u>1,249,567</u>	<u>1,203,826</u>

Source: Sound Global 2013 Annual Report

*Despite a clear policy of 90 days of credit, past due trade accounts receivable balance continues to grow with no impairment provision made*

## 24. TRADE AND OTHER RECEIVABLES - continued

The Group has a policy of allowing trade customers with credit normally within 90 days except for construction project for which settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. Overdue balances are reviewed regularly by the Group's management.

Source: Sound Global 2013 Annual Report

*Allowances for doubtful debts have barely increased*

Movement in allowance for doubtful debts:

	The Group	
	2013	2012
	RMB'000	RMB'000
Balance at beginning of year	51,041	48,038
Charge to profit or loss	5,498	3,003
Amounts written off as uncollectable	(5,355)	-
Balance at end of year	<u>49,184</u>	<u>51,041</u>

Source: Sound Global 2013 Annual Report

## d. Total Receivables Growth Outpacing Revenue Growth

- Total receivables now represent 163% of revenue
- Over the past 4 years, total receivables have grown nearly twice as fast revenue
- In addition to trade accounts receivable and unbilled receivables, Sound Global also recognizes the present value of expected future concession tariff payments as revenue in the form of “service concession receivables”

Reported Income Statement cny millions							
	2008	2009	2010	2011	2012	2013	LTM
Revenue	1,025	1,293	1,766	2,288	2,652	3,140	3,300
growth	47%	26.2%	36.5%	29.6%	15.9%	18.4%	10.9%
Gross Profit	334	376	536	722	800	958	1,015
margin	32.6%	29.0%	30.4%	31.6%	30.2%	30.5%	30.7%
EBT	232	293	349	481	503	566	641
Income Tax	(28)	(10)	(60)	(67)	(76)	(141)	(150)
Effective Tax Rate	12.2%	3.5%	17.2%	14.0%	15.1%	24.9%	23.4%
Net Income	204	283	289	414	428	425	491
margin	19.9%	21.9%	16.4%	18.1%	16.1%	13.5%	14.9%
Reported Balance Sheet cny millions							
	2008	2009	2010	2011	2012	2013	LTM
Finance Costs	(25)	(14)	(37)	(108)	(174)	(285)	(288)
EBIT	257	307	386	589	677	851	929
margin	25.1%	23.7%	21.9%	25.8%	25.5%	27.1%	28.1%
Reported Balance Sheet cny millions							
	2008	2009	2010	2011	2012	2013	1H2014
Current Assets	1937.8	1,941	3,502	3,702	5,008	6,338	6,798
Non-Current Assets	357.7	611	849	1,254	1,831	2,460	2,697
Total Assets	2,296	2,553	4,351	4,956	6,839	8,798	9,495
Reported Balance Sheet cny millions							
	2008	2009	2010	2011	2012	2013	1H2014
Service Concession Receivables	153	416	665	1,084	1,643	2,237	2,461
growth		171.7%	60.0%	63.0%	51.7%	36.1%	38.7%
Trade and other receivables	515	422	809	1,120	1,433	1,569	1,785
growth		-18.1%	91.7%	38.5%	27.9%	9.5%	10.1%
Amounts due from customers for contract work	233	203	328	428	584	1,097	1,143
growth		-12.8%	61.7%	30.4%	36.7%	87.6%	5.6%
Total Receivables	901	1,040	1,802	2,632	3,661	4,903	5,389
as % of revenue	88%	80%	102%	115%	138%	156%	163%
growth		15.5%	73.2%	46.1%	39.1%	33.9%	20.3%

Source: Sound Global Annual Reports

## e. Increasing Debt Load

- Due to a lack of free cash flow, Sound Global's total debt has increased by 84% per year since 2009
- The company's total debt to ebitda ratio has more than quintupled over this period

cny millions	2009	2010	2011	2012	2013	LTM	09 - YTD CAGR
Short Term Bank Debt	179	430	312	466	764	1,020	47%
Long Term Bank Debt	48	241	540	889	1,518	1,615	118%
Convertible Notes	0	785	818	558	573	0	
Senior Notes	0	0	0	923	899	908	
Total Debt	227	1,456	1,670	2,834	3,753	3,543	84%
growth		541%	15%	70%	32%	24%	
EBITDA	321	400	605	693	868	854	
Debt / EBITDA	0.7	3.6	2.8	4.1	4.3	4.2	
Debt / Equity	0.1	0.8	0.7	1.1	1.2	1.2	

Source: Sound Global Annual Reports

## 4. Sound Global Checks the Box of Fraudulent Management

- ☑ Fact pattern around management actions is similar to that of fraudulent companies
- ☑ Frequent management turnover
- ☑ Numerous undisclosed lawsuits

## a. Frequent Management Turnover

- December 2010: Executive Director “Yan Xiaolei” resigned, “Wang Kai” appointed Executive Director
- January 2011: CFO and Joint Company Secretary “Choo Beng Lor” resigned
- June 2011: “Yu Man To Gerald” appointed CFO and Joint Company Secretary
- February 2011: CEO and Executive officer “Li Li” resigned, “Wang Kai” appointed CEO
- October 2011: Executive Officer “Zhao Baolin” resigned
- August 2012: Executive Officer “Zhou Hao” resigned
- February 2013: CFO and Joint Company Secretary “Yu Man To Gerald” resigned
- March 2013: “Wang Kai” appointed CFO, “Zhang Jingzhi” appointed CEO and Executive Director

Source: Sound Global Annual Reports

## b. Numerous Run-ins with the Law

- The Securities and Futures Commission of Hong Kong criticized Chairman/Founder Wen Yibo for violating the Takeovers Code by buying Sound Global shares within six months after the company's delisting from Singapore
  - Sound Global's stock price more than doubled initially after delisting and then subsequently dropped more than 30% at which point Wen Yibo bought 5.6MM shares in order to prop up the stock price
- There are numerous undisclosed litigation cases in China against the company claiming unpaid bills and financial difficulty

### SFC publicly criticises Wen Yibo for breach of Takeovers Code

4 Dec 2014

The Securities and Futures Commission (SFC) today publicly criticised Wen Yibo (Wen) for acquiring shares in Sound Global Limited (Note 1) within 6 months after the close of an offer at above the offer price in contravention of Rule 31.3 of the Takeovers Code.

On 10 September 2013, Sound Global and Sound (HK) Limited (Note 2) issued a joint announcement about the voluntary delisting of Sound Global from the Official List of the Singapore Exchange Securities Trading Limited. In order to facilitate the delisting, Sound (HK) Limited made a conditional cash offer for all the shares in Sound Global at an offer price of \$4.97 (SG\$0.7) per share.

The offer closed on 17 January 2014. Between 28 March 2014 and 9 May 2014 Wen and Sound Water (BVI) Limited (Note 3) acquired a total of 5,600,000 Sound Global shares at prices ranging from \$5.94 to \$7.55 per share in a series of on-market purchases.

Wen accepted that he has breached Rule 31.3 of the Takeovers Code. He admitted that the breaches were due to his inadvertent oversight and that he was not aware of the prohibition under Rule 31.3. These transactions constitute a breach of a fundamental provision of the Takeovers Code which is designed to protect the investing public. He has agreed to the disciplinary action against him under section 12.3 of the Introduction to the Takeovers Code.

"Rule 31.3 is a fundamental provision of the Takeovers Code which provides shareholders with certainty that the offeror will not pay a price higher than the offer price for the shares in the offeree company in the 6-month period after the close of the offer. This is to ensure that all shareholders of the offeree company are treated even-handedly in accordance with General Principle 1," the SFC's Executive Director of Corporate Finance, Mr Brian Ho said.

A copy of the Executive Statement and the relevant Takeovers Code provisions can be found in the "Takeovers and Mergers - Executive decisions and statements" section of the SFC website.

Source:

<http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=14PR140>

Chairman/Founder Wen Yibo purchased shares between 28 March 2014 and 9 May 2014



Source:  
Bloomberg

\* For More Information Please See Appendix Pages 88-89

## 5. Sound Global Manipulates the Value of its Concession Portfolio to Frontload EPC Profits

- Sound Global employs aggressive concession accounting by using a low discount rate in order to inflate EPC revenue
  - Starting in 2010, Sound Global decreased the discount rate used to discount its future concession tariff payments by more than 50%
  - This allows Sound Global to increase the present the value of its future concession tariff payments
  - By capitalizing its concession construction costs, Sound Global is able to double count by recognizing expenses from one subsidiary as revenue for another subsidiary
  - By doing this, Sound Global is able to artificially inflate both EPC revenue and margins

# a. Changing Discount Rate Assumptions

- Under IFRS, Sound Global recognizes the present value of expected future concession tariff payments as revenue in the form of “service concession receivables”
- Since a concession is like a bond with period coupon payments (expected stream of future concession tariff payments) and no principal (concession is transferred back to government at the end of concession period at no cost), it is treated similar to an interest-bearing asset by applying yearly taxable imputed interest
- Although Sound Global stopped disclosing its discount rate in 2011, it is possible to calculate the implied discount rate based on the company’s disclosed “imputed interest on service concession receivables”
- Sound Global used discount rates of 2.4%, 3.0%, and 4.1% in 2011, 2012 and 2013, respectively\*
- The company’s average cost of debt was 7.7%, 8.7%, and 7.9% in 2011, 2012 and 2013, respectively

Reported Balance Sheet cny millions				
Balance as of	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13
Service Concession Receivables	665	1,084	1,643	2,237
		2011	2012	2013
Average Service Concession Receivables		874	1,364	1,940
Imputed interest income on service concession receivables		21.4	41.1	78.8
Implied discount rate		2.4%	3.0%	4.1%
Average cost of debt		7.7%	8.7%	7.9%
Interest Rate on Bonds issued in 2012: 11.875%				

Source: Sound Global Annual Reports

\* For More Information Please See Appendix Pages 63-65

## b. Capitalized Construction Costs are Recognized as Revenue

- Sound Global's concession contracts typically last 25 to 30 years and the company is guaranteed a minimum tariff payment per year
- The carrying value of these "service concession receivables" assets on its balance sheet is equal to the lesser of cost or present value of expected future concession tariff payments\*
- For each project, a subsidiary of Sound Global within its concession division (O&M) hires Sound Global's EPC division to build the concession
- Under IFRS, the company then books sales from its own EPC division to its own concession division as revenue
  - In order to implement this, Sound Global employs an elaborate company structure with numerous separate subsidiaries that operate individual concessions
- The cost of construction for a concession becomes revenue for the Sound Global's EPC division and is offset by Sound Global's concession division capitalizing this expense
- Sound Global is able to double count construction expenses as revenue: for the consolidated company, the construction cost for each concession is capitalized while also recognized as revenue

\* For More Information Please See Appendix Page 66

## c. Low Discount Rate Assumptions Translate into Higher Construction Revenue

- Although Sound Global is technically using the correct concession accounting methodology under IFRS, the company is making aggressive assumptions on discount rate
- By using a low discount rate, Sound Global is able to increase the present value of its expected future concession tariff payments
- This allows Sound Global to inflate the construction costs spent by its concession division
- Higher construction spending by its concession division allows Sound Global's EPC division is able to recognize higher construction revenue, thereby achieving higher EPC margins as well
- Sound Global is essentially pulling forward expected revenue from the O&M phase of a concession and transferring it to its EPC division
- Sound Global will be eventually left with a portfolio of unprofitable concessions where the IRR will be far lower than its cost of capital and cost of debt
- This type of aggressive concession accounting creates a house of cards that can only be sustained by continuously increasing the number of new project wins and recognizing new project revenues and profits in order to offset increasing losses from existing projects

# d. Illustrative Example Part 1

- Assuming a concession duration of 30 years and a discount rate of 4.1% (the discount rate that Sound Global currently uses)
- The net present value of expected future concession tariff payments exceeds the original cost of construction
- This allows Sound Global to both initially book higher construction revenue and keep the carrying value of its “service concession receivables” at cost

Assumptions	
Billed Construction Cost (cny mm)	100
Actual Construction Cost (cny mm)	70
Capacity ('000tons/day)	50
Treatment Fee (rmb/ton)	1.5
Construction Gross Margin	30%
O&M Operating Margin	65%
Tax Rate	25%
Tariff Payment Increase every 10Years	5%
<b>Discount Rate (cost of capital)</b>	<b>4.1%</b>

Year	0	1	2	3	4	5	6	7	8	9	10
Capex (project cost)	(100.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M Payment (tariff payment)	0.0	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4
O&M Cost	0.0	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)
Pre-Tax Profit	0.0	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8
Tax	0.0	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Cashflow	(100.0)	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3

Year	11	12	13	14	15	16	17	18	19	20
Capex (project cost)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M Payment (tariff payment)	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7
O&M Cost	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)
Pre-Tax Profit	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7
Tax	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)
Cashflow	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0

Year	21	22	23	24	25	26	27	28	29	30
Capex (project cost)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M Payment (tariff payment)	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2
O&M Cost	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)
Pre-Tax Profit	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6
Tax	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)
Cashflow	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7

<b>NPV</b>	<b>131.2</b>
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# e. Illustrative Example Part 2

- Keeping all of the other assumptions the same as before and just increasing the discount rate to 8% from 4.1%, the net present value of expected future concession tariff payments declines by 62%
- The net present value of expected future concession tariff payments is now lower than cost and Sound Global would need to massively write-down the carrying value of its “service concession receivables” assets

Assumptions	
Billed Construction Cost (cny mm)	100
Actual Construction Cost (cny mm)	70
Capacity ('000tons/day)	50
Treatment Fee (rmb/ton)	1.5
Construction Gross Margin	30%
O&M Operating Margin	65%
Tax Rate	25%
Tariff Payment Increase every 10Years	5%
<b>Discount Rate (cost of capital)</b>	<b>8.0%</b>

Year	0	1	2	3	4	5	6	7	8	9	10
Capex (project cost)	(100.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M Payment (tariff payment)	0.0	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4
O&M Cost	0.0	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)
Pre-Tax Profit	0.0	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8
Tax	0.0	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Cashflow	(100.0)	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3

Year	11	12	13	14	15	16	17	18	19	20
Capex (project cost)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M Payment (tariff payment)	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7
O&M Cost	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)
Pre-Tax Profit	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7
Tax	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)
Cashflow	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0

Year	21	22	23	24	25	26	27	28	29	30
Capex (project cost)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
O&M Payment (tariff payment)	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2
O&M Cost	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)	(10.6)
Pre-Tax Profit	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6
Tax	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)
Cashflow	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7

<b>NPV</b>	<b>50.3</b>
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## f. Overstated Concession Receivables

- Typically BOT project concessions contracts last 25 to 30 years and have an increase in tariff payments every 10 years benchmarked to inflation
- Based on the company's disclosed service concession imputed interest, Sound Global used a 2.4%, 3.0% and 4.1% discount rate from 2011–2013
- When discounting the company's expected future concession payments at a conservative 10%, the carrying value of the company's service concession receivables declines by 41–53%, which is equivalent to 29–38% of reported revenue

Assuming 5% increase in tariff payment every 10years		5%					
Tax Rate		25%					
t =30(assuming average concession period is 30years)		2008	2009	2010	2011	2012	2013
Present value of future cash payments (average service concession receivable)		77	284	540	874	1,364	1,940
Cash payment per year (imputed interest income on service concession receivables)			9.6	18.0	21.4	41.1	78.8
Profit after tax			7.2	13.5	16.0	30.8	59.1
Discount rate (WACC on service concession receivables)		8.9%	9.7%	4.3%	NA	NA	NA
Bond issued in 2012:						11.875%	
Implied interest rate					2.4%	3.0%	4.1%
Duration			7.43	6.98	7.25	8.02	8.90
Assuming a fair market discount rate of 10%		2008	2009	2010	2011	2012	2013
<b>Impact on value of service concession receivables</b>				<b>-39.8%</b>	<b>-54.8%</b>	<b>-56.0%</b>	<b>-52.8%</b>
Reported service concession receivables		153	416	665	1,084	1,643	2,237
Fair value of service concession receivables				400	490	723	1,055
<b>Difference</b>				<b>265</b>	<b>594</b>	<b>921</b>	<b>1,182</b>
<b>as % of revenue</b>				<b>15%</b>	<b>26%</b>	<b>35%</b>	<b>38%</b>
t =25(assuming average concession period is 25years)		2008	2009	2010	2011	2012	2013
Present value of future cash payments (average service concession receivable)		77	284	540	874	1,364	1,940
Cash payment per year (imputed interest income on service concession receivables)			9.6	18.0	21.4	41.1	78.8
Profit after tax			7.2	13.5	16.0	30.8	59.1
Discount rate (WACC on service concession receivables)		8.9%	9.7%	4.3%	NA	NA	NA
Bond issued in 2012:						11.875%	
Implied interest rate					2.4%	3.0%	4.1%
Duration			5.72	5.40	5.34	6.00	6.85
Assuming a fair market discount rate of 10%		2008	2009	2010	2011	2012	2013
<b>Impact on value of service concession receivables</b>				<b>-30.8%</b>	<b>-40.3%</b>	<b>-41.9%</b>	<b>-40.6%</b>
Reported service concession receivables		153	416	665	1,084	1,643	2,237
Fair value of service concession receivables				460	647	955	1,328
<b>Difference</b>				<b>205</b>	<b>437</b>	<b>689</b>	<b>909</b>
<b>as % of revenue</b>				<b>12%</b>	<b>19%</b>	<b>26%</b>	<b>29%</b>

## g. Concession Book Value Write Down

- If a conservative 10% discount rate was applied to the present value of Sound Global's expected future concession payments, this would result in a 53% write down to the carrying value of its service concession receivables
- This would equate to a 38% write-down to 2013 book value and a 30% write-down to 1H2014 book value and a price per share 28–50% lower than the current price based on Sound Global's current P/B multiple
- If Sound Global's P/B multiple reverts back to what it was prior to delisting from the Singapore Stock Exchange, this write-down to book value would equate to a price per share 50–65% lower than the current price

Reported Balance Sheet cny millions		
	2013	1H2014
Current Assets	6,338	6,798
Non-Current Assets	2,460	2,697
<b>Total Assets</b>	<b>8,798</b>	<b>9,495</b>
Current Liabilities	2,569	2,891
Non-Current Liabilities	3,154	2,706
<b>Total Liabilities</b>	<b>5,723</b>	<b>5,597</b>
Net Assets (Book Value)	3,075	3,897
Book Value per Share (HKD)	\$2.65	\$3.36
Total Debt	3,753	3,535
Debt / Equity	1.2	0.9
Write down of Service Concession Receivables	(1,182)	(1,182)
as % of Book Value	38%	30%
New Book Value	1,892	2,715
New Book Value per Share (HKD)	\$1.63	\$2.34
New Debt / Equity	2.0	1.3
Current Price per Share	\$8.49	\$8.49
Current P/B of Sound Global	2.6	2.6
New Price per Share (HKD)	\$4.25	\$6.09
Discount to Current	50%	28%
Average P/B of Sound Global Prior to Delisting	1.8	1.8
New Price per Share (HKD)	\$2.96	\$4.24
Discount to Current	65%	50%

# h. Exhibit 2: Shaanxi Hancheng

- Shaanxi Hancheng is an inactive wastewater treatment concession built and operated by Sound Global
  - Sound Global has already recognized 145mm in total revenue from this project even though its revenues are currently impaired and should be written down
- Sound Global announced in April 2008 that it won a RMB 47 million wastewater treatment project in Hancheng, Shaanxi Province
- Sound Global announced in October 2012 that it won a RMB 98 million contract to upgrade the wastewater treatment project Hancheng, Shaanxi Province

**APR**  
FY2008 Annual General Meeting  
FY2008 Annual General Meeting was held on 27 Apr.

**Establishment of wholly-owned subsidiary, Hancheng City Yiqing Water Co., Ltd, in the PRC**

On 15 April, Sound Global incorporated a wholly-owned subsidiary, Hancheng City Yiqing Water Co., Ltd in Shaanxi Province, Hancheng City, to invest in a BOT project which is expected to have a treatment capacity of up to 50,000 tonnes of wastewater per day with a concession period of 25 years. **First phase investment is approximately RMB47 million.**

Source: Sound Global 2009 Annual Report



**SOUND GLOBAL LTD.**

桑德國際有限公司\*

*(Incorporated in the Republic of Singapore with limited liability)*

(Hong Kong Stock Code: 00967)

(Singapore Stock Code: E6E.SI)

## 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" (《城镇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://soundglobal.todayir.com/attachment/20121031171701001526816\\_en.pdf](http://soundglobal.todayir.com/attachment/20121031171701001526816_en.pdf)

## h. Exhibit 2: Shaanxi Hancheng (Cont.)

- As of September 2014, site visits to the project confirmed that the local government is experiencing financial difficulties and has delayed payment of over RMB 10 million in addition to reducing the minimum treatment fee from RMB 0.8 per ton to RMB 0.4 per ton
  - The project appeared in disrepair with no one present and no visible activity taking place
- Between the original project and the project upgrade, Sound Global project recognized 145mm in total revenue from this concession from 2008–2013
  - This concession is now an inactive concession with impaired revenues, which should lead to a write-down in service concession receivables, yet no impairment provisions have been made



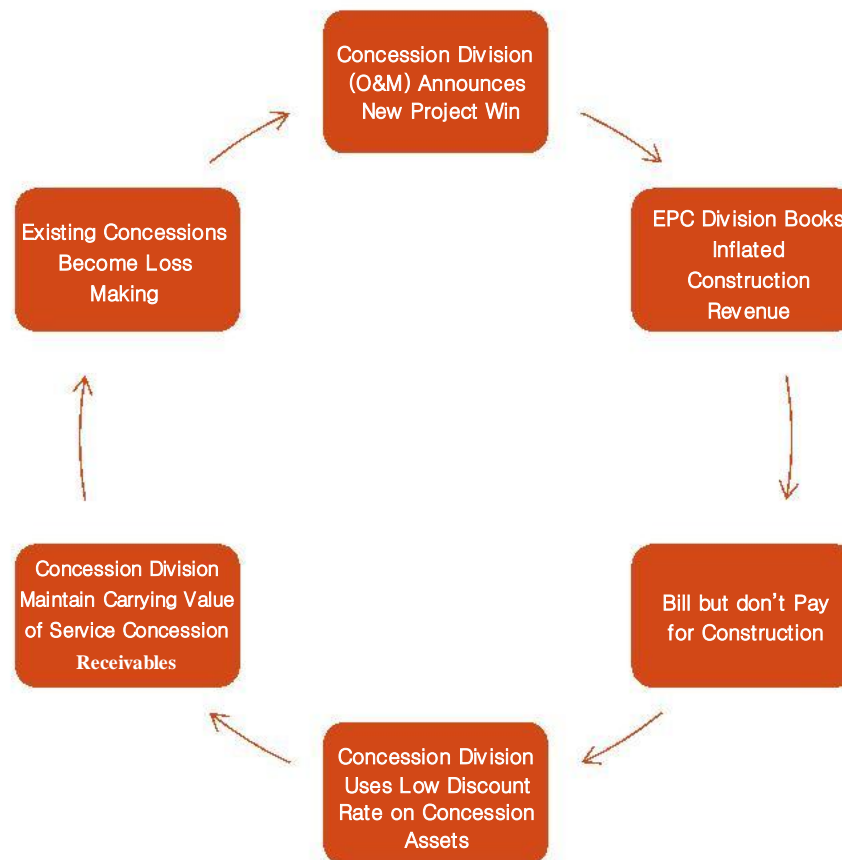
Source: Shaanxi Hancheng Project



Source: Shaanxi Hancheng Project

# i. Sound Global's Concession Ponzi

*How the Ponzi works: Sound Global relies on continuously announcing new project wins and booking construction revenue in order to mask mounting losses on its unprofitable concessions*



# j. When the Ponzi Breaks

- If for whatever reason Sound Global stops winning new projects, it will no longer be able to book construction revenue to cover up increasing losses on its existing concessions
- Even if the company continues to announce project wins, losses on existing concessions will eventually become too big to cover up
- When this happens Sound Global will be forced to write-down the value of its concession assets
- The loss making company will be unable to pay interest payments on its increasing debt load
- The Ponzi will break and shareholders will be left holding a portfolio of heavily indebted, loss making concessions



## 6. Sound Global Uses Aggressive Percentage of Completion Accounting to Inflate Construction Revenue

- Percentage of completion accounting cannot be trusted
  - Construction work for concession projects purportedly takes anywhere from 1 to 1.5 years to complete and IFRS stipulates that construction revenue be recognized based on percentage of completion
  - Sound Global recognizes construction revenue ahead of schedule and in some cases before construction work has even begun
    - ❖ Site visits reveal that for multiple concessions, construction has not even begun or has been suspended indefinitely more than 1 year after Sound Global initially announced winning the project
    - ❖ The increase in trade accounts receivable and unbilled receivables is confirmed by the on the ground reality
  - Analysis of related party projects where Sound Global was hired by Sound Environmental Resources to do construction work shows that Sound Global books inflated construction revenue

## a. Exhibit 3: Fujian Fuqing

- Sound Global announced in July 2013 that it won three sewage treatment projects in Fuqing, Fujian Province worth RMB 350mm
- As of September 2014, more than 1 year after winning the project, only one of the projects has started construction while the other two projects have not yet even been able to acquire the requisite land



**SOUND GLOBAL LTD.**

**桑德國際有限公司\***

*(Incorporated in the Republic of Singapore with limited liability)*

*(Company Registration Number 200515422C)*

*(Hong Kong Stock Code: 967)*

*(Singapore Stock Code: E6E.SI)*

**SOUND GLOBAL WON THE BID FOR THE SECOND SEWAGE TREATMENT PLANT IN FUQING CITY, FUJIAN PROVINCE, THE PRC AND THE SEWAGE TREATMENT PLANT (BOT) PROJECT IN GAOSHANZHEN AND YUXIZHEN OF FUQING CITY FOR RMB 350 MILLION**

Sound Global Ltd. ("Sound Global" or the "Company") wishes to announce that on July 2013, Sound Global won the bid for the Second Sewage Treatment plant in Fuqing City, Fujian Province and the sewage treatment plant (BOT) project in Gaoshanzhen and Yuxizhen, Fuqing City.

Investment and construction of the project will be carried out by Sound Global, with a total investment amount of approximately RMB350 million. The total water capacity is 80,000tons/day. Subsidiary project 1, the Second Sewage Treatment Plant utilizes "Primary Sedimentation Tank +A/A/O + High Efficiency Sedimentation Tank+ V-shaped Sedimentation Tank" technology and is constructed as a underground (semi-underground dual-level covered) structure. It is the first underground sewage treatment plant project in Fujian Province. Fuqing City, the service location of subsidiary project 1, is ranked at a leading position among the top 100 counties in China. Subsidiary project 2, the sewage treatment plant in Gaoshanzhen, Fuqing City and subsidiary project 3, the sewage treatment plant in Yuxizhen, Fuqing City are located in important counties in Fujian Province. The construction of this group of projects bears great significance to the realization of sustainable development in Fuqing City.

Source:

[http://soundglobal.todayir.com/attachment/20130801180201001706152\\_en.pdf](http://soundglobal.todayir.com/attachment/20130801180201001706152_en.pdf)

## a. Exhibit 3: Fujian Fuqing (Cont.)

- As of September 2014, site visits to the three projects confirmed that both the Fuqing City project in DapuVillage and the Yuxizhen Project in HouqiVillage have not yet even been able to acquire land due to conflicts with local residents about the fair level of compensation
  - Local residents complained that the local government is offering RMB 40,000–43,000 per acre while the market price is estimated to be around RMB 240,000 per acre



Source: Fujian Fuqing Project



Source: Fujian Fuqing Project

## a. Exhibit 3: Fujian Fuqing (Cont.)

- As of September 2014, site visits to the three projects confirmed that only the Gaoshan Project in ZhuxiuVillage has been able to acquire the requisite land for the project
  - There was no one present at the construction site and minimal construction work had been started



Source: Fujian Fuqing Project

## b. Exhibit 4: Jilin Changchun

- Sound Global announced in December 2012 that it won a RMB 2.035 billion project for the No. 6 Water Treatment Plant in Changchun, Jilin Province
- This contract is equivalent to 36% of Sound Global's reported order backlog as of 1H2014
- As of December 2014, 2 years after winning the project, site visits and interviews with local residents confirm that the project has not even started and has been suspended indefinitely due to financial liquidity problems of the local government as well as an inability to acquire the requisite land
- The Changchun Urban and Rural Construction Committee confirmed that no construction was ever started and that the project has been canceled



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*(Incorporated in the Republic of Singapore with limited liability)*

**(Hong Kong Stock Code: 00967)**

**(Singapore Stock Code: E6E.SI)**

**SOUND GLOBAL AND CHINA RAILWAY 18TH BUREAU JOINTLY  
WON THE BID FOR NO.6 WATER TREATMENT PLANT PROJECT IN  
CHANGCHUN CITY, JILIN PROVINCE, THE PRC**

Sound Global Ltd. ("Sound Global" or the "Company") wishes to announce that in December 2012, Sound Global and China Railway 18th Bureau jointly won the bid for No.6 Water Treatment Plant Project in Changchun City, Jilin Province, the PRC.

Located in Changchun City, Jilin Province, the long-term designed water supply capacity of the project is 500,000 m<sup>3</sup>/day with the near term capacity at 250,000 m<sup>3</sup>/day. No. 6 Water Treatment Plant Project requires a total investment of approximately RMB2.035 billion, which will be invested, built and transferred as a BT project. The project is expected to commence construction in 2013 and to complete in 2015. The construction of this project will greatly relieve the inadequate water supply problem in Changchun City and will play an important role in supporting the sustainable development of Changchun City.

Source:

[http://soundglobal.todayir.com/attachment/20121214200202001555144\\_en.pdf](http://soundglobal.todayir.com/attachment/20121214200202001555144_en.pdf)

## c. Sound Global Accelerates Construction Revenue Recognition

- From 2007 to 2013, Sound Global has booked a total of RMB 93 million more revenue from Sound Environmental than the total amount of costs paid to Sound Global reported by Sound Environmental
- As related parties, Sound Global and Sound Environmental Resources are required to disclose any related party transactions between the two companies
- Assuming that Sound Global is smart enough to not entirely make up sales to a listed company, the only plausible explanation is that its revenue recognition policy is much more aggressive

Sound Environmental Resources Reported Costs Paid to Sound Global cny millions							
Year	2013	2012	2011	2010	2009	2008	2007
Total Costs	46.6	11.2	3.6	21.6	264.4	16.7	0.0

Sound Global Reported Revenue from Sound Environmental Resources cny millions							
Year	2013	2012	2011	2010	2009	2008	2007
Construction Revenue	26.9	10.1	10.2	49.9	69.9	155.6	112.4
Revenue from Sales of Goods and Equipment	13.7	0.0	2.1	0.1	0.4	2.1	0.0
Revenue for Design Services	3.4	0.0	0.2	0.0	0.0	0.0	0.0
Total Revenue	44.0	10.1	12.5	50.0	70.3	157.7	112.4

<b>Difference</b>	<b>3</b>	<b>1</b>	<b>(9)</b>	<b>(28)</b>	<b>194</b>	<b>(141)</b>	<b>(112)</b>
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Source: Sound Global 2007–2013 Annual Reports, Sound Environmental Resources 2007–2013 Annual Reports

## 7. Sound Global has a History of Undocumented Related Party Transactions and Loss-Making Acquisitions

- Sound Global claims that 87% of its EPC segment revenue and 80% of its total revenue is from third party construction contracts
- In reality, many of Sound Global's reported third party construction contracts are actually concessions owned and operated by undisclosed related parties controlled by Chairman/Founder Wen Yibo
  - Sound Global uses external EPC contracts with undisclosed related parties in order to book inflated construction revenue by overcharging for construction and then later on repurchasing these projects in order to make the concession operator whole
  - This reaffirms the fact pattern of Sound Global accelerating revenue from the O&M phase of a project and transferring it to the company's EPC division, and demonstrates that the company employs this practice not only for its own internal projects but also for its claimed external projects
- Sound Global has a history of undisclosed related party transactions as well as a series of loss-making acquisitions which benefit Chairman/Founder Wen Yibo at the expense of public shareholders
  - Many of these transactions are in direct conflict with the stated recommendations of Sound Global's Board of Directors

# a. Exhibit 5: Shanghai Jingke

- Sound Global claims that Shanghai Jingke Investment Management (Shanghai Jingke) is an independent third party
- In reality, Shanghai Jingke is funded, controlled and effectively owned by Chairman/Founder Wen Yibo\*
- In 2008, Sound Global purchased Hi-Standard Water Equipment from Shanghai Jingke Investment Management for RMB 208 million
- Sound Global has also purchased from Shanghai Jingke concession projects Anyang Mingbo for RMB 45mm in 2009 and Tongliao for RMB 196.7mm in 2014

*Shanghai Jingke is mentioned multiple times as an independent third party going as far back as Sound Global's 2006 IPO prospectus*

"Beijing Hi-Standard Equipment Company"

Beijing Hi-Standard Environmental Equipment Company Limited (北京海斯顿环保设备有限公司), a company incorporated in the PRC and which is 15% owned by Beijing Sound Enviro, 75% owned by Shanghai Jingke Investment Management Co., Ltd. and 10% owned by Beijing Industrial Development Investment Management Co., Ltd. Shanghai Jingke Investment Management Co. Ltd. and Beijing Industrial Development Investment Management Co., Ltd. are Independent Third Parties

Source: Sound Global 2010 Prospectus

Beijing Hi-Standard Environmental Equipment Co., Ltd  
"Beijing Hi-Standard"

A PRC company owned by Shanghai Jingke Investment Management Co., Ltd (75%), Beijing Industrial Development Investment Management Co., Ltd (10%) and BJ Sound Enviro (15%). Shanghai Jingke and Beijing Industrial are unrelated to the Group, the Directors and Substantial Shareholders.

Source: Sound Global 2011 Annual Report

assets of Hi-Standard and was paid in cash. As a result, Shanghai Jingke Investment Management Company became the sole owner of Hi-Standard before selling its entire interest in Hi-Standard to Beijing Sound. Shanghai Jingke Investment Management Company and its ultimate beneficial owners are Independent Third Parties.

Source: Sound Global 2010 Prospectus

"Hi-standard"

A PRC company founded by BJ Sound Enviro (35%) and other unrelated parties (65%). Effective from 26 April 2006, Hi-standard was owned by Shanghai Jingke (75%), Beijing Industrial (10%) and BJ Sound Enviro (15%). Shanghai Jingke and Beijing Industrial are unrelated to our Group, our Directors and Substantial Shareholders.

Source: Sound Global 2006 Prospectus

Hi-standard was owned by BJ Sound Enviro (35%) and other unrelated parties (65%) prior to 26 April 2006. Since that date, Hi-standard is owned by Shanghai Jingke (75%), Beijing Industrial (10%) and BJ Sound Enviro (15%). Shanghai Jingke and Beijing Industrial are unrelated to our Group, our Directors and Substantial Shareholders. Accordingly, Hi-standard ceased to be an interested person with effect from 26 April 2006.

BJ Sound Enviro is owned by Beijing Sanghua (62.5%), Wen Yibo (36.25%) and Hu Xinling (1.25%). Beijing Sanghua is in turn held by Wen Yibo (22.2%) and Zhang Huiming (77.8%). Please refer to the section entitled "Interested Person Transactions" of this Prospectus for more details.

Source: Sound Global 2006 Prospectus

\* For More Information Please See Appendix Pages 67-70

## b. Exhibit 6: Hi-Standard

- Sound Global claims to have acquired Hi-Standard Water from independent third party Shanghai Jingke for RMB 208mm
  - In reality, Shanghai Jingke is actually an undisclosed related party owned by Sound Global Chairman/Founder Wen Yibo
  - Sound Global massively overpaid for Hi-Standard Water to allow Chairman/Founder Wen Yibo to cash out at the expense of shareholders
- April 2007 – Beijing Hi-Standard Water Equipment Co (Hi-Standard Water) was established by Shanghai Jingke (30.3%), Beijing Sound Environment (Sound parent company) (22.7%) and Hi-Standard Environmental (47%)
  - Hi-Standard Environmental contributed all of its assets to Hi-Standard Water for a 47% stake while Shanghai Jingke contributed RMB 25mm for a 30.3% stake, implying a RMB 83mm valuation for Hi-Standard Water
- April 2008 – Sound Group parent company sold its entire 22.7% stake to Shanghai Jingke for a token consideration of RMB 1
  - Shanghai Jingke now owns 53% of Hi-Standard Water
- May 2008 – Hi-Standard Environmental sold its 47% stake to Shanghai Jingke for RMB 34.3mm, implying a RMB 73mm valuation for Hi-Standard Water
  - Shanghai Jingke now owns 100% of Hi-Standard Water
- July 2008 – Sound Global acquires 100% of Hi-Standard Water from Shanghai Jingke for RMB 208mm
  - This means that in the span of less than 2 months, the valuation of Hi-Standard Water nearly tripled from RMB 73mm to RMB 208mm
  - Hi-Standard Water had not shown any material appreciation in the prior 8 years, and actually depreciated relative to the initial RMB 100mm invested in April 2001 \*

## b. Exhibit 6: Hi-Standard (Cont.)

- Sound Global claims that its ability to manufacture wastewater treatment equipment in-house through its subsidiary Hi-standard gives it a cost advantage and enables it to achieve EPC gross margins greater than those of its competitors
  - Even if the entire amount of inter-segment sales from its equipment manufacturing division is counted as additional gross profit for the EPC division, it would only add 4.7% of gross margin, far less than the 15% gross margin advantage that Sound Global claims to have over its competitors
- Site visits confirm that the total size of Hi-Standard's factory is no more than a few hundred square meters at most
  - The equipment was idle and dilapidated and there were fewer than 10 employees present

The Group	Turnkey projects and services RMB'000	Equipment Fabrications RMB'000	O&M RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
<b>2013</b>						
Revenue						
External sales	2,882,936	63,756	192,808	3,139,500	-	3,139,500
Inter-segment sales	-	137,138	-	137,138	(137,138)	-
<b>Total revenue</b>	<b>2,882,936</b>	<b>200,894</b>	<b>192,808</b>	<b>3,276,638</b>	<b>(137,138)</b>	<b>3,139,500</b>
Segment results	692,833	9,847	117,709	820,389	-	820,389
Unallocated income						263
Unallocated other gains and losses						(15,623)
Unallocated finance costs						(216,755)
Unallocated expenses						(22,096)
<b>Profit before income tax</b>						<b>566,178</b>
<b>2012</b>						
Revenue						
External sales	2,445,959	111,991	94,306	2,652,256	-	2,652,256
Inter-segment sales	-	115,349	-	115,349	(115,349)	-
<b>Total revenue</b>	<b>2,445,959</b>	<b>227,340</b>	<b>94,306</b>	<b>2,767,605</b>	<b>(115,349)</b>	<b>2,652,256</b>
Segment results	607,876	7,513	33,635	649,024	-	649,024
Unallocated income (note a)						481
Unallocated other gains and losses (note a)						17,592
Unallocated finance costs						(135,442)
Unallocated expenses						(28,244)
<b>Profit before income tax</b>						<b>503,411</b>

### Equipment Manufacturing Business

We manufacture standard and customized water and wastewater equipment for use in our projects and for sale to external PRC customers and to overseas customers. In July 2008, we acquired a 100% equity interest in Hi-Standard, through which we conduct our equipment manufacturing business. Hi-Standard's key products include grit removers, sludge scrapers, sludge dehydrators, oxidation ditches and SBR equipment. Hi-Standard owns 19 patents and approximately 46,700 sqm environmental equipment factory and office premises in Beijing, China. The factory is outfitted with modern manufacturing equipment.

We specialise in the production of customized equipment for water and wastewater treatment. The following describes our core product lines and the key features and competitive strengths of our water and wastewater treatment equipment:

Source:  
<http://www.soundglobal.com.sg/>

## c. Exhibit 7: Anyang Mingbo

- Anyang Mingbo is a wastewater treatment concession that Sound Global currently owns and purchased from undisclosed related party Shanghai Jingke in 2009 for RMB 45 million
- Sound Global originally invested in Anyang Mingbo in 2006, Anyang Mingbo then disappeared from public record for 2 years before reappearing in Sound Global's 2009 Annual Report as an acquired concession
- Sound Global secretly transferred its ownership stake to Shanghai Jingke in 2008, was contracted to do the construction work on Anyang Mingbo, and purchased the concession back from Shanghai Jingke in 2009\*

### 37 SUBSEQUENT EVENTS

- (i) In January 2010, the Group completed its acquisition of Anyang Mingbo, 60% interest from BJ Sound Enviro and 40% interest from a third party with consideration of RMB27,000,000 to BJ Sound Enviro and RMB18,000,000 to the third party respectively. Anyang Mingbo then became a wholly owned subsidiary of the Group.

Source: Sound Global  
2009  
Annual Report

#### i) Trading transactions

During the year, the trading transactions are as follows:

Entity	Revenue from construction contracts		Revenue from sale of goods/services	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Anyang Mingbo	17,532	49,488	-	4,200

Source: Sound Global 2009  
Annual Report

# d. Exhibit 8: Tongliao

- Tongliao is a wastewater treatment concession that Sound Global purchased in 2014 for RMB 196.7 million
  - The acquisition price represents a P/E multiple of 226x \*
- Tongliao was originally set up by Beijing Lumeng and Shanghai Jingke, related parties owned and controlled by Chairman/Founder Wen Yibo
- In 2006, Sound Global was originally awarded the RMB 124mm construction contract for Tongliao
  - The project was scheduled to be completed by mid 2008 but construction work was still continuing through 2010
  - Sound Global likely overcharged for construction work and is now purchasing the project at a premium in order to make the concession operator whole

*Tongliao was originally supposed to be completed in 2008*

The Tongliao Project of approximately RMB124 million was awarded from an interested person, Tongliao Bibo Water Co., Ltd ("Tongliao", 通辽碧波水务有限公司), to supply turnkey services for a wastewater treatment system. The wastewater treatment system will have a capacity to treat 100,000 tonnes of wastewater per day in Inner Mongolia. This project is expected to commence in 2007 and is scheduled to be delivered around mid-2008 (the "Tongliao Project").

Source: Sound Global 2007 Annual Report

*Tongliao was originally owned in part by Shanghai Jingke*

Tongliao, a PRC-incorporated company, is jointly held by Shanghai Jingke Investment Management Co., Ltd. (上海京科投资管理有限公司) and Beijing Lumeng Investment Co., Ltd ("Beijing Lumeng", 北京绿盟投资有限公司) with shareholdings of 20% and 80% respectively. Epure's non-executive Chairman, Mr Wen Yibo, and his associates own an effective interest of approximately 99% in Beijing Lumeng.

Source: Sound Global 2007 Annual Report

*Sound Global was recognizing revenue from construction work on Tongliao as recently as 2010*

## 36. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following significant transactions with related parties except for those already disclosed in other notes:

	2010 RMB'000	2009 RMB'000
<b>Revenue from construction contracts</b>		
<i>Fellow subsidiaries:</i>		
Baotou Lucheng Water Co., Ltd ("Baotou Lucheng")	16,447	5,134
Daye Qingbo Water Co., Ltd ("Daye Qingbo")	264	8,283
Ezhou Eqing Environmental Engineering Co., Ltd. ("Ezhou Eqing")	—	2,864
Jiayu Jiaqing Water Co., Ltd. ("Jiayu Jiaqing")	25,516	30,769
Jingmen Xiajiawan Water Co., Ltd ("Jingmen Xiajiawan")	1,372	5,682
Jingzhou Jingqing Water Co., Ltd ("Jingzhou Jingqing")	4,733	14,618
<b>Tongliao Bibo Water Co., Ltd ("Tongliao Bibo")</b>	<b>15,713</b>	<b>3,104</b>
Xianning Ganyuan Water Co., Ltd ("Xianning Ganyuan")	3,334	2,500
Hubei Jichu Water Co., Ltd ("Hubei Jichu")	—	12,000
	<b>65,619</b>	<b>84,954</b>

Source: Sound Global 2011 Annual Report

\* For More Information Please See Appendix Pages 86-87

## e. Value-Destroying Acquisitions

- After management specifically warned shareholders that purchasing concessions where Sound Global had originally been contracted to do the construction work would be value-destroying, Sound Global proceeded to acquire multiple such projects at premium valuations
  - “Therefore, even if the BSE Group were to sell the projects to us at its own cost, this would represent an amount in excess of the construction costs of the projects
  - “We would have to pay a substantial amount for such projects in a short period of time”
  - “We would only be able to obtain additional revenue in respect of the operation phase of the project”
  - Therefore, the Directors consider that the acquisition of the BSE Group’s existing projects may not be financially beneficial to our Company when compared to investments in new BOT projects”

*Sound Global’s Board of Directors expressly recommends against acquisitions of existing related party projects*

most of these projects commenced prior to 2008. Our Group also provided engineering and construction services in the form of EPC services to all of the BSE Group’s current water and wastewater treatment BOT projects during their construction phase, for which we were appointed through a tender process in some cases. In certain cases, we were appointed as a sub-contractor through a public tender process by an independent contractor appointed by the BSE Group. We have therefore generated and received revenue during the construction phase of those BOT projects under the EPC contracts we entered into. Therefore, even if the BSE Group were to sell the projects to us at its own cost, this would represent an amount in excess of the construction costs of the projects (as it would represent the costs of construction together with our profit margin on construction and, in certain cases, the Independent Third Party contractor’s profit margin). We would have to pay a substantial amount for such projects in a short period of time. In addition, following any acquisition of the BSE Group’s existing BOT projects, we would only be able to obtain additional revenue in respect of the operational phase of the project, while for new BOT projects, we aim to earn revenue from both the construction phase and the operational phase of the project. Therefore, the Directors consider that the acquisition of the BSE Group’s existing projects may not be financially beneficial to our Company when compared to investments in new BOT projects.

Source: Sound Global 2010 Prospectus

## 8. Sound Global's Opaque Transaction with Sound Environmental Resources Enables Further Management Cash Out and Once Again Proves Inflated EPC Revenue

- In September 2014, Sound Global announced a planned transaction with Sound Environmental Resources where Sound Global will purchase 22 subsidiaries owned by Sound Environmental
- As part of this transaction, a series of share placements and share sales were also arranged which ultimately allows Chairman/Founder Wen Yibo to cash out at the expense of public shareholders
- At least 16 of these subsidiaries are projects where Sound Global was originally contracted to do the construction work
- This demonstrates a continuation of the fact pattern of Sound Global purchasing projects from related parties that it originally built and further confirms the company's method of aggressive construction revenue recognition

## a. Cashing Out

- Sound Global is planning to convene an EGM on 23 December 2014 in order to vote on a series of transactions between the company, Sound Environmental and Chairman/Founder Wen Yibo's holding company Sound Water BVI
- This complex series of share placements and share sales allows to Chairman/Founder Wen Yibo cash out in the amount of HKD 819 million and reduce his ownership
- This cash out will be paid for by public shareholders through a primary offering of Sound Environmental Resources shares

Transaction Name	Transaction Type	Seller	Acquirer	Shares (mm)	Price per Share	HKD (mm)
Subscription Agreement	Primary Offering	Sound Global	Sound Environment (HK)	280.4	HKD 8.1	2,271.0
1st Sale and Purchase Agreement	Insider Sale	Sound Water BVI	Sound Environment (HK)	264.8	HKD 8.1	2,144.9
2nd Sale and Purchase Agreement	Acquisition of Subsidiary	Sound Environmental Resources	Sound Global			1,519.0
Subscription Agreement	Primary Offering	Sound Environmental Resources	TBD	163.0	CNY 21.4	4,419.2
Subscription Agreement	Insider Purchase	Sound Environmental Resources	Wen Yibo	48.9	CNY 21.4	1,325.8
Subscription Agreement	Other Investors Purchase	Sound Environmental Resources	Other Investors	114.1	CNY 21.4	3,093.4

Sound Water BVI Sale Less Wen Yibo Subscription Agreement Purchase (HKDmm)	819.1
Wen Yibo Cash Out (HKDmm)	819.1
Wen Yibo Cash Out (USDmm)	105.7

Company	Wen Yibo Ownership (%)
Sound Water BVI	100%
Sound Global	50.55%
Sound Environment (HK)	44.62%
Sound Environmental Resources	44.62%

Source:  
[http://soundglobal.todayir.com/attachment/20140918061701002011652\\_en.pdf](http://soundglobal.todayir.com/attachment/20140918061701002011652_en.pdf)

## b. Transaction with Sound Environmental Resources

- After delaying announcement of additional details three times, Sound Global's latest circular disclosed the names of the 22 subsidiaries being purchased but only provided minimal additional financial information
- The acquisition price represents a FY2013 P/E multiple of 16.7x
- Both net assets and net profit for the acquired entities declined sharply in 2014, and the acquisition price represents a projected FY2014 P/E multiple of 25.6x
- The auditor used for the transaction is neither Sound Global's auditor Deloitte & Touche nor Sound Environmental's auditor Daxin CPA

*The only financial information provided are total assets and liabilities, and revenue and net profit for the combined entity being acquired*

Items	Unit: in ten thousand RMB					For the period from			
	31 May 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011		Jan to May 2014	2013	2012	2011
<b>Total assets</b>	196,682.92	194,280.60	184,435.29	181,075.02					
<b>Total liabilities</b>	164,513.49	102,211.09	98,067.71	101,023.32					
<b>Net asset</b>	32,169.43	92,069.51	86,367.58	80,051.70					
					<b>Revenue</b>	15,093.86	37,149.99	34,427.94	29,134.07
					<b>Total profit</b>	2,243.00	8,680.96	6,202.03	5,051.40
					<b>Net profit</b>	1,969.91	7,243.58	5,015.88	4,169.59
					<b>Auditor</b>	WUYIGE	WUYIGE	WUYIGE	WUYIGE
						Certified	Certified	Certified	Certified
						Public	Public	Public	Public
						Accountants	Accountants	Accountants	Accountants
						LLP	LLP	LLP	LLP

Source:  
[http://soundglobal.todayir.com/attachment/20141201212626002065268\\_en.pdf](http://soundglobal.todayir.com/attachment/20141201212626002065268_en.pdf)

Source:  
[http://soundglobal.todayir.com/attachment/20141201212626002065268\\_en.pdf](http://soundglobal.todayir.com/attachment/20141201212626002065268_en.pdf)

## b. Transaction with Sound Environmental Resources (Cont.)

- In reality, at least 16 out of the 22 projects are projects that Sound Global was previously contracted to do the construction work for
- Sound Global likely overcharged for the initial construction work on these projects and now is being forced to make the concession operator whole by repurchasing these concessions that are unable to achieve an IRR above its cost of capital or cost of debt

2013 年度末水务类业务控股子公司财务指标 (表 3):

单位: 万元

企业名称	总资产	净资产	营业收入	净利润
宜昌桑德三峡水务有限公司	49,280.02	30,850.41	12,073.57	2,513.88
南昌桑德象湖水务有限公司	12,765.20	8,351.59	4,037.63	1,434.59
荆门桑德夏家湾水务有限公司	12,173.08	10,825.11	2,136.90	1,087.71
包头鹿城水务有限公司	35,269.78	15,805.95	4,366.13	681.98
江苏桑德沐源自来水有限公司	18,315.49	3,919.13	3,826.41	146.61
浙江桑德富春水务开发有限公司	3,369.87	3,181.87	476.53	134.29
枝江桑德枝清水务有限公司	5,542.89	2,285.51	929.21	4.23
荆州桑德荆清水务有限公司	12,929.71	5,502.09	2,188.10	1,115.51
嘉鱼桑德甘泉水业有限公司	3,132.17	553.85	832.89	-79.17
嘉鱼嘉清水务有限公司	7,478.53	2,708.14	468.43	-157.04
大冶桑德清波水务有限公司	5,211.06	1,630.28	860.91	-53.89
襄阳桑德汉水水务有限公司	12,960.12	5,968.01	1,873.88	300.48
咸宁桑德甘源水务有限公司	4,371.19	1,202.41	831.71	-24.73
老河口桑德清源水务有限公司	5,199.45	1,845.00	0	0
桐庐清和管道安装有限公司	71.97	41.26	159.15	25.88
监利桑德荆源水务有限公司	4,527.44	1,350.49	730.11	331.20
鄂州清和环境工程有限公司	899.78	300.00	0	0
鄂州鄂清环境工程有限公司	8,307.47	3,268.48	1,101.11	47.72
崇阳天清水务有限公司	109.58	103.55	119.84	53.55
咸宁涂清水务有限公司	122.06	119.90	137.50	69.90
嘉鱼桑德甘泉工程有限公司	19.86	19.86	0	0
宜昌白洋水务有限公司	400.00	400.00	0	-0.14

2014 年第一季度水务类控股子公司财务指标 (表 4):

单位: 万元

企业名称	总资产	净资产	营业收入	净利润
宜昌桑德三峡水务有限公司	48,620.44	31,248.55	2,499.90	398.14
南昌桑德象湖水务有限公司	16,909.76	8,799.92	1,128.23	448.34
荆门桑德夏家湾水务有限公司	12,390.09	11,050.25	520.92	225.15
包头鹿城水务有限公司	35,214.77	15,802.27	766.08	-3.69
江苏桑德沐源自来水有限公司	18,468.65	3,876.17	599.16	-42.96
浙江桑德富春水务开发有限公司	3,390.50	3,205.20	86.83	23.33
枝江桑德枝清水务有限公司	5,586.76	2,320.38	247.52	34.86
荆州桑德荆清水务有限公司	13,037.57	5,603.92	513.00	101.83
嘉鱼桑德甘泉水业有限公司	3,161.89	573.95	232.92	20.10
嘉鱼嘉清水务有限公司	7,527.81	2,671.98	120.63	-36.16
大冶桑德清波水务有限公司	5,215.05	1,639.87	211.68	9.59
襄阳桑德汉水水务有限公司	12,030.00	6,013.15	445.50	45.14
咸宁桑德甘源水务有限公司	4,397.44	1,231.52	204.12	29.11
老河口桑德清源水务有限公司	3,712.58	1,845.00	-	-
桐庐清和管道安装有限公司	105.69	74.03	68.19	32.77
监利桑德荆源水务有限公司	4,608.09	1,427.85	178.62	77.35
鄂州清和环境工程有限公司	953.65	300.00	-	-
鄂州鄂清环境工程有限公司	7,874.94	3,326.80	430.21	58.31
崇阳天清水务有限公司	132.68	125.61	50.40	22.05
咸宁涂清水务有限公司	166.17	164.20	75.00	44.30
嘉鱼桑德甘泉工程有限公司	44.61	14.90	0.37	-4.96
宜昌白洋水务有限公司	400.00	400.00	-	-

Source: Sound Environmental Resources 2014 Circular / IR Release

Source: Sound Environmental Resources 2014 Circular / IR Release

## c. Build and Buy Back Behavior Further Confirms Aggressive Revenue Recognition

- This latest transaction involving the purchase of at least 16 projects that Sound Global had previously done the construction work for is ironic as it is again in direct contrast with what the company had previously stated it would not do and likely value-destroying to shareholders
- These acquisitions suggest that Sound Global initially overcharged for the construction phase of these related party projects and now must repurchase these projects in order to compensate the concession operator, in this case Sound Environmental Resources
- This reaffirms the fact pattern of Sound Global pulling forward revenue from the concession (O&M) phase of a project and transferring it to the company's EPC division, and demonstrates that the company employs this practice not only for its own internal projects but also for external projects as well
  - Not only is Sound Global accelerating revenue recognition for construction projects, but based on the discrepancies between its filings and those of Sound Environmental, it is likely that the company is purchasing concessions that it did not get paid for building in the first place

## 9. Valuation

- Sound Global is a highly indebted, perpetually negative free cash flow business that is proven to be involved in multiple fraudulent, lossmaking and undisclosed related party transactions
- Sound Global employs aggressive accounting practices that artificially inflate revenue in the short term and destroy long-term shareholder value
- What price is an opaque business that relies on Ponzi-like concession accounting gimmicks and stock price manipulation in order to enrich its founder worth?

# a. Valuation of Construction Division

- Sound Global pulls forward expected revenue from the O&M phase of a concession and transfers it to the company's construction (EPC) division
- By using a low discount rate on its service concession receivables, Sound Global is able to increase the present value of its expected future concession tariff payments and inflate the construction costs spent by its concession division
- As a result of this higher construction spending by its concession division, Sound Global's construction division is able to book artificially higher construction revenue, thereby recognizing higher construction margins as well
- Sound Global's competitors report an average 14% gross margin for this business, although Sound Global mainly undertakes less profitable and more risky rural projects
- Assuming the construction division costs are correct and applying a 14% gross margin to the business, Sound Global's EPC division's actual net income comes out to only RMB 160 million, representing a net income margin of 6.0%
- Applying a 11.2x P/E multiple to the EPC business yields a value per share of HKD 1.54

Sound Global	
Actual Income Statement - EPC Division	
cny millions	LTM
Construction COGS	(2,286)
Gross Profit Margin	14%
Construction Revenue	2,658
Construction Gross Profit	372
Pro-Rata Operating Expenses less Interest Expense	(163)
EBT	209
Tax Rate	23.4%
Income Tax	(49)
Net Income	160
Net Income Margin	6.0%

Sound Global	
Valuation - EPC Division	
	LTM
Shares Outstanding (millions)	1,467
Net Income	160
EPS (HKD)	0.14
Average LTMP/E of Sound Global Prior to Delisting	11.2
Implied Value per Share (HKD)	\$1.54

## b. Valuation of Concession Division

- By using an artificially low discount rate to pull forward expected revenue from its concession division (O&M) and transferring it to the company's EPC division, Sound Global will be eventually left with a portfolio of unprofitable concessions where the IRR will be far lower than its cost of capital and cost of debt
- Based on the company's disclosed service concession imputed interest, Sound Global used a 2.4%, 3.0% and 4.1% discount rate from 2011–2013 while its USD cost of debt was 11.875% and even higher in RMB terms
- Applying a 10% discount rate to the present value of Sound Global's expected future concession payments results in a 48% write down to the carrying value of the company's service concession receivables and a fair value of RMB 1,279 million
- Together, this represents a book value per share of HKD 1.28 for the concession division
- There is a high likelihood that the reported cash balance does not exist
  - The company claims a high cash balance, yet borrows at a high cost of debt and reports low interest income relative to its claimed cash balance
  - There are multiple undisclosed litigation cases in China against the company claiming unpaid bills and financial difficulty\*

Sound Global	
Actual Balance Sheet - O&M Division	
cny millions	LTM
Reported Service Concession Receivables	2,461
Writedown of Service Concession Receivables	(1,182)
as % of Reported Value	48.0%
Fair Value of Service Concession Receivables	1,279

Sound Global	
Valuation - O&M Division	
	LTM
Shares Outstanding (millions)	1,467
Fair Value of Service Concession Receivables	1,279
Cash & Equivalents	3,753
Total Debt	(3,543)
Net Debt	211
Book Value	1,489
Book Value per Share (HKD)	\$1.28

## c. Sum of the Parts Valuation

- Combining the value of the EPC division and value of the O&M division results in a total company fair value of HKD 4,133 million
- This represents a price per share of HKD 2.82, a 67% discount to the current price per share

Sound Global	
Valuation - Sum of the Parts	
<u>EPC Division</u>	
Implied Value per Share (HKD)	\$1.54
Total Value (HKD mm)	\$2,256
<u>O&amp;M Division</u>	
Implied Value per Share (HKD)	\$1.28
Total Value (HKD mm)	\$1,877
<u>Entire Company</u>	
Total Value (HKD millions)	\$4,133
Implied Price per Share (HKD)	\$2.82
Current Price per Share (HKD)	\$8.49
Discount to Current	-67%

# 10. Conclusion

- Sound Global's business model is a house of cards built by Chairman/Founder Wen Yibo for only one purpose: enriching himself at the expense of long-term shareholders
- The company will run out of new "project wins" and its massive debt load coupled with a portfolio of loss-making concessions will result in minimal if any residual equity value
- Sound Global is a strong sell as the fair value per share of Sound Global's equity is HKD 2.82 or less, representing at least 67% downside from the current share price
- Shareholders who choose not to sell stock are strongly advised to vote against the proposed transaction between Sound Global, Sound Environment and Sound Water BVI at the upcoming EGM on 23 December 2014 as it not only allows for Chairman/Founder Wen Yibo to further cash out but also destroys long-term shareholder value

# 11. Appendix

## a. Changing Discount Rate Assumptions

*Prior to 2011 Sound global disclosed the discount rate that it used on its expected future concession payments  
In 2008 and 2009, the discount rate applied to its service concession receivables was 8.9% and 9.7%, respectively*

With respect to the above projects, the Group has evaluated and assessed that such contracts come under the scope of *INT FRS 112 Service Concession Arrangements*. Under the terms of the arrangements, the Group will receive a minimum amount of RMB39,955,000 (2008: RMB27,579,000) yearly from the contracted parties (grantors) in exchange for services performed by the Group when the plants are in commercial operations.

In arriving at the carrying value of the service concession arrangements as at the end of the reporting period, weighted average effective interest rate of 9.7% (2008: 8.9%) per annum was used to discount the future expected cash flows.

Revenue and profits for the year arising from these arrangements for the provision of construction services amount to RMB113,423,000 (2008: RMB153,140,000) and RMB25,991,000 (2008: RMB25,528,000) respectively.

The management is of the opinion that the carrying amount of the above approximates its fair values.

Source: Sound Global 2009  
Annual Report

## a. Changing Discount Rate Assumptions (Cont.)

*In 2010, Sound Global decreased the discount rate on concessions by more than 50%*

*The discount rate applied to its service concession receivables was suddenly decreased to 4.3% from 9.7% and 8.9% prior*

16	SERVICE CONCESSION RECEIVABLES (Cont'd)
	<p>With respect to the above projects, the Group has evaluated and assessed that such contracts come under the scope of <i>INT FRS 112 Service Concession Arrangements</i>. Under the terms of the arrangements, the Group will receive a minimum amount of RMB67,458,000 (2009: RMB39,955,000) yearly from the contracted parties (grantors) in exchange for services performed by the Group when the plants are in commercial operations.</p> <p>In arriving at the carrying value of the service concession arrangements as at the end of the reporting period, weighted average effective interest rate of 4.3% (2009: 9.7%) per annum was used to discount the future expected cash flows.</p> <p>Revenue and profits for the year arising from these arrangements for the provision of construction services amount to RMB145,894,000 (2009: RMB113,423,000) and RMB26,041,000 (2009: RMB25,991,000) respectively.</p> <p>The management is of the opinion that the carrying amount of the above approximates its fair values.</p> <p>As at the end of the reporting period, the Group has pledged certain service concession contracts to secure general banking facilities granted to the Group.</p>

Source: Sound Global 2010 Annual Report

# a. Changing Discount Rate Assumptions (Cont.)

Starting in 2011, Sound Global altogether stopped disclosing its discount rate

## 21. SERVICE CONCESSION RECEIVABLES

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Service concession receivables	1,121,874	674,538
Less: Amounts due within one year shown under current assets (Note 25)	<u>(38,215)</u>	<u>(9,420)</u>
Service concession receivables	<u>1,083,659</u>	<u>665,118</u>

Service concession receivables arose from the service concession contracts to build and operate wastewater treatment and recycling water plants. The Group is the operator under certain build-operate-transfer ("BOT") arrangements. With respect to these contracts, the Group has evaluated and assessed that such contracts fall into the scope of IFRIC 12 *Service Concession Arrangements*. Service concession receivables were recognized to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services.

The Group has 15 BOT projects in progress, among which 8 (2010: 5) BOT projects were in the operation period during the year ended December 31, 2011. Those arrangements entitle the Group concession rights for periods ranging from 20 to 30 years with minimum guaranteed tonnage and tariff per ton defined in the agreements.

Source: Sound Global 2011 Annual Report

## b. Capitalized Construction Costs are Recognized as Revenue

- The present value of the expected future concession tariff payments are recognized a “service concession receivable” asset on the balance sheet
- Under IFRS, the carrying value of the “service concession receivables” assets on the balance sheet is equal to the lesser of cost or present value of expected future concession tariff payments

### *Financial asset - service concession receivables*

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

### *Intangible asset - operating concession*

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

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

# c. Shanghai Jingke

- SAIC filings for Shanghai Jingke:
  - October 2007: Beijing Lumeng Investment invested RMB 90mm for a 90% stake of Shanghai Jingke
  - New Ownership: Beijing Lumeng Investment (90%), Liu Cui Xia (9.5%), Sun Wei Liang (0.5%)

**股东会决议**

根据《公司法》及本公司章程的有关规定，上海京科投资管理有限公司临时股东会于2007年10月8日在松江区新发经济城商务楼B楼一177室召开。本次会议由刘翠霞提议召开，刘翠霞于会议召开15日之前以电话方式通知全体股东，应到会股东2人，实际到会股东2人，参加会议的股东在人数和资格等方面符合有关规定。会议形成决议如下：

一、根据公司发展需要，全体股东一致同意注册资本由1000万元增加至10000万元，此次增资额为9000万元；

二、一致同意增资额（9000万元）由北京绿盟投资有限公司全额认购。此认购投资额分期缴付，一期5000万元于2007年10月12日前缴付，二期4000万元于2009年10月10日之前缴付；

三、增加注册资本后，公司股东及持股情况如下：  
北京绿盟投资有限公司，出资额：9000万元，出资比例：90%；  
刘翠霞，出资额：950万元，出资比例：9.5%；  
孙伟良，出资额：50万元，出资比例：0.5%。

四、公司于股东发生变动之日起30日内，向登记机关申请变更登记。

股东（签字、盖章）：  
刘翠霞                      孙伟良

Source: Shanghai Jingke SAIC Filings

编号：中洲大通（2007）验字第610号

公司名称	上海京科投资管理有限公司		公司类型	有限公司	地址	漕宝路10号C座2305室	电话	64323289
委托人	同上		验资机构专用账号	新开业或变更		变更		

股东名称	认缴 出资额 (万元)	出资方式	前期缴纳 出资额 (万元)	本期缴纳 出资额 (万元)	累计缴纳 出资额 (万元)	以实物、工业产权、非专利技术、土地使用权出资的评估额(万元)	工业产权、非专利技术占注册资本的比例(%)	非由设立的发行人认购股份占股份总数的比例(%)
北京绿盟投资有限公司	9000	货币	5000	5000				
刘翠霞	950	货币	950	950				
孙伟良	50	货币	50	50				
合计	10000		1000	5000	6000			

备注：1、根据《公司注册资本登记管理条例》第十六条规定，验资报告应当附以下有关文件：  
（一）验资机构、资产评估机构的《企业法人营业执照》复印件；（二）银行出具的企业登记注册“专用帐户”的资金凭证；  
（三）以实物出资的，附实物转让清单；（四）以专利权出资的，附专利证书复印件和专利登记簿副本复印件；（五）以往历商標出质的，附《商標注册证》复印件；（六）以土地使用权出资的，附土地使用权证明、附土地使用权证；  
2、公司类型一栏应填写有限责任公司；股份有限公司（上市）；股份有限公司（非上市）  
中国注册会计师（签章）：张金中                      验资机构盖章：上海中洲大通会计师事务所有限公司                      二〇〇七年十月十日

Source: Shanghai Jinke SAIC Filings

编号：中洲大通（2007）验字第624号

公司名称	上海京科投资管理有限公司		公司类型	有限公司	地址	漕宝路10号C座2305室	电话	64323289
委托人	同上		验资机构专用账号	新开业或变更		变更		

股东名称	认缴 出资额 (万元)	出资方式	前期缴纳 出资额 (万元)	本期缴纳 出资额 (万元)	累计缴纳 出资额 (万元)	以实物、工业产权、非专利技术、土地使用权出资的评估额(万元)	工业产权、非专利技术占注册资本的比例(%)	非由设立的发行人认购股份占股份总数的比例(%)
北京绿盟投资有限公司	9000	货币	5000	4000	9000			
刘翠霞	950	货币	950	950	950			
孙伟良	50	货币	50	50	50			
合计	10000		5000	4000	10000			

备注：1、根据《公司注册资本登记管理条例》第十六条规定，验资报告应当附以下有关文件：  
（一）验资机构、资产评估机构的《企业法人营业执照》复印件；（二）银行出具的企业登记注册“专用帐户”的资金凭证；  
（三）以实物出资的，附实物转让清单；（四）以专利权出资的，附专利证书复印件和专利登记簿副本复印件；（五）以往历商標出质的，附《商標注册证》复印件；（六）以土地使用权出资的，附土地使用权证明、附土地使用权证；（七）以非货币出资的，附资产评估报告及评估结果确认书或股东、发起人认可证明。  
2、公司类型一栏应填写有限责任公司；股份有限公司（上市）；股份有限公司（非上市）  
中国注册会计师（签章）：张金中                      验资机构盖章：上海中洲大通会计师事务所有限公司                      二〇〇七年十月十日

Source: Shanghai Jingke SAIC Filings

# c. Shanghai Jingke (Cont.)

- SAIC filings for Shanghai Jingke:
  - October 2007: Beijing Lumeng Investment owns 90% of Shanghai Jingke
  - Beijing Lumeng Investment is 80% owned by Beijing Sound Environment (Sound parent company) and 20% by Beijing Sound Environmental Technology Development
  - Sound parent company is 98.75% owned by Chairman/Founder Wen Yibo and his wife Zhang Huiming
  - Beijing Sound Environmental Technology Development is majority owned by Chairman/Founder Wen Yibo
- Therefore, Shanghai Jingke is actually indirectly owned and controlled by Chairman/Founder Wen Yibo

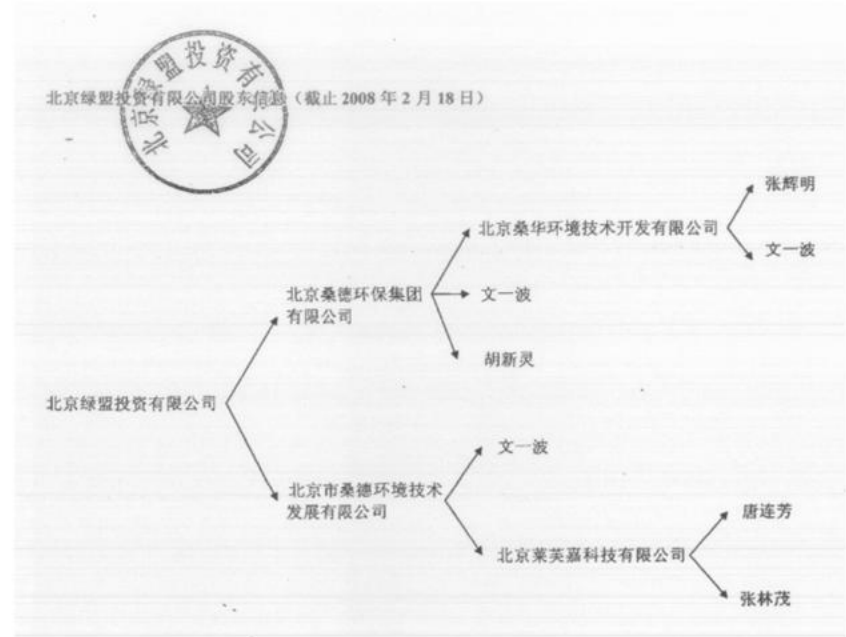
*Beijing Lumeng is identified as being majority owned by Chairman/Founder Wen Yibo*

*SAIC filings for Shanghai Jinke show that Chairman/Founder Wen Yibo is the effective owner of Beijing Lumeng*

**Notes:**

(1) Baotou Lucheng is a 90% subsidiary of Eguard Resources. The other 10% is held by Beijing Lumeng. BJ Sound Enviro holds 51.7% of Eguard Resources and 80% of Beijing Lumeng. BJ Sound Enviro is in turn held by Beijing Sanghua (62.5%), Wen Yibo (36.25%) and an unrelated individual (1.25%). Beijing Sanghua is also owned by Wen Yibo (22.2%) and his wife, Zhang Huiming (77.8%). Please refer to the section entitled "Interested Person Transactions" for further details.

Source: Sound Global 2009 Annual Report



Source: Shanghai Jingke SAIC Filings

# c. Shanghai Jingke (Cont.)

SAIC filings for Shanghai Jingke show that Chairman/Founder Wen Yibo is the effective owner of Beijing Lumeng

### 北京绿盟投资有限公司 章程修正案

根据股东会决议，将章程修订如下：

原章程前言部分北京桑德环保集团有限公司、北京市桑德环境技术发展有限公司、王求真、胡新灵共同设立北京绿盟投资有限公司，现章程前言部分修订为北京市桑德环境技术发展有限公司、北京桑德环保集团有限公司共同设立北京绿盟投资有限公司。

原章程中股东的姓名、出资方式及出资额如下：



北京桑德环保集团有限公司	货币出资	4800 万元
北京市桑德环境技术发展有限公司	货币出资	1000 万元
王求真	货币出资	100 万元
胡新灵	货币出资	100 万元

现章程中股东的姓名、出资方式及出资额如下：

北京桑德环保集团有限公司	货币出资	4800 万元
北京市桑德环境技术发展有限公司	货币出资	1200 万元

章程修正案内容有与法律、法规和规章的规定不符的，以法律、法规和规章的规定为准。章程其他未变更的内容仍保持原有效力。

全体股东签字、盖章：

### 章程修改协议书

依据北京桑德环保集团有限公司章程及北京桑德环保集团有限公司 2007 年 9 月 3 日召开的股东会决议，对原章程做以下修改：



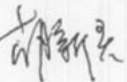
原章程条款：  
第三章第四条：  
公司注册资本 8000 万元人民币。  
第四章第五条：  
股东姓名、出资方式、出资额及股权比例如下：

序号	股东名称	出资方式	出资额 (万元)	出资比例 (%)
1	北京桑华环境技术开发有限公司	货币	5000	62.5
2	文一波	货币	2900	36.25
3	胡新灵	货币	100	1.25

现修改为：  
第三章第四条：  
公司注册资本 10000 万元人民币。  
第四章第五条：  
股东姓名、出资方式、出资额及股权比例如下：

序号	股东名称	出资方式	出资额 (万元)	出资比例 (%)
1	北京桑华环境技术开发有限公司	货币	7000	70.0
2	文一波	货币	2900	29.0
3	胡新灵	货币	100	0.1

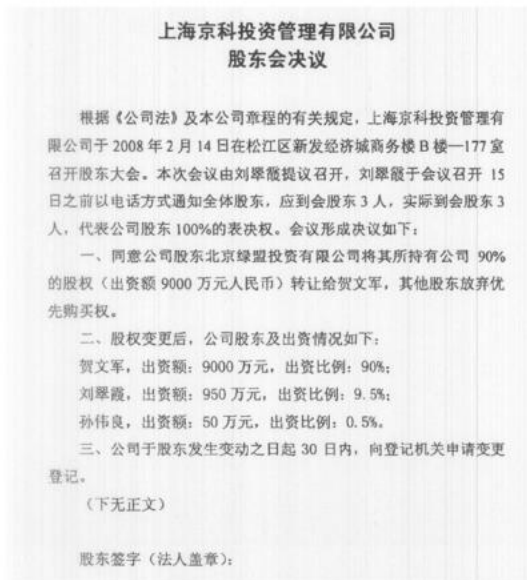
法定代表人签字或盖章：

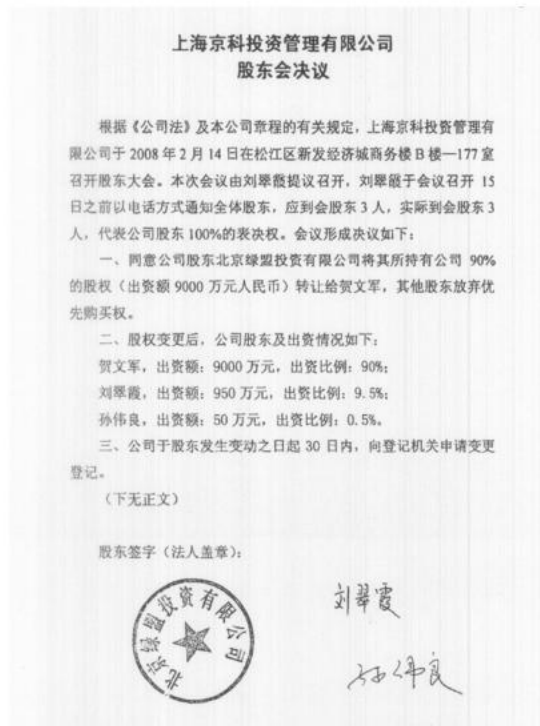
# c. Shanghai Jingke (Cont.)

- SAIC filings for Shanghai Jingke:
  - February 2008: Beijing Lumeng Investment transferred its 90% stake in Shanghai Jingke to He Wen Jun
  - New Ownership: He Wen Jun (90%), Liu Cui Xia (9.5%), Sun Wei Liang (0.5%)
  - August 2008: He Wen Jun transfers his 90% stake of Shanghai Jingke to Huang Dong
  - New Ownership: Huang Dong (90%), Liu Cui Xia (9.5%), Sun Wei Liang (0.5%)

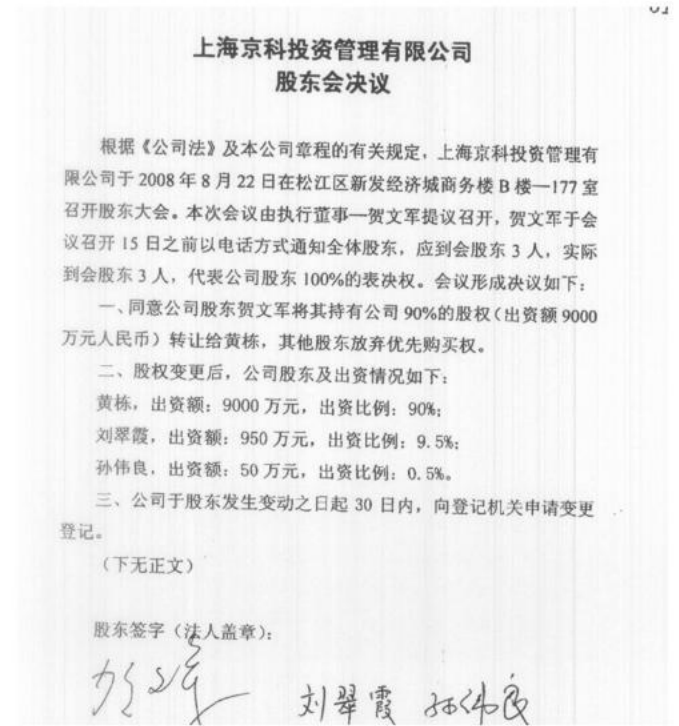
SAIC filings for Shanghai Jingke show that Chairman/Founder Wen Yibo continuously uses this method of transferring ownership of Shanghai Jingke between a group of friends and associates in order to conceal his actual ownership of Shanghai Jingke



Source: Shanghai Jingke SAIC Filings



Source: Shanghai Jingke SAIC Files



Source: Shanghai Jingke SAIC Files

## d. Hi-Standard

- SAIC filings for Hi-Standard Environmental:
  - April 2001 – Beijing Hi-Standard Environmental Equipment Co (Hi-Standard Environmental) was established by Beijing Electrical Industrial Holding (55%), Beijing State-owned Asset Management (10%) and Beijing Sound Environmental Technology Development (Sound parent company subsidiary) (35%) with RMB 100mm of registered capital

SAIC filings for Hi-Standard Environmental show the original ownership at inception

二、股东、发起人出资情况

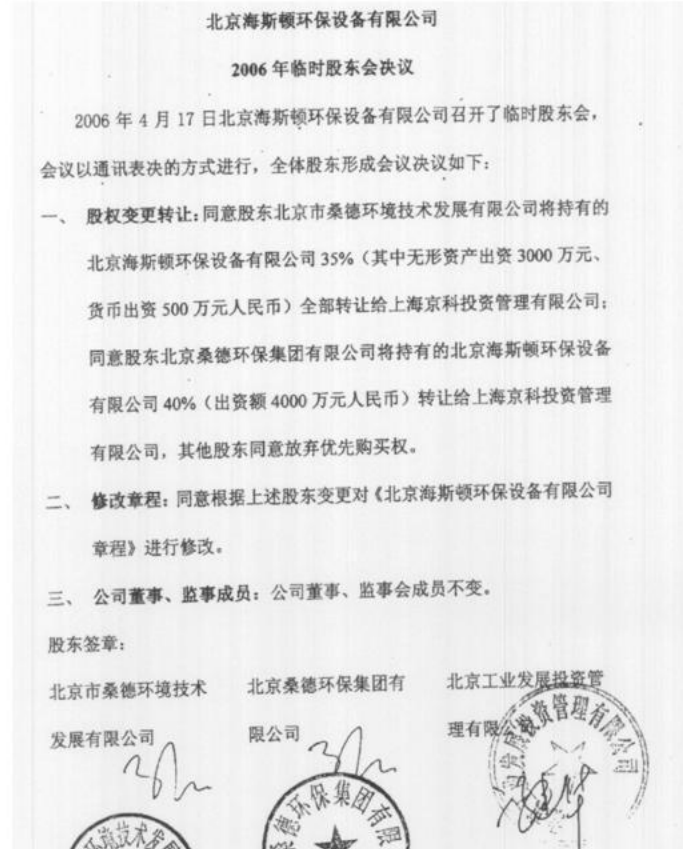
法人名称 (自然人姓名)	注册号	出资方式	出资额 (万元)		股份数 (股)	所占 比例 (%)
			应缴	实缴		
北京机电控股有限公		货币	5500	5500		55%
北京泰德环境技术发展有限		无形资产、货币	3500	3500		35%
北京市国有资产经营有限		货币	1000	1000		10%

Source: Hi-Standard  
Environmental SAIC Filings



## d. Hi-Standard (Cont.)

- SAIC filings for Hi-Standard Environmental:
  - April 2006: Beijing Sound Environment (Sound parent company) transfers 40% stake in Hi-Standard Environmental to Shanghai Jingke
  - Beijing Sound Environmental Technology Development (Sound parent company subsidiary) transfers 35% stake in Hi-Standard Environmental to Shanghai Jingke

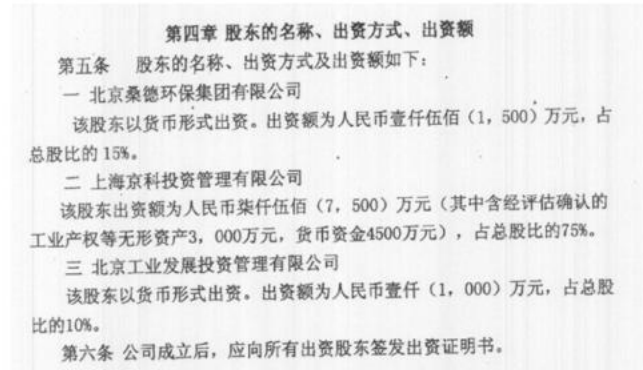
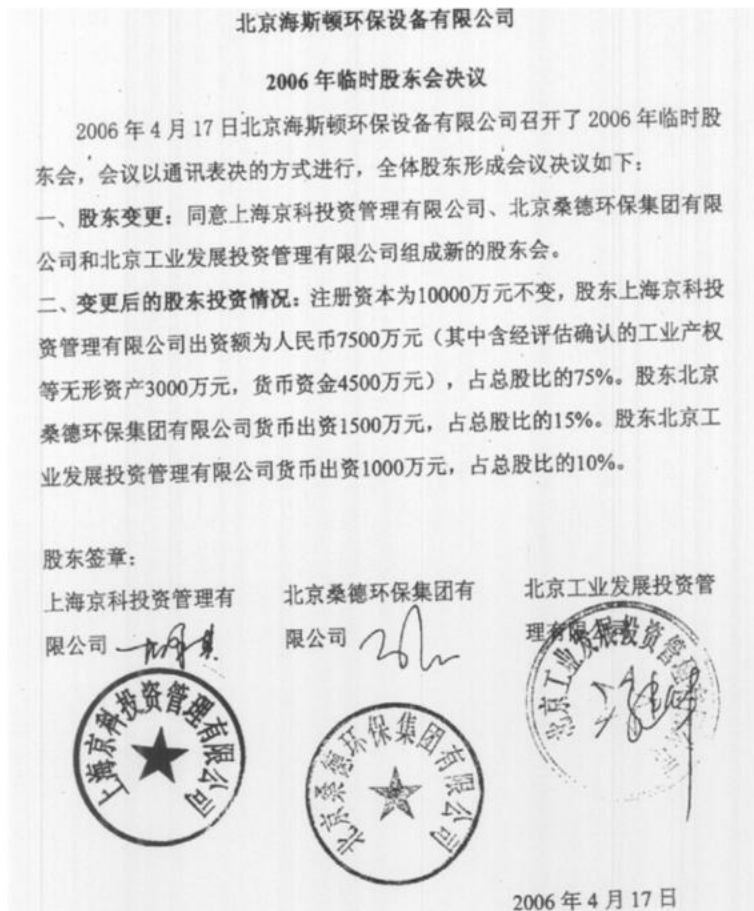


Source: Hi-Standard Environmental SAIC Filings

# d. Hi-Standard (Cont.)

- SAIC filings for Hi-Standard Environmental:
  - April 2006: New Ownership – Shanghai Jingke (75%), Sound parent company (15%), Beijing Industrial Development Investment Management (10%)

SAIC filings for Hi-Standard Environmental show that after ownership transfer, Shanghai Jingke owns 75% of the company



Source: Hi-Standard Environmental SAIC Filings

(涉及投资者变更时填写此页)

投资者注册资本(注册资金、出资额)缴付情况

名称(或姓名)	认缴情况		变更时实际缴付情况		变更后分期缴付情况	
	出资额(万元)	出资方式	出资额(万元)	出资方式	出资额(万元)	出资时间(年月日)
上海京科投资管理有限公司	3000	知识产权	3000	知识产权		
上海科技投资管理有限公司	4500	货币	4500	货币		
北京桑德环保集团有限公司	1500	货币	1500	货币		
北京工业发展投资管理有限公司	1000	货币	1000	货币		
合计	10000		10000			

注:1. "认缴情况"填写变更前由投资者出资认缴的情况,公司制企业应在合计的出资额中填写货币出资额,其他企业无需填写货币出资额。  
 2. "变更后分期缴付情况"按照章程约定分期填写。  
 3. "出资方式"指,公司制企业应填写"货币"、"实物"、"知识产权"、"土地使用权"的表述方式填写;全民所有制、集体所有制企业、城镇集体所有制(股份合作)企业,出资方式指,公司制企业应填写"货币"、"实物"、"知识产权"、"土地使用权"的表述方式填写;全民所有制、集体所有制企业、城镇集体所有制(股份合作)企业,出资方式指"货币"、"实物"、"无形资产"、"土地使用权"。

Source: Hi-Standard Environmental SAIC Filings

## d. Hi-Standard (Cont.)

*Sound Global's company filings detailing the Hi-Standard Acquisition claim that it was purchased from an independent third party, Shanghai Jingke*

### Equipment Manufacturing Business

We also manufacture standard and customized water and wastewater treatment equipment for use in our projects and for sale to external PRC customers, and also sell a small quantity of such equipment to overseas customers. In July 2008, we acquired a 100% equity interest in Hi-Standard, through which we conduct our equipment manufacturing business. Hi-Standard's key products include grit removers, sludge scrapers, sludge dehydrators, oxidation ditches and SBR equipment. Hi-Standard owns 19 patented technologies, including high-efficiency sedimentation tank technology, vortex flow mixer and electrophoresis dehydration technologies.

### OUR ENVIRONMENTAL EQUIPMENT MANUFACTURING BUSINESS

We conduct our environmental equipment manufacturing business through our wholly-owned subsidiary, **Hi-Standard**, which we acquired in July 2008 from an Independent Third Party at a consideration of approximately RMB208,000,000. The consideration for our acquisition of Hi-Standard was determined based on an independent valuation report of Hi-Standard dated June 24, 2008. Hi-Standard specializes in the design and manufacture of standard customized water and wastewater treatment equipment. It has 19 patented technologies. Hi-Standard provides standard and customized product offerings and product design services to us for our water and wastewater treatment projects. It also sells its products to external customers, including industrial and municipal customers, under the "Hi-Standard" brand.

In July 2008, Beijing Sound acquired a 100% equity interest in Hi-Standard, a company specializing in the supply of water and wastewater treatment customized equipment from Shanghai Jingke Investment Management Company at a consideration of RMB208,000,000, which was determined based on an independent valuation of Hi-Standard dated June 24, 2008. At the same time, we also restructured our various business functions. Hi-Standard was established in April 2007 with a registered capital of RMB66,000,000. At the time of its establishment, it was 30.3% owned by Shanghai Jingke Investment Management Company, 22.7% owned by Beijing Sound Water Technology and 47.0% owned by Beijing Hi-Standard Equipment Company. Beijing Hi-Standard Equipment Company contributed its assets, including its facilities, buildings and land use rights valued at RMB31,000,000, to Hi-Standard for its then 47.0% equity interest in Hi-Standard. Shanghai Jingke Investment Management Company made its initial capital contribution of RMB13,200,000 in cash in April 2007 representing 66% of its original portion of registered capital of Hi-Standard. In April 2008, as Beijing Sound Water Technology did not contribute its portion of the registered capital in Hi-Standard, Shanghai Jingke Investment Management Company acquired the 22.7% equity interest in Hi-Standard held by Beijing Sound Water Technology at the nominal price of RMB1, which was paid in cash. In May 2008, Shanghai Jingke Investment Management Company made a contribution to the registered capital of Hi-Standard of RMB21,800,000 in cash, representing the remaining 34% of its portion of the registered capital of Hi-Standard and Beijing Sound Water Technology's portion of registered capital of Hi-Standard. Shanghai Jingke Investment Management Company then acquired the 47.0% equity interest in Hi-Standard held by Beijing Hi-Standard Equipment Company in May 2008 at the price of RMB34,303,680, which was determined based on the valuation of the then net assets of Hi-Standard and was paid in cash. As a result, Shanghai **Jingke** Investment Management Company became the sole owner of Hi-Standard before selling its entire interest in Hi-Standard to Beijing Sound. Shanghai Jingke Investment Management Company and its ultimate beneficial owners are Independent Third Parties.

Source: Sound Global 2010 Prospectus

## d. Hi-Standard (Cont.)

Sound Global set up a Hi-Standard Water as a separate entity and transferred the assets from Hi-Standard Environmental to Hi-Standard Water with the purpose of allowing Chairman/Founder Wen Yibo could cash out from the acquisition

### 35 ACQUISITION OF SUBSIDIARIES

Beijing **Hi-Standard** Water Treatment Equipment Co., Ltd. ("Hi-Standard") was incorporated on April 6, 2007 and to take over the assets and liabilities relating to the wastewater treatment business segment of Beijing Hi-Standard Environmental Equipment Co., Ltd. On July 1, 2008, the Company acquired 100% of the issued share capital of Hi-Standard for a consideration of RMB208 million and started commercial operations. The fair value of the assets acquired and adjustments, based on cash flow projections derived from the most recent financial budgets approved by management for the next five years, have been certified by an independent firm of valuation specialists. Management is of the view that the carrying value of the assets acquired approximate the fair value. The transaction has been accounted for by the purchase method of accounting.

Source: Sound Global 2010 Annual Report

Of the RMB 208 million price acquisition price for a company that was effectively owned by Chairman/Founder Wen Yibo, RMB 94.4 million was attributed to supposed "patents" and goodwill, while another RMB 36.5 million was used to cover payables

### 35 ACQUISITION OF SUBSIDIARIES (Cont'd)

The fair value of the net assets acquired in the transactions, and the goodwill arising, are as follows:

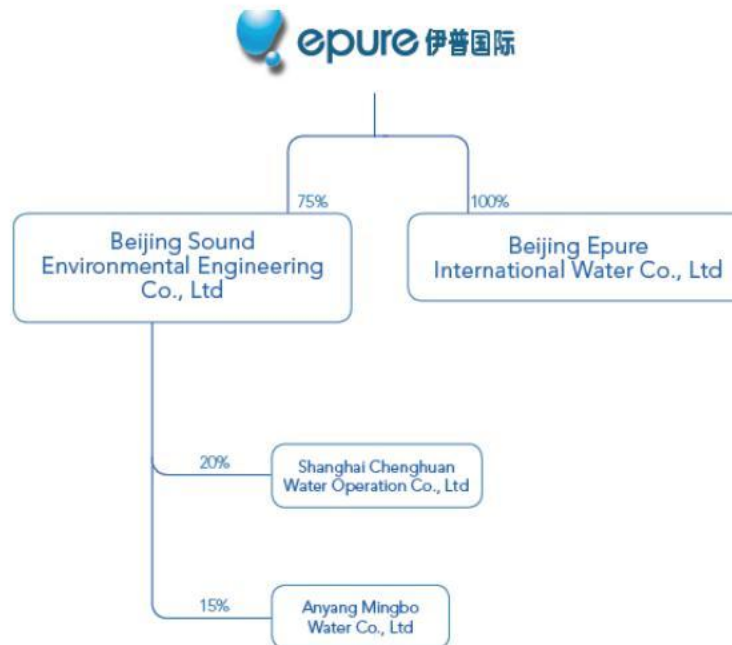
	Carrying value before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
<b>Net assets acquired in Hi-Standard</b>			
Cash and cash equivalents	35,043	-	35,043
Trade and other receivables	11,768	-	11,768
Inventories	24,190	-	24,190
Land use rights (Note 10)	19,309	27,612	46,921
Plant and equipment (Note 11)	32,356	-	32,356
Patents on acquisition (Note 15)	-	67,199	67,199
Trade and other payables	(36,590)	-	(36,590)
Tax liabilities	(60)	-	(60)
	<u>86,016</u>	<u>94,811</u>	<u>180,827</u>
Goodwill on acquisition (Note 16)			<u>27,173</u>
Total consideration satisfied by cash			<u>208,000</u>
Less: Cash and cash equivalents acquired			<u>(35,043)</u>
Net cash outflow arising on acquisition			<u>172,957</u>

Source: Sound Global 2010 Annual Report

# e. Anyang Mingbo

2006 Annual Report: Sound Global discloses a 15% equity ownership in Anyang Mingbo through subsidiary Beijing Sound Environmental Engineering

In 2007, Epure will venture into capital investment. We have co-invested into the Anyang Mingbo Water Operations Co., Ltd, owing 15% of the company. Apart from this project, we will continue to seek out other excellent BOT and TOT for future investments.



Source: Sound Global 2006 Annual Report

## e. Anyang Mingbo (Cont.)

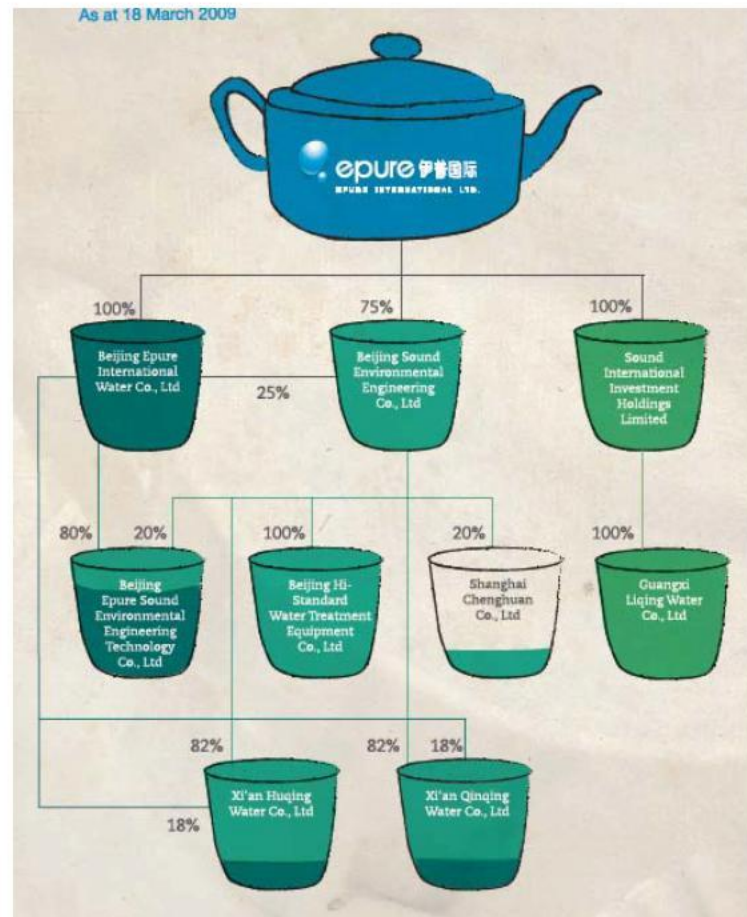
2007 Annual Report: No mention on Anyang Mingbo and no explanation of what happened to the 15% stake  
15% stake in Anyang Mingbo disappears from the company tree



Source: Sound Global 2007 Annual Report

# e. Anyang Mingbo (Cont.)

2008 Annual Report: No mention on Anyang Mingbo and no explanation of what happened to the 15% stake



Source: Sound Global 2008 Annual Report



# e. Anyang Mingbo (Cont.)

2010 Annual Report: Sound Global discloses ongoing transactions with Anyang Mingbo going as far back as 2007  
Sound Global recorded revenue related to Anyang Mingbo of RMB 66 million in 2009 and RMB 90 million in 2008

## i) Trading transactions

During the year, the trading transactions are as follows:

Entity	Revenue from construction contracts		Revenue from sale of goods/services	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Anyang Mingbo	17,532	49,488	-	4,200

Entity	Trade receivables			Trade payables		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Anyang Mingbo	41,280	20,674	877	-	-	-

Source: Sound Global 2009 Annual Report

## i) Trading transactions (Cont'd)

Entity	Amount due from contract customers			Amount due to contract customers		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Anyang Mingbo	6,702	19,795	-	-	-	-

## ii) Other receivables / Other payables

	Other receivables			Other payables		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Board of Directors:						
Hu Zelin (ex-director)	-	-	2	-	-	-
Wang Zhili	-	-	-	-	-	33
Wen Yi Bo	50	-	-	-	-	-
Yan Xiaolei	14	4	4	-	-	-
	64	4	6	-	-	33

### Board of Directors:

Hu Zelin (ex-director)	-	-	2	-	-	-
Wang Zhili	-	-	-	-	-	33
Wen Yi Bo	50	-	-	-	-	-
Yan Xiaolei	14	4	4	-	-	-
	64	4	6	-	-	33

### Entities

Anyang Mingbo	107	-	-	-	-	-
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Source: Sound Global 2009 Annual Report

## e. Anyang Mingbo (Cont.)

- SAIC filings for Anyang Mingbo:
  - February 2008: Anyang Mingbo is owned by Shanghai Jingke (85%) and Beijing Sound Environmental Engineering (Sound global subsidiary) (15%) with total registered capital of RMB 45mm

The owner of the other 85% of Anyang Mingbo is none other than Shanghai Jingke

安阳明波水务有限公司 公司股东（发起人）出资情况表

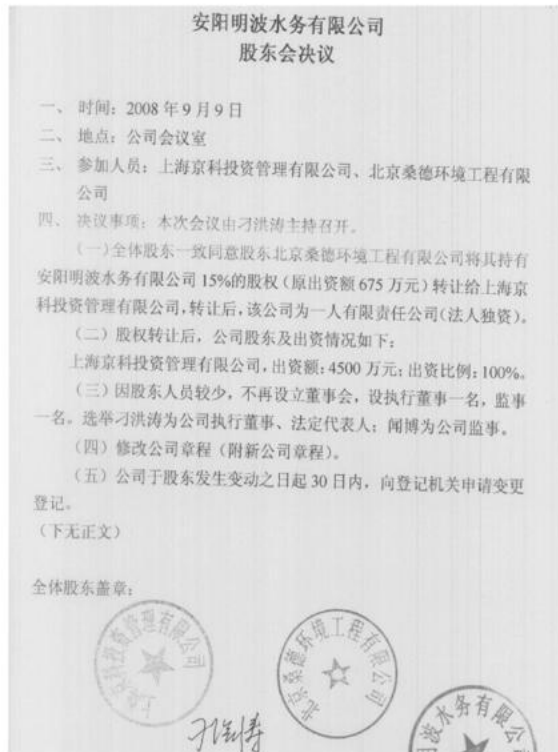
股东（发起人） 名称或姓名	证件名称及 号码	认 缴 出资额 (万元)	出 资 方 式	持 股 比 例 (%)	实 缴 出资额 (万元)	出 资 方 式	出 资 时 间	余 额 交 付 期 限	备 注
上海京科投资管理有限公司	3102222070281	3825	货币出资	85%	3825	货币出资	2008.2.15		A
北京聚德环境工程有限公司	110108102028173	675	货币出资	15%	675	货币出资	2008.2.15		A

Source: Anyang Mingbo SAIC Filings

# e. Anyang Mingbo (Cont.)

- SAIC filings for Anyang Mingbo:
  - September 2008: Beijing Sound Environmental Engineering (Sound global subsidiary) transferred its 15% stake in Anyang Mingbo to Shanghai Jinke
  - New Ownership: Shanghai Jinke (100%)

The 15% stake in Anyang Mingbo held by Sound Global was actually transferred to Shanghai Jinke



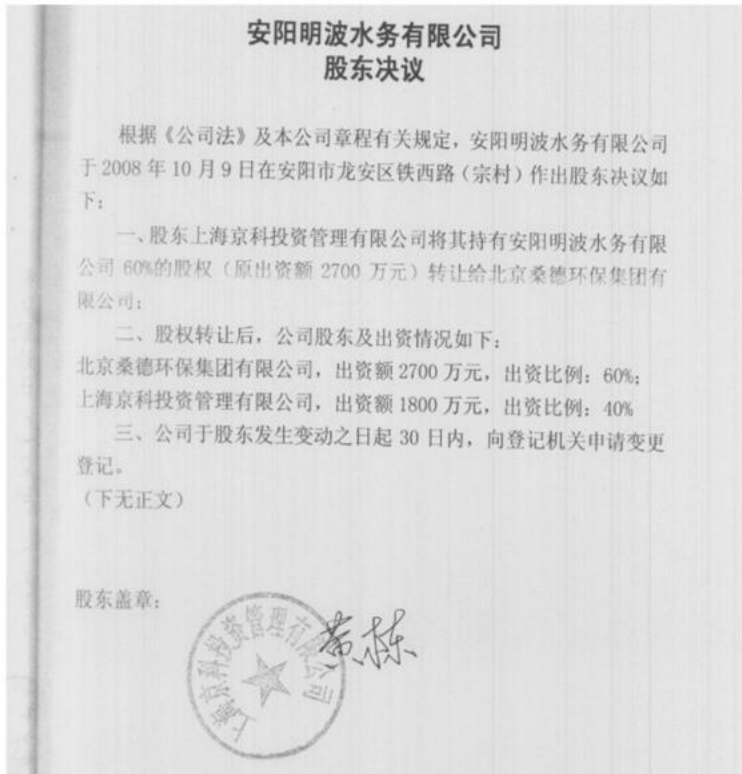
股东（发起人） 名称或姓名	证件名称及 号码	认缴 出资额 (万元)	出资方式	持股 比例 (%)	实缴 出资额 (万元)	出资方式	出资 时间	缴付 期限	备注
上海京科投资管理有限公司	3102230102909	6500万元	货币	100%	4500万元	货币	2008.2		

Source: Anyang Mingbo SAIC Filings

# e. Anyang Mingbo (Cont.)

- SAIC filings for Anyang Mingbo:
  - October 2008: Shanghai Jinke transfers 60% stake to Beijing Sound Environment (Sound parent company)
  - New Ownership: Sound parent company (60%), Shanghai Jinke (40%)

Shanghai Jinke transferred 60% of its stake to Sound Global's parent company



安阳市明波水务有限公司 公司股东（发起人）出资情况表

(公司加盖公章)

股东（发起人） 名称或姓名	证件名称及 号码	认缴 出资额 (万元)	出资方式	持股 比例 (%)	实缴 出资额 (万元)	出资方式	出资 时间	余额交付 期限	备注
上海京科投资管理有限公司	3102270102909	1800万元	货币	40%	1800万元	货币	2007.02.06		
北京桑德环保集团有限公司	11000004239866	2700万元	货币	60%	2700万元	货币	2008.10.09		

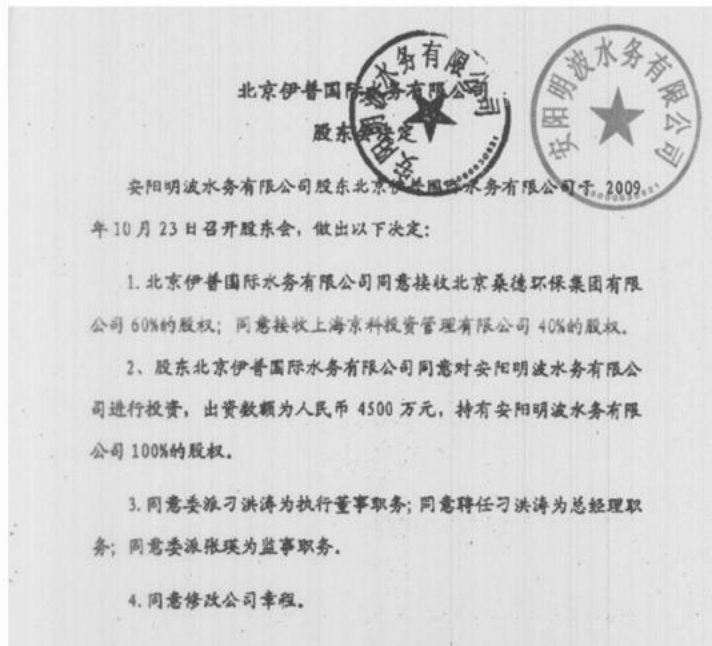
Source: Anyang Mingbo SAIC Filings

Source: Anyang Mingbo SAIC Filings

# e. Anyang Mingbo (Cont.)

- SAIC filings for Anyang Mingbo:
  - October 2009: Sound Global purchases 100% of Anyang Mingbo from Beijing Sound Environment (Sound parent company) and Shanghai Jingke for RMB 45mm
  - Sound Global again purchased an asset from undisclosed related party Shanghai Jingke in order to allow Chairman/Founder Wen Yibo to cash out at the expense of shareholders

*The claimed independent third party that Sound Global acquired Anyang Mingbo from is none other than Shanghai Jingke*



Source: Anyang Mingbo SAIC Filings

股东名称或姓名	证件名称及号码	认 缴			持股比例 (%)	实 缴			备注
		出资额 (万元)	出资方式	出资时间		出资额 (万元)	出资方式	出资时间	
北京伊普国际水务有限公司	110000410304477	4500	货币	09.10.23	100	4500	货币	2009.10.23	A

Source: Anyang Mingbo SAIC Filings

## f. Tongliao

- June 2014: Sound Global purchased 97.8% of Tongliao from Sound Group for RMB 192.4million, and 2.2% of Tongliao from a claimed independent third party
- The anonymous independent third party that Sound Global is actually the undisclosed related party Shanghai Jingke owned by Chairman/Founder Wen Yibo

*Sound Global claims that the 2.2% stake in Tongliao was purchased from an independent third party*



**SOUND GLOBAL LTD.**

**桑德國際有限公司\***

*(Incorporated in the Republic of Singapore with limited liability)*

**(Company Registration Number 200515422C)**

**(Hong Kong Stock Code: 00967)**

**CONNECTED TRANSACTION  
ACQUISITION OF EQUITY INTEREST IN  
TONGLIAO SOUND WATER CO., LTD.\***

### **THE ACQUISITION**

On May 30, 2014 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Vendors whereby the Purchaser has conditionally agreed to purchase and the Vendor has agreed to sell its 97.8% of the equity interest in the Target Company at a consideration of RMB192,426,131.

The Purchaser has also entered into the Equity Transfer Agreement 2 with an Independent Third Party for the purchase of the remaining 2.2% equity interest in the Target Company on May 30, 2014. Upon completion of the Equity Transfer Agreement and the Equity Transfer Agreement 2, the Purchaser will hold 100% of the equity interest in the Target Company.

Source:  
[http://soundglobal.todayir.com/attachment/20140603\\_081702001927627\\_en.pdf](http://soundglobal.todayir.com/attachment/20140603_081702001927627_en.pdf)

# f. Tongliao (Cont.)

- SAIC filings for Tongliao:
  - Tongliao had net income of RMB 0.87 million in 2013
    - ❖ The acquisition price represents a P/E multiple of 226x
  - Tongliao had net assets of RMB 40.26 million in 2013
    - ❖ The acquisition price represents a P/B multiple of 4.9x

## 财务数据

### 负债表

(单位: 万元人民币)

年检annual audit	2013年度
流动资产合计 Current Assets	8399
其中: 货币资金Cash	2025
应收帐款A/R	1876
其他应收款 Receivables	2360
存 货Inventories	1184
其他流动资产 Current Assets	954
长期投资Long Term Investments	0
固定资产合计PPE	843
其他资产Other Assets	0
资产总计Total Assets	9242
流动负债合计Current Liabilities	5216

Source: 内蒙古自治区通辽市工商管理部门

其中: 短期借款ST Borrowings	0
应付帐款A/P	3065
其他应付款 Payables	1580
其他流动负债 Current Liabilities	571
长期负债合计LT Debt	0
其中: 长期借款LT Borrowings	0
长期应付款LT Payables	0
所有者权益合计Owners Equity	4026
实收资本Paid-In Capital	5350
负债及所有者权益总计Total Liabilities and Owners Equity	9242

Source: 内蒙古自治区通辽市工商管理部门

## 损益表

(单位: 万元人民币)

年检	2013年度
主营业务收入Revenue	4582
销售成本Cost of Sales	3081
销售税金及附加Sales Taxes and Surcharges	53
营业费用Operating Costs	468
管理费用Management Costs	843
财务费用Financial Costs	21
投资收益Investment Income	0
其他业务利润Other Profit	0
营业外收入Other Income	0
营业外支出Other Expenses	0
利润总额Total Profit	116
净利润Net Profit	87

Source: 内蒙古自治区通辽市工商管理部门

## g. Undisclosed Litigation Cases

- Sound Global subsidiary Beijing Sound Environmental Engineering has an extensive undisclosed civil litigation record in China and has been fined several hundred thousand RMB
- Beijing Sound Environmental Engineering Co., Ltd. (北京桑德环境工程有限公司)
  - Named as a defendant and fined 287,000 RMB in a civil litigation case handled by the People's Court of Haidian District, Beijing, and dated Nov. 11, 2009, case content and the plaintiff's identity are not included
  - Named as a defendant and fined 75,600 RMB in a civil litigation case handled by the People's Court of Haidian District, Beijing Municipality, and dated January 25, 2010, case content and the plaintiff's identity are not included
- Both cases allege Sound Environmental Engineering as an entity experiencing serious financial problems and non-payment of its suppliers
- These cases call into question the existence of the company's reported cash balance given its inability to even pay its suppliers
- None of the fines are disclosed in any Sound Global Annual Report or public filing and represent a material omission

Source:  
<http://zhixing.court.gov.cn>

## g. Undisclosed Litigation Cases (Cont.)

- Sound Global subsidiary Hi-Standard has an extensive undisclosed civil litigation record in China and has been fined several million RMB
- Beijing Hi-Standard Water Treatment Equipment Co., Ltd. (北京海斯顿水处理设备有限公司)
  - Named as a defendant and fined 217,000 RMB in a civil litigation case handled by the People's Court of Tongzhou District, Beijing, and dated July 2, 2009, case content and the plaintiff's identity are not included
  - Named as a defendant and fined 250,000 RMB in a civil litigation case handled by the People's Court of Tongzhou District, Beijing, and dated September 2, 2009, case content and the plaintiff's identity are not included
  - Named as a defendant and fined 255,470 RMB in a civil litigation case handled by the People's Court of Tongzhou District, Beijing, and dated Nov. 3, 2009, case content and the plaintiff's identity are not included
  - Named as a defendant and fined 367,000 RMB in a civil litigation case handled by the People's Court of Tongzhou District, Beijing, and dated July 9, 2010, case content and the plaintiff's identity are not included
  - Named as a defendant and fined 902,728 RMB in a civil litigation case handled by the People's Court of Tongzhou District, Beijing, and dated Feb. 24, 2011, case content and the plaintiff's identity are not included
- These cases allege Hi-Standard as an entity experiencing serious financial problems and non-payment of its suppliers
- These cases call into question the existence of its reported cash balance given its inability to even pay its suppliers
- None of the fines are disclosed in any Sound Global Annual Report or public filing and represent a material omission