

OZNER 浩泽

Ozner Water International Holding Limited
浩澤淨水國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2014



GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

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IMPORTANT

If you are in any doubt about the contents of this prospectus, you should seek independent professional advice.

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OZNER WATER INTERNATIONAL HOLDING LIMITED

浩澤淨水國際控股有限公司

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GLOBAL OFFERING

Number of Offer Shares	:	422,000,000 Shares (subject to the Over-allotment Option)
Number of International Offer Shares	:	379,800,000 Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	42,200,000 Shares (subject to adjustment)
Maximum Offer Price	:	HK\$2.70 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	2014

*Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(in alphabetical order)*

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" attached to Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Please see "Risk Factors" in this prospectus for a discussion of certain risks that you should consider before investing in the Shares. The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around June 10, 2014 and, in any event, not later than June 13, 2014. The Offer Price will be not more than HK\$2.70 and is currently expected to be not less than HK\$2.25, unless otherwise announced. If, for any reason, the Offer Price is not agreed by June 13, 2014 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$2.70 for each Offer Share, together with a 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price should be lower than HK\$2.70 as finally determined.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. For more details, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares". Please also see "Underwriting — Underwriting Agreement and Expenses — Hong Kong Public Offering — Grounds for Termination".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered or sold, pledged or transferred within the United States or to, or for the account or benefit of, US persons, except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. The Offer Shares are being offered and sold solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the US Securities Act and outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act.

June 5, 2014

EXPECTED TIMETABLE

Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on June 10, 2014
Application lists open ⁽³⁾	11:45 a.m. on June 10, 2014
Latest time for lodging WHITE and YELLOW Application Forms.....	12:00 noon on June 10, 2014
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s).....	12:00 noon on June 10, 2014
Latest time for giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on June 10, 2014
Application lists close ⁽³⁾	12:00 noon on June 10, 2014
Expected Price Determination Date ⁽⁵⁾	June 10, 2014
Announcement of	
• the Offer Price;	
• the level of applications in the Hong Kong Public Offering;	
• the level of indications of interest in the International Offering; and	
• the basis of allotment of the Hong Kong Public Offering	
is expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	June 16, 2014
A full announcement of the Hong Kong Public Offering containing the information above will be published on the website of the Stock Exchange at www.hkexnews.hk ⁽⁶⁾ and our website at www.ozner.net ⁽⁶⁾ from	June 16, 2014
Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a “search by ID” function from	June 16, 2014
Despatch of Share certificates, White Form e-Refund payment instructions and refund cheques in respect of wholly or partially successful applications on or before ⁽⁷⁾⁽⁸⁾⁽⁹⁾	June 16, 2014

EXPECTED TIMETABLE

Dealings in Shares on the Stock Exchange

expected to commence at 9:00 a.m. June 17, 2014

Notes:

- (1) Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 10, 2014, the application lists will not open and close on that day. For more details, see “How to Apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists”. If the application lists do not open and close on Tuesday, June 10, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Offer Shares — 6. Applying By Giving Electronic Application Instructions to HKSCC via CCASS”.
- (5) We expect to determine the Offer Price by agreement with the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, June 10, 2014 and, in any event, not later than Friday, June 13, 2014. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us by Friday, June 13, 2014, the Hong Kong Public Offering and the International Offering will not proceed. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK\$2.70 per Share payable by applicants for Hong Kong Offer Shares under the Hong Kong Public Offering, applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$2.70 for each Share, together with the brokerage fee of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.003% but will be refunded the surplus application monies as provided in “How to Apply for Hong Kong Offer Shares”.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates for the Offer Shares will become valid certificates of title at 8:00 a.m. on Tuesday, June 17, 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

EXPECTED TIMETABLE

- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong Identity Card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong Identity Card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong Identity Card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong Identity Card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.
- (9) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheques (where applicable) and/or Share certificates (where applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong between 9:00 a.m. to 1:00 p.m. on Monday, June 16, 2014. Applicants being individuals who opt for personal collection may not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section "How to Apply for the Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies — (iv) If you Apply Via Electronic Application Instructions to HKSCC" for details. Uncollected share certificates and refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections "How to Apply for the Hong Kong Offer Shares — 13. Refund of Application Monies" and "How to Apply for the Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies".

The above expected timetable is a summary only. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 10, 2014, the application lists will not open and close on that day. Please refer to the section "How to Apply for the Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists". You should refer to the sections "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading water purification service provider in China, as we were the third largest water purifier manufacturer in China in terms of sales value to end users⁽¹⁾ in 2012 with a market share of 1.1% in a fragmented market, according to the Frost & Sullivan Report. In addition, we were the leader in the commercial segment of the market in terms of retail sales value in 2012 according to the same report. We provide water purification services to both corporate and household end users through the lease of our water purifying machines. Our water purifying machines are implemented with our patented ozone and reverse osmosis technologies, and purify tap water into drinking water that meets or exceeds all requirements of national standards in China. We engage an extensive network of third party distributors that covered 125 cities in 30 provinces in China as of December 31, 2013, and the function of our distributors is to source end users for us. Through continuous investments in research and development, we had built a portfolio of 102 utilization and design patents, including 18 patents on ozone technology and seven patents on reverse osmosis as of the Latest Practicable Date. In 2011, 2012 and 2013, revenue generated from water purification business accounted for 56.1%, 68.1% and 78.0% of our total revenue, respectively. We also provide air sanitization services for corporate clients through EPC arrangements. In 2011, 2012 and 2013, revenue generated from air sanitization business accounted for 43.9%, 31.9% and 22.0% of the total revenue, respectively.

WATER PURIFICATION SERVICES

Water Purifying Machines

As of the Latest Practicable Date, our product portfolio consisted of 26 corporate models and six household models of water purifying machines. During the Track Record Period, the majority of the water purifying machines we installed for end users are corporate models, but the proportion of our household models installed has increased steadily. We currently have production facilities located in Shangyu City, Zhejiang Province with an annual production

Note:

- (1) As used in the Frost & Sullivan Report, drinking water purifiers include both electronic water purifying machines and non-electronic devices with water purifying filters that are used to purify tap water at end users' premises. In the report, the market positions of manufacturers of drinking water purifiers in 2012 were based on the amount paid by end users for consumption of purified water, which for sellers of water purifiers are the retail sales prices of the purifiers and for water purification service providers like us are the annual service fees end users contracted to pay in 2012.

SUMMARY

capacity of 170,000 water purifying machines. The production utilization rate of the facilities was 69.8%, 90.2% and 91.8% in 2011, 2012 and 2013, respectively. The table below sets forth the number of corporate models and household models of water purifying machines installed at end users' premises for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	%	%	%	%	%	%
(in thousands, except for percentage data)						
Corporate model						
At the beginning of the year	—	—	101	32.7	276	59.6
Newly installed.	101	94.4	112	36.2	95	20.5
Acquisition of Park Wealth	—	—	63	20.4	—	—
Written off	—	—	—	—	*	*
At the end of the year ⁽¹⁾	<u>101</u>	<u>94.4</u>	<u>276</u>	<u>89.3</u>	<u>371</u>	<u>80.1</u>
Household model						
At the beginning of the year	—	—	6	2.0	33	7.1
Newly installed.	6	5.6	27	8.7	59	12.8
Written off	—	—	—	—	*	*
At the end of the year	<u>6</u>	<u>5.6</u>	<u>33</u>	<u>10.7</u>	<u>92</u>	<u>19.9</u>
Total at end of the year	<u>107</u>	<u>100.0</u>	<u>309</u>	<u>100.0</u>	<u>463</u>	<u>100.0</u>

* In 2013, we performed a physical inspection of all our water purifying machines installed at end users' premises. We wrote off 83 machines that were missing or damaged, 78 and 5 of which were corporate and household models, respectively.

(1) Among which 193, 371 and 509 were hub models as of December 31, 2011, 2012 and 2013, respectively.

Our Lease and Service Business Model

Under our lease and service business model, we provide water purification service through our water purifying machines and retain ownership of the water purifying machines during lease terms. We also provide all repair and maintenance services on the water purifying machines directly to end users during the one-year lease term to ensure high service quality and end user satisfaction. Our distributors do not purchase or maintain any inventory. For more details on our lease and service business, see "Business — Our Water Purification Services — Service Model and Products" on page 130 of this prospectus.

We engage an extensive network of distributors to source end users for us. We have two tiers of distributorship, as we allow a selected number of principal distributors to recruit sub-distributors in order to deepen our market reach. We generate all our rental revenue of water purification services from annual leasing fees paid to us by our principal distributors. When an end user orders our water purification services through new installation of a water purifying machine or renewal of existing services, the end user pays a distributor an annual service fee. When such distributor is a sub-distributor, the sub-distributor will in turn pay a sub-leasing fee to its recruiting principal distributor. A principal distributor will pay us an annual leasing fee representing a portion of each annual service fee or sub-leasing fee such principal distributor receives. As a principal distributor is the primary obligor to assume liabilities to and bear the risk associated with end users, we believe our relationship with a principal distributor is of the seller/buyer nature and not as principal/agent. We believe we do not have any direct principal/

SUMMARY

agent or seller/buyer relationship with our sub-distributors, from whom we do not derive any revenue. The table below sets forth the range of annual leasing fees by machine model and service year as set forth in our pricing policies:

	<u>First year</u>	<u>Subsequent years</u>
	(RMB)	
Corporate model		
Hub model ⁽¹⁾	5,180	2,880
Other corporate models	1,010–2,380	400–1,090
Household model	1,010–1,280	400–580

Note:

(1) This model serves as a central processor with multiple water dispensers connected to it.

Our Distribution Network

The table below sets forth the number of our distributors during the Track Record Period:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal distributors			
Number at the start of the year	—	246	358
Added during the year	249	112	81
Terminated during the year	(3)	—	—
Total number at end of year	<u>246</u>	<u>358</u>	<u>439</u>
Sub-distributors			
Number at the start of the year	—	468	513
Added during the year	468	45	750
Terminated during the year	—	—	—
Total number at end of year	<u>468</u>	<u>513</u>	<u>1,263</u>
Total number of distributors at end of year	<u>714</u>	<u>871</u>	<u>1,702</u>

We manage our distributors centrally at our headquarters through our integrated distributor, machine and end user databases and locally through our regional sales offices. We also implemented a two-card system to prevent pricing cannibalization among distributors. For more details, see “Business — Our Water Purification Services — Our distribution network — Management of distributors” on page 148 of this prospectus.

Customers of Water Purification Business

Our third party principal distributors are our direct customers of the water purification business, as we generate all our rental income for water purification services from annual leasing fees paid to us by principal distributors. For more details, see “Business — Our Water Purification Services — Our distribution network — Arrangements with principal distributors and sub-distributors” on page 142 of this prospectus. Our top five customers in terms of rental revenue for water purification services accounted for 44.1%, 65.8% and 67.5% of our total revenue generated from rental services for water purification services in 2011, 2012 and 2013,

SUMMARY

respectively. Our largest customer in terms of rental revenue for water purification services accounted for 13.0%, 24.7% and 20.2% of our total revenue generated from rental services for water purification services in 2011, 2012 and 2013, respectively.

Revenue and depreciation recognition of water purification services

Our leasing arrangements with principal distributors qualify as operating leases under International Accounting Standard (“IAS”) 17 because (i) principal distributors do not have an option to purchase or effectuate a title transfer of the water purifying machines during or at the end of the lease term, (ii) the one-year lease term does not account for a majority part of the useful life of the water purifying machines, which is estimated to be 10 years, and (iii) the present value of the minimum lease payments is less than the fair value of the water purifying machines. The “non-cancellable period”, as such term is defined under IAS 17, for our lease of water purifying machines is one year, as the principal distributors do not have an option to automatically renew their lease after the one year lease term. In practice, we negotiated and signed new distribution agreements with principal distributors in each of the three years during the Track Record Period upon expiration of the agreements. In addition, we were advised by our PRC legal adviser that the legally enforceable non-cancellable period of the leases of our water purifying machines is one year and that the distributors have no right or obligation to unilaterally renew their respective leasing arrangements. Moreover, a principal distributor’s decision to renew its leasing arrangement with us is directly affected by the service renewal of the end users sourced by it and its sub-distributors. During the Track Record Period, substantially all our end users chose to renew upon the expiration of their service terms. Nevertheless, an individual end user’s decision to continue to use our services is affected by many factors, some of which are outside of our control. Such factors include changes of business operations for corporate end users, competition from other water purifier manufacturers and deterioration of the relationship between the end user and the distributor. Consequently, we believe there is an uncertainty as to whether an end user will renew our services, which may in turn affect our rental income and principal distributors’ willingness to renew their leasing arrangements with us. As a result, we regard the non-cancellable period for the leases to be one year and consequently recognize rental income monthly on a straight-line basis over one year notwithstanding the historical service renewal rates.

Our cost of sales associated with the water purification services consists primarily of depreciation cost on our water purifying machines installed at end users’ premises. Our water purifying machines are depreciated over the estimated useful life of 10 years on a straight-line basis. We apply the straight-line depreciation method as we believe only this method reflects the fact that the wear and tear of the water purifying machines occurs evenly over the estimated useful life. We estimated the useful life of our water purifying machines to be 10 years, which is supported by an independent appraisal report produced by a certified professional appraiser. In producing its appraisal report, the appraiser considered, among other things, the expected physical wear and tear, the technical obsolescence arising from changes or improvements in production or from changes in the market demands.

If the actual useful life of our water purifying machines is significantly shorter than our estimation of 10 years, our profitability and financial position could be adversely affected. For more details, see “Risk Factors — Risks Related to Our Business — We have limited operating history and our business model is subject to uncertainties, which may make it difficult to evaluate our business” on page 24 of this prospectus. Moreover, under our current pricing

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policies, there is an asymmetry between the 10-year useful life of our water purifying machines over which depreciation cost is recognized and the one-year lease term over which rental revenue is recognized. As we typically charge a lower annual leasing fee for renewals of services compared with the first year of services, we recognize a higher level of profitability and profit margin on a water purifying machine installed at an end user's premises in the first year of service compared with subsequent years of services. As a result, to maintain our current level of profitability we would need to keep acquiring new end users at an increasingly faster rate, and a slowdown in the procurement of new end users would have a disproportionate effect on our profitability. Our gross profit margins for water purification services decreased during the Track Record Period from 81.8% in 2011 to 80.5% in 2012 and further to 78.7% in 2013, and may continue to decrease as the proportion of rental income generated from water purifying machines for renewed services increases in relation to the total rental income. For more details, see "Risk Factors — Risks Relating to Our Business — We may experience decreasing annual gross profit margins in our water purification business as the proportion of rental income generated from water purifying machines installed in previous financial years increases" on page 23 of this prospectus.

AIR SANITIZATION SERVICES

EPC Arrangement

We provide air sanitization services to corporate clients through EPC arrangements. We typically design air sanitization systems and procure components for the air sanitization system from third party suppliers. After installation of the system, we provide on-site training for use and maintenance of our air sanitization system and we typically grant a one-year warranty to our client after installation. For more details, see "Business — Our Air Sanitization Services" on page 155 of this prospectus.

Clients of Air Sanitization Services

The majority of our clients of air sanitization services during the Track Record Period were corporations in the electronic, food and medical industries. Revenue generated from our top five clients for air sanitization services accounted for 57.1%, 52.2% and 81.0% of our total revenue generated from air sanitization services in 2011, 2012 and 2013, respectively. Revenue generated from our largest client for air sanitization services accounted for 16.0%, 12.6% and 44.3% of our total revenue generated from air sanitization services in 2011, 2012 and 2013, respectively.

OUR COMPETITIVE STRENGTHS

We attribute our success to our competitive strengths as follows:

- a leading water purification service provider in a large addressable market with strong growth in China;
- innovative lease and service business model with distinctive advantages over conventional drinking water business models;
- extensive and well-managed third party distribution network;

SUMMARY

- superior proprietary technologies that produce high-quality purified water and complement our innovative business model; and
- experienced management team that helps us achieve our strategic goals.

OUR STRATEGIES AND FUTURE PLANS

As part of our business direction, we intend to pursue the following principal strategies to grow our business and create value for our shareholders:

- strengthen our leading market position and further increase our market shares;
- intensify our sales and marketing efforts;
- continue to maintain our service quality and diversify our service offerings;
- further develop our air sanitization business; and
- continue to improve quality and operational efficiency of our work force.

SUMMARY COMBINED FINANCIAL INFORMATION

The following summary of our combined financial information as of and for the years ended December 31, 2011, 2012 and 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus.

Combined Statements of Comprehensive Income

The table below sets forth our combined statements of comprehensive income for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue						
Water purification services	57,379	56.1	197,793	68.1	313,960	78.0
Air sanitization services	44,913	43.9	92,603	31.9	88,374	22.0
Total	102,292	100.0	290,396	100.0	402,334	100.0
Cost of sales						
Water purification services	(10,467)	(10.2)	(38,601)	(13.3)	(66,746)	(16.6)
Air sanitization services	(33,832)	(33.1)	(64,403)	(22.2)	(62,796)	(15.6)
Total	(44,299)	(43.3)	(103,004)	(35.5)	(129,542)	(32.2)
Gross profit	57,993	56.7	187,392	64.5	272,792	67.8
Other income and gains	5,282	5.2	2,486	0.9	20,792	5.2
Selling and distribution costs	(19,205)	(18.8)	(38,284)	(13.2)	(56,969)	(14.2)
Administrative expenses	(12,798)	(12.5)	(20,966)	(7.2)	(44,646)	(11.1)
Other expenses	(2,368)	(2.3)	(6,595)	(2.3)	(6,542)	(1.6)
Finance costs	(20)	(0.1)	—	—	(1,848)	(0.5)
Profit before tax	28,884	28.2	124,033	42.7	183,579	45.6
Income tax expense	(5,933)	(5.8)	(22,342)	(7.7)	(30,667)	(7.6)
Profit and total comprehensive income for the year	22,951	22.4	101,691	35.0	152,912	38.0

SUMMARY

Combined Statements of Financial Position

The table below sets forth our combined statements of financial position as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Total non-current assets	183,086	566,377	951,382
Total current assets	277,099	296,141	358,323
Total current liabilities	437,266	674,764	969,579
Net current liabilities	160,167	378,623	611,256
Total equity	22,919	180,630	333,542

We recorded net current liabilities of RMB160.2 million, RMB378.6 million, RMB611.3 million and RMB718.9 million as of December 31, 2011, 2012 and 2013 and April 30, 2014, respectively. Excluding the impact of the amount due to Fresh Water Group and deferred revenue, we would have recorded net current assets of RMB174.0 million and RMB119.3 million as of December 31, 2011 and 2012 and net current liabilities of RMB106.8 million and RMB212.6 million as of December 31, 2013 and April 30, 2014, respectively. For more details, see “Financial Information— Description of Certain Line Items in the Combined Statement of Financial Position — Net current liabilities” on page 228 of this prospectus.

KEY FINANCIAL RATIOS

The table below sets forth key financial ratios as of and for the period ended the date indicated:

	As of and for the year ended December 31,		
	2011	2012	2013
Gross profit margin	56.7%	64.5%	67.8%
Net profit margin	22.4%	35.0%	38.0%
Current ratio ⁽¹⁾	1.9	1.2	0.6
Gearing ratio ⁽²⁾	—	9.4%	63.8%
Return on equity ⁽³⁾	7.4%	22.2%	22.7%
Return on assets ⁽⁴⁾	5.0%	15.4%	14.1%

Notes:

- (1) Current ratio is calculated by dividing current assets by current liabilities less amount due to Fresh Water Group.
- (2) Gearing ratio is calculated by dividing total debt less amount due to Fresh Water Group by total equity. The amount due to Fresh Water Group will be settled prior to the Listing by issuance of ordinary shares of our Company with no cash outflow.
- (3) Return on equity is calculated by dividing net profit by the average of the beginning and end balance of shareholders' equity and amount due to Fresh Water Group.
- (4) Return on assets is calculated by dividing net profit by the average of the beginning and end balance of total assets of a given period.

For more details on our key financial ratios, see “Financial Information — Key Financial Ratios” on page 235 of this prospectus.

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OUR SHAREHOLDING STRUCTURE

Fresh Water Group was our holding company prior to our Company becoming our holding company and listing vehicle. Fresh Water Group raised three rounds of equity financing, in the forms of its Series A, Series B and Series C Preferred Shares, of (i) US\$15.8 million by SAIF Partners IV L.P. in 2010, (ii) US\$36.2 million by Ares in 2011 and 2012, and (iii) US\$25.0 million by Goldman Sachs (together with SAIF Partners and Ares, the “Financial Investors”) in 2012, respectively. The preferred shares held by the Financial Investors will be exchanged into our Shares upon the Listing. Upon the Listing, SAIF Partners, Ares and Goldman Sachs will hold 19.84%, 13.86% and 8.24% of our Company’s outstanding Shares, respectively. Pursuant to shareholders’ agreements entered into with the Financial Investors, the Financial Investors have a number of special rights in Fresh Water Group, all of which will terminate upon the Listing. Upon the Listing, Mr. Xiao, through the discretionary trusts of which he is the settlor and one of the discretionary beneficiaries, will have an aggregate 26.45% interest in our Company (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme). Mr. Xiao is one of our Controlling Shareholders. For more details, see “Our History and Reorganization — Pre-IPO Investment” on page 110 of this prospectus.

We have adopted a Pre-IPO Share Option Scheme and a Share Option Scheme in order to incentivize and reward our Directors and employees for their contribution to our Group. As of the Latest Practicable Date, options in respect of 168,800,000 Shares were granted pursuant to the Pre-IPO Share Option Scheme, representing 10% of the enlarged issued share capital of our Company immediately after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme). If all the options granted under the Pre-IPO Share Option Scheme are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 9.09%. The amount to be expensed over the vesting period of the Pre-IPO Share Option Scheme is determined by reference to the exercise price and the fair value of the Pre-IPO Share Options granted as of the grant date and the vesting period. After assessment based on information currently available, we estimate that the expense to be incurred in the year ending December 31, 2014 in connection with the Pre-IPO Share Option Scheme to be approximately RMB25.5 million, assuming an offer price of HK\$2.475, being the mid-point of the estimated Offer Price range. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarized in the section headed “Statutory and General Information — D. Share Option Schemes” in Appendix IV to this prospectus.

FROST & SULLIVAN REPORT

Certain information included in the sections headed “Business” and “Industry Overview” is quoted from the Frost & Sullivan Report. The Frost & Sullivan Report was prepared based on the following assumptions:

- (i) China’s economy is likely to maintain a steady growth in the next decade;
- (ii) China’s social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the water purifier industry in China; and

SUMMARY

(iii) there is no war or large scale disaster during the forecast period.

RECENT DEVELOPMENTS

In the three months ended March 31, 2014, we installed approximately 19,000 corporate models and 17,000 household models of water purifying machines, respectively. As of April 30, 2014, we had indebtedness of RMB214.9 million, which was the outstanding amount of the Standard Chartered Loan. As of the same date, we had net current liabilities of RMB718.9 million. Excluding the impact of the amount due to Fresh Water Group and deferred revenue, we would have recorded net current liabilities of RMB212.6 million as of April 30, 2014.

In April 2014, we began to offer our second generation water purifying machines to end users on a trial basis in Beijing, Shanghai and Guangzhou to test market reaction. We plan to limit our offerings of second generation machines in such cities in the near future. In preparation for such offerings, we built up our inventory of second generation water purifying machines which resulted in an increase in inventories and a decrease in cash and cash equivalent as of April 30, 2014 as compared to December 31, 2013. The decrease in cash and cash equivalent on April 30, 2014 was also due to expenses incurred in connection with the construction of our new manufacturing facilities in Shaanxi Province. For more details on increase of our net current liabilities as of April 30, 2014 as compared to December 31, 2013, see “Financial Information — Description of Certain Line Items in the Combined Statement of Financial Position — Net current liabilities” on page 228 of this prospectus.

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that up to the date of this prospectus, other than the above, there has been no material adverse change in our financial and trading position or prospects since December 31, 2013, and there is no event since December 31, 2013 which would materially affect the audited financial information as set out in Appendix I to this prospectus.

LISTING EXPENSES

We have incurred legal, professional and other fees with respect to the Listing. In accordance with the relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon the Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. We expect that the total amount of listing related expense, including underwriting commission, would be approximately RMB73.5 million. We expect listing expenses excluding underwriting commission would be approximately RMB44.5 million, of which RMB17.6 million will be charged to our combined statements of comprehensive income for the year ending December 31, 2014.

SUMMARY

OFFERING STATISTICS

Offer size	:	Initially 25% of the enlarged issued share capital of our Company (subject to the Over-allotment Option)
Offering structure	:	Initially 10% for Hong Kong Public Offering (subject to adjustment) and 90% for International Offering (subject to adjustment and the Over-allotment Option)
Over-allotment Option	:	Up to 15% of the number of Offer Shares initially available under the Global Offering
Offer Price per Share	:	HK\$2.25 to HK\$2.70 per Offer Share

	<u>Based on an Offer Price of HK\$2.25 per Offer Share</u>	<u>Based on an Offer Price of HK\$2.70 per Offer Share</u>
Our Company's market capitalization upon completion of the Global Offering ⁽²⁾	HK\$3,798.00 million	HK\$4,557.60 million
Unaudited pro forma adjusted net tangible asset per Share ⁽³⁾	HK\$0.70	HK\$0.81

Notes:

- (1) All statistics in the table are based on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalization is based on 1,688,000,000 Shares expected to be issued immediately upon completion of Global Offering and the Capitalization Issue.
- (3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II "Unaudited Pro Forma Financial Information" in this prospectus and on the basis of 1,688,000,000 Shares in issue at the respective offer price of HK\$2.25 and HK\$2.70, assuming that the Shares issued pursuant to the Global Offering were issued on January 1, 2014.

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FUTURE PLANS AND USE OF PROCEEDS

The table below sets forth the estimated net proceeds of the Global Offering which we will receive after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering:

	<u>Assuming the Over-allotment Option is not exercised</u>	<u>Assuming the Over-allotment Option is exercised in full</u>
Assuming an Offer Price of HK2.475 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK\$971.2 million	Approximately HK\$1,122.4 million
Assuming an Offer Price of HK2.70 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK\$1,062.8 million	Approximately HK\$1,227.7 million
Assuming an Offer Price of HK2.25 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK\$879.6 million	Approximately HK\$1,017.0 million

We intend to use the net proceeds of the Global Offering for the following purposes:

- (i) approximately 54% will be used for the manufacturing of approximately 226,000 water purifying machines in total, among which approximately 117,000 and 109,000 are planned to be manufactured in 2014 and 2015, respectively;
- (ii) approximately 20% will be used for the construction and other related expenses for the second phase of our production facility in Shaanxi Province;
- (iii) approximately 11%, and in any case no more than 15%, will be used for the repayment of 50% of the outstanding balance of the Standard Chartered Loan. For more details, see “Financial Information — Description of Certain Line Items in the Combined Statement of Financial Position — Indebtedness” on page 233 of this prospectus;
- (iv) approximately 5% will be used for sales and marketing activities; and
- (v) the remaining amount of approximately not more than 10% will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

For more details, please see “Future Plans and Use of Proceeds” on page 238 of this prospectus.

SUMMARY

RISK FACTORS

There are certain risks and uncertainties relating to an investment in our Shares. These risks include: (1) risks related to our water purification business such as (i) risks related to our lease and service model, (ii) risks related to our distribution network and (iii) risks related to our end user preference and satisfaction; (2) risks related to the EPC arrangement of our air sanitization business; and (3) risks related to doing business in China. We believe the most significant risks involved in our business and results of operations include:

- we may experience decreasing annual gross profit margins in our water purification business as the proportion of rental income generated from water purifying machines installed in previous financial years increases;
- changes in end user preferences, perception and acceptance of our business model could reduce demand for our water purification services;
- we may face difficulties in maintaining our existing end user base and developing new end users for our water purification business;
- we have a limited operating history and our business model is subject to uncertainties, which may make it difficult to evaluate our business;
- we face increasing competition from domestic and foreign companies, some of which have bigger market shares and more resources than us;
- we recorded net current liabilities during the Track Record Period and we cannot assure you that we will not be in a net current liabilities position in the future; and
- our failure to maintain the quality of our products and services may cause us to lose end users and market share.

Please see the section headed “Risk Factors” starting on page 23 of this prospectus for detailed discussion of these and other risks.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of our Company (as amended from time to time), a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing Comfort”	北京浩澤康潔環保科技有限公司 (Beijing Haoze Kangjie Environmental Technology Co., Ltd.) (formerly known as 北京康福特康潔水業有限公司 (Beijing Comfort Kangjie Water Co., Ltd.)), a company established under the laws of the PRC on February 25, 2008 and previously our wholly-owned subsidiary
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed “A. Further Information About Our Group – 3. Resolutions in Writing of the Sole Shareholder of Our Company” in Appendix IV to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chengdu Comfort”	成都康福特水業有限責任公司 (Chengdu Comfort Water Co., Ltd.), a company established under the laws of the PRC on March 28, 2007 and previously our wholly-owned subsidiary
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company” or “our Company”	Ozner Water International Holding Limited, a company incorporated in the Cayman Islands with limited liability on November 15, 2013, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	Mr. Xiao, Baida Capital Limited, Baida Holdings Limited, Lion Rise Capital Limited, Lion Rise Holdings Limited, Glorious Shine Capital Limited and Glorious Shine Holdings Limited
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law

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“EIT Rules”	the Regulation on the Implementation of the PRC Enterprise Income Tax Law
“EPC arrangement”	engineering, procurement and construction, a type of business arrangement typically used in design and construction of a facility
“Fresh Water Group”	Fresh Water Group Limited, a company incorporated in the BVI on November 30, 2010, the holding company of the Company prior to the completion of the Pre-IPO Reorganization and after completion of the Pre-IPO Reorganization, the entire issued share capital of which is wholly-owned by Mr. Xiao
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK Fresh Water”	Hong Kong Fresh Water International Group Limited (香港浩澤國際集團有限公司) (formerly known as Hong Kong Fresh Water International Group Limited (香港浩潤國際集團有限公司)), a company incorporated in Hong Kong on August 31, 2010 and our wholly-owned subsidiary
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 42,200,000 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation

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“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 3, 2014, relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters and our Company
“IFRS”	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“Independent Third Party(ies)”	individual(s) or company(ies) who is not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“International Offer Shares”	the 379,800,000 Shares being initially offered in the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to reallocation
“International Offering”	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions solely in accordance with Regulation S and in the United States to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act
“International Purchasers”	the group of underwriters led by the Joint Global Coordinators, who are expected to enter into the International Purchase Agreement to procure purchasers for or, failing which, to purchase the International Offer Shares in the International Offering

DEFINITIONS

“International Purchase Agreement”	the purchase agreement relating to the International Offering, which is expected to be entered into among the Company, the Controlling Shareholders, the Joint Sponsors and the International Purchasers, among other parties, as further described in the paragraph headed “The International Offering” under the section headed “Structure of the Global Offering” in this prospectus
“Joint Sponsors”, “Joint Global Coordinators”, “Joint Bookrunners”, or “Joint Lead Managers”	Goldman Sachs (Asia) L.L.C. and Standard Chartered Securities (Hong Kong) Limited
“Latest Practicable Date”	May 31, 2014, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about June 17, 2014, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), a summary of which is set out in Appendix III to this prospectus
“Mr. Wang”	Mr. Wang Xiaogang (王曉崗), a Shareholder
“Mr. Xiao”	Mr. Xiao Shu (肖述), our Chairman, chief executive officer, executive Director and a Controlling Shareholder
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)

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“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Over-allotment Option”	the option expected to be granted by our Company to the International Purchasers, exercisable by the Joint Global Coordinators (on behalf of the International Purchasers), pursuant to which our Company may be required to allot and issue 63,300,000 Shares, representing 15% of the number of Offer Shares initially available under the Global Offering at the Offer Price to, among other, cover any over-allocations in the International Offering
“Ozner Water Group”	Ozner Water Group Limited, a limited liability company incorporated under the laws of the BVI on November 21, 2013 and a wholly-owned subsidiary of the Company
“Park Wealth”	Park Wealth International Limited (富栢國際有限公司), a company incorporated in the BVI on May 23, 2007 and our wholly-owned subsidiary
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“Pre-IPO Reorganization”	the reorganization underwent by us in anticipation of the Listing, further details of which are set out in the section headed “Our History and Reorganization — Pre-IPO Reorganization” of this prospectus
“Pre-IPO Share Option Scheme”	our pre-IPO share option scheme
“Price Determination Date”	the date, expected to be on or about June 10, 2014, on which the Offer Price will be determined and, in any event, not later than June 13, 2014
“QIB”	a qualified institutional buyer as defined in Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB”	Renminbi, the lawful currency of the PRC

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“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shaanxi Haoze Environmental Technology”	陝西浩澤環保科技發展有限公司 (Shaanxi Haoze Environmental Technology Development Co., Ltd.), a company established in the PRC on March 7, 2012 and our wholly-owned subsidiary
“Shaanxi Haoze Air Purification Technology”	陝西浩澤空氣淨化科技有限公司 (Shaanxi Haoze Air Purification Technology Co., Ltd.), a company established in the PRC on August 22, 2012 and our wholly-owned subsidiary
“Shanghai Comfort”	上海浩澤康福特環境科技有限公司 (Shanghai Ozner Comfort Environment & Science Co., Ltd) (formerly known as 上海康福特環境科技有限公司 (Shanghai Comfort Environment and Science Co., Ltd.)), a company established under the laws of the PRC on September 23, 2005 and our wholly-owned subsidiary
“Shanghai Comfort Environmental Works”	上海康福特環保工程安裝有限公司 (Shanghai Comfort Environmental Works Co., Ltd.), a company established under the laws of the PRC on December 7, 2007 and our wholly-owned subsidiary
“Shanghai Comfort Water Development”	上海康福特水業發展有限公司 (Shanghai Comfort Water Development Co., Ltd.) (formerly known as 上海康淨特水業發展有限公司 (Shanghai Kangjingte Water Development Co., Ltd.)), a company established under the laws of the PRC on July 31, 2006 and previously our wholly-owned subsidiary

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“Shanghai Comfort Water Purification”	上海康福特淨水有限公司 (Shanghai Comfort Water Purification Co., Ltd.) (formerly known as 上海康之耐五金製品有限公司 (Shanghai Kangzhinai Metal Products Co., Ltd.)), a company established under the laws of the PRC on December 7, 2007 and our wholly-owned subsidiary
“Shanghai Haorun Environmental Works”	上海浩潤環保工程安裝有限公司 (Shanghai Haorun Environmental Works Co., Ltd.), a company established in the PRC on December 18, 2010 and our wholly-owned subsidiary
“Shanghai Haoze Water Purification Technology”	上海浩澤淨水科技發展有限公司 (Shanghai Haoze Water Purification Technology Development Co., Ltd.) (formerly known as 上海浩潤環保科技發展有限公司 (Shanghai Haorun Environmental Technology Development Co., Ltd.)), a company established in the PRC on July 30, 2009 and our wholly-owned subsidiary
“Shanghai Haoyang”	上海浩揚環保科技有限公司 (Shanghai Haoyang Environmental Technology Co., Ltd.), a company established in the PRC on November 1, 2010, an Independent Third Party
“Shanghai Haoze Environmental Technology”	上海浩澤環保科技有限公司 (Shanghai Haoze Environmental Technology Co., Ltd.) (formerly known as 上海浩翼環保科技有限公司 (Shanghai Haoyi Environmental Technology Co., Ltd.)), a company established in the PRC on November 17, 2010 and our wholly-owned subsidiary
“Shanghai Hongjia Air Purification”	上海宏佳空氣淨化設備有限公司 (Shanghai Hongjia Air Purification Equipment Co., Ltd.), a company established under the laws of the PRC on December 20, 2007 and our wholly-owned subsidiary
“Shangyu Haorun Environmental Technology”	上虞浩潤環保技術有限公司 (Shangyu Haorun Environmental Technology Co., Ltd.) (formerly known as 上虞市華鴻塑料模具有限公司 (Shangyu City Huahong Plastic Mould Co., Ltd.)), a company established in the PRC on December 15, 2009 and our wholly-owned subsidiary
“Shares”	ordinary shares in the capital of our Company with nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of Shares
“Share Option Scheme”	our share option scheme

DEFINITIONS

“Shenzhen Comfort”	深圳康福特環保技術發展有限公司 (Shenzhen Comfort Environmental Technology Development Co., Ltd.), a company established under the laws of the PRC on May 14, 2007 and previously our wholly-owned subsidiary
“Stabilizing Manager”	Goldman Sachs (Asia) L.L.C.
“Standard Chartered Loan”	a secured loan we borrowed from Standard Chartered Bank (Hong Kong) Limited with a principal amount of HK\$275 million. For more details, see “Financial Information – Indebtedness”
“State Council”	the PRC State Council (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the three financial years of our Company ended December 31, 2013
“Underwriters”	the Hong Kong Underwriters and the International Purchasers
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Purchase Agreement
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time
“Wang Family I Trust”	a discretionary trust named the Baoye Trust by Mr. Wang (as settlor) and Standard Chartered Trust (Singapore) Limited, an independent trustee incorporated in Singapore (as the trustee), for the benefit of Mr. Wang and his spouse
“Wang Family II Trust”	a discretionary trust named the Giant Century Trust established by Mr. Wang (as settlor) and Standard Chartered Trust (Singapore) Limited, an independent trustee incorporated in Singapore (as the trustee), for the benefit of Mr. Wang and his spouse
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Xiao Family I Trust”	a discretionary trust named the Baida Trust established by Mr. Xiao (as settlor) and Standard Chartered Trust (Singapore) Limited, an independent trustee incorporated in Singapore (as the trustee), for the benefit of Mr. Xiao and his mother
“Xiao Family II Trust”	a discretionary trust named the Lion Rise Trust established by Mr. Xiao (as settlor) and Standard Chartered Trust (Singapore) Limited, an independent trustee incorporated in Singapore (as the trustee), for the benefit of Mr. Xiao and his daughter
“Xiao Family III Trust”	a discretionary trust named the Glorious Shine Trust established by Mr. Xiao (as settlor) and Standard Chartered Trust (Singapore) Limited, an independent trustee incorporated in Singapore (as the trustee), for the benefit of Mr. Xiao and his mother

In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities are provided for identification purposes only.

RISK FACTORS

In addition to other information in this prospectus, you should carefully consider the following risk factors before making an investment in the Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We may experience decreasing annual gross profit margins in our water purification business as the proportion of rental income generated from water purifying machines installed in previous financial years increases.

According to our current pricing policies, we typically charge a lower annual service fee for renewals of services compared with the first year of services. However, we recognize depreciation of our revenue generating assets, which constitutes our main cost of sales for the water purification business segment, on a straight-line basis. Consequently, an installed water purifying machine has a higher gross profit margin in the first year of services compared with subsequent service years. Primarily due to this effect, the annual gross profit margin of our water purification business declined as the number of water purifying machines for renewed services accumulated and their percentage to total number of machines installed increased during the Track Record Period. Rental income generated from water purifying machines for subsequent-year services accounted for nil, 17.1% and 42.6% of the total rental income from water purification business in 2011, 2012 and 2013, respectively. The gross profit margin for our water purification business was 81.8%, 80.5% and 78.7% in 2011, 2012 and 2013, respectively. If we maintain our current pricing policies, we may experience continuously decreasing annual gross profit margins in our water purification business.

Changes in end user preferences, perception and acceptance of our business model could reduce demand for our water purification services.

The success of our water purification business depends to a large extent on end users' acceptance of our business model of services through the lease of water purifying machines. Our business model is relatively new in the industry and different than conventional barreled-water delivery services and sales of water purifying machines. We rely on our third-party distributors to educate potential end users in relation to the benefits of our lease and service business model. To that end, we provide periodic training for our distributors, but there is no assurance that the distributors will be effective in their promotion of our business model when they contact potential end users. In addition, the water purification business is relatively new in China, and end user trends and preferences are constantly changing. If we fail to anticipate, identify, interpret and react to these changes, especially in relation to our existing end users, we could experience reduced demand or discontinuation of our services, which could materially and adversely affect our business, financial condition and results of operations.

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We may face difficulties in maintaining our existing end user base and developing new end users for our water purification business.

The success of our water purification business depends on our ability to maintain and renew our services with our existing end users, and to source and enroll new end users in our services. There is no assurance that we will be successful in renewing our services with our existing end users or in acquiring new end users.

Our ability to maintain our existing end users depends to a large extent on the smooth performance of our water purifying machines and the quality of our post-installation services. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to or involved in any material claim or dispute with our end users. However, there is no assurance that we will be successful in continuing to provide satisfactory post-installation services to our end users at affordable or reasonable costs as we expand our business, or maintain the quality of purified water processed by our water purifying machines. If we are not able to renew our services with our existing end users or extend our end user base by adding new end users at desired levels, or at all, or to provide post-installation services or any other requirements of our end users' at reasonable or affordable costs, our relationship with our end users and our distributors, our business, financial condition and results of operations could be materially and adversely affected.

We have limited operating history and our business model is subject to uncertainties, which may make it difficult to evaluate our business.

We have a limited operating history and have experienced rapid revenue growth during the Track Record Period. We may not be able to achieve or sustain profitability on a quarterly or annual basis. Our revenue increased significantly from RMB102.3 million in 2011 to RMB290.4 million in 2012, and our net profit increased significantly from RMB23.0 million in 2011 to RMB101.7 million in 2012, respectively, primarily due to the quick ramp-up and significant growth of our water purification business. The apparent increases in revenue and net profit from 2011 to 2012 were also partially attributable to the deferred recognition of revenue which was generated from a portion of contract sales made in 2011. Revenue recognized in 2012 that was generated from contract entered into in 2011 was RMB71.6 million and RMB30.2 million from water purification services and air sanitization services, respectively.

We recognize revenue from water purification services on a straight-line basis over the lease term of 12 months of our water purifying machines. Our cost of sales associated with the water purification services consists primarily of depreciation cost on our water purifying machines installed at end users' premises. The depreciation of the water purifying machines is recognized on a straight-line basis, reflecting that the wear and tear of the water purification machines occurs evenly over the estimated useful life. We estimated the useful life of our water purifying machines to be 10 years, which is supported by an independent appraisal report produced by a certified professional appraiser. We believe for companies in operating lease businesses, it is not uncommon that the lease period over which the revenue is recognized is significantly shorter than the useful life of the leased assets over which the depreciation is recorded on a straight-line basis. However, due to our limited operating history, we cannot

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assure you that the estimated useful life accurately reflects the average service age of our water purifying machines. If such estimation turns out to be significantly inaccurate, our profitability and financial position could be adversely affected.

In addition, we have a relatively new business model in a rapidly evolving market. This may make it difficult for you to evaluate our business, financial performance and prospects, and our historical growth rate may not be indicative of our future performance. You should consider our prospects in light of the risks and uncertainties that fast-growing companies in a rapidly evolving market may encounter.

We recorded net current liabilities during the Track Record Period and we cannot assure you that we will not be in a net current liabilities position in the future.

As of December 31, 2011, 2012 and 2013 and April 30, 2014, we recorded net current liabilities of RMB160.2 million, RMB378.6 million, RMB611.3 million and RMB718.9 million, respectively. The net current liabilities were primarily attributable to the amount due to Fresh Water Group of RMB287.8 million, RMB422.8 million, RMB408.0 million and RMB408.0 million as of December 31, 2011, 2012 and 2013 and April 30, 2014, respectively. The amount due to Fresh Water Group relates to proceeds from pre-IPO investment that were granted to us in the form of an interest-free loan. Such shareholder's loan was partially repaid by HK Fresh Water, with the remaining balance to be capitalized by having HK Fresh Water issue one share of HK\$1.00 to Ozner Water Group immediately following the Global Offering becoming unconditional as part of the Pre-IPO Reorganization and would not result in cash outflow. Net current liabilities as of December 31, 2013 and April 30, 2014 was also attributable to the Standard Chartered Loan, the outstanding amount of which was RMB212.7 million and RMB214.9 million as of December 31, 2013 and April 30, 2014, respectively. Excluding the impact of the amount due to Fresh Water Group Limited and deferred revenue, we would have net current liabilities of RMB106.8 million and RMB212.6 million as of December 31, 2013 and April 30, 2014, respectively. There can be no assurance that our business will generate sufficient cash flows from operations in the future to serve our debts. If we are unable to do so, we may face a deficiency of working capital and may not be able to service outstanding short term debts. Any of these events could have a material adverse impact on our business and results of operations.

We may not successfully manage our current and future growth.

We have experienced rapid growth during the Track Record Period and expect to continue to grow in the future as we expand our water purification services to both corporate and household end users. Our growth may place strain on our management team, finance department, information systems and other resources. To manage growth effectively, we must, among other things:

- continue to enhance our operational, financial and other systems and resources;
- maintain and improve our internal controls and procedures; and
- expand, train and manage our employee base.

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We may not be able to effectively manage this expansion in any one or more of these areas, and any failure to do so could significantly harm our business. In addition, our management, personnel and facilities currently in place may not be adequate to support this future growth. Our rapid growth also makes it difficult for us to adequately predict the expenditures we will need to make in the future. If we do not make the necessary expenditures to accommodate our future growth, we may not be successful in executing our growth strategy, and our results of operations would suffer. Alternatively, necessary expenditures to continue our growth could exceed our current expectations, which would affect our ability to achieve and sustain profitability.

Real or perceived contamination or deterioration of the quality of water or air processed by our products could result in reduced sales, product liability and damage to our reputation, which may subject us to regulatory action.

If water processed by our water purifying machines or air processed by our air sanitization system are found to be contaminated or reported to be associated with any contamination incidents, our reputation, business, prospects, financial condition and results of operations could be materially and adversely affected. In particular, we cannot guarantee that water or air processed by our products would always be free of contaminants or otherwise reported to be associated with any contamination incidents, or that we would not be subject to product liability claims. Furthermore, the mere negative publicity on contamination or deterioration of quality in relation to our products and services could damage our reputation and may have a material adverse effect on us, regardless of whether these reports have any factual basis. Moreover, if contamination or deterioration of quality of water or air processed by our products cause health problem or other damages for our consumers or clients, we could be subject to product liability claims for damages.

China's water purification industry is heavily regulated. If our water purification processes fail to meet relevant governmental or industrial standards, we may be subject to regulatory actions or penalties including monetary fines, confiscation of equipment and/or revocation of licenses necessary to conduct our business, which could materially and adversely affect our business, financial condition and results of operations.

The roll-out of our second generation water purifying machines in April 2014 may have a material adverse impact on our results of operations and financial position if we fail to implement our plan to integrate both generations of water purifying machines into our service offerings.

We started commercial production and offering of our second generation water purifying machines in April 2014. Our second generation water purifying machines have a number of improved functionalities as compared to the existing water purifying machines we currently offer to end users. For more details of a comparison of our two generations of water purifying machines, see "Business — Our Water Purification Services — Service Model and Products." We have formed detailed strategies for the roll-out of this new generation of machines to ensure that our first and second generation machines will complement each other and contribute to our business expansion. For more details, see "Business — Our Water Purification Services — Service Model and Products."

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We expect the market demand for our first generation water purifying machines to continue to grow in the near future and plan to continue to produce first generation water purifying machines. If such expectation turned out to be inaccurate and we could not find sufficient demand for our newly manufactured first generation water purifying machines, our results of operations and financial positions may be materially and adversely affected. In addition, an existing end user who is using our services provided by a first generation water purifying machine can opt to enter into a new lease for services provided by a second generation machine when its existing lease expires. We will repossess the first generation water purifying machine and make the repossessed first generation water purifying machine ready and available for other end users subscribing to our first generation machines after we perform maintenance and refurbishment procedures. The estimated average useful life of our first generation water purifying machines is 10 years, and we will continue to incur cost of service on previously installed machines in the form of depreciation of revenue generating assets on a straight-line basis during the asset's useful life period, even if such machines were not installed for end users for services and as a result not generating revenue. If a significant number of end users opt to enter into new leases for services to be provided by the second generation water purifying machines and we fail to secure enough demand for service leases for refurbished first generation water purifying machines, our results of operations and financial positions might be materially and adversely impacted. Furthermore, based on our current pricing policies and production cost, we estimate that it would take approximately two years of services by a first generation water purifying machine for us to recoup the machine's production cost. If we fail to find sufficient demand for our repossessed and refurbished first generation water purifying machines for services within two years after their first installation, our results of operations might be further adversely impacted.

In addition, the average cost of raw materials and components of our first generation water purifying machines was approximately RMB1,100, RMB1,200 and RMB1,300 per machine in 2011, 2012 and 2013, respectively. The cost of raw materials and components contributed to more than 70% of the production cost. The production cost was recognized as revenue generating assets after the relevant water purifying machines are first installed and activated and subject to depreciation over the useful life of 10 years on a straight-line basis. As the production cost of the second generation water purifying machines is higher than the first generation machines, if the pricing of our second generation machines cannot at least offset the higher cost of sales compared to our first generation machines, our gross profit margin from water purification business would decline and our results of operations may be adversely impacted.

Our failure to maintain the quality of our products and services may cause us to lose end users and market share.

The quality of purified water and sanitized air is of utmost importance to our end users and clients. If there is any quality problem with the purified water we provide, end users may cancel their service orders with us. Similarly, if any quality issues occur in the air sanitization system we design for clients, it may impose extra repair and other cost on us and affect our ability to procure future air sanitization contracts. The effectiveness of our quality control system depends on a number of factors, including timely updates of our quality control system to suit the ever-changing business needs as well as our ability to ensure strict adherence to our

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quality control policy and guidelines. Any failure or deterioration of our quality control system would result in defects in our products, which in turn may jeopardize our reputation and reduce demands for our products and we may lose some of our end users and our market share. As a result, our profitability and financial condition could be adversely affected.

Any negative publicity on our water purification services may cause us to lose end users and market share.

The water purification market is fragmented and highly competitive, and any negative publicity on our water purification services, whether factually true or not, may have a negative impact on our reputation, which may in turn cause end users to discontinue our services or make it more difficult for us to attract potential end users. We have established a call center to process service requests and complaints from end users and distributors, but it would be difficult for us to individually verify and respond to complaints from other sources, such as report or post on internet and other social media. If we fail to timely and adequately address material complaints or other negative publicity, our reputation may be harmed and our results of operations may be adversely affected.

We rely on our third party distributors to source end users for our water purification business.

We source end users for our water purification business primarily through our distributors. As of December 31, 2011, 2012 and 2013, we had 714, 871 and 1,702 third party distributors, respectively. We generate all rental revenue of water purification services from annual leasing fees paid to us by our principal distributors. We expect to continue to rely on our distributors for the distribution of our water purification services. As such, the performance of our distributors and the ability of our distributors to source end users, uphold our brand, and expand their end user reach are crucial to the future growth of our business. If a significant number of our distribution agreements are suspended, terminated or otherwise expired without renewal, our business, financial condition and results of operations may be materially and adversely affected.

In addition, we may not be able to accurately anticipate local market demand and the competitive landscape, which may result in inaccurate forecast and business planning. Moreover, since distributors make an initial contact with our potential end users, we partially rely on distributors to impart to potential end users an understanding of our technology advantages and our lease and service business model. If we fail to sufficiently educate new distributors and keep existing distributors updated on our business or technological development, we might not be able to successfully expand our business scale and increase our end user base.

We have limited control over our third party distributors.

We regulate practices of our distributors mainly through contractual obligations and we monitor their compliance and performance through our integrated databases and regional sales office, but we have no ownership or managerial control over any of our third party distributors. As of December 31, 2013, we had four regional sales offices which had 113 employees in total. Due to the large number of our distributors, it is difficult for us to closely monitor all aspects of

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their practices. Under the distribution agreement and the proxy distribution agreement, we have the right to terminate the agreement and demand payment of damage in the event of breach by a principal distributor or sub-distributor. However, we cannot assure you that distributors will comply with and perform their contractual obligations. In addition, there may be instances when these distributors carry out or omit actions which are not consistent with our business strategy, such as failure to participate in our marketing and promotional activities. If any of our distributors fails to perform at a standard in accordance with the terms of our distribution agreements, or at all, our brand image and end user relationship may be adversely affected. These factors may in turn adversely affect our business, financial condition and results of operations.

We implemented a two-card system to prevent pricing cannibalization between our distributors. The two-card system may be circumvented and we may not discover other means of unfair competition among distributors on a timely basis. If we cannot prevent pricing cannibalization between our distributors, our profitability and end user relationship may be materially and adversely affected.

Moreover, we are advised by our PRC legal adviser that our trademarks “Ozner” and “浩澤” do not entitle us to preclude third parties from using “Ozner” or “浩澤” as part of a legal entity’s name, and legal entities with “Ozner” or “浩澤” as part of their business names can be legally registered with the competent administrative bureau of industry and commerce. As such, we can only regulate the use of such terms by our distributors through arrangements similar to the contractual arrangements we have with our distributors with respect to our trademarks. Pursuant to the distribution agreements, our distributors may use our brand names and trademarks for the purpose of sourcing end users for us upon pre-approval by us. As we have limited control over the distributors, we may be unable to take measures to effectively avoid our brand name from being associated with low quality or inappropriate services provided by them. We may not be able to prevent the use of our brand names and trademarks outside the scope granted by us or after termination of a distributor agreement, and in particular, any misrepresentation by distributors as to their roles and relationship to us. Any such association, misuse or misrepresentation may damage our brand names and reputation, and materially and adversely affect our business, financial condition and results of operations.

We generate all rental revenue of water purification services from a limited number of principal distributors.

We provide water purification services to our end users through the lease of our water purifying machines and we generate all rental revenue of water purification services from annual leasing fees paid to us by our principal distributors. We also rely on sub-distributors to source end users for us, and revenue attributable to end users sourced by sub-distributors are also paid to us by the respective recruiting principal distributors. For more details, see “Business — Our Water Purification Services — Our distribution network — Arrangements with principal distributors and sub-distributors.” As of December 31, 2011, 2012 and 2013, we had 246, 358 and 439 principal distributors, respectively. Moreover, rental revenue generated from the top five of our principal distributors accounted for 44.1%, 65.8% and 67.5% of our total revenue generated from water purification services in 2011, 2012 and 2013, respectively. If we fail to

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renew our distribution agreements with a significant number of principal distributors upon expiration for any reason, our business, financial condition and results of operations could be materially and adversely affected.

The lease terms for water purification services are typically one year and end users may not renew their service orders with us upon expiration.

Upon expiration of a lease term, end users can renew their orders of our services by notifying their distributors. It is critical that our existing end users renew our services which enable us to accumulate end user base and expand our operational scale. There is no assurance that our end users will continue to place service orders with us, or, especially in terms of corporate end users, that their future orders will be at a comparable level or on similar terms as in prior years. Should any of our end users cease to place orders with us or reduce their order size and we are unable to obtain other orders at a comparable level, our business and profitability could be materially and adversely affected.

We face increasing competition from domestic and foreign companies, some of which have bigger market shares and more resources than us.

The water purification and air sanitization industries in the PRC are highly competitive and we face intense competition in both industries. We compete with both conventional barreled-water delivery service providers and sellers of water purifying machines in the water purification business. Our competitors in the air sanitization business are primarily other EPC contractors who produce air sanitization systems. We compete principally on the basis of product quality, pricing, reputation, product development skills, manufacturing techniques, production capacity and delivery and end user service, with varying emphasis on these factors depending on the market, end users and the product in consideration. Our financial condition and results of operations could be materially and adversely affected if we are unable to compete successfully in either of these sectors. There is no assurance that we will be successful in maintaining or expanding our market share against our competitors. Our competitors may be able to respond quickly to new or changes in market trends or end user requirements and/or demands or adopt more competitive pricing policies. Existing and/or increased competition could also significantly reduce our market share and materially decrease our net income and profitability.

In particular, the water purification market in the PRC is currently fragmented and the market may undergo consolidation in the future. If we fail to increase or maintain our market share through organic growth or strategic acquisitions, our business as well as competitive position may suffer. For example, Unilever, an international consumer goods company, announced in March 2014 that it planned to acquire a 55% equity interest in Qinyuan Group. Co., Ltd, or Qinyuan Group. According to Frost and Sullivan, such acquisition would have a significant impact on the water purifier market in the PRC in a number of aspects. For more details, see “Industry Overview — Water Purifier Market in China — Top Ten Water Purifier Companies” of this prospectus. In particular, such acquisition could significantly impact on our business and development strategies, as Qinyuan Group is a market leader whose market share is slightly larger than ours and is also recognized as a water purifier manufacturer with strong research and development capacity. As Unilever is a large scale international consumer goods company with capital, management and other resources substantially larger than ours,

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the acquisition of Qinyuan Group, if consummated, could result in more rapid development of Qinyuan Group's business and in turn impose significant competitive pressure on our operations and market position. If we fail to adjust our operations and business strategy in the face of such increased competitive pressure, we may not be able to acquire enough new end users on a yearly basis to maintain our gross profit margins at a comparable level or to maintain our existing end users and secure service renewals from them, which may have material adverse effects on our financial position and results of business.

We also attribute our success to our techniques and trade secrets, in particular our improved reverse osmosis and ozone technologies. Any of our competitors may develop similar or better techniques than ours, or provide better product quality than us at competitive pricing. There is no assurance that we may continue to refine and develop our technologies, or keep up with design and develop improvement to maintain our competitive advantages. If our competitors are more successful in developing their technologies and product quality, they may be able to expand their end user base faster and obtain greater market share.

We do not have long-term supply arrangements with suppliers for our components and parts.

We purchase components and parts from various suppliers. In addition, as part of our strategy to increase capacity in a cost-effective manner and maximize production flexibility, we procure components of our water purifying machines and air sanitization system from independent third party supplier.

In order to ensure that we are able to satisfy our and our clients' needs, we need to obtain from suppliers in a timely manner sufficient quantities of these components and parts of good quality at acceptable prices. We have not entered into any long-term purchase contracts with our suppliers and contract manufacturers. There is no assurance that we will continue to be able to obtain sufficient quantities of these components and parts from suppliers at acceptable prices or seek alternative sources of supply in a timely manner. We are therefore vulnerable to the risk of shortage of supply and rising prices of components and parts. During the Track Record Period, we have not encountered any shortage of supply of components and parts. However, if we cannot obtain sufficient quantities of components and parts at reasonable prices, or at all, or if we are unable to pass on any significant increase in the price of components and parts to end users on a timely basis, our financial performance may be materially and adversely affected. In addition, shortage of supply of components and parts or delay or disruption in delivery of components and parts will adversely affect our ability to fulfill the end users' service orders in an efficient and timely manner and may consequently damage our reputation, business and financial performance.

Increases in costs of the components, parts and other supplies that we use in our products may have an adverse effect on our business.

Significant changes in the markets in which we purchase components, parts and other supplies for the production of our products may have a material and adverse effect on our net income and profitability, particularly in the event of significant increases in demand where there is not a corresponding increase in supply, inflation or other pricing increases. Continued volatility in the prices of components used in the manufacture of our products may have an

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adverse effect on our business, results of operations and financial condition. We also face pricing pressure from our suppliers, which may from time to time threaten to stop shipments to us unless we agree to price increases.

Most of our sales contracts for air sanitization system are secured on a project basis. If we fail to continue to secure new contracts, our operating results may be materially and adversely affected.

Most of our sales contracts for air sanitization system are EPC arrangements secured on a short-term project basis. As a result, we must periodically seek to enter into new contracts when our current contracts are completed. We cannot assure you that we will always be able to renew our contracts with existing clients or secure new sales contracts for air sanitization system. If we are unable to renew our contracts with existing clients or continue to secure new contracts, our business, financial condition and results of operations may be materially and adversely affected.

We cannot guarantee that our contract manufacturers will consistently manufacture the components or parts in accordance with the quality control measures and standards set forth in our contracts with them. Failures by contract manufacturers to adhere to these quality control measures and standards or consistently produce according to the specifications we set could damage our reputation and brand image and may lead to product liability claims or product recalls. Similarly, any failure on the part of our contract manufacturers to provide us with the component on a timely basis could severely disrupt the progress of our air sanitization services if we are unable to obtain such components from alternate sources and at comparable cost.

Furthermore, in our air sanitization business we often act as a sub-contractor under EPC arrangements. As the air sanitization system we design for a client under such arrangement is usually a part of the project, it is difficult for us to control the overall quality of the project or the integration of our air sanitization system into the project. The primary contract under which we subcontract could be terminated, regardless of the quality of our services as a subcontractor. If a quality problem arises due to such lack of overall control, it may lead to a loss of clients or decrease in revenue, harm to our brand and reputation, the incurrence of unexpected expenses, loss of market share, and diversion of the attention of our technical and management personnel to address these problems, any one of which may materially and adversely affect our business, financial condition and results of operations.

Failure to accurately project production costs or inability to perform our obligations under EPC contracts in the air sanitization business may adversely affect our business.

Typically, our EPC contracts provide fixed prices which we submit in the bidding process. We face uncertainty during the design and component procurement process, including local or premises condition, fluctuation in raw material price, or difficulties in the overall project if we act as a sub-contractor. If we fail to account for additional costs or expenses caused by such uncertainties when we estimate the bidding price, our net income and profitability could be materially reduced. In addition, many EPC contracts require the completion of a project by a specific date and the achievement of certain performance standards. If we subsequently fail to meet such dates or standards, we may be held responsible for costs resulting from such

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failure. Our inability to obtain the project management talent, material and equipment necessary to meet a project schedule or the installation of defective material or equipment could have a material adverse effect on our business, financial condition and results of operations.

It may be costly and difficult to enforce our intellectual property rights in the event of infringement of such rights by third parties.

Our success and competitive strength depend to a large degree on our intellectual properties, including our patents, technology know-how and product designs. We own utility model patents (實用新型專利), design patents (外觀設計專利) and trademarks. We cannot guarantee that misappropriation of our intellectual property will not occur, and our competitors may independently develop other equivalent or superior technologies or know-how based on our intellectual property, introduce counterfeits of our products, misappropriate our proprietary information and infringe our patents and trademarks. Furthermore, the legal regime governing intellectual property in the PRC is still evolving and the level of protection of intellectual property rights in the PRC differs from those in other jurisdictions.

In the event of infringement of our intellectual property, we may need to protect our intellectual property rights through litigation. Litigation may divert our management's time and attention from our business operations and incur significant expenses. The outcome of such litigation is however uncertain. In particular, an adverse outcome may subject us to significant liabilities or require us to seek licenses from third parties on commercially unfavorable terms, if such licenses were to be available at all, and, consequently, our business and operations, as well as our net income and profitability could be materially and adversely affected. In addition, infringement of our intellectual property rights may impair the market value and share of our products, damage our reputation and have a material adverse effect on our business, financial condition and results of operations.

We may be subject to third party claims for infringement of intellectual property rights.

We may be unaware of third party intellectual property rights such as trademarks and patents that may cover some of the technology, products and services originally belonging to other third parties who may assert intellectual property infringement claims against us. Any litigation regarding trademarks, patents or other intellectual property could be costly and time consuming. It could also divert our management and key personnel from the business operations. The complexity of the technology involved and uncertainty of intellectual property litigation increase these risks. During the Track Record Period, we had not been involved in any legal proceedings or subject to any third party claims in relation to the infringement of intellectual property rights. In the event of a successful claim by such third parties, we may be subject to payment of significant damages. In addition, we may be subject to injunctions against the development and sale of certain of our products and services. Any such claims and injunctions could have a material adverse effect on our business, financial condition and results of operations.

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We may be materially and adversely affected by rapid technological changes.

The water purification and air sanitization industries are technology-intensive and characterized by rapid changes in technology. We face increasing competition from technologies currently under development or which may be developed in the future. Future development or application of new or alternative technologies, services or standards could also require significant changes to our business model, the development of new products, the provision of additional services and substantial new investments by us or render our existing products or service obsolete. Moreover, new products and services may be expensive to develop and may result in the introduction of additional competitors into the marketplace. In addition, some of our competitors may develop and use more advanced technology and produce higher quality equipment. We cannot accurately predict how emerging and future technological changes will affect our operations or the competitiveness of our services. There is no assurance that our technologies will not become obsolete, or be subject to competition from new technologies in the future, or that we will be able to acquire new technologies on reasonable terms necessary to compete in changed circumstances. In addition, we depreciate our water purifying machines over the estimated life time of 10 years. If a significant number of our end users decide not to renew the lease contracts before the relevant water purifying machines are fully depreciated, due to the evolution of technologies or otherwise, we may incur significant losses.

We depend on our information technology systems to conduct our business, and any significant disruption to these systems could have a material adverse effect on our business, financial condition and results of operation.

We manage our end users, distributors and water purifying machines through an integrated system of databases and software. For more details, see “Business — Our Water Purification Services — Our distribution network — Integrated distributor, machine and end user management system.” Our ability to keep our business operating effectively depends on the functional and efficient operation of our system. We rely on our system to make a variety of day-to-day business decisions as well as to track transactions, payments and inventory. Our system is susceptible to interruptions (including those caused by system failures, malicious computer software (viruses and other malware) and other natural or man-made incidents or disasters), which may be prolonged. We are also susceptible to security breaches that may go undetected. A significant or large-scale interruption of our information technology could materially and adversely affect our ability to manage and keep our operations running smoothly. An incident that results in a wider or sustained disruption to our business could have a material adverse effect on our business, financial condition and results of operations.

Our product liability insurance may not be sufficient to cover product liability claims against us.

We may face product liability claims from end users or consumers of our water purification services or clients of our air sanitization system, if the use of our products or services results in bodily injuries, property damage or other losses. We have maintained product liability policies for our products and services. The maximum coverage of such insurance was RMB1.0 million, RMB1.0 million and RMB20.0 million in 2011, 2012 and 2013, respectively. For more details,

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see “Business – Insurance.” However, we cannot assure you the coverage of product liability insurance we maintain will be sufficient to cover any further claims. Any complaints or claims against us that exceed the maximum insurance coverage amount may result in significant monetary damages to us. We may also have to spend significant resources and time to defend ourselves if legal proceedings for product liability are instituted against us. In such event, our reputation could be severely damaged, and our business, financial condition and results of operations could be materially and adversely affected.

Disruption of operations at our production facilities could materially and adversely affect our business.

Our ability to efficiently produce water purifying machines and air sanitization system is critical to our success. Currently, we have production facilities located in Shangyu City, Zhejiang Province with a GFA of approximately 17,782 sq. meters, which have an annual production capacity of 170,000 water purifying machines. We are constructing another production facility in Shaanxi Province. Any damage or disruption to the operations of our Shangyu production facility can materially and adversely affect our business and prospects. Damage or disruption may result from a number of factors, including:

- (i) utility supply disturbances, terrorism, strikes or other force majeure events, as well as forced closing or suspension of our production facilities;
- (ii) severe weather conditions;
- (iii) failure to comply with applicable regulations and quality assurance guidelines;
- (iv) interruption of our information technology systems that facilitate the management of our production facilities; and
- (v) other production or distribution problems, including limitations to production capacity due to regulatory requirements, changes in the types of equipment produced or physical limitations that could impact continuous supply.

Although we have not experienced any material disruptions at our Shangyu production facilities, there can be no assurance that the events and factors mentioned above will not result in material disruptions in the future. If we fail to take adequate steps to mitigate the likelihood or potential impact of these events, or to effectively respond to these events if they occur, our business, financial condition and results of operations could be materially and adversely affected.

Our failure to obtain or maintain product certifications and operation licenses and qualifications may have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly regulated industry. The PRC government and local governments impose stringent qualification and certification requirements on the provision of water purification services. To manufacture water purifying machines, we have applied to health administration authorities for the hygiene license for products related to drinking water and

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undergone mandatory certification conducted by certification institutions designated by the PRC government for those products listed in the compulsory product certification catalogue, and are in the process of applying for the update of these mandatory certifications to reflect our renamed products. As advised by our PRC legal adviser, Shu Jin Law Firm, as of the Latest Practicable Date, we had obtained all permits, licenses and approvals required for our operations, including the necessary regulatory certificates for the provision of water purification services. However, there is no assurance that we could maintain the relevant licenses we currently have. In addition, there can be no assurance that we will be able to obtain additional certificates if we expand our product or service offerings. If we fail to maintain our current certificates or obtain additional certificates in the future, we may not be able to continue conduct or expand our operations, and our business, financial condition and results of operations may be materially and adversely affected. Moreover, if stringent qualification and certification requirements are imposed on the air sanitization industry in the future, our business and prospects could also be materially and adversely affected.

Our manufacturing operations are subject to various safety, health and labor guidelines imposed either by the government or by end users which may increase our costs or restrict our operations.

We are subject to a variety of guidelines imposed by the PRC governments relating to safety, health and labor conditions. The failure by us and/or third party manufacturers to whom we outsource manufacturing to comply, or the allegation of such non-compliance, with any present or future end user guidelines could result in loss of end user contracts or cessation of operations, thereby causing damage to our reputation. New end user guidelines could also require us and/or third party manufacturers to whom we outsource manufacturing to acquire costly equipment or to incur significant expenses.

We may not be able to retain or recruit key qualified personnel, key senior management or other personnel for our operations.

We depend on certain key qualified personnel, key senior management and other employees in our business, including those personnel set out in “Directors, Senior Management and Employees” in this prospectus. In particular, we depend on the services of Mr. Xiao to further our growth and expansion. The expertise, industry experience and contributions of our senior management are crucial to our success. In addition, as research and development is critical to the success of our business, we depend on our lead researchers and senior research and development personnel to further the technology developments of our products and services. There can be no assurance that such persons will continue to provide services to us or will honor the agreed upon terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain personnel for our future operations and development may have a material adverse effect on our business and prospects as well as our financial condition and results of operations.

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We plan to incur additional costs on a variety of marketing efforts designed to increase our brand awareness and some or all of these marketing campaigns and methods may not be effective.

We have been and plan to continue to engage in a variety of different marketing efforts tailored to our targeted users to increase our user base and user activity level. Our marketing activities, which we expect to involve significant costs, may not be well received by end users and may not result in increase in our brand awareness and increase in revenue that we anticipate. Furthermore, marketing approaches and tools, especially in online media, are evolving in China. This further requires us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and user preferences. Failure to refine our existing marketing approaches or to introduce new effective marketing approaches in a cost-effective manner could reduce our market share, cause our net revenue to decline and have a material adverse effect on our net income and profitability.

Changes in government regulations, including environmental laws, rules and regulations, could affect our business, financial condition and results of operations.

Although we only generate a minimal level of pollutants and wastes in various stage of our manufacturing process, our operations are subject to inspections by the relevant PRC environmental protection authority. The discharge, storage and disposal of such pollutants and waste are subject to applicable environmental laws, rules and regulations in the PRC. Historically, environmental legislation in the PRC has, in many cases, been less stringently enforced. However, more stringent standards may be introduced, stricter interpretations of existing laws may occur or enforcement may become more stringent in the PRC. Changes in the regulatory framework may result in an increase in our actual operating costs and liabilities for which we have not provided.

Failure to adequately protect information on end users and distributors could severely damage our reputation as well as our business.

We maintain databases of our end users and distributors and therefore must comply with data protection laws in China. Data protection laws restrict our ability to collect and use personal information relating to our end users and distributors. Notwithstanding our information technology and data security and other systems, we may not be effective in detecting any intrusion or other security breaches, or safeguarding against sabotage, hackers, viruses and cyber crime. We are exposed to the risk that personal data could be wrongfully accessed and/or used, whether by employees, users or other third parties, or otherwise lost or disclosed or processed in breach of data protection laws. If any such theft or loss of end users or distributor data were to otherwise occur, it could subject us to liabilities under the data protection laws or result in the loss of the goodwill of our end users or distributors.

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We may not realize the anticipated benefits of our past and potential future acquisitions or investments or be able to integrate any acquired employees, businesses or products, which in turn may negatively affect their performance and respective contributions to our financial results.

We acquired Shanghai Comfort in September 2012 and may make strategic acquisitions of other water purification or air sanitization business in the future. Such existing and future acquisitions or investments may expose us to potential risks, including:

- unidentified issues not discovered in our due diligence process, such as hidden liabilities and legal contingencies;
- distraction of management's attention from normal operations during the acquisition and integration process;
- failure to effectively integrate acquired assets and talent into our corporate structure and culture;
- diversion of resources from our existing business and technologies;
- difficulties in retaining key employees of the acquired business;
- failure to realize synergies expected from acquisitions or business partnerships; and
- unexpected delays in completing any such acquisitions.

We may also fail to identify or secure suitable acquisition or investment opportunities, or our competitors may capitalize on such opportunities before we do. Moreover, identifying such opportunities demands substantial management time and resources, and negotiating and financing such acquisitions or investments involves significant costs and uncertainties. If we fail to successfully source, execute and integrate acquisitions or investments, our overall growth could be impaired, and business, financial condition, results of operations and prospects could be materially and adversely affected.

The PRC preferential tax treatment we currently enjoy may be unfavorably changed or discontinued.

Pursuant to relevant laws, rules and regulations in the PRC and with approval from the relevant tax authorities, (i) Shanghai Haoze Water Purification Technology qualified as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2012 to 2014; (ii) Shanghai Comfort qualified as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2011 to 2013; and (iii) Shaanxi Haoze Environmental Technology was approved by the competent tax authority where it locates to be an enterprise engaging in an encouraged industry established in western China and is entitled to the preferential tax rate of 15% in 2012 and 2013. We cannot assure you that we will be able to extend and continue to enjoy such preferential policies upon their expiration. Neither can we assure you that such PRC preferential tax policies will not change unfavorably or not be discontinued. If we fail to obtain such approval or fail to continue to enjoy such

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preferential tax policies, or if such PRC preferential tax policies be changed unfavorably or be discontinued, our financial condition and results of operations may be materially and adversely affected.

Certain portions of our material leased properties in the PRC lack title certificates and certain leases of our material leased properties have not been registered with the relevant PRC governmental authorities.

We have leased certain properties in the cities we operate. As of December 31, 2013, our material leased properties included twelve premises with an aggregate GFA of approximately 29,448 square meters, which are used for our offices, production facilities and warehouses. In respect of these material leased properties and the leases, there are certain defects as follows:

- four of the material leased properties, which are respectively in Beijing, Chengdu, Guangzhou and Nanjing with an aggregate GFA of approximately 1,998 square meters and for warehouse use, lack relevant title certificates; and
- five of the material leased properties with title certificates, which are respectively in Beijing, Shangyu, Shanghai, Shenzhen and Dongguan with an aggregate GFA of approximately 21,130 square meters and for office, production and warehouse use, have not been registered with the relevant PRC governmental authorities.

In respect of those leased properties without title certificates, any dispute or claim in relation to the rights to lease and use the properties occupied by us, including any litigation involving allegations of illegal or unauthorized use of these properties, may require us to relocate our business and operations. If any of our leases were terminated as a result of any challenge by third parties or any failure of our lessors to renew the leases or obtain their legal title, we may need to seek alternative premises and incur additional costs for relocation.

In respect of those leases with title certificates but failure of registration with the relevant PRC governmental authorities, we as the lessee may be imposed of a fine according to the laws and local regulations where such leased properties are located as follows:

- for the leased properties in Shangyu, Shanghai and Dongguan, a fine between RMB1,000 and RMB10,000 may be imposed; and
- for the leased properties in Shenzhen, a fine equal to 10% of the total rental cost under the lease agreement, approximately RMB193,200, may be imposed only under the circumstances that we are proved to be in fault on the failure of leases registration.

We have been advised by our PRC legal adviser, Shu Jin Law Firm, that the lack of registration of the leased properties will not affect the validity and enforceability of the lease agreement.

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RISKS RELATING TO OUR INDUSTRIES

The water purification and air sanitization industries in China may not grow as quickly as expected, which may adversely affect our revenue and business prospects.

Our business and prospects depend on the continuing development and expansion of the water purification and air sanitization industries in China. Both industries have experienced substantial growth in recent years in terms of both the number of consumers and revenue generated. We cannot assure you, however, that the water purification and air sanitization industries in China will continue to grow as rapidly as they have in the past. Growth of China's water purification and air sanitization industries are affected by numerous factors, including:

- macroeconomic environment and GDP growth in China;
- growth of individual disposable income;
- regulatory developments;
- technological innovations;
- public perception and receptiveness;
- end users' trust and confidence level in the quality of the products and services; and
- end users' general experience using such products and services.

If the water purification and air sanitization industries in China do not grow as quickly as expected or if we fail to benefit from such growth by failing to successfully implement our business strategies, our end user base may decrease and our business and prospects may be materially and adversely affected.

Changes in public health and safety laws, rules, regulations and industrial standards may have a material adverse effect on our business, financial condition and results of operations.

Our operations in the water purification industry are subject to extensive laws, rules, regulations and industrial standards promulgated by the Ministry of Health, National Health and Family Planning Commission and General Administration of Quality Supervision, Inspection and Quarantine and local regulatory authorities of the PRC. For more details, see "Regulatory Overview." For the air sanitization industry in the PRC, currently there is no specific governmental authority and specific legal system for the industry supervision and administration. We cannot assure you that we will be able to fully comply with future laws, rules and regulations or enhanced industrial standards. Any failure to comply with relevant governmental laws, rules and regulations or to meet relevant industrial standards may have a material adverse effect on our business, financial condition and results of operations.

There can also be no assurance that the PRC government will not change the existing laws, rules or regulations or adopt additional or more stringent laws, rules or regulations applicable to us and our business. Although we are in compliance with current laws, rules and

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regulations, in the event that such laws, rules and regulations become more stringent or wide in scope, we may fail to comply. Even if we are able to comply, our production and distribution costs may increase. To the extent that new laws, rules and regulations are adopted, we will be required to conform our activities and operations accordingly. We cannot predict the nature of such future laws, rules, regulations, interpretations or applications, nor can we predict the impact of additional laws, rules, regulations or administrative orders, when and if promulgated, on our business in the future. Such laws, rules and regulations may require the re-configuration of other methods for procurement of components and production. The costs of compliance with current or future legislation or regulatory requirements and obtaining and maintaining regulatory approvals may be significant, and could force us to curtail our operations or otherwise have a material adverse effect on our financial condition, results of operations and cash flows.

Also, our failure to comply with any applicable laws, rules and regulations or industrial standards could subject us to civil remedies or administrative penalty, including fines, injunctions, product recalls or seizure, as well as potential criminal sanctions, which could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Changes in the PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Substantially all of our business assets are located in the PRC and substantially all of our revenue are derived from the PRC. Accordingly, our performance, financial position and prospects are subject, to a significant degree, to the economic, political and legal developments of the PRC. In particular, political and economic policies of the PRC Government could affect our business, financial condition and results of operations and may affect our ability to sustain our growth.

The economy of the PRC differs from the economies of most developed countries in a number of respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange. Before its adoption of reform and open door policies beginning in 1978, the PRC was primarily a planned economy. Since that time, the PRC Government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a significant portion of the productive assets in the PRC, economic reform policies since the late 1970s have emphasized autonomous enterprises and the utilization of market mechanisms, especially where these policies apply to businesses such as ours. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our future business and prospects.

Our ability to continue to expand our business is dependent on a number of factors, including general economic and capital market conditions and credit availability from banks or other lenders. Recently, the PRC Government has increased interest rates on bank loans and

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deposits and tightened the money supply to control growth in lending. Stricter lending policies may, among other things, affect our and our end users' ability to obtain financing which may in turn adversely affect our growth and financial performance. We cannot assure you that further measures to control growth in lending will not be implemented in a manner that may adversely affect our growth and profitability over time.

Uncertainties with respect to the PRC legal system could have a material adverse effect on our business and operations.

Our business and operations are primarily conducted in the PRC and are governed by applicable PRC laws, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference, but have limited weight as precedents. Since the late 1970s, the PRC Government has significantly enhanced the PRC legislation and regulations to provide protection to various forms of foreign investments in the PRC. However, the PRC has not developed a fully-integrated legal system, and recently-enacted laws, rules and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

The amended PRC Labor Contract Law, any labor shortages, increased labor cost or other factors affecting our labor force may adversely affect our business, profitability and reputation.

During the Track Record Period, we engaged third party employment agencies to dispatch contract workers for our production facilities and customer services department that generally have higher turnover rates. On December 28, 2012, the PRC Labor Contract Law was amended to impose more stringent requirements on labor dispatch and more stringent penalties on unlawful labor dispatch practices, and such amendments became effective on July 1, 2013. According to the amendments, the number of contract workers that we hire may not exceed a certain percentage of our total number of employees to be decided by the Ministry of Human Resources and Social Security and the contract workers can only engage in temporary, auxiliary or substitutive work. The amended Labor Contract Law also requires contract workers and full-time employees doing the same work to receive the same compensation. According to the Interim Provisions on Labor Dispatch promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of contract workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and contract workers). The Interim Provisions on Labor Dispatch further requires the employer that is not in compliance with the above provisions to formulate a plan to reduce the number of its contract workers to below

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10% of the total number of its employees prior to March 1, 2016. In addition, an employer is not permitted to hire any new contract worker until the number of its contract workers has been reduced to below 10% of the total number of its employees.

As of Latest Practicable Date, the percentage of our contract workers exceeds the regulatory ratio. While we expect to formulate and implement a plan and reduce the percentage of our contract workers to below 10% prior to March 1, 2016, we cannot assure you that we will be able to locate replacement for the substantial number of contract workers in a timely manner or without incurring increasing labor and administrative costs. In addition, we cannot assure you the types of work that our contract workers are performing will be deemed as temporary, auxiliary or substitute work under the PRC Labor Contract Law.

The application and interpretation of those new requirements under the amended Labor Contract Law are limited and uncertain. In addition, the amended PRC Labor Contract Law imposes more stringent penalties on unlawful labor dispatch practices. If we are found to be in violation of the new rules regulating contract workers and fail to rectify non-compliance within a time limit, a penalty ranging from RMB5,000 to RMB10,000 per contract worker may be imposed on each violation.

In addition, if any contract worker suffers losses arising from an employment agency's violation of the PRC Labor Contract Law, we will be jointly liable with any such employment agency to the relevant contractor workers for such losses. We cannot assure you that, after assumption of such liability, we will successfully obtain reimbursement from the relevant employment agency.

Fluctuations in exchange rates and governmental control over currency conversion may affect the value of your investment and limit our ability to utilize our cash effectively.

RMB is not currently a freely convertible currency. We receive all of our payments from end users in RMB and will need to convert RMB into foreign currencies for the payment of dividends, if any, to holders of our Shares. Under the PRC's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE or its local branches by complying with certain procedural requirements. However, the PRC Government may take measures at its discretion in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our shareholders if the PRC Government restricts access to foreign currencies for current account transactions. Foreign exchange transactions under our capital account continue to be subject to significant foreign exchange controls and require the approval of the SAFE or its local branches. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

The exchange rate of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC Government and changes in the PRC's and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial

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markets. From 1994 to July 2005, the official exchange rate for the conversion of RMB to U.S. dollars was generally stable. In July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made, and in the future may make, adjustments to the exchange rate system. There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against the U.S. dollar, the Hong Kong dollar or other foreign currencies. If the appreciation of RMB continues, and as we need to convert the proceeds from the Global Offering and future financing into RMB for our operations, appreciation of RMB against the relevant foreign currencies would reduce the RMB amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of RMB against the Hong Kong dollar could reduce the amount of any cash dividends on our Shares in Hong Kong dollar terms.

We may be deemed to be a PRC tax resident under the EIT Law and our PRC-sourced income may be subject to PRC withholding tax under the EIT Law.

We are incorporated under the laws of the Cayman Islands and directly hold interests in our PRC operating subsidiary. Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which took effect on January 1, 2008, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. The EIT Law provides that if an enterprise incorporated outside the PRC has its "de facto management bodies" within the PRC, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25% on its global incomes. "De facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. We cannot assure you that we will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25% enterprise income tax on our global incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, due to the short history of the EIT Law, it remains unclear as to the

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detailed qualification requirements for this exemption and whether dividend payments by our PRC incorporated subsidiary to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

Furthermore, the EIT Law provides that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our overseas corporate Shareholders who are not deemed a PRC resident enterprise as well as gains realized by such Shareholders from the transfer of our Shares may be regarded as PRC-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws.

Under the EIT Law, we may in the future be deemed as a PRC resident enterprise by the PRC tax authorities for tax purpose. As such, it may be required to withhold PRC income tax on capital gains realized from sales of our Shares and dividends distributed to Shareholders, as such income may be regarded as income from “sources within the PRC”. In this case, our foreign corporate Shareholders who are not deemed a PRC resident enterprise may become subject to a 10% withholding income tax under the EIT Law, unless any such foreign corporate Shareholder is qualified for a preferential withholding rate under a tax treaty. If the PRC tax authorities deem us as a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with the Circular of SAT on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (關於印發非居民企業享受稅收協定待遇管理辦法(試行)的通知) (“Circular 124”), issued on August 24, 2009. Further, according to Circular 124, which became effective on October 1, 2009, the preferential tax rate does not automatically apply. It is likely that eligibility will be based on a substantive analysis of the Shareholder’s tax residency and economic substance. With respect to dividends, the beneficial ownership tests under Circular 601 will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to higher PRC tax rates on capital gains realized from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such foreign Shareholders’ investment in our Shares sold in the Global Offering may be materially and adversely affected.

Similarly, the Circular of State Administration of Taxation on Strengthening Corporate Income Tax Management on Non-resident Enterprises Equity Transfer Income (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (the “Circular 698”), which was issued by SAT on December 10, 2009 and became effective on January 1, 2008, provides that except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (“Indirect Transfer”) located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5%; or (ii) does not tax its residents on their foreign income,

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the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. In this case, the PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the Indirect Transfer without reasonable commercial purpose and in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purpose and re-characterize the Indirect Transfer. As a result, gains derived from such Indirect Transfer by the foreign investor may be subject to the PRC enterprise income tax.

During the Track Record Period, the Group has undergone some corporate restructuring steps, including the transfer of equity interest of Park Wealth to Fresh Water Group and the transfer of equity interest of Fresh Water Group to Mr. Xiao in preparation for the Listing. For further details of these corporate restructuring steps and the Reorganization, please refer to the section headed “Our History and Reorganization” in this prospectus. These corporate restructuring steps taken by the Group may fall into the type of transactions subject to Circular 698’s regulation. In particular, the PRC subsidiaries of the Group may be liable to assist tax authorities for collecting such tax from the transferor if the transfer of shares is deemed to be reported according to Circular 698. However, it is currently unclear how the relevant PRC tax authorities will implement or enforce Circular 698 and whether such enterprise income tax on capital gains will be subject to any further change resulting in any materially adverse impact on the Group.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company incorporated in the Cayman Islands and operate our core businesses through our operating subsidiaries in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. The applicable PRC laws, rules and regulations require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including Hong Kong Financial Reporting Standards (“HKFRS”) and International Financial Reporting Standards. The applicable PRC laws, rules and regulations also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. As a result, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

In addition, under the EIT Law, if a foreign entity is deemed to be a “non-resident enterprise” as defined under the EIT, a withholding tax at the rate of 10% will be applicable to any dividends for earnings accumulated since January 1, 2008 payable to the foreign entity,

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unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements. According to the double taxation avoidance arrangement between the PRC and Hong Kong, dividends paid by a PRC foreign-invested enterprise, such as Shaanxi Haoze Environmental Technology and Shanghai Haoze Environmental Technology, in the PRC to its shareholder(s) incorporated in Hong Kong, such as HK Fresh Water will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the PRC enterprise. The SAT issued the Circular on Interpretation and Determination of Beneficial Owner under Tax Treaties (關於如何理解和認定稅收協定中「受益所有人」的通知) (the “Circular 601”) on October 27, 2009, which addresses which entities are treated as “beneficial owners” under the treaty articles on dividends, interest and royalties. According to Circular 601, the PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a “beneficial owner” on a case-by-case basis based on the “substance over form” principle. It is possible, based on these principles, that the PRC tax authorities would not consider our Hong Kong subsidiary, HK Fresh Water, as the “beneficial owner” of any dividends paid from our PRC subsidiaries and would deny the claim for the reduced rate of withholding tax. Under current PRC tax law, this would result in dividends from Shaanxi Haoze Environmental Technology and Shanghai Haoze Environmental Technology to HK Fresh Water being subject to PRC withholding tax at a 10% rate instead of a 5% rate. This would negatively impact us and it would impact our ability to pay dividends.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC or Hong Kong based on foreign laws against us and our directors and senior management.

We are incorporated in the Cayman Islands. Almost all of our assets, and some of the assets of our Directors are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the “Arrangement”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Consequently, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

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The PRC is one of the signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”), which allows for the enforcement of arbitral awards given by the arbitration bodies of other New York Convention signatories. There is also reciprocal arrangement on enforcement of arbitral awards between Hong Kong and the PRC under a memorandum of understanding which was signed on June 21, 1999, approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000 (the “Memorandum of Understanding”). However, it may be difficult to seek recognition and enforcement of arbitral awards in the PRC if the arbitral awards were given by arbitration bodies that are not signatories to the New York Convention or do not have arrangements with the PRC similar to the Memorandum of Understanding.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our major PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds from the Global Offering, are subject to PRC regulation. For example, our loans to our PRC subsidiaries may not exceed the difference between the total amount of investment our PRC subsidiaries are approved to make under relevant PRC laws and the registered capital of our major PRC subsidiaries, and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to our major PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our PRC subsidiaries’ liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments and would have a material adverse effect on our business, financial condition and results of operations.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liabilities or penalties, limit our ability to contribute capital to our PRC subsidiaries, limit our PRC subsidiaries’ ability to increase its registered capital or distribute profits to us, or may otherwise adversely affect us.

On October 21, 2005, SAFE issued a public notice (the “Circular 75”) which became effective from November 1, 2005. According to the Circular 75 and its implementation rules, PRC residents are required to register with the local SAFE branch for their establishing or controlling a SPV before making any financing or equity change of, or any roundtrip investment through such SPV. In addition, any such PRC resident is required to update the previously filed registration to reflect any material alteration in the capital of such SPV involving no roundtrip investment, such as a change in share capital or merger and acquisition of the SPV. If any PRC shareholder of the SPV fails to make or update the required registration, the PRC subsidiaries of the SPV may be prohibited from paying dividends and other distributions to their offshore parent, and the SPV may also be prohibited from contributing additional capital into its PRC subsidiaries. Furthermore, failure to comply with the foregoing requirements could result in liability under the PRC laws for evasion of applicable foreign exchange restrictions.

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As specified in the Circular 75, an SPV refers to an overseas enterprise directly established or indirectly controlled by a domestic resident legal person or domestic resident natural person for the purpose of engaging in equity financing abroad with the enterprise assets or equity interests held within the PRC. In addition, a domestic resident individual as regulated in the Circular 75 means an individual holding Chinese legitimate identity cards, or a person having no Chinese legitimate identity but having been habitually resident in China due to economic benefits. As confirmed by our PRC legal adviser, Shu Jin Law Firm, based on our informal consultations with the State Administration of Foreign Exchange Shanghai Branch, the ultimate individual shareholders of our Company, Mr. Xiao Shu and Mr. Wang Xiaogang, are not domestic resident individuals and our Company is not an SPV defined under the Circular 75. As a result, our shareholders are not required to make the foreign exchange registration. However, our PRC adviser has further advised that there can be no assurance that the local SAFE branch will not change its interpretation regarding the PRC residents or the PRC regulatory authorities will not issue new regulations that may require our individual shareholders file registration with the local SAFE branch. If our shareholders or beneficial owners are deemed as PRC residents by the competent foreign exchange authority in the future, failure to comply with these regulations and rules may subject such shareholders to fines and legal sanctions and may also result in restrictions on our PRC subsidiaries' ability to distribute profits to us or otherwise materially and adversely affect us.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among our Company and the Global Coordinator on behalf of the Underwriter(s) and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of and permission to deal in our Shares on the Stock Exchange.

There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of our Company may affect the volume and price at which our Shares will be traded.

The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.

The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industries in which we compete;

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- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding the water purification industry and companies.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies traded on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

Purchasers of Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

Potential investors will pay a price per Share in the Global Offering that substantially exceeds the per Share value of the Company's tangible assets after subtracting the Company's total liabilities and will therefore experience immediate dilution. As a result, if the Company were to distribute its net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

We may need to raise additional funds in the future to finance further expansion or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

The Offer Price may not be indicative of prices that will prevail in the trading market, and the market price of Shares may be volatile.

The Offer Price to the public of our Shares sold in the Global Offering will be determined on the Price Determination Date and may not be indicative of prices that will prevail in the trading market. Our Shares will not commence trading on the Stock Exchange until the share certificates are delivered, which is expected to be on the fifth Business Day after the Price Determination Date. As a result, purchasers of Shares may not be able to sell or otherwise deal in our Shares during that period. The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products or fluctuations in market prices for other water purifying machines manufacturing companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume

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and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. Accordingly, holders of our Shares are subject to the risk that the market price of our Shares could be lower than the Offer Price.

We may not be able to pay any dividends on our Shares.

We cannot guarantee when and in what form dividends will be paid on our Shares following the Global Offering, or at all. The declaration of dividends is proposed by the board of directors and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our IFRS financial statements indicate that our operations have been profitable.

Our results of operations for the year ending December 31, 2014 are expected to be negatively impacted by expenses to be incurred in connection with the Listing and our Pre-IPO Share Options.

We have adopted a Pre-IPO Share Option Scheme and a Share Option Scheme in order to incentivize and reward our Directors and employees for their contribution to our Group. As of the Latest Practicable Date, options in respect of 168,800,000 Shares were granted pursuant to the Pre-IPO Share Option Scheme. We expect to recognize certain expenses in connection with such options granted over the vesting period of such option, and the amount of expenses is determined by reference to the exercise price and the fair value of the Pre-IPO Share Options granted as of the grant date and for the vesting period. We estimate that the expenses to be incurred for the year ending December 31, 2014 in connection with the Pre-IPO Share Options to be approximately RMB25.5 million, assuming an offer price of HK\$2.475, being the mid-point of the estimated Offer Price range. In addition, we may grant employees share options pursuant to the Share Option Scheme in the future. Expenses associated with such existing and future options granted may materially impact our results of operations.

Moreover, we expect the total listing expenses excluding underwriting commission to be approximately RMB44.5 million, of which RMB17.6 million will be charged to our combined statements of comprehensive income for the year ending December 31, 2014. As such, we expected an aggregate of RMB43.1 million expenses will be charged to our combined statements of comprehensive income for the year ending December 31, 2014 in connection with the Listing and our Pre-IPO Share Options.

Certain statistics contained in this prospectus are derived from a third party report and publicly available official sources.

Certain statistics contained in this prospectus relating to the PRC, the Chinese economy and the water purification and air sanitization industry have been derived from various official government publications or other third party reports we generally believe to be reliable. We have taken reasonable care in the reproduction or extraction of the official government publications or other third party report for the purpose of disclosure in this prospectus and have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee

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the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this prospectus may be inaccurate or may not be comparable to statistics produced with respect to other economies. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give due consideration as to how much weight or importance they should attach to or place on such facts.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industries and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding the Group and the Global Offering, which included certain information about the Group that does not appear in this prospectus. None of us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters or any other person involved in the Global Offering have authorized the disclosure of any such information in the press or media and none of these parties accept any responsibility for the accuracy or completeness of the information contained in such press articles and/or other media or the fairness or appropriateness of any forecasts, views or opinions expressed by the press and/or other media regarding our Shares, the Global Offering, our business, our industries or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares.

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business and prospects;
- future developments, trends and conditions in the industries and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industries and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all.

FORWARD-LOOKING STATEMENTS

Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set forth the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement, with one of the conditions being that the Offer Price is agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters). The International Offering is expected to be fully underwritten by the International Purchasers subject to the terms and conditions of the International Purchase Agreement, which is expected to be entered into on or about the Price Determination Date.

Further information about the Underwriters and the underwriting arrangements is set forth in the section headed "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set forth in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus and in the Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Particulars of the structure of the Global Offering, including its conditions, are set forth in the section of this prospectus headed “Structure of the Global Offering”.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the Capitalization Issue and the exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

No part of our equity or debt securities is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on June 17, 2014. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 2014.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Intertrust Corporate Services (Cayman) Limited, in the Cayman Islands, and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

Dealings in our Shares registered on our Hong Kong register will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES

We have instructed Computershare Hong Kong Investor Services Limited, our Hong Kong Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any Shares in the name of any particular holder unless and until the holder delivers a signed form to our Hong Kong Share Registrar in respect of those Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Cayman Companies Law and our Articles of Association;
- agrees with us and each of our Shareholders that the Shares are freely transferable by the holders thereof; and
- authorizes us to enter into a contract on its behalf with each of our Directors, managers and officers whereby such Directors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following exchange rates: RMB0.7959: HK\$1.00 and US\$1.00: HK\$7.75.

No representation is made that any amounts in RMB or US\$ were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. The numbers of water purifying machines are rounded to thousands. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

OVER-ALLOTMENT OPTION AND STABILIZATION

For details of the arrangements relating to the Over-allotment Option and stabilization, see “Structure of the Global Offering — Over-allotment” and “Structure of the Global Offering — Stabilization”.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

CHINESE NAMES

In this prospectus, if there is any inconsistency between the Chinese name of the entities or enterprises established in China, PRC nationals, PRC government entities or PRC laws, rules and regulations and their English translations, the Chinese names shall prevail. English translations of names of entities or enterprises established in China and PRC laws, rules and regulations are for identification purpose only.

OTHERS

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RELATION TO OUR JOINT COMPANY SECRETARY

Pursuant to Rule 3.28 and Rule 8.17 of the Listing Rules, the secretary of our Company must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Our Company has appointed Mr. TAN Jibin (“Mr. Tan”) as one of the joint company secretaries. Mr. Tan joined our Group on April 6, 2011 and is an executive Director. Mr. Tan is primarily responsible for overseeing the overall financial and administrative affairs of the Group. Mr. Tan has approximately 10 years of experiences in accounting and finance. Prior to joining the Group, Mr. Tan served as a senior auditor at Deloitte Touche Tohmatsu and an associate finance manager in China Aoyuan Property Group Limited (HKSE: 3883), a Chinese property company listed on the Stock Exchange. Mr. Tan obtained a bachelor’s degree in international finance from Guangdong University of Foreign Studies (廣東外語外貿大學) in June 2004. Mr. Tan does not possess the qualification and sufficient relevant experience as stipulated in the Notes to Rule 3.28 of the Listing Rules and may not be able to solely fulfill the requirements as stipulated under Rule 3.28 and Rule 8.17 of the Listing Rules. As such, our Company has appointed and engaged, Ms. LAI Siu Kuen (“Ms. Lai”), who possesses the requisite qualification and experience as required under Note 1 to Rule 3.28 of the Listing Rules, to act as another joint company secretary of our Company to ensure that Mr. Tan would be able to acquire the relevant experience to satisfy the requirements of Rule 3.28 of the Listing Rules. Both Mr. Tan and Ms. Lai, as joint company secretaries, will jointly discharge the duties and responsibilities with reference to their past experience and education background.

Moreover, we have taken, or will take, steps in ensuring Mr. Tan will receive the appropriate training in order to enable Mr. Tan to familiarize himself with the Listing Rules and other relevant rules and regulations in Hong Kong. Mr. Tan has confirmed that he will be attending a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investors relation as well as the functions and duties of the company secretary of a Hong Kong listed issuer during each financial year as required under Rule 3.29 of the Listing Rules. Mr. Tan will also be advised by the PRC and Hong Kong legal advisers of our Company if and when necessary.

Given Mr. Tan’s qualification and past experience, it is anticipated that Mr. Tan will gain experience with the assistance of Ms. Lai. It is intended that a further evaluation of the qualification and experience of Mr. Tan and the need for on-going assistance would be made three years after our Listing. The expectation is that we and Mr. Tan would then endeavour to demonstrate to the Stock Exchange’s satisfaction that Mr. Tan having had the benefit of Ms. Lai’s assistance, would then have acquired the “relevant experience” within the meaning of Rule 3.28 of the Listing Rules.

**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance of Rule 3.28 and Rule 8.17 of the Listing Rules in respect of the appointment of Mr. Tan as one of the joint company secretaries, on the condition that Ms. Lai is appointed as the other joint company secretary. In the initial three years from the Listing Date, Ms. Lai is to work closely with Mr. Tan, who will be the contact person at our Company for the joint company secretaries, and provide assistance to Mr. Tan in the discharge of his duty as company secretary. Upon expiration of the initial period, our Company should liaise with the Stock Exchange. The Stock Exchange will revisit the situation in the expectation that our Company should then be able to demonstrate to the Stock Exchange's satisfaction that Mr. Tan, having had the benefit of Ms. Lai's assistance for three years, will have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules, so that a further waiver will not be necessary. The waiver will be revoked immediately if Ms. Lai ceases to provide assistance and guidance to Mr. Tan.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. The business operations of the Group are substantially carried out in China. Due to the business requirements of the Group, none of the executive Directors has been, is or will be based in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. XIAO Shu, our Chairman, Chief Executive Officer and executive Director and Mr. TAN Jibin, our executive Director. The authorized representatives will provide their usual contact details to the Stock Exchange and will be readily contactable by telephone, facsimile and/or email by the Stock Exchange, if necessary, to deal with enquiries from the Stock Exchange from time to time;
- (b) each of the authorized representatives has the means to contact all the Directors (including the non-executive Directors and the independent non-executive Directors) promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters;
- (c) all the Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and, when required, meet with the Stock Exchange upon reasonable notice;

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- (d) Guotai Junan Capital Limited, our compliance adviser, will act as an additional channel of communication with the Stock Exchange; and
- (e) each Director will provide their respective mobile phone numbers, office phone numbers, e-mail addresses and facsimile numbers to the Stock Exchange.

WAIVER FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE IN RELATION TO THE PRE-IPO SHARE OPTION SCHEME

Under paragraph 27 of Appendix 1A to the Listing Rules, we are required to disclose in this prospectus particulars of any capital of any member of our Group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee, or an appropriate negative statement. In addition, under paragraph 27 of Appendix 1A to the Listing Rules, where options have been granted to employees under a share scheme, it is not necessary to disclose the names and addresses of the grantees of the option.

Under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance, we are required to disclose in this prospectus details of the number, description and amount of Shares which a person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it, and the names and addresses of the persons to whom it or the right to it was given.

Rule 17.02(1)(b) of the Listing Rules requires that full details of all outstanding options and their potential dilution effect on the shareholdings upon listing as well as the impact on the earnings per Share arising from the exercise of such outstanding options be disclosed in this prospectus.

As at the date of this prospectus, the outstanding options granted under the Pre-IPO Share Option Scheme involve 168,800,000 Shares (representing 10% of the enlarged issued share capital of our Company immediately after completion of the Capitalization Issue and the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre IPO Share Option Scheme or may be granted under the Share Option Scheme) and such options are held by 304 option holders. Among these 304 option holders, five of them are Directors, five of them are directors of our subsidiaries and the remaining 294 option holders are employees of the Group who are not connected persons of our Company nor members of senior management of our Group. The options granted to the five Directors, the five directors of our subsidiaries and the remaining 294 option holders involve a total of 89,054,283 Shares, 5,723,085 Shares and 74,022,632 Shares, respectively, representing approximately 5.28%, 0.34% and 4.38% of the enlarged issued share capital of our Company immediately after completion of the Capitalization Issue and the Global Offering, assuming the

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Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre IPO Share Option Scheme or may be granted under the Share Option Scheme, respectively. Except for those option holders who are connected persons of our Company as disclosed in the section headed “Statutory and General Information – D. Share Option Schemes – 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus, no options have been granted to any connected person of our Company or member of senior management of our Group.

Under section 342A(1) of the Companies (Winding Up And Miscellaneous Provisions) Ordinance, subject to any conditions imposed by SFC, a company may be exempted from any or all of the relevant provisions if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interest of the investing public and compliance would be irrelevant or unduly burdensome or is otherwise unnecessary or inappropriate.

We have applied to the SFC for an exemption from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance, and to the Stock Exchange for a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules in connection with the information of the options granted under the Pre-IPO Share Option Scheme on the ground that full compliance with such disclosure requirements in setting out the names and addresses of, and the number of Shares represented by options granted under the Pre-IPO Share Option Scheme to, employees of our Group who are neither connected persons of our Company or its subsidiaries, members of senior management of our Group nor grantees who have been granted options to subscribe for 2,000,000 Shares each or more would be unduly burdensome for our Company and the exemption would not prejudice the interest of the investing public for the following reasons:

- (a) setting forth the names, addresses and numbers of Shares represented by options in respect of the 288 other employees on an individual basis would increase the number of pages in this prospectus by about 48 pages (English and Chinese versions included) and therefore would be costly for our Company in light of the increase in cost for prospectus printing;
- (b) the exercise in full of the options granted under the Pre-IPO Share Option Scheme will not cause any material adverse impact in the financial position of our Company and in any event the total number of Shares to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme and the potential dilution effect is set forth in this prospectus;
- (c) non-compliance with the disclosure requirements does not prevent our Company from providing an informed assessment of our Company’s activities, assets and liabilities, financial position, management and prospects to its potential investors; and
- (d) the important information – that is, the aggregate number of options outstanding, exercise price, vesting period, exercise period and the potential dilution effect on the shareholdings of our Company upon Listing and the impact on the earnings per

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Share upon full exercise of the options granted under the Pre-IPO Share Option Scheme – is disclosed in this prospectus and such information, together with other information contained in this prospectus regarding the Pre-IPO Share Option Scheme, provides potential investors with sufficient information to make a relevant assessment of our Company in their investment decision-making process.

The Stock Exchange has agreed to grant a waiver from strict compliance with the relevant disclosure requirements in connection with the information of the options granted under the Pre-IPO Share Option Scheme on the following conditions:

- (a) the grant of a certificate of exemption from strict compliance with the relevant Companies (Winding Up And Miscellaneous Provisions) Ordinance requirements by the SFC;
- (b) disclosure in this prospectus, the full details of all options granted by our Company under the Pre-IPO Share Option Scheme to the connected persons of our Company and its subsidiaries and other grantees who have been granted options to subscribe for 2,000,000 Shares each or more, on an individual basis, such details to include all the particulars required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance;
- (c) in respect of the options granted by our Company under the Pre-IPO Share Option Scheme, other than those referred to in sub-paragraph (b) above, the following details are disclosed in this prospectus:
 - (i) the aggregate number of grantees of options under the Pre-IPO Share Option Scheme;
 - (ii) the aggregate number of Shares subject to such options;
 - (iii) the consideration paid for the grant of such options; and
 - (iv) the exercise period and the exercise price of such options;
- (d) an aggregate number of Shares subject to the options granted by our Company under the Pre-IPO Share Option Scheme and the percentage of our Company's total issued share capital represented by them;
- (e) a summary of the rules of the Pre-IPO Share Option Scheme;
- (f) the potential dilution effect on the shareholdings of our Company upon Listing and the impact on the earnings per Share upon full exercise of the options granted under the Pre-IPO Share Option Scheme; and

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- (g) a full list of all the grantees who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance, will be made available for inspection by the public as one of the documents available for inspection in accordance with the section headed “Documents delivered to the Registrar of Companies and Available for Inspection – Documents Available for Inspection” in Appendix V to this prospectus.

The SFC has agreed to grant an exemption (pursuant to section 342A(1) of the Companies (Winding Up And Miscellaneous Provisions) Ordinance) from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance on the following conditions:

- (aa) full details of all options granted by our Company under the Pre-IPO Share Option Scheme to the connected persons of our Company and its subsidiaries and other grantees who have been granted options to subscribe for 2,000,000 Shares each or more, on an individual basis, including all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance are disclosed in this prospectus;
- (bb) in respect of the options granted by our Company under the Pre-IPO Share Option Scheme, other than those referred to in sub-paragraph (aa) above, the following details are disclosed in this prospectus:
- (i) the aggregate number of grantees of options under the Pre-IPO Share Option Scheme;
 - (ii) the aggregate number of Shares subject to such options;
 - (iii) the consideration paid for the grant of such options; and
 - (iv) the exercise period and the exercise price of such options;
- (cc) a full list of all the grantees who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance, will be made available for inspection by the public as one of the documents available for inspection in accordance with the section headed “Documents delivered to the Registrar of Companies and Available for Inspection – Documents Available for Inspection” in Appendix V to this prospectus; and
- (dd) the particulars of this exemption are set forth in this prospectus.

**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND
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For further details of the Pre-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information – D. Share Option Schemes – 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

The Directors believe that, in considering the above conditions undertaken by our Company, the granting of waiver and exemption by the Stock Exchange and the SFC will not prejudice the interest of public investors.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
XIAO Shu (肖述), <i>Chairman and Chief Executive Officer</i>	Unit 1001, No. 13 393 Dongjing Road Pudong New District Shanghai, PRC	Saint Christopher (St. Kitts) and Nevis
ZHU Mingwei (朱明偉), <i>Vice Chairman and Deputy Chief Executive Officer</i>	No. 80, Ningbo Road Huichuan District, Zunyi City Guizhou, PRC	Chinese
HE Jun (何軍)	No. 1996, Zhangyang Road Pudong New District, Shanghai, PRC	Chinese
TAN Jibin (譚濟濱)	Unit 609, No. 5 Li Yun Street Huang Shi Road East Bai Yun District Guangzhou, PRC	Chinese
XIAO Lilin (肖利林)	Unit 504, Block 10 Cheng Nan Shui Xiang Liang Hu County, Shangyu City Zhejiang, PRC	Chinese
<i>Non-Executive Directors</i>		
NG Benjamin Jin-Ping (吳俊平)	8/F, Repulse Bay Garden 26 Belleview Drive, Repulse Bay Hong Kong	Australian
HE Sean Xing (何欣)	Flat D, 9/F, 2 Park Road Mid-Levels Hong Kong	Chinese
WANG Haitong (王海桐)	Apartment 1001, Block 1-2 Mixon Residence No. 6 Xiao Liang Ma Qiao West Road Beijing, PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Independent Non-Executive Directors</i>		
ZHOU Guanxuan (周貫煊)	No. A20, Jun Lan Village, Beijiao Shunde District, Foshan City Guangdong, PRC	Chinese
GU Jiuchuan (顧久傳)	Unit 1702 No. 30 Hongshan Garden Wuxi City, Jiangsu, PRC	Chinese
CHAN Yuk Sing Gilbert (陳玉成)	Flat D, 26/F, Block 5, North Court Phase One Festival City, Tai Wai New Territories, Hong Kong	Chinese
LAU Tze Cheung Stanley (劉子祥)	Flat G, 9/F, Tower 5 Tseung Kwan O Plaza 1 Tong Tak Street Tseung Kwan O Hong Kong	Chinese

For more information on our Directors, see the section headed “Directors, Senior Management and Employees” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	Goldman Sachs (Asia) L.L.C. 68th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong Standard Chartered Securities (Hong Kong) Limited 15/F, Two International Finance Centre 8 Finance Street Central Hong Kong
Legal Advisers to Our Company	<i>As to Hong Kong and United States laws:</i> Simpson Thacher & Bartlett 35/F, ICBC Tower 3 Garden Road Central Hong Kong <i>As to PRC law:</i> Shu Jin Law Firm 24/F, Aerospace Skyscraper No. 4019 Shennan Road Futian District Shenzhen PRC <i>As to Cayman Islands law:</i> Walkers Suite 1501–1507, Alexandra House 18 Chater Road Central Hong Kong
Legal Advisers to the Joint Sponsors and the Underwriters	<i>As to Hong Kong and United States laws:</i> Sullivan & Cromwell 28th Floor Nine Queen's Road Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC law:

Zhong Lun Law Firm
Level 10 & 11, Two IFC
No. 8 Century Avenue, Pudong New Area
Shanghai 200120
PRC

Auditors and Reporting Accountants

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Compliance Adviser

Guotai Junan Capital Limited
27th Floor Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Industry Consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
2802–2803, Tower A
Dawning Center
500 Hongbaoshi Road
Shanghai, 201103
PRC

Independent Appraiser

Wuxi Rellab Testing Services Co., Ltd.
No. 5, Gaokai Road
Binhu Park
Wuxi, PRC

Receiving Banks

Standard Chartered Bank (Hong Kong) Limited
15/F, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered Office	190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands
Headquarters and Principal Place of Business and Head Office in China	No. 60 Guiqiao Road Pudong New District Shanghai PRC
Principal Place of Business in Hong Kong	8th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Company's Website	<u>www.ozner.net</u> <i>(The information on the website does not form part of this prospectus)</i>
Joint Company Secretaries	Mr. TAN Jibin 8th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong Ms. LAI Siu Kuen (黎少娟), FCIS, FCS 8th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Authorized Representatives	Mr. XIAO Shu Unit 1001, No. 13 393 Dongjing Road Pudong New District Shanghai, PRC Mr. TAN Jibin Unit 609, No. 5 Li Yun Street Huang Shi Road East Bai Yun District Guangzhou, PRC

CORPORATE INFORMATION

Audit Committee	Mr. LAU Tze Cheung Stanley (<i>Chairman</i>) Mr. ZHOU Guanxuan Mr. GU Jiuchuan Dr. CHAN Yuk Sing Gilbert
Remuneration Committee	Mr. ZHOU Guanxuan (<i>Chairman</i>) Mr. ZHU Mingwei Mr. LAU Tze Cheung Stanley
Nomination Committee	Mr. XIAO Shu (<i>Chairman</i>) Mr. GU Jiuchuan Dr. CHAN Yuk Sing Gilbert
Cayman Islands Principal Share Registrar and Transfer Office	Intertrust Corporate Services (Cayman) Limited 190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Compliance Adviser	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen’s Road Central Hong Kong

CORPORATE INFORMATION

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
15/F Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Standard Chartered Bank (China) Limited
No. 201 Century Avenue
Pudong New District, Shanghai, PRC

China CITIC Bank Corporation Limited
Zhangjiang Branch
No.201, Keyuan Road, Pudong New District
Shanghai, PRC

Shanghai Pudong Development Bank Co., Ltd.
Jinqiao Branch
No.509, Jingang Road
Shanghai, PRC

INDUSTRY OVERVIEW

The information presented in this section is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the Frost & Sullivan Report. The information has not been independently verified by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside of China.

SOURCE OF INFORMATION

In connection with the Global Offering, we have engaged Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent third party, to conduct a study of the water purifier market in China. Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990's. Frost & Sullivan has four offices in China and direct access to the most knowledgeable experts and market participants in the water purifier industry and its industry consultants, on average, have more than five years of experience.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe such information facilitates an understanding of the water purifier market for prospective investors. The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included desktop research and trade interviews. Desktop research involves information integration of data and publication from publicly available resources, including official data and announcements from Chinese government agencies, and market research on industry and enterprise player information issued by our chief competitors. Trade interviews were conducted with relevant institutions to obtain objective and factual data and prospective predictions. Frost & Sullivan considered the source of information as reliable because (i) it is general market practice to adopt official data and announcements from various Chinese government agencies; and (ii) the information obtained from interviews is for reference only and the findings in this report are not based on the results of these interviews. Frost & Sullivan has proven track records in providing market

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research studies to government and private clients in the regions where the Frost & Sullivan Report covers. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain a steady growth in the next decade; (ii) China's social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the water purifier industry; and (iii) there is no war or large scale disaster during the forecast period. We agreed to pay Frost & Sullivan a fee of RMB880,000 for the preparation of the Frost & Sullivan Report, which had been paid as of the date of this prospectus.

DRINKING WATER MARKET IN CHINA

Market Segments and Breakdown

Major point-of-use drinking water solutions in China today include boiled tap water, barreled water and water processed by purifiers.

Boiled Tap Water. Tap water, including running water, city water, municipal water and piped water, comes from an indoor tap or spigot. The supply of tap water requires a complex supportive system, including stable water sources, pipe networks and water treatment plants. After being purified and disinfected at a water treatment plant, tap water is distributed to end users through pump stations. In China, tap water is only drinkable after boiling.

Barreled Water. Barreled water is purified from tap water or groundwater using modern industrial technologies, such as reverse osmosis, electrodialysis and distillation in the processing facilities, and is filled into PVC barrels by filling production lines. A barrel is usually 18 liters and the retail sales price of one such barreled water usually ranges from RMB8 to RMB30. A dispenser with water heating and/or cooling function is usually deployed when using the barreled water.

Water Processed by Purifiers. Drinking water purifiers include both electronic water purifying machines and non-electronic devices with water purifying filters that are used to purify tap water at end users' premises. The common purification technologies employed in water purifiers include reverse osmosis, carbon filtration, microfiltration, ultrafiltration, ultraviolet oxidation and electrodialysis. To optimize the purification output, water purifier manufacturers usually adopt the combination of the above technologies. As a result, water purifiers in the PRC offer various solutions and provide different functions.

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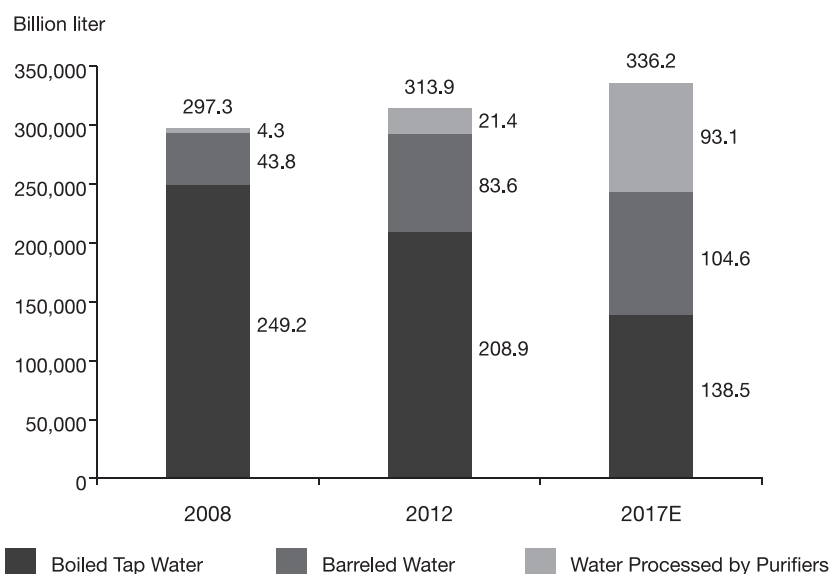
The table below sets forth advantages and disadvantages of each type of point-of-use drinking water solutions:

Treatment Method	Advantages	Disadvantages
Boiled Tap Water	<ul style="list-style-type: none"> ● Low cost ● Widely accessible 	<ul style="list-style-type: none"> ● Residual bacteria, metals and chemicals ● Uncomfortable taste and odor (sometimes) ● Turbidity (sometimes)
Barreled Water	<ul style="list-style-type: none"> ● Treated to remove bacteria, metals, and chemicals ● Convenience ● Widely accessible 	<ul style="list-style-type: none"> ● Secondary pollution caused by contaminated container (barrel) and aging dispenser ● Bacterial reproduction caused by long-term storage ● Delivery required ● Inconvenience involved in replacing barrel ● High cost ● Unstable water quality caused by irregular maintenance ● No real-time monitoring on water quality
Water Processed by Purifiers	<ul style="list-style-type: none"> ● Processed to remove bacteria, metals, minerals and chemicals ● Fresh drinking water on demand ● No secondary pollution ● Real-time monitoring of water quality ● Convenience ● Relatively low cost ● Better taste without odor 	<ul style="list-style-type: none"> ● Not widely available

Drinking water consumption in China can be divided into consumption of point-of-use drinking water at commercial and residential premises.

Drinking Water Consumption at Commercial Premises

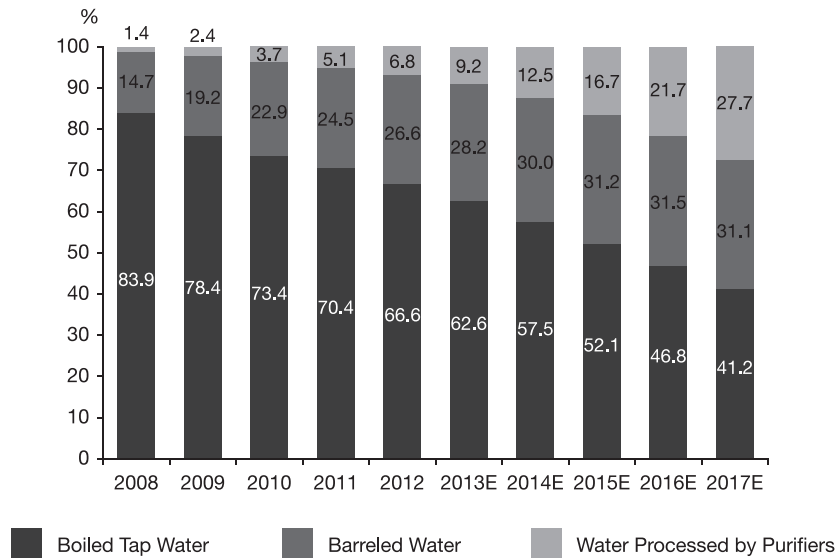
The chart below illustrates the breakdown of consumption of point-of-use drinking water at commercial premises in terms of volume for the years indicated:



Source: Frost & Sullivan Report

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The chart below illustrates the breakdown of consumption of point-of-use drinking water at commercial premises in terms of percentage of total consumption volume for the years indicated:



Source: Frost & Sullivan Report

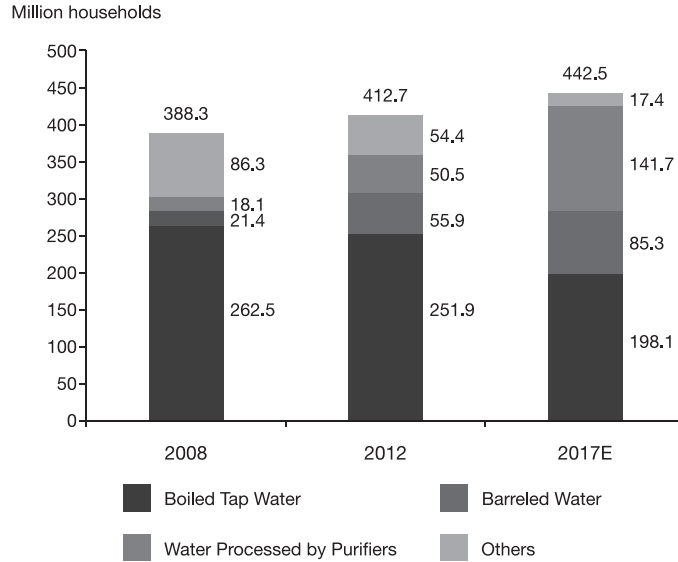
From 2008 to 2012, consumers at commercial premises in China still relied primarily on boiled tap water for their drinking water needs. However, the percentages of the consumption of barreled water and water processed by purifiers at commercial premises had both been increasing, and are expected to continue to grow. In particular, the percentage of the consumption of water processed by purifiers at commercial premises increased from 1.4% in 2008 to 6.8% in 2012 and is expected to further increase to 27.7% in 2017.

The total consumption volume of drinking water at commercial premises increased from 297.3 billion liters in 2008 to 313.9 billion liters in 2012 and is expected to further increase to 336.2 billion liters in 2017. The consumption volume of water processed by purifiers at the commercial premises increased from 4.3 billion liters in 2008 to 21.4 billion liters in 2012, representing a CAGR of 49.6%, and is expected to further increase with a CAGR of 33.5% from 2013 to 2017.

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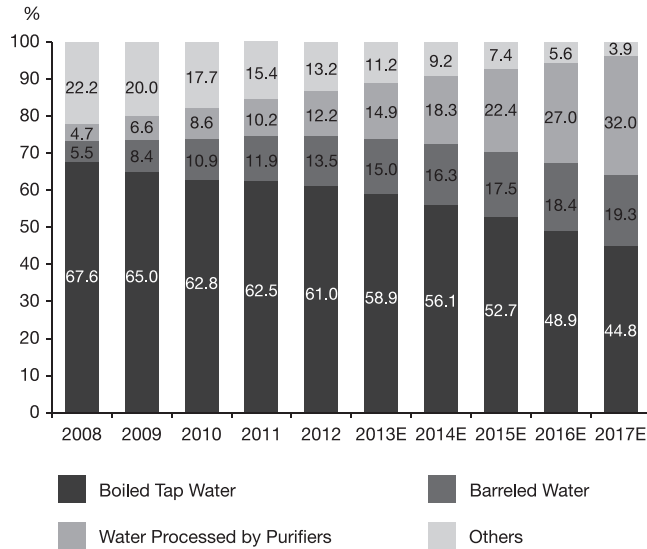
Drinking Water Consumption at Residential Premises

The chart below illustrates the breakdown of consumption of point-of-use drinking water at residential premises in terms of household for the years indicated:



Source: Frost & Sullivan Report

The chart below illustrates the breakdown of consumption of point-of-use drinking water at residential premises in terms of percentage of total residential locations:



Source: Frost & Sullivan Report

Note: Others refer to well water, fresh water, spring water, among others, which are consumed in rural areas, where the coverage of tap water was about 70% in 2012.

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From 2008 to 2012, the majority of households in China still relied primarily on boiled tap water for their drinking water needs. However, the percentages of the households using barreled water and water purifiers had both been increasing, and are expected to continue to grow. In particular, the percentage of the households using water purifiers increased from 4.7% in 2008 to 12.2% in 2012 and is expected to further increase to 32.0% in 2017.

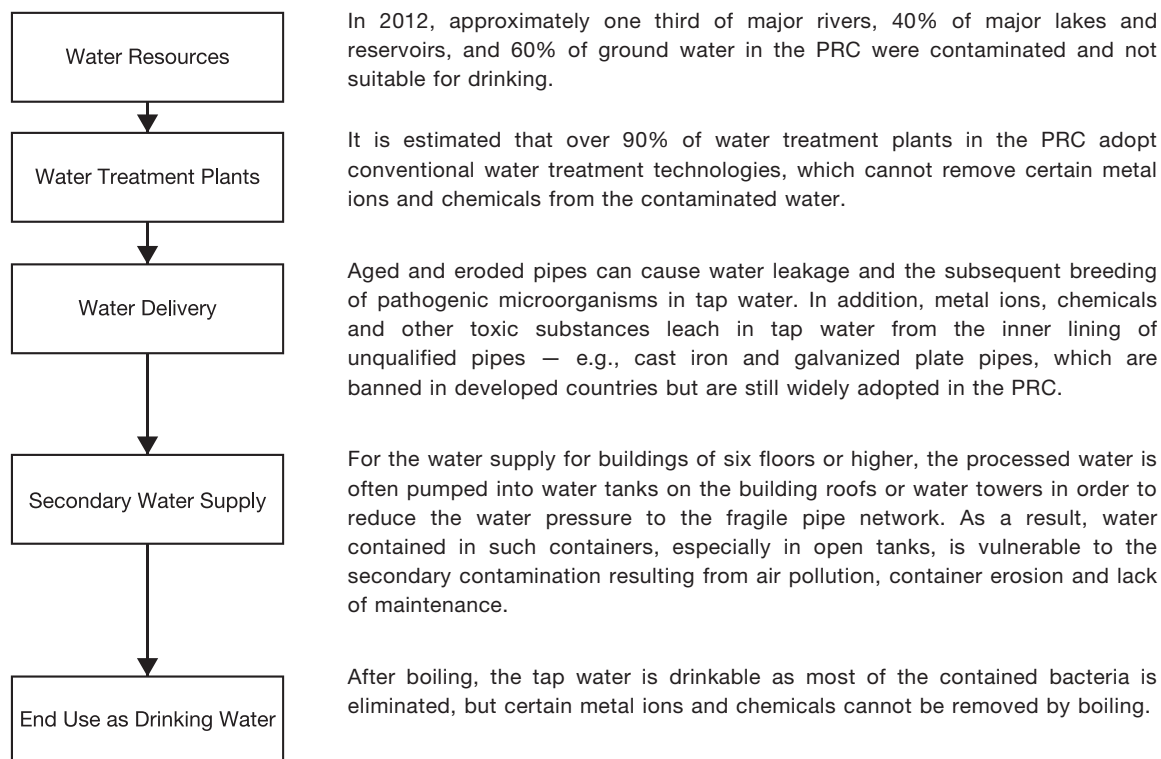
The households that use water purifiers increased from 18.1 million households in 2008 to 50.5 million households in 2012, representing a CAGR of 29.2%, and is expected to increase with a CAGR of 22.8% from 2013 to 2017.

Driving Forces of the Purified Drinking Water Market

The main driving forces of the growth of the purified drinking water market include:

Water Contamination in China

Contaminated water causes considerable damage in China every year due to negligence or lack of safety awareness. Rivers, lakes, reservoirs and ground water are frequently reported to be contaminated by the wastewater and industrial waste discharged by nearby plants. Some contaminants, such as metal ions or chemicals, cannot be completely eliminated from the contaminated ground water or surface water through conventional water treatment technologies. Delivery and storage process might also lead to secondary contamination of processed water. The contamination risks associated with each principal stage of water treatment and distribution process are summarized as below:



Source: Frost & Sullivan Report

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As a result of the foregoing, the tap water in China tends to have a relatively high level of pathogenic microorganisms, metal ions and chemicals as compared to many developed countries.

Urbanization Rate and Increase of Per Capita Disposable Income of Urban Households

China's significant economic growth has resulted in an accelerated urbanization process, leading to a significant increase in disposable income and rapid growth of consumption. According to the Frost & Sullivan Report, the urbanization rate of China increased from 47.0% in 2008 to 52.6% in 2012 and is expected to further increase to 57.4% in 2017. Similarly, the urban population increased from 624.2 million in 2008 to 712.2 million in 2012 and is expected to further increase to 796.8 million in 2017. With the growth in nominal GDP and continuous urbanization, the per capita disposable income of urban households has increased from RMB15,781 in 2008 to RMB24,565 in 2012, representing a CAGR of 11.7%, and is expected to increase to RMB34,740 in 2017, representing a CAGR of 7.2% from 2013 to 2017.

Due to the increasing urbanization rate, disposable income and individual consumption, urban residents have become increasingly willing to spend on discretionary goods, including home appliances such as water purifiers, to improve living standards. Urban residents also increasingly realize that safe drinking water provide tangible health benefits. According to a survey conducted by Frost & Sullivan, approximately 97% of water purifying machines are sold in urban areas in terms of volume. Given that 95% of China's urban areas are covered by piped water, the increasing disposable income and continuing urbanization are expected to continue to stimulate the demand for water purifiers.

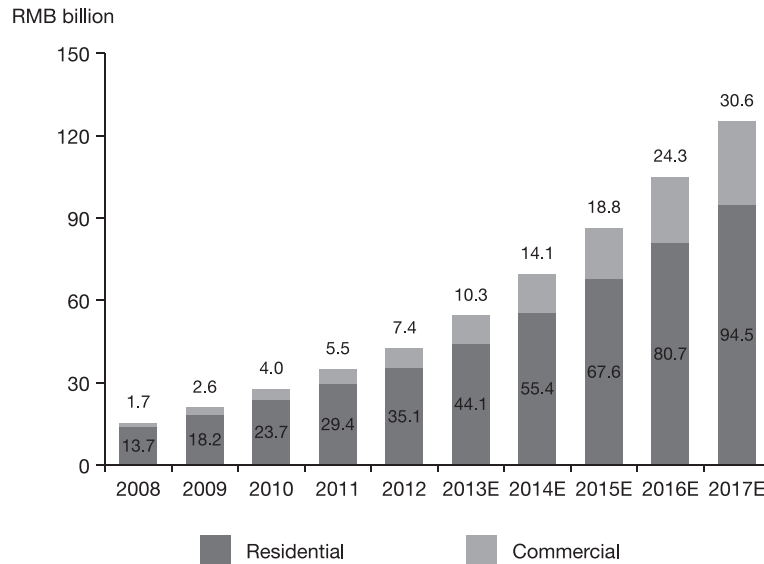
WATER PURIFIER MARKET IN CHINA

From 2008 to 2012, households using water purifiers increased from 18.1 million to 50.5 million, representing a CAGR of 29.2%, and is expected to increase to 141.7 million households in 2017, representing a CAGR of 22.8% from 2013 to 2017. The higher expected CAGR is primarily attributable to the increasing public awareness of the benefits of purified water and the rapid growth of urbanization rate, disposable income and urban employment. The percentage of households using water purifiers increased from 4.7% in 2008 to 12.2% in 2012, and is expected to further increase to 32.0% in 2017.

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Market Size Categorized by End User's Premises

The chart below illustrates the market size of water purifiers in China in terms of end user premises for the years indicated:



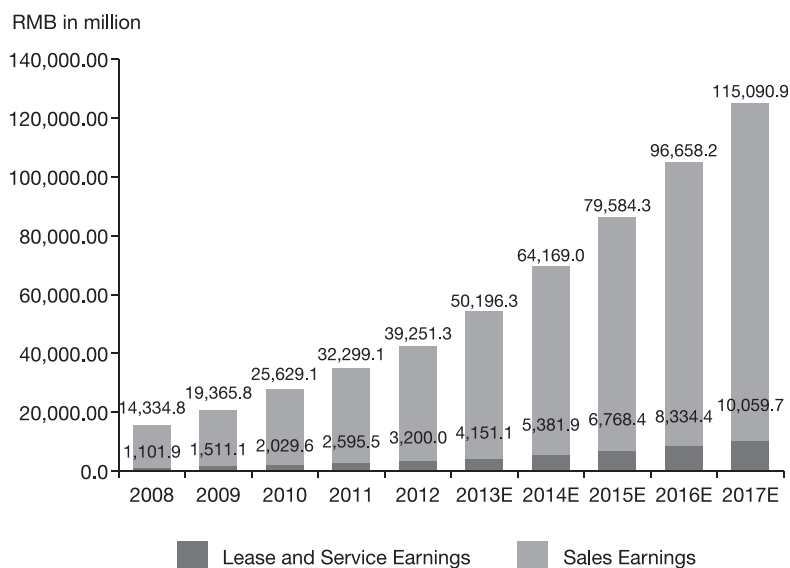
Source: Frost & Sullivan Report

The end users of water purifiers in China can be classified into residential end users and commercial end users. The market size attributable to water purifiers installed at residential premises increased from RMB13.7 billion in 2008 to RMB35.1 billion in 2012, representing a CAGR of 26.4%, and is expected to increase with a CAGR of 21.0% from 2013 to 2017. The market size attributable to water purifiers at commercial premises increased from RMB1.7 billion in 2008 to RMB7.4 billion in 2012, representing a CAGR of 44.4%, and is expected to increase with a CAGR of 31.5% from 2013 to 2017. In 2012, the market size of water purifiers in China was RMB42.5 billion, of which RMB35.1 billion and RMB7.4 billion was attributable to water purifiers used at residential premises and commercial premises, accounting for 82.6% and 17.4% of the total market, respectively.

INDUSTRY OVERVIEW

Market Size Categorized by Business Model

The chart below illustrates the market size of water purifiers in China in terms of business model of manufacturers:



Source: Frost & Sullivan Report

The business model of water purifier manufacturers can be classified into the sales model and the lease and service model. In 2012, the market size of water purifiers in China was RMB42.5 billion, of which RMB39.3 billion and RMB3.2 billion was attributable to sales and lease and service models, accounting for 92.5% and 7.5% of the total market, respectively.

The traditional business model adopted by most manufacturers is sales model which involves direct selling and distribution. The market size attributable to sales of water purifiers increased from RMB14.3 billion in 2008 to RMB39.3 billion in 2012, representing a CAGR of 28.6%, and is expected to increase with a CAGR of 23.1% from 2013 to 2017.

The lease and service model is an innovative business model under which manufacturers provide leasing of machines and servicing to the end users over the leasing arrangement period. It is considered as an attractive business model due primarily to the ability to collect recurring cash flows and retain long-term relationship with end users. However, manufacturers face high entry barriers in adopting such business model. For more details, see “Business – Market and Competition.” Companies who currently operate under the conventional sales model are not incentivized to change to operating the rental model, as it would require significant restructuring of their own operational processes and systems. The market size attributable to the lease and service model increased from RMB1.1 billion in 2008 to RMB3.2 billion in 2012, representing a CAGR of 30.5%, and is expected to increase with a CAGR of 24.8% from 2013 to 2017. Ozner Group is the largest among the six water purifier manufacturers in China that adopt the lease and service model.

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Top Ten Water Purifier Companies

The table below sets forth the top ten water purifier companies in China in terms of sales value to end users⁽¹⁾ in 2012.

Rank	Company	2012 Retail Sales Value (RMB million)	2012 Market Share (%)	Business Model Type
1	Midea Group	935.0	2.2	Sales
2	Qinyuan Group	700.0	1.6	Sales
3	Ozner Group	460.0	1.1	Lease and service
4	Shenzhen Litree Purifying Technology Co., Ltd.	395.0	0.9	Sales
5	Shenzhen Angel Drinking Water Equipment Co., Ltd.	375.0	0.9	Sales
6	Hefei GeMei Group	320.0	0.8	Sales
7	Pentair Ltd.	275.0	0.6	Sales
8	Ecowater Systems Ltd.	265.0	0.6	Sales
9	A. O. Smith (Shanghai) Water Treatment Products Co., Ltd.	260.0	0.6	Sales
10	Canature Group Co., Ltd.	240.0	0.6	Sales
	Others	<u>38,226.3</u>	<u>90.1</u>	
	Total	<u><u>42,451.3</u></u>	<u><u>100.0</u></u>	

Source: Frost & Sullivan Report

Note:

- (1) According to the Frost & Sullivan Report, drinking water purifiers include both electronic water purifying machines and non-electronic devices with water purifying filters that are used to purify tap water at end users' premises. In the report, the market positions of manufacturers of drinking water purifiers in 2012 were based on the amount paid by end users for consumption of purified water, which for sellers of water purifiers are the retail sales prices of the purifiers and for water purification service providers like us are the annual service fees end users contracted to pay in 2012.

The market could undergo consolidation in the future. For example, Unilever, an international consumer goods company, announced in March 2014 that it planned to acquire a 55% equity interest in Qinyuan Group. According to Frost and Sullivan, such acquisition would have a significant impact on the water purifier market in the PRC in a number of aspects, including:

- increase of market concentration, as the acquisition would result in two well recognized brands in the same industry working together to create synergies and greater market share;
- expansion of market reach of Qinyuan Group, as Unilever may leverage Qinyuan Group's existing large distribution channel to expand its customer base in China; and
- improvement of product portfolio of Qinyuan Group, as Unilever's products may complement Qinyuan Group's products.

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The water purifier market in China is fragmented, as the top ten companies accounted for only 9.9% of the total market size in 2012.

Ozner Group ranked third with a market share of 1.1% in 2012, and is the only company among the top ten players that operates under a lease and service business model. Ozner Group is recognized as a company with high research and development capability, and its water purifying machines are positioned as high-end products.

The table below sets forth the top ten water purifier companies in the commercial segment in China in terms of sales value to end users in 2012.

Rank	Company	Retail	Market	Business Model Type
		Sales Value	Share	
		(RMB million)	(%)	
1	Ozner Group	402.0	5.4	Lease and service
2	Midea Group	140.0	1.9	Sales
3	Qinyuan Group	105.0	1.4	Sales
4	Hangzhou Juxing Environment Technology Co. Ltd.	100.0	1.4	Lease and service
5	Shenzhen Angel Drinking Water Equipment Co., Ltd.	78.0	1.1	Sales
6	Hefei GeMei Group Co., Ltd.	65.0	0.9	Sales
7	Shenzhen Litree Purifying Technology Co., Ltd.	59.0	0.8	Sales
8	Nanjing Aquacup Water Purification Technology Co., Ltd.	43.0	0.6	Sales
9	Pentair Ltd.	41.0	0.6	Sales
10	Ecowater Systems Ltd.	40.0	0.5	Sales
Total of top ten		1,073.0	14.6	
Others		6,309.8	85.4	
Total		7,392.8	100.0	

Source: Frost & Sullivan Report

The total retail sales value of top ten water purifier companies in the commercial segment in China was approximately RMB1,073.0 million in 2012. The market was fragmented as the top ten companies accounted for only 14.6% of the total market share in 2012. Ozner Group was the leader in the commercial segment with retail sales value of RMB402.0 million in 2012.

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Price of Key Raw Materials and Final Product

Key raw materials used in the production of water purifying machines include copper, ABS, PVC, polyamide, cold-rolled steel sheet, stainless steel and plate glass. The table below illustrates the average selling price of these key raw materials and water purifying machine components:

Category	2008	2009	2010	2011	2012	2013E
Copper (RMB per tonnage) . .	56,682.0	41,274.1	58,509.2	66,707.6	57,881.9	54,237.3
ABS (RMB per tonnage)	16,229.5	13,505.9	15,106.1	15,732.4	16,475.9	16,402.4
PVC (RMB per tonnage)	7,693.2	6,533.7	7,686.7	7,764.7	6,710.7	6,714.2
Polyamide (RMB per tonnage)	30,686.3	24,847.5	29,917.5	31,680.8	29,865.0	27,862.7
Cold-rolled Steel Sheet (RMB per tonnage)	5,947.1	4,627.1	5,443.1	5,561.9	4,913.7	4,684.7
Stainless Steel (RMB per tonnage)	24,728.4	18,759.2	21,200.4	21,568.3	17,510.6	15,316.5
Plate Glass (RMB per Sq.m.).	25.2	23.8	25.6	25.4	24.5	25.4

Source: Frost & Sullivan Report

- (1) Copper and ABS (Acrylonitrile Butadiene Styrene) are major raw materials for manufacturing booster pumps.
- (2) PVC and ABS are major raw materials for manufacturing cooling modules.
- (3) Polyamide is a major raw material for manufacturing reverse osmosis membranes.
- (4) Cold-rolled steel sheet is a major material for manufacturing pressure barrels.
- (5) Stainless steel and plate glass are major materials for manufacturing ozone generators.

The lease and service business model is a relatively new business model adopted only by a few market participants. As such, there is no clear trend of service fees in the market.

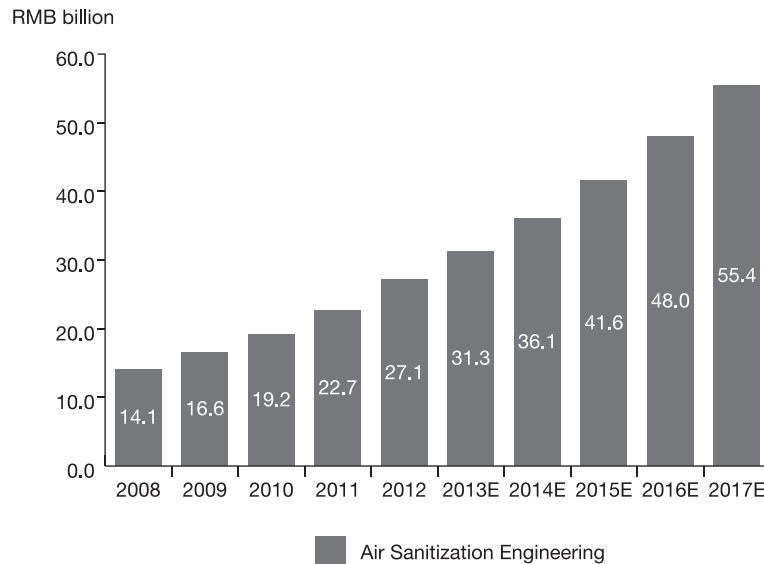
AIR SANITIZATION MARKET IN CHINA

Designed to reduce environmental pollutants such as dust, airborne microbes, aerosol particles and chemical vapors, air sanitization systems are widely adopted in industries where small airborne particles can cause material adverse effects. Air sanitization projects are generally operated under EPC arrangements (engineering, procurement and construction). Air sanitization system providers, as EPC contractors or sub-contractors, design the air sanitization system, procure the necessary equipment and components (such as air purifiers), and construct the projects for clients.

In addition to the driving forces generated from air-sensitive industries, the market demand for air sanitization is also generated from the increasing public concern due to the worsening air quality in China. According to the Frost & Sullivan Report, the number of foggy or hazy days per year has increased drastically, especially in urban areas. In some big cities in North or East China, nearly one-third of a whole year is identified as foggy or hazy. Residents at such areas are eager to seek solutions to protect themselves from polluted air, thus creating market demand for air sanitization engineering at office and residential premises.

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The chart below illustrates the market size of air sanitization engineering in terms of construction settlement income for the years indicated:



Source: Frost & Sullivan Report

Note: Construction settlement income, a generally accepted indicator in the construction market, represents the amount payable to construction contractors based on the actual construction progress.

From 2008 to 2012, the total construction settlement income of air sanitization engineering increased from RMB14.1 billion to RMB27.1 billion, representing a CAGR of 17.7%, and is expected to increase to RMB55.4 billion in 2017, representing a CAGR of 15.4% from 2013 to 2017.

REGULATORY OVERVIEW

This section summarizes the principal PRC laws, rules and regulations applicable to our current business and operations.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Policies Relating to Foreign Investment in Water Purifying Service and Air Sanitization Service Industry

For the purposes of guiding foreign investment, the Provisions on Guiding Foreign Investment Direction 《指導外商投資方向規定》 were promulgated by the State Council on February 11, 2002 and became effective on April 1, 2002 and foreign-invested industries generally fall into four categories pursuant to it: encouraged, permitted, restricted and prohibited. The encouraged, restricted and prohibited categories are listed in the Foreign Investment Industrial Guidance Catalogue 《外商投資產業指導目錄》 (the “Catalogue”) and those not listed in the Catalogue would fall into the permitted category. The Catalogue was jointly promulgated by the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the MOFCOM and such Catalogue will be amended and re-promulgated from time to time by these two government authorities. According to the current effective version of the Catalogue promulgated on December 24, 2011 and became effective on January 30, 2012, the water purifying service and air sanitization service should both fall within the permitted category.

Policies Relating to Water Purification and Air Sanitization Industry

Hygiene License for Products Related to Drinking Water

According to the Surveillance and Administration Measures of Drinking Water Hygiene 《生活飲用水衛生監督管理辦法》 jointly promulgated by the Ministry of Health of the PRC (中華人民共和國衛生部) (“MOH”) and the Ministry of Construction of the PRC (中華人民共和國建設部), which became effective on January 1, 1997 and were amended on February 12, 2010, hygiene licensing system shall be applied to products related to hygiene and safety of drinking water and any entities or individuals engaging in the production of the said products shall apply to health administration authorities for the hygiene license.

To standardize the classification and product range of products related to drinking water, the Classification Catalogue for Products Related to Hygiene and Safety of Drinking Water 《涉及飲用水衛生安全產品分類目錄》 (the “Classification Catalogue for Products Related to Drinking Water”) was promulgated by MOH and became effective on September 20, 2007 and was amended in September 2011. According to the Classification Catalogue for Products Related to Drinking Water, hygiene license for products related to drinking water shall be obtained from MOH before the following products are produced or imported:

- imported products related to drinking water;
- homemade water quality processors and protective materials; and
- new materials and chemicals contacting with drinking water.

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Hygiene license for products related to drinking water shall be obtained from the administrative departments for health at the provincial level where the following types of products are produced before they are produced:

- domestic water transmission and distribution facilities made with the materials listed in the Classification Catalogue for Products Related to Drinking Water;
- domestic water processing materials made with the materials listed in the Classification Catalogue for Products Related to Drinking Water; and
- domestic chemical treatment agents made with the materials listed in the Classification Catalogue for Products Related to Drinking Water.

On July 6, 2011, Notice on Adjustment of Hygiene Administrative License for Domestic Reverse Osmosis Water Purifier and Domestic Nano Filter Water Purifier 《關於調整國產反滲透淨水器 and 國產納濾淨水器衛生行政許可的通知》 was promulgated by MOH and provided that hygiene administrative for domestic reverse osmosis water purifier and domestic nano filter water purifier is delegated to health administrative departments at the provincial level. Hereafter, several notices were promulgated by MOH and National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), which provided that the examination and approval for products related to hygiene and safety of drinking water except for those made of new materials, technology and chemicals, is delegated to the health and family planning department at the provincial level. According to the notice issued by Health Bureau of Zhejiang Province on January 22, 2013, the examination and approval for products related to hygiene and safety of drinking water in Zhejiang Province has been delegated to health department at the city level (except for Zhoushan city) from January 1, 2013.

The hygiene license for products related to drinking water is valid for four years. The health and family planning department at the county level and above is responsible for supervision and administration of the products relating to drinking water and the production enterprises within its jurisdiction. Any production or sales of products related to drinking water without hygiene license or failure to meet relevant hygiene standard may result in the imposition of fines and penalties, the suspension or cancellation of hygiene license, or even criminal liability in severe cases.

Supervision of Air Sanitization Industry

As to the air sanitization industry in the PRC, there is no specific governmental authority and specific legal system for the industry supervision and administration. The requirements and standards which our air sanitization service should meet are different and are based on the industries which our services are provided to, and such requirements and standards are formulated respectively by the respective competent authorities in the industry.

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LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) promulgated by the Standing Committee of the National People's Congress (中華人民共和國全國人民代表大會常務委員會) (“SCNPC”) on June 29, 2002 and became effective on November 1, 2002 and amended on August 27, 2009, is the principal law governing the supervision and administration of production safety in the PRC. Production entities engaged in production and business activities within the territory in the PRC shall abide by the relevant legal requirements such as providing its staff with education and training on production safety and providing safe working conditions in compliance with relevant laws, rules and regulations. Any production entities unable to provide the required safe working conditions may not engage in production activities. Any failure to comply with the aforesaid provision and rectify noncompliance within a time limit may subject the production entities to fines and penalties, the suspension of operations, ceasing of operations, or even criminal liability in severe cases.

LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY AND MANDATORY CERTIFICATION

The Product Quality Law of the PRC (《中華人民共和國產品質量法》)

Products that we manufacture are subject to the laws, rules and regulations in relation to the product quality in the PRC. The Product Quality Law of the PRC (the “Product Quality Law”), which was promulgated by the SCNPC on February 22, 1993 and became effective on September 1, 1993 and amended on July 8, 2000 and August 27, 2009, is the principal law governing the supervision and administration of product quality.

According to the Product Quality Law, manufacturers are liable for the quality of products they produce and sellers must take reasonable actions to ensure the quality of the products they sell.

The manufacturer shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products of the manufacturer unless the manufacturer is able to prove that:

- it has not distributed the product;
- the defect did not exist at the time when the product was circulated; or
- the state of scientific or technological knowledge at the time the product was circulated was at a level incapable of detecting the defect.

The seller shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products it sold if such defect is attributable to the seller. A person who is harmed or whose property is damaged by the defective product may claim such loss against the manufacturer or the seller.

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Mandatory Product Certification

In accordance with the Regulations for the Administration of Mandatory Product Certification 《強制性產品認證管理規定》 promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) on July 3, 2009 and became effective on September 1, 2009, products listed in the compulsory product certification catalogue must be certified by designated certification bodies, meet statutory quality standards, and must be granted the relevant certificate and affixed with the CCC mark before they can leave factory and be imported, sold or used.

The cool & hot drinking water purifying machines our PRC subsidiaries produce shall undergo mandatory certification conducted by certification institutions designated by the State in accordance with nationally approved safety and technology standards. Only cool & hot drinking water purifying machines certified by designated certification institutions with officially awarded PRC mandatory product certification may be marketed in the PRC.

LAWS AND REGULATIONS RELATING TO PRODUCT LIABILITIES

Pursuant to the General Principles of the Civil Law of the PRC 《中華人民共和國民法通則》, which was promulgated by the National People's Congress of the PRC on April 12, 1986 and became effective on January 1, 1987 and amended on August 27, 2009, and the Law on the Protection of Consumers' Rights and Interests of the PRC 《中華人民共和國消費者權益保護法》, which was promulgated by the SCNPC on October 31, 1993 and became effective on January 1, 1994 and amended on August 27, 2009, both manufacturers and distributors shall be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture or distribute. The Law on the Protection of Consumers' Rights and Interests of the PRC was further amended on October 25, 2013 and became effective on March 15, 2014.

The Tort Liability Law of the PRC 《中華人民共和國侵權責任法》, which was promulgated by the SCNPC on December 26, 2009 and became effective on July 1, 2010, provides that if a product endangers personal life or property due to its defect, the manufacturers and the distributors shall bear liability in tort.

LAWS AND REGULATIONS RELATING TO TAXATION

The PRC taxes that are levied on our operating subsidiaries in the PRC mainly include enterprise income tax, value-added tax and business tax.

Enterprise Income Tax

According to the EIT Law which was promulgated by the National People's Congress of the PRC on March 16, 2007 and became effective on January 1, 2008, and its Implementation Rules which was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its income deriving from both inside and outside China at the rate of enterprise income tax of 25%. A non-resident enterprise that has an establishment or place of business in the PRC shall pay enterprise

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income tax on its income deriving from inside China and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business, at the rate of enterprise income tax of 25%. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10%.

The EIT Law also regulates that enterprises granted a Certificate for High and New Technology Enterprises are entitled to the preferential EIT at the rate of 15%. Our PRC subsidiaries, Shanghai Comfort and Shanghai Haoze Water Purification Technology was qualified as “High and New Technology Enterprise” respectively in 2011 and 2012, therefore, Shanghai Comfort was entitled to be taxed at 15% from the year 2011 to 2013 and Shanghai Haoze Water Purification Technology was entitled to be taxed at 15% from the year 2012 to 2014.

Pursuant to the Notice on Tax Policy Issues concerning Further Implementing the Western China Development Strategy 《關於深入實施西部大開發戰略有關稅收政策問題的通知》 jointly promulgated by the Ministry of Finance, the General Administration of Customs and the SAT and the Announcement on Issues concerning Enterprise Income Tax relating to Enhancing the Western Region Development Strategy 《關於深入實施西部大開發戰略有關企業所得稅問題的公告》 promulgated by the SAT, which took effect retroactively from January 1, 2011, the enterprise income tax on an enterprise engaging an encouraged industry established in western China shall be levied at the reduced rate of 15% upon the competent tax authority approval. The aforesaid “enterprise in an encouraged industry” refers to an enterprise whose main business falls within the scope of industry projects set out in the Catalogue of Encouraged Industries in Western China and whose revenue from its main business accounts for 70% or more of its gross income.

Our PRC subsidiary, Shaanxi Haoze Environmental Technology was approved by the competent tax authority where it is located to be an enterprise in an encouraged industry and enjoyed being taxed at 15% in 2012 and 2013.

Value-Added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC 《中華人民共和國增值稅暫行條例》 promulgated by the State Council on December 13, 1993, amended on November 5, 2008 and became effective on January 1, 2009, together with its implementation rules, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax. Unless otherwise provided, the rate of value-added tax is 17%.

Pilot Plan for Levying Value-Added Tax in Lieu of Business Tax 《營業稅改徵增值稅試點方案》 (the “Pilot Plan”) and the Measures for Implementing the Pilot Program of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries 《交通運輸業和部分現代服務業營業稅改徵增值稅試點實施辦法》 (the “Measures”) were jointly promulgated by the SAT and the Ministry of Finance of the PRC on November 16, 2011. According to the Pilot Plan and the Measures, pilot practice of levying value-added tax in lieu

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of business tax would be carried out from January 1, 2012 in specific pilot area and productive service industry such as the transportation industry and some modern service industries, and the rate of value-added tax was additionally added by two rates of 11% and 6% besides the previous tax rate. The tax rate for leasing of tangible assets and modern services (except leasing) is respectively 17% and 6%. From August 1, 2013, the pilot practice of levying value-added tax in lieu of business tax on the transportation industry and some modern service industries was carried out nationwide.

Business Tax

Pursuant to the Provisional Regulation on Business Tax of the PRC (《中華人民共和國營業稅暫行條例》) promulgated by the State Council on December 13, 1993 and amended on November 5, 2008 and became effective on January 1, 2009, and its implementation rules, entities or individuals engaging in the taxable labor services, transfer of intangible assets, or sale of real estate in China is generally required to pay business tax on the business turnover. The taxable labor services refer to the services covered by the levying scope of tax items of the industries of transport, construction, finance and insurance, post and telecommunications, cultural and sports, entertainment and service. Unless otherwise provided, the rate of business tax is 5%.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

Under the Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), which was promulgated by the National People's Congress of the PRC in 1986 and amended by the SCNPC on October 31, 2000 and its implementing rules, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are also required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

According to the EIT Law and its Implementation Rules, dividends paid to an eligible PRC resident enterprise can be exempted from the enterprise income tax and dividends paid to its foreign investors are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC Government provide otherwise.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) (the "Arrangement") on August 21, 2006. According to the Arrangement, 5% withholding tax rate shall apply to the dividends paid by a PRC company to

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a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company, and 10% shall apply if the Hong Kong resident holds less than 25% of the equity interests in a PRC company.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues Relating to the Implementation of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the SAT and became effective on February 20, 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (《非居民享受稅收協定待遇管理辦法(試行)》) (the "Administrative Measures"), which became effective on October 1, 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax agreements.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules of the PRC (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996 and amended on August 1, 2008 and became effective on August 5, 2008, and various regulations issued by the SAFE and other PRC regulatory agencies, payment of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, may be made by conversion of Renminbi into foreign currencies without approval of SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

On August 29, 2008, the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) ("SAFE Circular 142") was promulgated by SAFE. Pursuant to SAFE Circular 142, the Renminbi capital from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope as approved by the applicable governmental authority, and unless otherwise stipulated by laws or regulations, such Renminbi

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capital may not be used for domestic equity investment. Documents certifying the purposes of the settlement of foreign currency capital into Renminbi, including the business contracts, must also be submitted for the settlement of the foreign currency. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without the SAFE's approval, and such Renminbi capital may not be used to repay Renminbi loans if such loans have not been used. Violations of the SAFE Circular 142 could result in severe monetary fines or penalties.

On November 19, 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment 《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》 (“Circular 59”), which became effective on December 17, 2012. Circular 59 substantially amends and simplifies the current foreign exchange procedure. According to Circular 59, the opening of various special purpose foreign exchange accounts (e.g. pre-investment expenses account, foreign exchange capital account, asset realization account, guarantee account) no longer requires the approval of SAFE. Furthermore, multiple capital accounts for the same entity may be opened in different provinces, which was not possible before the issuance of Circular 59. Reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment) no longer requires SAFE's approval or verification, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer requires SAFE's approval.

On May 10, 2013, SAFE promulgated the Circular on Issuing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents 《關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration. Institutions and individuals shall register with SAFE and/or its branches for their direct investment in the PRC. Banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

Round-Trip Investment via Overseas Special Purpose Vehicles

On October 21, 2005, SAFE issued the Circular on Foreign Exchange Issues Related to Equity Finance and Round-Trip Investments by Domestic Residents through Offshore Special Purpose Vehicles 《國家外匯管理局關於境內企業通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (the “Circular 75”), with effect from November 1, 2005. According to Circular 75, (i) a domestic resident, including a domestic resident individual or a PRC company, must register with the local SAFE branch before it establishes or controls a special purpose vehicle (“SPV”) for the purpose of raising funds from overseas ; (ii) when a domestic resident contributes assets or equity interests to an overseas SPV, such domestic resident must register its interests in the overseas SPV or any change to its interest in the overseas SPV with the local SAFE branch; and (iii) when the overseas SPV undergoes a material change in capital

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outside the PRC, such as a change in share capital or merger and acquisition, the domestic resident must, within 30 days after the occurrence of such event, register such change with the local SAFE branch. Circular 75 applies retroactively.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject the relevant domestic resident to penalties under PRC foreign exchange administration regulations.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

General Regulations

The PRC government has adopted extensive environmental laws and regulations. Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated by the SNPC and became effective on December 26, 1989, the Ministry of Environmental Protection of the State Council supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and discharge of pollutants. The environmental protection bureau at the county level and above is responsible for environmental protection within its jurisdiction and setting local standards.

Environmental Protection of Construction Projects

Pursuant to the Environmental Impact Appraisal Law (《中華人民共和國環境影響評價法》), which was promulgated by the SCNPC on October 28, 2002 and became effective on September 1, 2003, the Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated by the State Council and became effective on November 29, 1998, the construction project environmental impact evaluation system should apply to the construction projects in the PRC and enterprises planning construction projects should engage qualified professional institution to provide environmental impact evaluation of such projects. The assessment report or statement issued by the qualified professional institution or registration form must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises shall file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project.

Prevention and Control of Pollutions

The Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was promulgated by the SCNPC and amended on February 28, 2008 and became effective on June 1, 2008, the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), which was promulgated by the SCNPC and amended on April 29, 2000 and became effective on September 1, 2000, and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), which was promulgated by the SCNPC on October 29, 1996 and became effective on March 1, 1997, as well as the Law of the PRC on the Prevention and Control of

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Environmental Pollution by Solid Wastes 《中華人民共和國固體廢物污染環境防治法》, which was amended by the SCNPC on June 29, 2013, prescribe the details for the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution.

LAWS AND REGULATIONS RELATING TO LABOR

Employment Contracts

The Labor Law of the PRC 《中華人民共和國勞動法》 was promulgated by the SCNPC on July 5, 1994 and became effective on January 1, 1995 and amended on August 27, 2009. The Labor Contract Law of the PRC 《中華人民共和國勞動合同法》 (the “Labor Contract Law”) was promulgated by the SCNPC on June 29, 2007 and became effective on January 1, 2008 and amended on December 28, 2012 and took effect on July 1, 2013. The Implementing Regulations of the Labor Contract Law of the PRC 《(中華人民共和國勞動合同法實施條例)》 was promulgated by the State Council and became effective on September 18, 2008. These laws and regulations govern the relationship between employers and employees and provide for specific provisions in relation to the terms and conditions of an employment contract. The Labor Contract Law stipulates that employment contracts must be in writing and signed by both the employers and employees. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. On December 28, 2012 the Labor Contract Law was amended to impose more stringent requirements on labor dispatch which became effective on July 1, 2013. Pursuant to amended Labor Contract Law, (i) it is strongly emphasized that contract workers shall be entitled to equal pay for equal work as a fulltime employee of an employer; (ii) contract workers shall be used for temporary, auxiliary or substitutive positions only; and (iii) an employer shall strictly control the number of dispatched employees so that they do not exceed certain percentage of total number of employees and the specific percentage shall be prescribed by the Ministry of Labor and Social Security. “Temporary Positions” referring a position with a term of less than six (6) months; “Auxiliary Positions” referring a non-core business position that provides services for the core business of the employer; and “Substitutive Positions” referring a position that can be temporarily replaced with a contract worker for the period that a regular employee is away from work for vacation, study or for other reasons. According to the Interim Provisions on Labor Dispatch 《勞務派遣暫行規定》 promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of contract workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and contract workers). The Interim Provisions on Labor Dispatch further requires the employer that is not in compliance with the above provisions to formulate a plan to reduce the number of its contract workers to below 10% of the total number of its employees prior to March 1, 2016. In addition, an employer is not permitted to hire any new contract worker until the number of its contract workers has been reduced to below 10% of the total number of its employees.

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Employee Funds

Under applicable PRC laws, rules and regulations, including the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated by the SCNPC on October 28, 2010 and became effective on July 1, 2011, the Provisional Regulations on the Collection and Payment of Social Insurance Funds (《社會保險費徵繳暫行條例》) promulgated by the State Council and became effective on January 22, 1999, the Interim Measures concerning the Maternity Insurance (《企業職工生育保險試行辦法》) promulgated by the Ministry of Labor of the PRC on December 14, 1994 and became effective on January 1, 1995, the Regulations on Occupational Injury Insurance (《工傷保險條例》) promulgated by the State Council on April 27, 2003 and became effective on January 1, 2004 and amended on December 20, 2010, the Regulations on Unemployment Insurance (《失業保險條例》) promulgated by the State Council and became effective on January 22, 1999, and the Regulations on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) promulgated by the State Council and became effective on April 3, 1999 and amended on March 24, 2002, employers are required to contribute, on behalf of their employees, to a number of social insurance funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing accumulation funds. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

INTELLECTUAL PROPERTY LAWS AND REGULATIONS

China has adopted legislations related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement on the International Registration of Marks and Madrid Protocol, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Regulations on Patents

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated on March 12, 1984 with the last amendment effective on October 1, 2009, patent protection is divided into three categories, namely, invention patent, utility patent and design patent. Invention patents are valid for twenty years from the date of application, while design patents and utility patents are valid for ten years from the date of application. Once an invention patent, utility patent or a design patent is granted, unless otherwise permitted by law, no individual or entities are permitted to engage in the manufacture, use, sale, or import of the product protected by such patent or otherwise engage in the manufacture, use, sale, or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder. The patent application system in the PRC is different in many ways from that in other countries. The patent system in the PRC uses the “first to file” principle, which means when more than one person files for a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, the PRC requires absolute novelty for an invention to be patentable. Therefore, in

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general, a patent will be denied if it is publicly known in or outside of The PRC. Furthermore, patents issued in the PRC are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system. Although patent rights are national rights, the Patent Cooperation Treaty allows an applicant in one country to seek patent protection for an invention in multiple member countries at the same time by filing an international patent application. However, the fact that a patent application is pending is not a guarantee that a patent will be granted. Furthermore, even if a patent application is granted, the scope of a patent may not be as broad as the applicant requested in the initial application.

Regulations on Trademarks

The Trademark Law of the PRC 《中華人民共和國商標法》 (the “Trademark Law”) was promulgated in August 1982 and amended on February 22, 1993 and October 27, 2001, and was further amended on August 30, 2013 which became effective on May 1, 2014. The Implementation Regulations on the Trademark Law of the PRC 《中華人民共和國商標法實施條例》 was promulgated on August 3, 2002 by the State Council and amended on April 29, 2014 and became effective on May 1, 2014. These current effective laws and regulations provide the basic legal framework for the regulations of trademarks in the PRC, where registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks. The Trademark Office under the SAIC is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of ten years. Six months prior to the expiration of the ten-year term, an applicant can renew the application and reapply for trademark protection.

Under the current effective Trademark Law, any of the following acts may be regarded as an infringement of the exclusive right to use of a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark on the same or similar kind of commodities of the trademark registrant’s without the authorization of the trademark registrant;
- sale of commodities infringing upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorization, representations of a registered trademark, or sale of such representation of a registered trademark; and
- otherwise infringing upon other person’s exclusive right to use a registered trademark and cause damages.

Violation of the current effective Trademark Law may result in the imposition of fines, confiscation and destruction of the infringing commodities. Trademark license agreements must be filed with the Trademark Office under the State Administration for Industry and Commerce or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

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Regulations on Domain Names

The Measures for the Administration of Domain Names for the Chinese Internet (《中國互聯網絡域名管理辦法》) were promulgated by the Ministry of Information Industry on November 5, 2004 and became effective on December 20, 2004. These measures regulate the registration of domain names in Chinese with the Internet country code of “.cn”. The Measures on Domain Names Dispute Resolution (《中國互聯網絡信息中心域名爭議解決辦法(2012年修訂)》) were promulgated by the Chinese Internet Network Infrastructure Centre on May 28, 2012 and became effective on June 28, 2012. These measures require domain name disputes to be submitted to institutions authorized by the Chinese Internet Network Information Centre for resolution.

LAWS AND REGULATIONS RELATING TO REORGANIZATION AND OVERSEAS LISTING

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) was jointly promulgated by the MOFCOM, SAT, SAIC, CSRC, SAFE and the State-Owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) on August 8, 2006 and became effective on September 8, 2006 and was amended on June 22, 2009. According to the M&A Rules, mergers and acquisitions of equity interests of assets of any domestic enterprises by foreign investors shall be reviewed and approved by the MOFCOM or its provincial commercial authority. The M&A Rules further provides that if any offshore enterprise established or controlled by PRC domestic companies or individuals intends to acquire domestic enterprises affiliated with such PRC domestic companies or individuals, the acquisition shall be subject to the examination and approval of the MOFCOM. In addition, the M&A Rules provide that any listing on an overseas stock exchange of any offshore SPV, which is directly or indirectly controlled by PRC domestic companies or individuals and which has been formed for overseas listing purposes shall be subject to approval by the CSRC.

In anticipation of our Listing, we underwent the Pre-IPO Reorganization pursuant to which our Company became the holding company and listing vehicle of our Group while at the same time Mr. Xiao and Mr. Wang reorganized their shareholdings in our Company for their own wealth management planning purposes. For more details, see the section headed “Our History and Reorganization — Pre-IPO Reorganization” of this prospectus. Our PRC legal adviser has confirmed that all the share transfers in respect of the PRC companies in our Group as part of the Pre-IPO Reorganization have obtained all relevant approvals and permits and the procedures involved are in accordance with PRC laws, rules and regulations in all material respect. As advised by our PRC legal adviser, with respect to all the share transfers of the PRC companies in our Group, the transactions are not acquisitions by any offshore enterprise of the domestic enterprises affiliated with such PRC domestic companies or individuals as regulated in M&A rules and thus not subject to the MOFCOM approval.

Our PRC legal adviser also advised that, as our Company is not an offshore special purpose vehicle directly or indirectly controlled by any PRC domestic companies or individuals and our acquisitions of the PRC companies in our Group were not paid in the form of equity securities, it is not necessary for us to obtain approval from the CSRC for the Listing and trading of our Shares on the Stock Exchange.

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Pursuant to the written resolutions passed by the sole Shareholder on May 26, 2014, the Global Offering, the proposed Listing and related transactions were approved conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (2) the Offer Price being fixed on the Price Determination Date and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements. For more details, see the section headed “Statutory and General Information – A. Further Information About Our Group – 3. Resolutions in Writing of the Sole Shareholder of Our Company” in Appendix IV to this prospectus.

OUR HISTORY AND REORGANIZATION

OUR HISTORY

Overview

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 15, 2013. Fresh Water Group, which was incorporated in the BVI on November 30, 2010, was our holding company prior to our Company becoming our holding company and listing vehicle.

As shown in our group structure chart in the paragraph headed “Corporate Structure” in this section, our Group has two groups of operating subsidiaries in the PRC, one group is held through HK Fresh Water (the “FW Subsidiaries”) and the other group is held through Park Wealth (the “PW Subsidiaries”), both of which are investment holding companies. The PW Subsidiaries include Shanghai Comfort, which was established in 2005, when Mr. Xiao, one of our Controlling Shareholders and our Chairman and chief executive officer, became the key senior management member and an indirect founding shareholder of Shanghai Comfort. Mr. Xiao subsequently disposed of Shanghai Comfort in 2008 but it became part of our Group when we acquired Park Wealth (including Shanghai Comfort and its subsidiaries) in September 2012. The FW Subsidiaries were established at the end of 2010 when Mr. Xiao, Mr. Wang and SAIF Partners formed a venture to establish Fresh Water Group to launch a new water purification business through its wholly-owned subsidiary in the PRC, Shanghai Haoze Water Purification Technology, as well as through a sub-contract management agreement which began on January 1, 2011, as further described in this section.

Our Milestones

The following is a summary of our Group’s key development milestones:

<u>Year</u>	<u>Events</u>
Shanghai Comfort	
2005	<ul style="list-style-type: none">● Establishment of Shanghai Comfort by Mr. Xiao (through Shanghai Comfort Products) and Mr. Chen Xuejun, an Independent Third Party
2008	<ul style="list-style-type: none">● Transfer of 100% of Shanghai Comfort to Park Wealth, then an Independent Third Party● Transfer of 100% of Park Wealth to Successtime, an Independent Third Party
2010	<ul style="list-style-type: none">● Shanghai Comfort became one of the drinking water suppliers for the Shanghai Expo

OUR HISTORY AND REORGANIZATION

<u>Year</u>	<u>Events</u>
Fresh Water Group and HK Fresh Water	
2010	<ul style="list-style-type: none">● Fresh Water Group was established● First round pre-IPO investment by SAIF Partners
2011	<ul style="list-style-type: none">● We commenced our drinking water machines business under the Ozner (浩澤) brand● We became one of the drinking water suppliers for the volunteer workers of the <i>26th Summer Universiade</i> (World University Games) in Shenzhen● Second round pre-IPO investment by Ares
Fresh Water Group, HK Fresh Water and Shanghai Comfort	
2012	<ul style="list-style-type: none">● Our geographical coverage through our distributors reached over 100 major cities in China● Acquisition of Shanghai Comfort by Fresh Water Group in September 2012● Mr. Xiao became a Controlling Shareholder● We became one of the drinking water suppliers for the scientists at the Beijing Aerospace Control Center● Third round pre-IPO investment by Goldman Sachs
2013	<ul style="list-style-type: none">● Awards for Chinese Enterprise with Most Growth Potential issued by Fudan University and Ernst & Young in 2013

OUR HISTORY AND REORGANIZATION

Background of Shanghai Comfort

Mr. Xiao and Shanghai Comfort

Mr. Xiao, one of our Controlling Shareholders and our Chairman and chief executive officer, started his water purification business when he became the key senior management member and an indirect shareholder of Shanghai Comfort. Shanghai Comfort was established in the PRC on September 23, 2005. At the time of its establishment, Shanghai Comfort was owned by Chen Xuejun (an Independent Third Party) (with 60% equity interest) and 上海康福特環保產品科技有限公司 (Shanghai Comfort Environmental Products Technology Co., Ltd.) (“Shanghai Comfort Products”) (with 40% equity interest), with an initial registered capital of RMB10 million. Mr. Xiao was a founder of Shanghai Comfort Products, which was established in 2003 with funds he generated from his automobile air purification services business.

Sale of Shanghai Comfort to Park Wealth

In 2007, Mr. Xiao was considering moving his family abroad and decided to dispose of his business interests in China. In October 2007, Chen Xuejun and Shanghai Comfort Products transferred their 100% interest in Shanghai Comfort to Park Wealth, an investment holding company, for an aggregate consideration of approximately RMB5.5 million, which was determined based on an independent valuation report pursuant to applicable PRC regulatory requirements. At the time, Park Wealth was owned by Teamwon Limited (as to 56%), Sureguide Limited (as to 24%) and Sure Achieve Limited (as to 20%) (together, the “Park Wealth Owners”), each an Independent Third Party. In April 2008, the share transfer was completed and Mr. Xiao ceased to own any equity interests or voting rights in Shanghai Comfort, whether directly or indirectly. However, because the Park Wealth Owners recognized the importance of Mr. Xiao’s continued contribution to Shanghai Comfort and the benefits of retaining Mr. Xiao to continue his work on the water purification business he initially conceived, they requested that Mr. Xiao remain as a key member of the senior management team of Shanghai Comfort. Mr. Xiao agreed to remain at Shanghai Comfort pending finalization of plans for him and his family.

Sale of Park Wealth (and Shanghai Comfort) to Successtime

In October 2008, the Park Wealth Owners entered into an agreement to sell Park Wealth to Successtime Limited (“Successtime”), a wholly-owned subsidiary of Chaoyue Group Limited (“CGL”), a company listed on the Hong Kong Stock Exchange, in an effort to gain access to additional funding from the capital markets available to a publicly listed company. In exchange for their 100% interest in Park Wealth, the Park Wealth Owners received an aggregate consideration of HK\$85,854,864 (following adjustment) in the form of non-voting convertible preference shares of CGL. The sale was completed on February 12, 2009 and did not involve any cash consideration.

At the time of the acquisition of Park Wealth, CGL had a diverse business portfolio and, during the time it owned Park Wealth, CGL was involved in the garment manufacturing and trading business, the operation and exploration of gold mining in the Kyrgyz Republic, as well as the provision of corporate services. Due to a combination of factors mainly related to the lack of funding as a result of the lingering effects of the global financial crisis, Shanghai Comfort’s performance under Successtime’s ownership was not satisfactory. As a result, CGL

OUR HISTORY AND REORGANIZATION

eventually decided to dispose of Shanghai Comfort to focus on other businesses, and sold it to Fresh Water Group in 2012. Please see the paragraph headed “Acquisition of Park Wealth (and Shanghai Comfort)” in this section.

Fresh Water Group

Evolution of Fresh Water Group and HK Fresh Water

Introduction of SAIF Partners and Mr. Xiao into Fresh Water Group

Mr. Wang, a partner of Boardroom Advisors Co., Limited, a company that focuses on investments and consulting for China-based companies, recognized the growth potential of the water purification business in China and embarked upon establishing Fresh Water Group while at the same time seeking funding from potential investors. To procure funding for the potential investment in the water purification business, Mr. Wang approached SAIF Partners, which he had known since 2005 when SAIF Partners appointed Mr. Wang as chief financial officer of their investee company, Acorn International, Inc., a media and branding company listed on the New York Stock Exchange.

Both Mr. Wang and SAIF Partners recognized the importance of Mr. Xiao’s expertise in the water purification business in the PRC, particularly in the lease and service business model for water purifying machines, as the founder and senior management of Shanghai Comfort were in agreement that SAIF Partners’ investment in Fresh Water Group would be conditional on Mr. Xiao (i) becoming a senior management member of Fresh Water Group and (ii) his management role in Fresh Water Group becoming aligned with his economic interests in Fresh Water Group. In order to attract Mr. Xiao to Mr. Wang’s venture and to deliver on SAIF Partners’ investment condition, prior to the signing of SAIF Partners’ investment in Fresh Water Group on December 30, 2010, Mr. Wang secured Mr. Xiao’s agreement to lead Fresh Water Group as its Controlling Shareholder, Chairman and chief executive officer. By this time, Mr. Xiao had abandoned plans to move abroad and was invigorated by the potential partnership with, and available funding from, SAIF Partners and his conviction the business model that he initially conceived would prove to be successful. As Mr. Xiao carried out the formalities to enable him to become a shareholder of Fresh Water Group, an offshore entity, Mr. Wang granted an option to Mr. Xiao to acquire from him 8,000 shares of Fresh Water Group for a nominal consideration. On December 25, 2012, Mr. Xiao exercised his option and became a 35.11% shareholder and the controlling shareholder of Fresh Water Group. Please see the paragraph headed “Pre-IPO Investment” for further details.

Establishment of Fresh Water Group

Fresh Water Group was established on November 30, 2010 with Mr. Wang as its initial sole shareholder. HK Fresh Water was incorporated in Hong Kong on August 31, 2010 by Mr. Wang and Fresh Water Group became the sole shareholder of HK Fresh Water on December 7, 2010. HK Fresh Water holds one of our primary PRC operating subsidiaries, Shanghai Haoze Environmental Technology, established as a wholly-owned subsidiary on November 17, 2010.

OUR HISTORY AND REORGANIZATION

Commencement of business of Fresh Water Group: Sub-Contract Management Arrangements with Shanghai Haoyang

Fresh Water Group commenced business in January 1, 2011 when it began developing its own water purification business as well as the business from the contract management arrangement with Shanghai Haoyang. The development of this milestone took place in the following manner.

Mr. Wang was acquainted with the business model of Shanghai Comfort and had wanted to arrange an investment transaction in the PRC water purification industry. At the time, Mr. Wang considered Shanghai Comfort as a potential investment target and strategic cooperation partner for his investment vehicle, Fresh Water Group. There were no prohibitions under applicable PRC rules and regulations for a direct investment in Shanghai Comfort.

However, the performance of Shanghai Comfort at the time was not satisfactory due to its then reliance on third party distributors and thus Shanghai Comfort was looking to scale back its reliance on such third party distributors by granting the right to continue marketing and leasing out new water purification machines to a single third party in exchange for a steady cashflow. In particular, Shanghai Comfort was looking to enter into a contract management arrangement with Shanghai Haoyang whereby Shanghai Comfort would appoint Shanghai Haoyang to manage and service its already installed water purifying machines under which it would receive fees from customers for such services. In addition, Shanghai Haoyang would have the right to develop new markets and customers in the PRC (other than 10 cities which were retained by Shanghai Comfort) and in return, Shanghai Comfort would receive from Shanghai Haoyang an annual contract management fee of HK\$12.5 million (the “Contract Management Arrangement”). Pursuant to the Contract Management Agreement, Shanghai Haoyang was entitled to utilize certain assets owned by Shanghai Comfort, including:

- trademarks related to Shanghai Comfort’s water purification business, including “Ozner”, “浩澤” and “APO+活水站”;
- utilization patents related to water purification technology and design patents related to water purifying machines;
- water purifying machines already installed and owned by Shanghai Comfort;
- business model engaged by Shanghai Comfort for its water purification business;
- distribution channels, end user base and other operational resources; and
- office facilities.

Instead of a direct investment in Shanghai Comfort, Mr. Wang developed a transaction structure for an investment in the water purification business through the establishment of Fresh Water Group with SAIF Partners as its first round investor and Mr. Xiao receiving a significant shareholding interest with a two-pronged development strategy: (a) establishing its own water purification business to be conducted by Shanghai Haoze Water Purification Technology; and (b) entering into a sub-contract management arrangement with Shanghai

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Haoyang to manage some of the businesses which Shanghai Haoyang would contract manage from Shanghai Comfort. A critical part of this strategy was to bring Mr. Xiao on board as a key owner and manager of Fresh Water Group as he was the person who had conceived the business model for the water purification business, including that of Shanghai Comfort.

We, through Shanghai Haoze Water Purification Technology, entered into a sub-contract management agreement with Shanghai Haoyang, which became effective on January 1, 2011, that had substantially the same material terms with the Contract Management Arrangement except that Shanghai Haoyang retained the right to manage already installed water purifying machines. Pursuant to the sub-contract management agreement, Fresh Water Group was entitled to utilize all assets that Shanghai Comfort assigned to be used by Shanghai Haoyang under the Contract Management Arrangement for an annual consideration of HK\$12.5 million. The term of the sub-contract management agreement was three years. The sub-contract management arrangement enabled Fresh Water Group to enter into the water purification market and quickly ramp up operations and market share by leveraging Shanghai Comfort's existing assets and resources, including trademarks, patented technologies and designs, business model and distribution channel. We had entered into such arrangement also to reduce various risks that Fresh Water Group would have to face as a new market participant. The annual sub-contract management fee we paid were incurred in connection with the manufacturing of water purifying machines and were capitalized as part of the revenue generating assets when the relevant water purifying machines produced were installed at the end users' premises. The sub-contract management fee is subject to depreciation immediately after the installation of the relevant water purifying machines produced over 10 years with a residual value of 5% in accordance with the accounting policy of revenue generating assets. We implemented a number of measures to strengthen our management of third party distributors and reduce our reliance on such distributors. For more details, see "Business — Our Distribution Network — Integrated distributor, machine and end user management system" and "Business — Our Distribution Network — Our Customers."

By entering into this arrangement, Shanghai Haoyang would not have to take the risk or incur significant expense associated with developing new markets and customers but at the same time it received a steady flow of fees from end users of already installed water purifying machines. In addition, Shanghai Haoyang was able to cover its annual fee for Shanghai Comfort from the HK\$12.5 million annual contract management fee it would receive from Fresh Water Group.

As part of our due diligence in the first half of 2012 in connection with the potential acquisition of Park Wealth, we inquired Shanghai Comfort's plan with regard to the Contract Management Arrangement in light of the potential acquisition, in particular with regard to the water purifying machines then managed by Shanghai Haoyang. We were informed by Shanghai Comfort that it was in negotiation with Shanghai Haoyang for the termination of the Contract Management Arrangement in the event of the consummation of the acquisition. Prior to the closing of the acquisition, we were informed that a preliminary agreement to terminate the Contract Management Arrangement was reached between Shanghai Comfort and Shanghai Haoyang, conditioned upon the consummation of the acquisition. On September 27, 2012, Shanghai Comfort and Shanghai Haoyang entered into a termination agreement, which provided that the Contract Management Arrangement is terminated by mutual agreement

OUR HISTORY AND REORGANIZATION

between the parties as a result of the change of ownership of Shanghai Comfort. Concurrently, Shanghai Haoyang entered into a termination agreement with Shanghai Haoze Water Purification Technology which provided that the sub-contract management arrangement is terminated as a result of the termination of the Contract Management Arrangement. Neither Shanghai Haoze Water Purification Technology nor Shanghai Haoyang made any payment or compensation to the other party in connection with the termination of the sub-contract management arrangement.

After the termination, we took over the management and services of the water purifying machines installed by Shanghai Comfort by virtue of ownership of Shanghai Comfort. We assigned the end users using such water purifying machines to certain principal distributors operating in the respective regions and require such principal distributors to enter into new lease agreements with such end users upon expiration of their then existing leases.

None of our Directors or shareholders had any equity interest in Shanghai Haoyang. None of Shanghai Haoyang or its directors or shareholders had any past or present relationship, including without limitation, employment or financing relationship with our Group or our directors or shareholders during the Track Record Period. In addition, our Directors believe, after due inquiries, that none of Shanghai Haoyang's directors or shareholders had any family relationship with our Directors or shareholders or trust relationship with our Group or our directors or shareholders during the Track Record Period.

Acquisition of Park Wealth (and Shanghai Comfort)

In order to further expand and more efficiently manage Fresh Water Group's business, and not continue to rely on the sub-contract management arrangement, Fresh Water Group sought to acquire Park Wealth to terminate the sub-contract management arrangement and combine the management and ownership of the businesses. On June 22, 2012, Fresh Water Group entered into a sale and purchase agreement with CGL for the acquisition of Park Wealth (and its subsidiaries, including Shanghai Comfort) for a net cash consideration of HK\$68.5 million. We engaged an independent third party professional appraisal company to help us assess the fair value of the acquired entities, and reevaluate the property, plant and equipment as well as intangible assets. According to CGL's circular dated August 31, 2012, CGL disposed of Park Wealth largely because CGL had by then invested in a consultancy firm in the PRC. Given the need for significant working capital to expand Shanghai Comfort's business and the lingering effects of the global financial crisis, which meant funding from the capital markets was not readily available, CGL considered it attractive to dispose of the Park Wealth group and deploy the cash proceeds to develop its consultancy business. Completion of the acquisition took place on September 27, 2012.

The PRC Operating Subsidiaries of HK Fresh Water and Park Wealth

The FW Subsidiaries

As at January 1, 2011, the beginning of our Track Record Period, the following were wholly-owned subsidiaries of our Group established in the PRC: Shanghai Haoze Environmental Technology, Shanghai Haoze Water Purification Technology, Shanghai Haorun Environmental Works and Shangyu Haorun Environmental Technology. Shaanxi Haoze Environmental

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Technology and Shaanxi Haoze Air Purification Technology were established as our wholly-owned subsidiaries in 2012. All of these companies have remained our wholly-owned subsidiaries since January 1, 2011 or their date of establishment (if later):

The table below sets forth information of HK Fresh Water and its PRC subsidiaries as at the Latest Practicable Date:

<u>Name of Subsidiary</u>	<u>Date of Establishment/ acquisition</u>	<u>Ownership by our Group</u>	<u>Principal activities</u>
HK Fresh Water	August 31, 2010	100%	Investment holding
Shanghai Haoze Environmental Technology	November 17, 2010	100%	Sale of water purification/air sanitization products
Shanghai Haoze Water Purification Technology . .	December 17, 2010	100%	Water purifying services
Shanghai Haorun Environmental Works. . . .	December 18, 2010	100%	Air sanitization construction service
Shangyu Haorun Environmental Technology	September 9, 2010	100%	Manufacturing of water purification/air sanitization products
Shaanxi Haoze Environmental Technology	March 7, 2012	100%	Water purifying services
Shaanxi Haoze Air Purification Technology . .	August 22, 2012	100%	Air sanitization products

The PW Subsidiaries

Shanghai Comfort has been our wholly-owned subsidiary since the completion of the acquisition of Park Wealth by our Group in September 2012. Accordingly, Park Wealth and its subsidiaries became subsidiaries of our Group with effect from September 27, 2012.

OUR HISTORY AND REORGANIZATION

The table below sets forth information of Park Wealth and its subsidiaries as at the Latest Practicable Date:

<u>Name of Subsidiary</u>	<u>Date of Establishment</u>	<u>Ownership by our Group</u>	<u>Principal activities</u>
Park Wealth	May 23, 2007	100%	Investment holding
Shanghai Comfort	September 23, 2005	100%	Development and manufacturing of water purification/air sanitization products
Shanghai Comfort Environmental Works. . . .	December 7, 2007	100%	Air sanitization construction service
Shanghai Comfort Water Purification	December 7, 2007	100%	Development and manufacturing of water purification/air sanitization products
Shanghai Hongjia Air Purification	December 20, 2007	100%	Sale of air sanitization products

Each of the above subsidiaries was established by Shanghai Comfort. There have been no changes in the equity interests of the subsidiaries since establishment.

Disposals by Shanghai Comfort

In order to implement our strategy of utilizing distributors and minimizing our direct sales, and to streamline our corporate structure in 2013, we disposed of four of our subsidiaries which used to act as regional sales companies:

Shanghai Comfort Water Development

Shanghai Comfort Water Development was established in the PRC by Shanghai Comfort on July 31, 2006, with an initial registered capital of RMB3 million. On August 15, 2013, Shanghai Comfort sold Shanghai Comfort Water Development to Qiu Ling (an Independent Third Party) for a consideration of RMB0.03 million.

Shenzhen Comfort

Shenzhen Comfort was established in the PRC by Yang Xiuying, Zhang Zhongguo and Wang Hui (each an Independent Third Party) on May 14, 2007, with an initial registered capital of RMB1 million. In May 2008, Shanghai Comfort acquired Shenzhen Comfort from its original shareholders for consideration of RMB1 million, which is based on its registered capital amount. On October 23, 2013, Shanghai Comfort sold Shenzhen Comfort to Ren Huazhen (an Independent Third Party) for a consideration of RMB0.02 million.

OUR HISTORY AND REORGANIZATION

Chengdu Comfort

Chengdu Comfort was established in the PRC by Xie Honghui, Yan Xiaoli and Li Min (each an Independent Third Party) on March 28, 2007, with an initial registered capital of RMB0.50 million. In March 2008, Shanghai Comfort acquired Chengdu Comfort from its original shareholders for a consideration of RMB0.50 million, which is based on its registered capital amount. On October 23, 2013, Shanghai Comfort sold Chengdu Comfort to Xiao Lixue (an Independent Third Party) for a consideration of RMB0.03 million.

Beijing Comfort

Beijing Comfort was established in the PRC by Shanghai Comfort on February 25, 2008, with an initial registered capital of RMB0.50 million. On August 27, 2013, Shanghai Comfort sold Beijing Comfort to Liu Shuqin (an Independent Third Party) for a consideration of RMB0.03 million.

PRE-IPO INVESTMENT

Fresh Water Group raised three rounds of equity financing, in the form of its Series A, Series B and Series C Preferred Shares, by SAIF Partners IV L.P. (“SAIF Partners”) in 2010, Ares FW Holdings, L.P. (“Ares”) in 2011 and Watercube Holdings, L.L.C. (“Goldman Sachs”, together with SAIF Partners and Ares, the “Financial Investors”), respectively.

Series A Preferred Shares

On December 30, 2010, a Series A share purchase agreement was entered into by, among others, Fresh Water Group and SAIF Partners, pursuant to which SAIF Partners agreed to subscribe for 6,000 Series A Preferred Shares in Fresh Water Group, representing 37.5% of Fresh Water Group, for an aggregate consideration of approximately US\$15,760,000.00. Following the signing of the term sheet between Fresh Water Group and SAIF Partners on September 20, 2010, SAIF Partners advanced a bridge loan in the amount of US\$2,621,500.00 to a subsidiary of Fresh Water Group on November 30, 2010. Such bridge loan was off-set against the aggregate consideration paid by SAIF Partners and has therefore been fully repaid upon completion of the investment by SAIF Partners. Completion of the investment by SAIF Partners took place on December 30, 2010. Following the investment by SAIF Partners, Mr. Wang continued to own 62.5% of Fresh Water Group.

Series B Preferred Shares

On October 11, 2011, a Series B share purchase agreement was entered into by, among others, Fresh Water Group, SAIF Partners and Ares, pursuant to which Ares agreed to subscribe for 3,608 Series B Preferred Shares in Fresh Water Group, representing 18.4% of Fresh Water Group, for an aggregate consideration of approximately US\$30,352,593.00. Completion of the investment by Ares took place on October 20, 2011. Following the investment by Ares, Mr. Wang and SAIF Partners continued to own 51.0% and 30.6% of Fresh Water Group, respectively.

OUR HISTORY AND REORGANIZATION

On October 31, 2012, Fresh Water Group allotted 200 ordinary shares to Mr. Wang, 120 Series A Preferred Shares to SAIF Partners and 72 Series B Preferred Shares to Ares, at par value.

Series C Preferred Shares

On November 28, 2012, a Series C share purchase agreement was entered into by, among others, Fresh Water Group, SAIF Partners, Ares and Goldman Sachs, pursuant to which Goldman Sachs agreed to subscribe for 2,642 Series C Preferred Shares in Fresh Water Group, representing 11.37% of Fresh Water Group, for an aggregate consideration of approximately US\$24,996,032.00 plus an additional payment of US\$1,003,778.00. Completion of the investment by Goldman Sachs took place on November 20, 2012. On June 28, 2013, as an adjustment to reflect Goldman Sachs's final investment amount, Fresh Water Group redeemed 102 Series C Preferred Shares held by Goldman Sachs for a consideration of US\$1.00. Following the redemption, Goldman Sachs held 2,540 Series C Preferred Shares. In conjunction with the investment by Goldman Sachs, Ares exercised its pre-emptive right to purchase up to its *pro rata* share of the Series C Preferred Shares, by purchasing 596 Series C Preferred Shares in Fresh Water Group, representing 2.56% of Fresh Water Group, for an aggregate consideration of approximately US\$5,865,211.00. Completion of the additional investment by Ares took place on November 20, 2012. Following the investment by Goldman Sachs and exercise of pre-emptive rights by Ares, Mr. Wang, SAIF Partners and Ares continued to own 43.89%, 26.34% and 18.40% of Fresh Water Group, respectively.

Details of the investment by each Financial Investor are set forth below:

	SAIF Partners	Ares	Goldman Sachs
Date of investment	December 30, 2010	October 11, 2011 and November 20, 2012	November 20, 2012
Consideration paid	US\$15,760,000	US\$36,217,804	US\$24,996,032
Payment date of consideration	December 30, 2010	October 20, 2011 and November 29, 2012	December 1, 2012
Number of Preferred Shares subscribed for	6,120	4,276	2,540
Number of Shares held after Capitalization Issue	334,857,000	233,956,800	139,006,800
Cost per Share paid	US\$0.047 (equivalent to approximately HK\$0.3643)	US\$0.1548 (equivalent to approximately HK\$1.1997)	US\$0.1798 (equivalent to approximately HK\$1.3935)
Discount to mid-point of the Offer Price range	85.28%	51.53%	43.70%
Approximate percentage of shareholding held in our Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised) (%)	19.84%	13.86%	8.24%
Use of Pre-IPO Investment proceeds . .	manufacturing of water purifying machines and other general corporate purposes	manufacturing of water purifying machines and other general corporate purposes	manufacturing of water purifying machines and other general corporate purposes

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The subscription price and the percentage of Preferred Shares allotted and issued to the Financial Investors were determined on an arm's length basis as a result of negotiations among the parties.

As of the Latest Practicable Date, the proceeds from the pre-IPO investments had not been fully utilized. The pre-IPO investments provided working capital to our Group and helped enhance our business opportunities. Our Directors believe that the pre-IPO investments will positively motivate the Financial Investors.

Key Terms of the Preferred Shares

Set forth below are the key terms of the Preferred Shares:

Number Issued: A total number of 20,000 Preferred Shares, (a) 6,120 of which are designated Series A Preferred Shares, (b) 3,680 are designated Series B Preferred Shares, (c) 3,136 are designated Series C Preferred Shares.

Voting Rights: Each holder of Preferred Shares is entitled to vote on an as-converted basis.

Dividends: Each holder of Preferred Shares is entitled to receive dividends at the rate of 8% of their respective original issue prices.

Conversion Rights:

1. The holders of Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares shall have the right to convert their preferred shares into ordinary shares. The number of ordinary shares to which a holder shall be entitled upon conversion shall be the quotient of the relevant issue price of the preferred shares divided by the then-effective conversion price, initially being US\$2,575.17 for Series A Preferred Shares, US\$8,247.99 for Series B Preferred Shares and US\$9,840.96 for Series C Preferred Shares. The initial conversion ratio shall be 1:1.
2. Any Series A Preferred Share, Series B Preferred Share or Series C Preferred Share may, at the option of the holder thereof, be converted at any time based on the applicable conversion price.
3. Each Series A Preferred Share, Series B Preferred Share and Series C Preferred Share shall automatically be converted, based on the applicable conversion price, into ordinary shares upon the earlier of:
 - the closing of a Qualified IPO, or

OUR HISTORY AND REORGANIZATION

- the vote or written consent of the holders of at least 90% of all outstanding Preferred Shares (the “**Requisite Holders**”).

“Qualified IPO” means a firm commitment underwritten registered initial public offering by Fresh Water Group of its common shares (a) listed on an international or domestic stock exchange acceptable to the Requisite Holders, (b) with total offering proceeds to Fresh Water Group and selling shareholders, if any, of not less than US\$100 million before deduction of underwriters’ commissions and expenses and (c) with a valuation of Fresh Water Group immediately prior to such public offering of not less than US\$450 million. Notwithstanding the foregoing, the shareholders of Fresh Water Group have by written resolutions dated May 30, 2014 resolved that the Global Offering shall be deemed to constitute a Qualified IPO.

Adjustments to
Conversion Price:

The conversion price shall be adjusted in the event of share splits and combinations, share dividends and distributions, other dividends, reorganizations, mergers, consolidations, reclassifications, exchanges and substitutions, as well as issuance of ordinary shares below the applicable conversion price.

Performance Adjustment:

The holders of Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares were each granted a performance based adjustment right based on the actual after-tax earnings of Fresh Water Group in the financial years 2011 and 2012 (in the case of Series A Preferred Shares), in the financial year 2012 (in the case of Series B Preferred Shares), and in the financial years of 2012 and 2013 (in the case of Series C Preferred Shares). For the holders of Series A Preferred Shares and Series B Preferred Shares, if Fresh Water Group failed to meet specified actual after-tax earnings for the relevant financial years, then the original valuation of Fresh Water Group would be adjusted downwards by (a) adjusting downwards the conversion price of the Preferred Shares, (b) issuing additional Preferred Shares to reflect the adjusted conversion price, or (c) requiring the founders to transfer common shares of Fresh Water Group to the relevant holders of Preferred Shares for nil consideration to reflect the adjusted valuation. For the holders of Series C Preferred Shares, if Fresh Water Group failed to meet specified actual after-tax earnings for the relevant financial years, then the original valuation of Fresh Water Group would be adjusted downwards, and at the request of the holders of a majority of the outstanding Series C Preferred Shares, Fresh Water Group shall declare and pay a special dividend to the holders of the outstanding Series Preferred Shares to reflect the adjusted valuation.

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The Company confirms that Fresh Water Group has met the specified actual after-tax earnings for each of the 2011, 2012 and 2013 financial years such that no performance-based adjustment would be required.

Principal Terms of the Shareholders' Agreements

The shareholders of Fresh Water Group entered into a shareholders' agreement and a right of first refusal and co-sale agreement (the "Shareholders' Agreements"), pursuant to which the Financial Investors were granted a number of special rights in relation to our Company, including without limitation, right of first refusal, right of co-sale, pre-emptive rights, appointment of director, information rights, exit rights and post IPO lock-up. Mr. Xiao and Mr. Wang have charged their shares in Fresh Water Group in favor of the Financial Investors as security for the performance of their obligations under the legal documents for the investment by the Financial Investors. Set forth below is a summary of the principal rights granted to the Financial Investors (the "Terminating Special Rights"):

- | | |
|-------------------------|---|
| Right of First Refusal: | If any founder proposes to transfer any of its shares, the Financial Investors shall have a right of first refusal to purchase its <i>pro rata</i> share of such shares. |
| Right of Co-Sale: | Each Financial Investor which does not exercise its right of first refusal as mentioned above shall have the right to participate in the sale of shares to the transferee upon substantially the same terms and conditions as offered by the seller, in proportion to the total number of shares held by the relevant Financial Investor. |
| Drag-Along Right: | If the holders of 90% of the Preferred Shares approve a transfer of all shares held by them to a third party purchaser, or approve a proposed trade sale, then all other shareholders shall give their consent to the sale of all of the shares held by them. |
| Most Favorable Terms: | If Fresh Water Group completes a future financing with terms more favorable to other investors than the transactions contemplated by the investment of Preferred Shares, the Financial Investors shall have the right to have such favorable terms apply to the Series B Preferred Shares and/or Series C Preferred Shares. |

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Lock-Up Rights:	Mr. Xiao and Mr. Wang shall not, without the prior written consent of the holders of the Preferred Shares, (a) directly or indirectly sell, assign, transfer, pledge, hypothecate, mortgage, encumber or otherwise dispose of any interest (including beneficial interest) in our Company or any Group Company prior to the first anniversary of the closing of a Qualified IPO.
Board of Directors:	The Board shall have nine Directors. SAIF Partners, Ares and Goldman Sachs shall have the right to nominate, remove or replace two, one and one Directors, as well as one non-voting observer, respectively.
Protective Rights:	Certain matters require the approval of the holders of 90% of the Preferred Shares.
Information and Inspection Rights:	The Financial Investors have the right to receive periodic financial information. The Financial Investors also have the right to reasonably request for information about the operations, business affairs and financial condition of our Group.
Registration Rights:	The Financial Investors were granted customary “registration rights” in the event of an initial public offering of our Company in the United States, and shall be entitled to reasonably analogous or equivalent rights with respect to any other offering on a recognized stock exchange in any other jurisdiction. The registration rights would become effective for a period of time following a Qualified IPO and terminate on the later of (a) a date that is four years from the date of closing of a Qualified IPO and (b) the date that is the eighth anniversary of the closing of the investment of Series C Preferred Shares.

The Financial Investors have agreed that all the Terminating Special Rights will terminate upon Listing.

Information regarding the Financial Investors

SAIF Partners

SAIF Partners is an Asia-based private equity firm with approximately US\$4 billion of capital under management and dedicated local offices and investment teams in Hong Kong, China (Beijing, Shanghai, Changzhou, Harbin) and India (Delhi). SAIF Partners makes privately negotiated equity or equity-linked investments across several growth sectors such as consumer products & services, technology, media, telecom, financial services, healthcare, travel and tourism, and manufacturing. The firm focuses its efforts primarily on China and India.

OUR HISTORY AND REORGANIZATION

SAIF Partners will be interested in approximately 19.84% of the issued share capital of the Company immediately following the Global Offering. As SAIF Partners will be a substantial shareholder and therefore a connected person of our Company upon our Listing, and so long as SAIF Partners remain's a substantial shareholder of our Company, the Shares held by SAIF Partners will not be counted towards the public float after the Listing. The Shares held by SAIF Partners will be subject to lock-up for a period of six months after the Listing. See "Underwriting — Undertakings by Existing Shareholders." SAIF Partners is a limited partnership fund established in the Cayman Islands whose sole general partner is SAIF IV GP, L.P., a limited partnership established in the Cayman Islands. The sole general partner of SAIF IV GP, L.P. is SAIF IV GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands, which is wholly owned and controlled by Mr. Andrew Y. Yan. Other than its shareholding in our Company, SAIF Partners and its ultimate beneficial shareholders are Independent Third Parties.

Ares

Ares is an exempted limited partnership organized and existing under the laws of the Cayman Islands and is 100% controlled by ACOF Asia GP Ltd. which in turn is 100% controlled by ACOF Asia Management, L.P. and which in turn is 100% controlled by Ares Management (Cayman), Ltd. Ares is affiliated with Ares Management LLC, an investment adviser registered with the U.S. Securities and Exchange Commission with approximately US\$68 billion of assets under management and headquartered in Los Angeles, with offices across the United States, Europe and Asia.

Ares will be interested in approximately 13.86% of the issued share capital of the Company immediately following the Global Offering. As Ares will be a substantial shareholder and therefore a connected person of our Company upon our Listing, and so long as Ares remain's a substantial shareholder of our Company, the Shares held by Ares will not be counted towards the public float after the Listing. The Shares held by Ares will be subject to lock-up for a period of six months after the Listing. See "Underwriting — Undertakings by Existing Shareholders." Other than its shareholding in our Company, Ares and its ultimate beneficial shareholders are Independent Third Parties.

Goldman Sachs

The Goldman Sachs Group, Inc., the ultimate beneficial shareholder of Goldman Sachs is leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

Goldman Sachs will be interested in approximately 8.24% of the issued share capital of the Company immediately following the Global Offering. As Goldman Sachs will not be a substantial shareholder and therefore not a connected person of our Company upon our Listing, the Shares held by Goldman Sachs will be counted towards the public float after the Listing. The Shares held by Goldman Sachs will be subject to lock-up for a period of six months after Listing. See "Underwriting — Undertakings by Existing Shareholders." Other than its shareholding in our Company, Goldman Sachs and The Goldman Sachs Group, Inc. are Independent Third Parties.

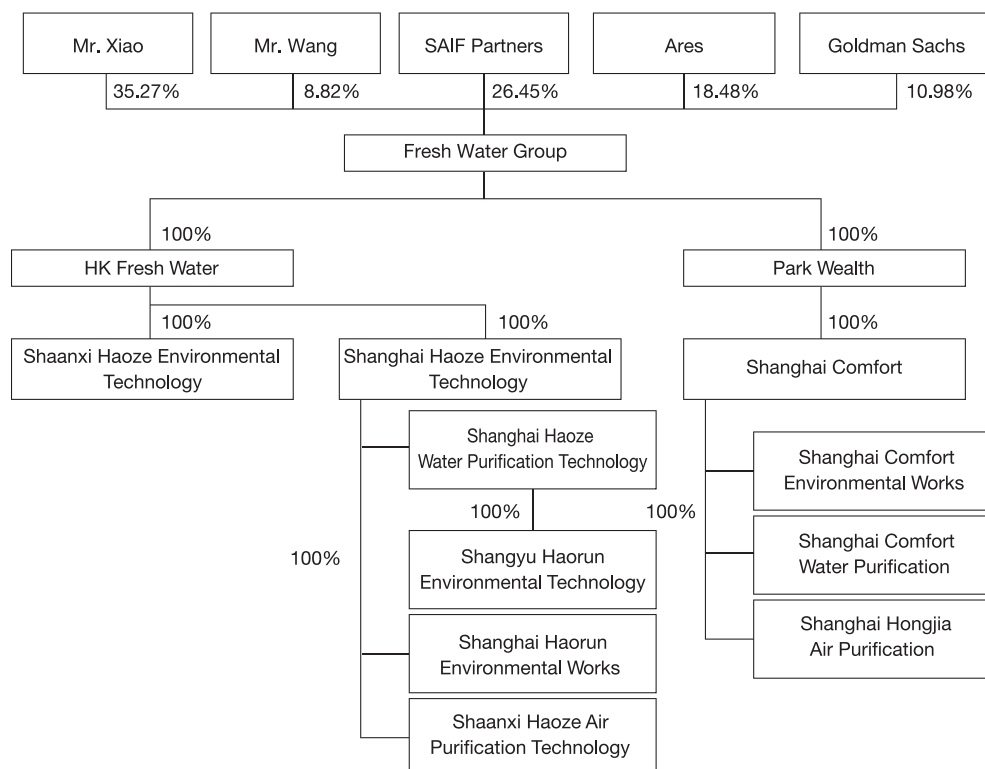
OUR HISTORY AND REORGANIZATION

Confirmation by the Joint Sponsors

The Joint Sponsors have confirmed that the pre-IPO investments by SAIF Partners, Ares and Goldman Sachs are in compliance with (i) the “Interim Guidance on Pre-IPO Investments” issued by the Listing Committee as the consideration for the Pre-IPO investments was all settled more than 28 clear days before the date of our first submission of the listing application form to the Listing Division of the Stock Exchange in relation to the Listing; (ii) Stock Exchange guidance letter HKEx-GL43-12 as the special rights under the Shareholders’ Agreements will terminate upon Listing; and (iii) the requirements under the Stock Exchange guidance letter HKEx-GL44-12 in respect of the Preferred Shares issued to SAIF Partners, Ares and Goldman Sachs.

PRE-IPO REORGANIZATION

The following chart sets forth our corporate structure immediately prior to the Pre-IPO Reorganization:



In anticipation of our Listing, we underwent the Pre-IPO Reorganization pursuant to which our Company became the holding company and listing vehicle of our Group. At the same time, Mr. Xiao and Mr. Wang also reorganized their shareholdings in our Company for their own wealth management planning purposes. The Pre-IPO Reorganization involved the following steps:

- (1) Our Company was incorporated in the Cayman Islands by Fresh Water Group. Ozner Water Group was incorporated in the BVI with our Company as its sole shareholder;

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- (2) HK Fresh Water repaid RMB600,000 to Fresh Water Group, being partial repayment of the shareholder's loan owed by HK Fresh Water to Fresh Water Group;
- (3) Fresh Water Group subscribed for one Share at a subscription price of RMB600,000, and our Company further subscribed for one share of US\$1.00 in Ozner Water Group at a subscription price of RMB600,000;
- (4) Ozner Water Group acquired 100% of HK Fresh Water and Park Wealth from Fresh Water Group;
- (5) Immediately following the Global Offering becoming unconditional, the remaining shareholders' loan owed by HK Fresh Water to Fresh Water Group will be capitalized by HK Fresh Water allotting and issuing one share to Ozner Water Group at the direction of Fresh Water Group;
- (6) Immediately following the Global Offering becoming unconditional, the Financial Investors will convert their Preferred Shares in Fresh Water Group into common shares in Fresh Water Group on a 1:1 basis;
- (7) Immediately thereafter, our Company will allot and issue to Fresh Water Group 1,265,999,998 Shares, credited as fully paid, pursuant to the Capitalization Issue; and
- (8) Immediately thereafter, Fresh Water Group will repurchase all the common shares (except one common share registered under the name of Mr. Xiao) held by Mr. Xiao, Mr. Wang and the Financial Investors in return for Fresh Water Group transferring all our issued Shares to Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited at the direction of Mr. Xiao, Baoye International Limited and Giant Century International Limited at the direction of Mr. Wang, and the Financial Investors.

As a result of the Pre-IPO Reorganization, the respective number of Shares in our Company to be held by Mr. Xiao, Mr. Wang and the Financial Investors are as follows:

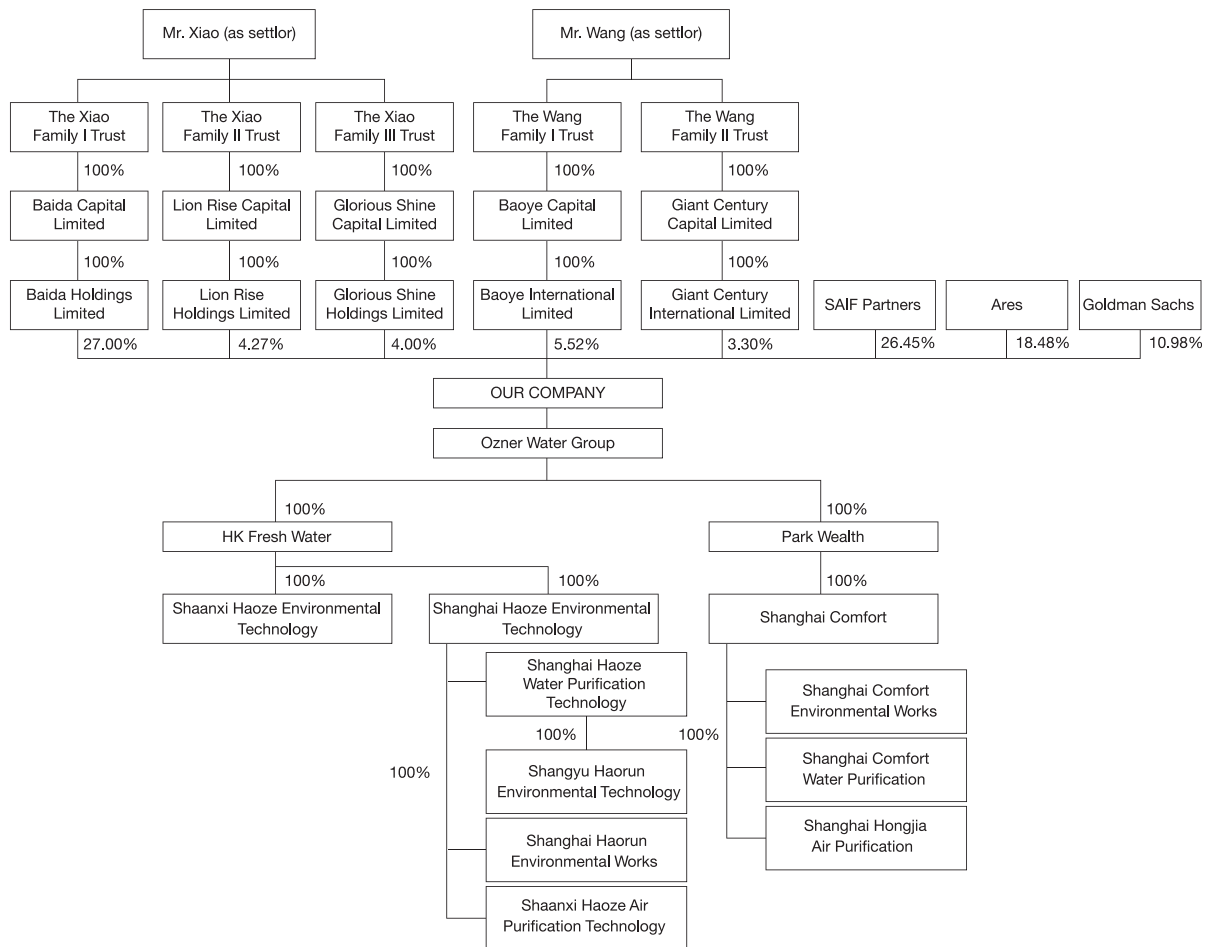
<u>Name of Shareholder</u>	<u>No. of Shares</u>	<u>Shareholding</u>
Mr. Xiao ⁽¹⁾	446,518,200	35.27%
Mr. Wang ⁽²⁾	111,661,200	8.82%
SAIF Partners	334,857,000	26.45%
Ares	233,956,800	18.48%
Goldman Sachs	139,006,800	10.98%
Total	<u>1,266,000,000</u>	<u>100.00%</u>

(1) These 446,518,200 Shares are held as to 341,820,000 Shares by Baida Holdings Limited, 54,058,200 Shares by Lion Rise Holdings Limited and 50,640,000 Shares by Glorious Shine Holdings Limited. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited are wholly-owned by Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited under the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. Xiao (as the settlor) and the discretionary beneficiaries of which include Mr. Xiao and certain of his family members.

OUR HISTORY AND REORGANIZATION

- (2) These 111,661,200 Shares are held as to 69,883,200 Shares by Baoye International Limited, 41,778,000 Shares by Giant Century International Limited. Baoye International Limited and Giant Century International Limited are wholly-owned by Baoye Capital Limited and Giant Century Capital Limited under the Wang Family I Trust and the Wang Family II Trust, respectively. Each of the Wang Family I Trust and the Wang Family II Trust is a discretionary trust established by Mr. Wang (as the settlor) and the discretionary beneficiaries of which include Mr. Wang and his spouse.

The following chart sets forth our corporate structure immediately following the Pre-IPO Reorganization but prior to Listing:



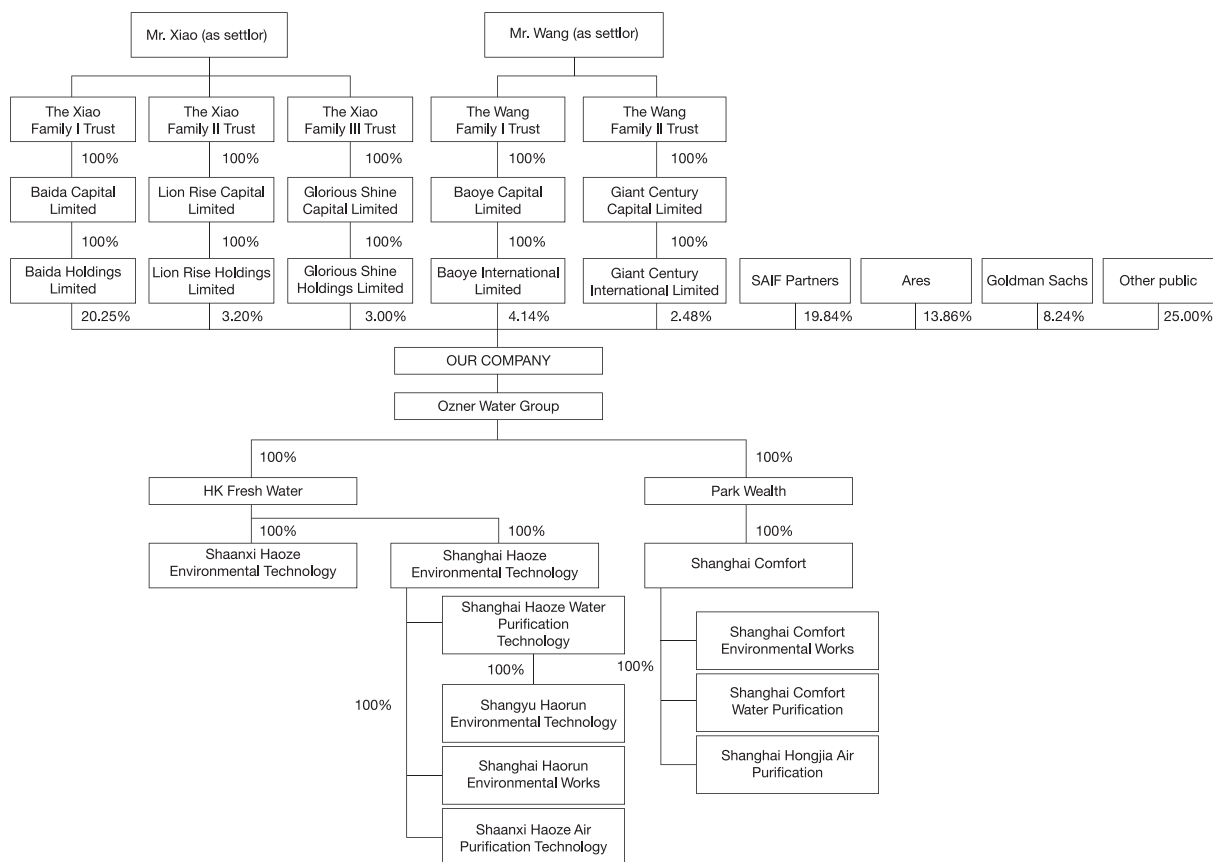
Mr. Xiao also holds options granted under the Pre-IPO Share Option Scheme which represent 51,086,706 Shares. For details, please see the section headed “Appendix IV – Statutory and General Information – D. Share Option Schemes – 1. Pre-IPO Share Option Scheme” in this prospectus.

OUR HISTORY AND REORGANIZATION

CORPORATE STRUCTURE

Corporate Structure Immediately Following the Global Offering

The following chart sets forth our shareholding structure immediately after the completion of the Global Offering, assuming the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme are not exercised:



OUR HISTORY AND REORGANIZATION

PRC REGULATORY REQUIREMENTS

Our PRC legal adviser has confirmed that all the share transfers in respect of the PRC companies in our Group as described above have obtained all relevant approvals and permits and the procedures involved are in accordance with PRC laws, rules and regulations in all material respects.

According to the M&A rules, mergers and acquisitions of equity interests or assets of any domestic enterprises by foreign investors shall be reviewed and approved by the MOFCOM or provincial commercial authority. Where any offshore enterprise established or controlled by PRC domestic companies or individuals intends to acquire domestic enterprises affiliated with such PRC domestic companies or individuals, the acquisition shall be subject to the examination and approval of the MOFCOM.

The M&A rules further provide that any listing on an overseas stock exchange of any offshore special purpose vehicle, which is directly or indirectly controlled by PRC domestic companies or individuals and has been formed for overseas listing purposes, shall be subject to approval by the CSRC.

As advised by our PRC legal adviser, with respect to all the share transfers of the PRC companies in our Group, the transactions are not acquisitions by any offshore enterprise of the domestic enterprises affiliated with such PRC domestic companies or individuals as regulated in M&A rules and thus not subject to the MOFCOM approval.

Our PRC legal adviser also advised that, as our Company is not an offshore special purpose vehicle directly or indirectly controlled by any PRC domestic companies or individuals and our acquisitions of the PRC companies in our Group were not paid in the form of equity securities, it is not necessary for us to obtain approval from the CSRC for the Listing and trading of our Shares on the Stock Exchange.

In addition, pursuant to the Circular 75 and the relevant PRC foreign exchange administration regulations, a domestic resident individual must make a foreign exchange registration for establishing or controlling an offshore special purpose vehicle, before making any financing or equity change of, or any roundtrip investment through such special purpose vehicle. As confirmed by our PRC legal adviser, based on our interview with the State Administration of Foreign Exchange Shanghai Branch, the two ultimate individual beneficiaries of our Company, Mr. Wang and Mr. Xiao, are not domestic resident individuals and thus are not required to make any foreign exchange registration.

OVERVIEW

We are a leading water purification service provider in China, as we were the third largest water purifier manufacturer in China in terms of retail sales value in 2012 with a market share of 1.1% in a fragmented market, according to the Frost & Sullivan Report. In addition, we were the leader in the commercial segment of the market in terms of retail sales value in 2012 according to the same report. Under our innovative lease and service business model, we provide water purification services to end users through the lease of our water purifying machines installed at end users' premises. We manufacture water purifying machines that utilize our patented and proprietary ozone technologies. Our machines purify tap water into drinking water that meets or exceeds all technical parameters of the national standards. We also design air sanitization systems for corporate clients through EPC arrangements. We have been involved in high-profile air sanitization projects, such as China's moon-landing space program, for corporate clients in China. In 2013, revenue derived from our water purification business and air sanitization business represented 78.0% and 22.0% of our total revenue, respectively.

Demand for purified drinking water in China has grown substantially due to increasing awareness of the importance of drinking water quality in China. With the quality of our water purification services and our leading market position, we are well-positioned to capitalize on the strong growth in the demand for purified drinking water. Our quality water purification services attract both corporate and household end users. As of December 31, 2013, we had a product portfolio of 26 corporate models and six household models of water purifying machines. We have accumulated a diversified corporate end user portfolio comprising a variety of corporations, organizations and institutions, which differ in size, industry and geographic location. Our corporate end users include branch stores of nationwide logistics and real estate companies such as S.F. Express and 5i5j, gas stations operated by major Chinese petroleum companies, governmental scientific and educational institutions, hospitals and clinics, restaurants, hotels, commercial banks, and manufacturing facilities. The number of corporate model water purifying machines that were installed at our end users' premises increased from approximately 101,000 as of December 31, 2011 to approximately 371,000 as of December 31, 2013. Our strong network of corporate end users for water purification services has enabled us to promote our service not only to new corporate users through word of mouth but also to individuals who use our water purifying machines installed on the premises of their workplaces and become our household end users. The purified drinking water market for households has experienced significant growth in recent years, according to the Frost & Sullivan Report. We have continued to focus on the household end user market to capture such growth. The number of household model water purifying machines that were installed at our end users' premises increased from approximately 6,000 as of December 31, 2011 to approximately 92,000 as of December 31, 2013.

We attribute our success also to our superior proprietary technologies that produce high-quality purified drinking water. As of the Latest Practicable Date, we had a portfolio of 102 patents on purification and sanitization technologies and water purifying machine designs, including seven patents on improved reverse osmosis and 18 patents on ozone technologies. Our leading position in water purification technology is recognized by our industrial peers, as reflected by our appointment as the deputy chief of the Industry Standard Promulgation Panel

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for Water Purification Industry under National Household Electric Appliance Technical Standardization Committee (全國家用電器標準化技術委員會) in 2012 and 2013, which is the government organization responsible for setting national technical standards for water purifying machines in the PRC.

To complement the lease and service model of our water purification business, we engage an extensive network of third party distributors to source end users. A principal distributor pays us an annual leasing fee for each water purifying machine installed for an end user sourced by such principal distributor or its sub-distributor. We manufacture, deliver, install and provide repair and maintenance services on the machines during the lease term directly to end users to ensure high service quality and end user satisfaction. As a result, our distributors do not take or maintain any inventory of our water purifying machines and can focus solely on sourcing end users.

Our revenue and profit increased significantly during the Track Record Period. Revenue increased significantly from RMB102.3 million in 2011 to RMB290.4 million in 2012, and increased by 38.5% to RMB402.3 million in 2013, primarily due to the significant growth in our water purification business. Revenue from water purification business was RMB57.4 million, RMB197.8 million and RMB314.0 million in 2011, 2012 and 2013, respectively, accounting for 56.1%, 68.1% and 78.0% of the total revenue during the respective periods. Revenue from air sanitization business was RMB44.9 million, RMB92.6 million and RMB88.4 million in 2011, 2012 and 2013. Our net profit increased significantly from RMB23.0 million in 2011 to RMB101.7 million in 2012 and increased by 50.3% to RMB152.9 million in 2013.

OUR COMPETITIVE STRENGTHS

A leading water purification service provider in a large addressable market with strong growth in China

We are a leading water purification service provider in China in terms of retail sales value in 2012, according to the Frost & Sullivan Report. We operate in the large addressable market of purified drinking water in China. According to the Frost & Sullivan Report, the aggregate retail sales value of the drinking water purifier market in China grew at a CAGR of 28.8% from RMB15.4 billion in 2008 to RMB42.5 billion in 2012. The market size is expected to grow from 2013 to 2017 at a CAGR of 23.2% and reach total retail sales value of RMB125.1 billion, according to the same report.

We experienced fast growth in our end user base during the Track Record Period. Our corporate end user base continued to grow as corporations and institutions in China put greater emphasis on the health and welfare of their employees. We believe this is a sustainable trend across China in the foreseeable future. We installed approximately 101,000, 112,000 and 95,000 new corporate models of water purifying machines in 2011, 2012 and 2013, respectively, for a wide variety of corporations, organizations and institutions that differ in size, industry and geographic location. We have demonstrated our ability to serve corporations on a

national scale as well as business premises with high level of usage. We have also experienced steady growth in our household end user base as a result of increasing per capita disposable income and the population's increasing awareness of the importance of drinking water quality in China. We installed approximately 6,000, 27,000 and 59,000 new household models of water purifying machines in 2011, 2012 and 2013, respectively. We believe our end users have accepted our innovative lease and service business model and demonstrated strong loyalty by continuously renewing their service orders with us. Approximately 97.2% and 99.4% of our corporate and household models of water purifying machines installed and in service as of December 31, 2012 remained installed and in service at the same end user's premises as of December 31, 2013, respectively. In 2013, we repossessed 4,944 and 168 corporate and household models purifying machines from end users' premises upon expiration or termination of leases all of which were subsequently leased out to other end users after refurbishment. Approximately 98.6% and 99.5% of our corporate and household models of water purifying machines installed and in service as of December 31, 2011 remained installed and in service at the same end user's premises as of December 31, 2012, respectively. In 2012, we repossessed 1,432 and 32 corporate and household models purifying machines from end users' premises upon expiration or termination of leases all of which were subsequently leased out to other end users after refurbishment.

We believe our leading market position, large end user base, innovative business model and advanced technologies provide us distinctive advantages in the fast growing market.

Innovative lease and service business model with distinctive advantages over conventional drinking water business models

We conduct our business through an innovative lease and service model that enables us to directly service our end users and generate a recurring and increasing revenue stream. We believe our lease and service model combines the benefits, and eliminates the respective shortcomings, of the conventional sales of water purifying machines and barreled-water services.

Competitive advantage over sales of purifying machines

According to the Frost & Sullivan Report, post-installation service is a particularly important factor to the water purifier market as compared to other electric appliance market, as water purifying machines require periodic filter change, maintenance and performance monitoring in order to continually ensure purification quality. We designed and implemented the lease and service model to emphasize on our post-installation maintenance services to end users. Our business model differentiates us from sellers of water purifying machines in a number of important ways, including:

- we provide the installation, maintenance, periodic filter change and periodical water quality check of the water purifying machines throughout of the lease term directly to end users at no extra cost, which save time and attention required by the end user to use our service;

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- such direct services to end users enable us to maintain full control of our service quality and the quality of the purified water; and
- we also enhance the expediency of service delivery by maintaining local service teams in all 125 cities where we operate, and are committed to completing our repair services within 24 hours of the receipt of service calls.

To ensure our service quality and end user satisfaction, we have implemented the following measures:

- deploying a network of service team of 525 technicians in 125 cities in China as of December 31, 2013, to visit end users' premises to examine each water purifying machine installed and change the filter core with no extra charge on an annual basis;
- developing a new IT system for our second generation water purifying machines that enables us to communicate with and monitor our water purifying machines remotely through mobile communication technology, which enhances the reliability of machine performance, shortens our response time for repair service and helps us track installed machines; and
- implementing detailed internal policies to standardize and systematize service call procedures to ensure prompt responses.

Our lease and service model has the following cost advantages compared to the sales model. We provide all maintenance services to end users at no extra charge, including periodic change of filters. In comparison, after purchasing water purifying machines, end users typically need to incur additional cost periodically for servicing and parts (such as filters) changes after the warranty period in order to continually ensure purification quality. In addition, our lease and service model allows end users to have more flexibility in cost management compared with purchasing water purifying machines. End users who subscribe to our services on a yearly basis do not need to purchase water purifying machines. This is particularly beneficial to corporate end users from a cost and asset management perspective. Moreover, the initial investment for using our water purification services is much smaller than purchasing comparable water purifying machines. According to the Frost & Sullivan Report, the cumulative cost our corporate and household end users pay for our services are cheaper than over a period of five years, and comparable to over a period of ten years, the costs associated with purchasing comparable high-end water purifying machines of our competitors.

Competitive advantage over barreled-water services

Compared to conventional barreled-water services, we provide a safer, cheaper, and more convenient solution for purified drinking water. Our water purifying machines dispense purified water on demand, which not only reduces potential contamination during the delivery and barrel-changing processes, but also eliminates the need to frequently schedule and receive barrel deliveries. In addition, our service is cheaper than barreled-water services for our end users. Compared with barreled-water services, our water purification services can help a factory of 300 employees save up to 60% and a family of three save approximately 30%, respectively, of the total drinking water cost over a five-year period, according to the Frost & Sullivan Report.

Extensive and well-managed third party distribution network

To complement our lease and service business model, we engage a network of third party principal distributors and sub-distributors to source end users. We generate all rental revenue of water purification services from annual leasing fees paid to us by our principal distributors, and distributors generate income from annual services fees paid to them by end users for our water purification services. We retain ownership of the water purifying machines at end users' premises during the lease terms.

The growth of our distribution network is one of the driving forces of the rapid expansion of our end user base and our significant revenue growth during the Track Record Period. Our distribution network experienced significant growth over the Track Record Period, with 714, 871, 1,702 distributors as of December 31, 2011, 2012 and 2013, respectively. Our distribution network covered 125 cities in 30 provinces in China as of December 31, 2013. To manage our distributors, we have invested and set up systems which align distributors' interests with ours, and ensure that we can deliver quality services to end users.

Our arrangements with distributors benefit them in various ways, including:

- providing recurring revenue stream to distributors in the form of annual service fees;
- enabling distributors to operate without having to purchase or maintain inventory and join our distribution network with relatively low initial capital investment;
- allowing distributors to focus solely on sourcing end users and not to provide post-installation services to end users; and
- protecting distributors' interests by preventing price cannibalism and maintaining pricing discipline among distributors through our distributor management system.

As a result, our distributors showed loyalty to us by continuously renewing their engagement with us. During the Track Record Period, only three distributors terminated their contractual relationships with us.

At the same time, we believe our arrangements with distributors have a number of advantages for us, including:

- enabling us to maintain a stable distribution network by using recurring revenue stream as economic incentives for distributors to remain in our network;
- minimizing our reliance on our distributors by accumulating end user information in our database and providing direct services to end users;
- providing us access to a large pool of potential end users; and
- avoiding collecting fees from a large number of end users.

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Superior proprietary technologies that produce high-quality purified water and complement our innovative business model

We believe our patented and proprietary technologies and know-how are one of our key competitive advantages. We have a portfolio of core technologies and know-how that enable us to produce purified water with the quality that meets or surpasses the domestic industry standards. As of the Latest Practicable Date, we had 102 patents, among which 75 are utility model patents and 27 are design patents. In 2012 and 2013, we were appointed as the deputy chief of the Industry Standard Promulgation Panel for Water Purification Industry under the National Household Electric Appliance Technical Standardization Committee (全國家用電器標準化技術委員會), and were commissioned to set the national technical standards for water purifying machines in the PRC.

Our patented technologies have significantly improved the efficiency of the prevailing reverse osmosis technology for water purification, which is widely recognized as a major impediment to its application in apparatus at household scale. The self-developed technologies incorporated in our second generation water purifying machines have enabled us to achieve a purified water recovery ratio of 95% or above, as compared to 20% to 50% recovery ratio achieved by other advanced models of water purifying machines using reverse osmosis technology according to the Frost & Sullivan Report. Water purified by reverse osmosis is further sterilized in our water purifying machines by ozone technology, which we have developed in-house. Our ozone generation technology has a number of distinctive advantages, including capability to generate small volume and high concentration of ozone with low power consumption, instant degradation of residual ozone that removes potential harmful side effects, and a patented high-efficiency gas-water mixing device that achieves a superior gas-water breakup and atomization mixing. As a result, our water purifying machines remove a wide range of harmful elements such as microorganisms, disinfectants, disinfection byproducts, and organic and inorganic chemicals.

Experienced management team that helps us achieve our strategic goals

Under the leadership of our management, our business has experienced significant growth. Mr. Xiao Shu, the founder of our business and our chief executive officer, was an early market entrant into the water purification business with over 10 years of experience in the water purification and air sanitization business. Mr. Xiao started the water purification business in 2005 with Shanghai Comfort and is the driving force in the research and development of our water purification technology as well as the establishment of our innovative business model. In addition, we have a core senior management team as well as a highly qualified research and development team which are both essential to the success of our business. Mr. Zhu is our chief technology officer and has directed and orchestrated the achievement of our research and development efforts. Mr. Zhu has nearly 20 years of experience in technology development and operation management.

OUR STRATEGIES AND FUTURE PLANS

We strive to become the leading water purification service provider in China and solidify our competitive advantages in water purification technologies and solutions. We plan to achieve these goals through the following strategies:

Strengthen our leading market position and further increase our market share

We plan to strengthen our leading position in the purified drinking water market by further increasing penetration in cities where we currently operate and continuing to expand into new local markets. According to the Frost & Sullivan Report, the purified drinking water market will continue to experience significant growth in the near future. We believe that we can continue to benefit from the increase in market demand, and further increase our market share by leveraging our competitive strengths. We also plan to increase our market share in cities where we currently operate by increasing our production capacity in anticipation of increased market demand. In particular, we plan to use part of the proceeds from the Global Offering to expand our production facilities in Shaanxi Province. Furthermore, we plan to further expand our distribution network to deepen our market reach, especially in cities where we currently have no operations.

In particular, we plan to focus on further developing the household end user segment of the market through the roll out of new models of water purifying machines designed for household use. In addition, we will engage in sales and marketing initiatives that are targeted at individual consumers of purified water, which will highlight the superior quality of our purified drinking water and our post-installation services. We believe such focus will enable us to capture the strong growth of the purified drinking water market to the largest extent.

As of the Latest Practicable Date, we had not identified any specific acquisition targets.

Intensify our sales and marketing efforts

We plan to intensify our sales and marketing efforts to further enhance our brand image and market reputation, which we believe will help drive our growth and increase our market penetration. In addition, we will dedicate our efforts to promoting awareness of healthy lifestyle and the importance of drinking water quality.

We plan to achieve these goals through a combination of traditional sales and marketing initiatives, including advertisement and promotional events, as well as other new media channels and platforms. We will continue to provide periodic training to our distributors to keep them updated with our business development and technology advances, since distributors are our key point-of-contact with end users and can educate potential end users in respect of our business philosophy and advantages. We will offer judiciously incentives and coupons to end users. In addition, we are in the initial phase of implementing an innovative marketing initiative through online social media channels. We are also designing a new display screen on our water purifying machines that could be used as a communication conduit with end users and potential media for advertisement. We believe these sales and marketing initiatives will work in concert to further drive the growth of our business.

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Continue to maintain our service quality and diversify our service offerings

We have been making continuous improvements to our water purifying machines and services to better suit the needs of our end users. We plan to expand and improve the operational conditions of our regional sales offices and local service teams to better serve our growing end user base and distribution network. In addition, we will continue to research and develop innovative features and functions of water purifying machines to further enhance end user experience and diversify our service offerings. For example, we plan to continue to focus on increasing service capacity and durability of our corporate models and improving convenience of operation and design of the machine bodies of our household models. Our new generation of water purifying machines, which became available for installation in April 2014, are implemented with the new self-developed software that allows us to monitor the performance of the machines remotely through our mobile communication system, which we believe will greatly enhance the performance of the machine and shorten our service response time. We plan to add other features to our water purifying machines, such as touch screens, through which we can interact with our end users and offer them additional services such as instant coupons on merchandises. We expect to use part of the proceeds of the Global Offerings to fund the above undertakings.

Further develop our air sanitization business

We plan to leverage on our advanced technologies and operational experience to further grow our air sanitization business and diversify our client base. During the Track Record Period, the majority of our air sanitization systems were designed and installed for corporations in the electronics, food processing and medical and healthcare industries. We plan to focus on serving clients in the medical and healthcare industry. We believe the application of our ozone technologies in the systems we design provides us a distinctive advantage over competitors which utilize conventional filtration technology alone, especially for projects in medical and healthcare industry where the technical requirements are particularly stringent. In 2013, revenue generated from project for end users in the medical and healthcare industry accounted for 48.9% of our revenue from air sanitization business. We plan to capitalize on such advantage and increase our market share in the medical and healthcare segment of the air sanitization market. In addition, we plan to explore opportunities of providing air sanitization services to household customers by researching and designing air sanitization systems suitable for household use. We believe such industries have great demand for air sanitization services and we can fulfill such demands with our existing technologies and operations.

Continue to improve quality and operational efficiency of our work force

We believe our experienced management and highly qualified research and development team are critical to our success. We will continue to incentivize and promote key employees within our Company through our internal evaluation system. In addition, we will make strategic hires to execute our business strategy as we expand our business scope and scale of operation. To further improve the qualification of our research and development team, we plan to provide trainings to our staff both internally and externally in collaboration with selected universities and institutions. We realize the importance of maintaining our business culture and philosophy as we continue to expand our scale. To that end, we are committed to providing

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on-job training to our employees and third party distributors in order to keep them informed of our business strategies and general industry trends. Moreover, we plan to increase the operational efficiency of our local service team by offering them technical trainings and furnishing them with more advanced tools and equipment as the needs arise.

OUR WATER PURIFICATION SERVICES

Service Model and Products

We provide water purification services through water purifying machines we manufacture under our brand name, Ozner. When an end user places an order with our third party distributor for our services, we deliver the water purifying machine directly from our local warehouse and install the machine at the end user's premises. The distributor activates the machine for the end user and charges the end user an annual service fee for the water purification service. The distributor is required to set the annual service fee within the fee range set by us in our pricing policy which distributors are contractually bound to comply. We charge the principal distributor an annual leasing fee for the water purifying machine installed for end users sourced by such principal distributor or its sub-distributor. We generate all rental revenue attributable to water purification services from annual leasing fees paid to us by third party principal distributors. During the lease period, we provide maintenance services, including annual water quality examination and filter replacement, as well as trouble shooting and repair services for any reported malfunction.

Our technology ensures both quality and safety of purified water. We implemented in our water purifying machines a multi-stage water purification process, utilizing our patented ozone and reverse osmosis technologies. Our water purifying machines are designed to meet end users' demands for instant dispensing of hot, cold or room temperature purified water. We also added various features tailor-designed for rental services, such as surface material with enhanced resistance to wear and tear. We design and produce water purifying machines of various capacities and specifications to suit the demands of different types of end users.

As of the Latest Practicable Date, we had 26 corporate models of water purifying machines that are designed for commercial premises. The range of water output capacity of these corporate models is five to 40 liters per hour. The wide range of output capacity is designed to serve corporations and businesses of various sizes. We also have six household models of water purifying machines that are designed for residential premises. The household models vary in size, weight and shape to accommodate different installation locations and aesthetic preferences of individual end users. The household models have features such as LED night-light that are specifically designed for household use. The water output capacity of these household models is approximately four to seven liters per hour.

As of December 31, 2011, 2012 and 2013, we had approximately 107,000, 309,000 and 463,000 water purifying machines installed at end users' premises, respectively. As of the same dates, 94.4%, 89.3% and 80.1% were corporate models and 5.6%, 10.7% and 19.9% were household models, respectively.

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The pictures below illustrate our key types of water purifying machines:

Corporate Models



- Suitable for office use
- Serve 30–50 individuals

- Suitable for use in corporate headquarters and department stores
- Hub model: one central processor with multiple water dispensers connected to it

- Suitable for public use, such as schools and hospitals

Household Models



- Countertop style

- Under-cabinet style for kitchen use

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The table below sets forth a comparison of cost and services associated with key types of water purifying machines of our lease and service model with three of our major competitors who sell comparable high-end water purifying machines to end users:

	<u>Ozner</u>	<u>Manufacturer A</u>	<u>Manufacturer B</u>	<u>Manufacturer C</u>
Initial cost (RMB)⁽¹⁾				
Corporate model	2,500	10,000	5,500	6,988
Household model	1,680	2,996	2,200	3,588
Subsequent recurring cost⁽²⁾ (RMB)				
Corporate model	2,300	620	2,750	3,200
Household model	680	600	1,000	1,200
Total cost in 5 years (RMB)				
Corporate model	11,700	12,480	16,500	19,788
Household model	4,400	5,396	6,200	8,388
Total cost in 10 years (RMB)				
Corporate model	23,200	15,580	30,250	35,788
Household model	7,800	8,396	11,200	14,388
Cost for on-site maintenance	No extra charge	Service fee will be charged after the one-year warranty period	Service fee will be charged after the warranty period (3 month for filter, 2 years for key components)	Service fee will be charged after the one-year warranty period
Regular inspection	Yes	No	No	No
Maintenance response times	Less than 24 hours	No guarantee	No guarantee	No guarantee
Purification Technology	Multi-stage purification and reverse osmosis technology	Multi-stage purification and reverse osmosis technology	Activated carbon composite technology	Multi-stage purification and reverse osmosis technology

Source: Frost & Sullivan Report

Notes:

- (1) Initial cost for our services is the annual service fee. Initial costs for other manufacturers are purchase prices for water purifying machines.
- (2) Subsequent recurring cost for our services is the annual service fee. Subsequent recurring costs for other manufacturers include filter replacement cost, and do not include service fees for on-site maintenance and repair outside the warranty period.

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In the second half of 2013, we finished design and testing of our second generation water purifying machines. The table below illustrates the advanced features of our second generation water purifying machines compared to the first generation:

	<u>First generation</u>	<u>Second generation</u>
Purification recovery ratio	25%–50%	>= 95%
Service renewal	Recharge on-site with service renewal card	Remote renewal through mobile communication system
Service maintenance	End users call for on-site troubleshooting by technicians	The machine automatically reports malfunctions or technical failures to the service center and significantly reduces the machine downtime and service response time
Asset management	Manual recording of machine relocation	Real-time tracking of machines by GPS positioning

We added the second generation machines to our product offering in April 2014. We have formed detailed strategies for the roll-out of this new generation of machines to ensure that our first and second generation machines will complement each other and contribute to our business expansion. Such strategies include:

- *differentiated target end users and pricing:* the second generation machines are specifically targeted at high-end end users who value, among other things, source water conservation and expediency and convenience of post-installation services enabled by the new mobile communication system. Annual service fee for services provided through the second generation machines will be higher than the first generation machines; and
- *multi-stage roll-out:* in the next 12 to 18 months, we plan to roll out the second generation machines in selected cities that we believe to have a bigger population of target end users than smaller cities.

In connection with the roll-out, we plan to provide necessary trainings regarding the different functions offered by our second generation machines to our distributors, who can in turn educate existing and potential end users to make informed decisions. Currently we do not plan to offer upgrade from first generation to second generation water purifying machines for existing end users during the term of their leases. An existing end user can opt to enter into a new lease for services provided by a second generation machine when its existing lease expires. The end user will be charged the annual leasing fee for a new installation for the second generation machine. We will repossess the first generation water purifying machine which can be made ready and available for other end users subscribing to our first generation machines after we perform maintenance and refurbishment procedures at relatively low cost. We will continue to manufacture our first generation machines to target end users who are price sensitive or do not require the enhanced features of our second generation machines. We believe we can install all first generation machines we repossess. As we expect the market demand for our first generation water purifying machines to continue to grow in the near future,

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we expect the machines repossessed from existing end users can be installed for new end users. As such, we currently do not expect to record any material provision for impairment on our first generation water purifying machines in the near future.

Installation and fee arrangement

We source end users mainly through our network of third party distributors, see “— Our Distribution Network”. When a new end user places an order for our water purification services with a distributor, the distributor provides information of the end user to us, and an account is opened for the end user in our end user database. Our water purifying machines are designed to be convenient and unobtrusive and can be set up for immediate use with minimum installation efforts. Our local service team delivers the water purifying machine to the end user’s premises directly from our local warehouses and installs the machine. The distributor then activates the water purifying machine with an installation card and charges an annual service fee for the initial term of one year to the end user at the rate agreed between the distributor and the end user. At the same time, we charge an annual leasing fee to the principal distributor at the rate fixed in our pricing policies when the principal distributor or its sub-distributor activates the relevant water purifying machine. The end user may extend the service term upon expiration by paying an annual service fee for renewed services to the distributor, who will extend the service on the water purifying machine with a service renewal card. After the extension with such renewal card, we would charge the principal distributor the relevant annual leasing fee. We manage our water purifying machines, our distributors and our end users through a self-developed and integrated IT system and software. For more details, see “— Our Distribution Network — Arrangements with principal distributors and sub-distributors” and “— Our Distribution Network — Integrated distributor, machine and end user management system.”

Maintenance services during lease terms

We place great emphasis on end user satisfaction in the operation of our business. Our local service teams provide repair and maintenance services on the water purifying machines directly to our end users during the lease term to control service quality. Our third party distributors do not perform any repair and maintenance services. As of December 31, 2013, we had a network of local service teams in all of the 125 cities in China we operated, with a total of 525 technicians. Many of our technicians are graduates of professional or technology schools with relevant training. We provide periodic training and evaluation of our technicians.

We change the core filters of installed water purifying machines on an annual basis for end users at no extra charge. Our local service teams visit end users’ premises to examine each installed water purifying machine during the lease term. The local service teams also perform periodical testing of water quality through sampling of drinking water from installed water purifying machines. We have implemented in our second generation water purifying machines a mobile communication system that enables us to monitor the performance of each water purifying machine remotely on a real-time basis, which allows us to quickly respond to any malfunctions. For more details, see “— Our Distribution Network — Integrated distributor, machine and end user management system.”

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We have implemented detailed internal policies to streamline service call responses. We have a call center that employs 359 service representatives who specialize in processing service requests and complaints from end users or distributors. End users and distributors may call our hotline 24 hours a day and seven days a week to report problems or provide feedback. Once a call is received through the hotline, a service representative is required to call back the end user or distributor within 30 minutes to process the request. If the request is related to a malfunction or defect of a water purifying machine, the service representative will assign one of the following three response levels based on the nature of the request: (i) if the malfunction or defect has potential safety concerns, our ground service team is required to be on site to perform repair within three hours; (ii) if no safety issue is involved but an end user's water consumption is affected, our ground service team is required to be on site to perform repair within eight hours (or before noon of the following day if the request is received after working hours); and (iii) all other repairs are required to be finished within 24 hours of receipt of the call. Through such protocols, we ensure prompt responses to our end users' feedback and ensure end user satisfaction.

As a result of our dedication to service quality, we have maintained a high level of end user satisfaction. Substantially all of our water purifying machines installed and in service as of December 31, 2011 and 2012 remained installed and in service at the same end user's premises as of December 31, 2012 and 2013, respectively. During the Track Record Period, we paid damages for a total of seven complaints, all of which were related to water leakage caused by deterioration of water pipes in the water distribution network at end users' premises. The aggregate amount of damages we paid to affected end users was RMB250,714, of which RMB216,948 was covered by our product liability insurance and RMB33,766 was paid by us. In one instance the water leakage caused an adjacent electronic device to catch fire and was resolved by our service team without any personal injury to the end user, and we paid RMB7,766 to the end user in addition to the RMB122,234 paid by the insurance company and extended the lease term for 24 months for free.

End User Base For Our Water Purification Services

Our end user base for water purification services encompasses a broad range of corporate and household users. We experienced significant growth in our water purification services during the Track Record Period, primarily due to the rapid growth of both our corporate and individual end user bases for such services. We installed approximately 101,000, 112,000 and 95,000 new corporate model water purifying machines in 2011, 2012 and 2013, respectively. We installed approximately 6,000, 27,000 and 59,000 new household model water purifying machines in 2011, 2012 and 2013, respectively. In addition, we benefit from cross-sale opportunities created by the continued growth of our products and services to corporate end users. Many of our household end users are employees of our corporate end users, who first used our water purification services at work and proceeded to order our services at home.

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During the Track Record Period, the majority of our end users were corporations, organizations and institutions, and revenue attributable to services provided by corporate model water purifying machines accounted for 95.3%, 89.2% and 80.7% of our rental revenue generated from water purification services in 2011, 2012 and 2013, respectively. During the Track Record Period, we have experienced significant growth in our water purification services for individual end users. Revenue attributable to services provided by household model water purifying machines accounted for 4.7%, 10.8% and 19.3% of our rental revenue generated from water purifying services in 2011, 2012 and 2013, respectively.

Corporate end users

We have accumulated a diversified end user portfolio comprising a variety of corporations, organizations and institutions, which differ in size, industry and geographic location. As of December 31, 2013, we had installed approximately 371,000 corporate model water purifying machines. Our corporate end users include branch stores of nationwide logistic and real estate companies such as S.F. Express and 5i5j, gas stations operated by major Chinese petroleum companies, governmental scientific institutions, universities and schools, hospitals and clinics, restaurants, hotels, logistics companies, healthcare businesses, insurance companies, real estate agencies, commercial banks, and factories.

We have demonstrated the ability to serve corporations on a national scale and gained strong presence in the markets we operate. For example, we provide water purification services to over 400 Sinopec gas stations and over 450 branch offices of 5i5j, a major real estate agency in China. We have also been chosen as an official water supplier for certain public events, including the Shanghai Expo in 2010 and the Shenzhen Summer Universiade in 2011. Our successful services to these major business and sports events underscore our strong logistics and inventory management, helping us achieve high level of end user satisfaction among our corporate end users. Our corporate end users' loyalty to our products and services is demonstrated by strong renewal rates, as approximately 98.6% and 97.2% of our corporate model water purifying machines installed and in service as of December 31, 2011 and 2012 remained installed and in service at the same end user's premises as of December 31, 2012 and 2013, respectively. All instances of the removal of water purifying machines installed for corporate end users were due to change of business addresses or operations of such end users and not due to dissatisfaction of our services.

Household end users

According to the Frost & Sullivan Report, individuals and households represent a steady growing market for the purified drinking water industry. As such, we have devoted substantial efforts in developing this market in recent years, including:

- continuing to research, develop and design new models of water purifying machines for household use which emphasize convenience and aesthetics in addition to water safety;
- expanding our distribution network and deepening our service penetration by recruiting distributors and sub-distributors in strategically selected locations; and

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- increasing our sales and marketing efforts which target potential individual and household end users through multiple media channels, such as online advertisement, social media and logo displays on our service vehicles.

As a result, we experienced significant increases in the number of our household end users during the Track Record Period. The number of household model water purifying machines installed was approximately 6,000, 33,000 and 92,000 as of December 31, 2011, 2012 and 2013, respectively. Our individual end users' loyalty to our products and services is demonstrated by strong renewal rates, as approximately 99.5% and 99.4% of our household model water purifying machines installed and in service as of December 31, 2011 and 2012 remained installed and in service at the same end user premises as of December 31, 2012 and 2013.

Core Water Purification Technologies

Through our continued efforts in research and development, we have developed a number of core water purifying technologies.

APO⁺ Water Purification Process

We implement in our water purifying machines a multi-stage water purifying process. We designate such process as the APO⁺ process, which stands for “enhanced Absorption, Purification and Ozone sterilization.” The APO⁺ water purification process employs a combination of industry-wide accepted water purification solutions and our self-developed core technologies, which complement and significantly improve such solutions. The APO⁺ process achieves a high purification level and energy efficiency, as well as improving the taste of the purified water.

The APO⁺ process includes:

Absorption: we assemble and combine multiple absorption filters, including pre-purification filter, kinetic degradation fluxion, or KDF, calcium sulfurous acid and prime grade granular activated carbon filter, to remove harmful substances in water such as trace chlorine compounds, rust, and nitrite compounds which might cause cancer.

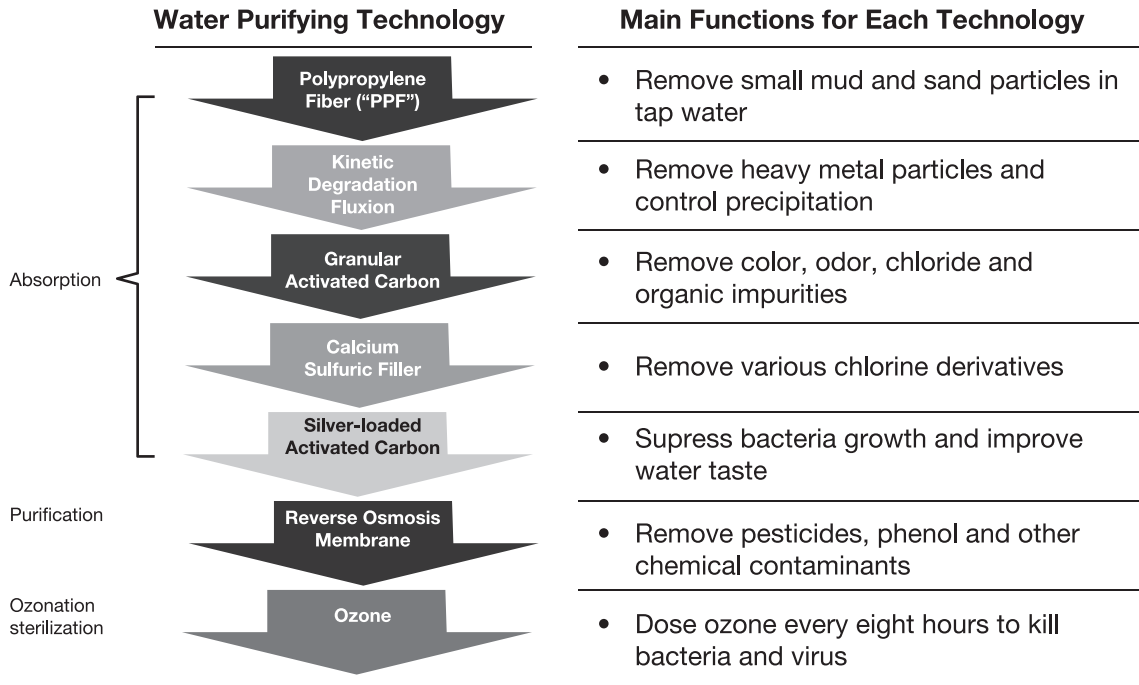
Purification: our core purification technology is reverse osmosis, which is improved by our patented technology with an enhanced purified water recovery ratio of 95% or above. We apply reverse osmosis with 0.0001 micrometer bore diameter filter, which intercepts harmful particles, bacteria, macromolecule substance and heavy metal ions.

Ozone sterilization: the quality of our purified water is further enhanced by ozone sterilization, which kills germs and prevents further contamination. We apply high-efficiency vaporization technology which injects ozone periodically into water through the course of a day.

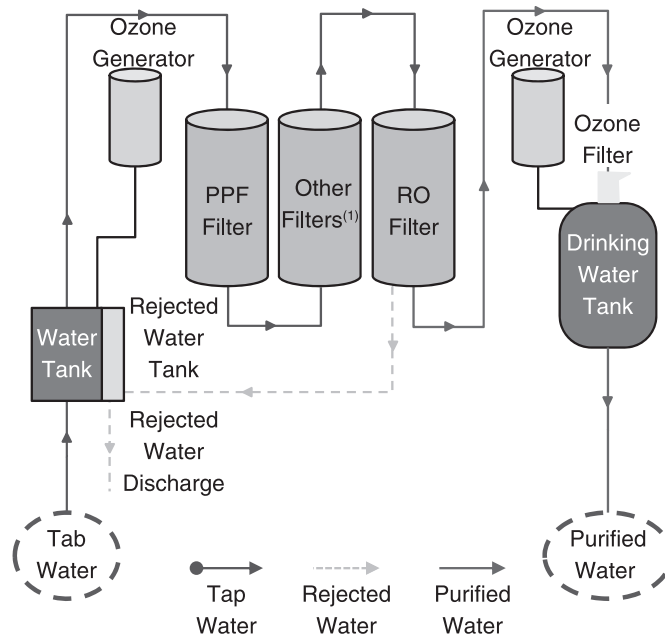
Plus: the plus sign in our second generation of water purifying machines signifies our ability to remotely monitor the performance of water purifying machines installed and to expedite repair and maintenance services when malfunction is detected.

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The chart below illustrates the water purification technologies implemented in our APO+ process:



The diagram below illustrates the structure of our water purifying machines:



Note:

(1) Including Kinetic Degradation Fluxion Filter, Granular Activated Carbon Filter, Calcium Sulfuric Filter and Silver-loaded Activated Carbon Filter.

Proprietary High-efficiency Reverse Osmosis Technology

We have seven patents related to our improvement on the prevailing reverse osmosis technology. We have improved the reverse osmosis technology to substantially increase its purification efficiency.

Reverse osmosis is recognized as the most popular water purification technology in the industry, according to the Frost & Sullivan Report. The 0.0001 micrometer bore diameter filter utilized in reverse osmosis purification can effectively intercept tiny suspended substances, colloidal substance, particles and bacteria in water, and filter macromolecules as well as heavy metal ions. A main limitation of the reverse osmosis technology is its relatively low efficiency. Traditional reverse osmosis water purifying technology generally recovers only 20% to 50% of the water entering into the system and the remainder is discharged as wastewater according to the Frost & Sullivan Report. The low purification efficiency is the major impediment for the development of household water purifying machines. After eight years of research and development, we have achieved a recovery ratio equal to or above 95% through a series of techniques. Such high-efficiency reverse osmosis technology is implemented in our second generation water purifying machines.

Active Ozone Sterilization

Active ozone sterilization is one of the core water purification technologies that we have developed in-house. We have 18 patents related to our active ozone sterilization technology.

Compared with the traditional sterilization technologies, such as high temperature, ultraviolet ray or chemical treatments, our active ozone sterilization technology is energy efficient, effective, and does not introduce chemical contamination. Our ozone technology has the following features and advantages:

- generation of small volume and high concentration of ozone;
- low power consumption;
- instant degradation of residual ozone; and
- high efficiency in gas-water breakdown and vaporized mixing.

Research and Development

We engage in extensive research and development of our water purification technologies, and our investment in research and development has over the years produced tangible benefits. We believe our significant commitment to research and development provides us with distinctive advantages over our competitors in the PRC and is a critical factor for our success. We had a research and development team of 36 researchers as of the December 31, 2013. A majority of researchers have bachelor's degree or associated degree from colleges. The research and development team is led by Mr. Zhu Mingwei, who has nearly 20 years of experience in technology development and operation management.

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Our expenditure on research and development was approximately RMB2.3 million, RMB4.2 million and RMB5.7 million in 2011, 2012 and 2013, respectively, representing 4.0%, 2.1% and 1.8% of our revenue attributable to our water purification business during the same periods. Investment in research and development includes mainly salaries and benefits for our research personnel. To support our research and development activities, we have set up a research and development center in Shanghai, which currently has five labs, including water analysis lab, chemical lab, microbiology lab, electrical lab, and ozone lab.

Product Design

We had a product design team of 16 employees, as of December 31, 2013, who specialize in designing water purifying machines. We hold 75 utility model patents and 27 design patents for our water purifying machines, as of the Latest Practicable Date. Since the inception of our water purification business, we have designed and produced two generations of corporate models and household models of water purifying machines. Our second generation water purifying machines are implemented with a new mobile communication system that enables us to remotely monitor each machine. For more details, see “— Our Distribution Network — Integrated distributor, machine and end user management system.”

Awards and Recognitions

In recognition of our strong technology background and research and development achievements, we were appointed as the deputy chief of the Industry Standard Promulgation Panel for Water Purification Industry under the National Household Electric Appliance Technical Standardization Committee (全國家用電器標準化技術委員會), and were commissioned in 2012 and 2013 to set the national technical standards for the purified drinking water industry.

In addition, our products, services and brands have won multiple awards during the Track Record Period, including:

- 2011 Shanghai Famous Brand issued by Shanghai Municipal Commission for the Promotion of Brand Building of SMEs;
- Awards for Chinese Enterprises with Most Growth Potential issued by Fudan University and Ernst & Young in 2013;
- Certificate of Advanced and High Technology Enterprise in 2011 for Shanghai Comfort;
- Certificate of Advanced and High Technology Enterprise in 2012 for Shanghai Haoze Water Purification Technology;
- Top ten brands for customer satisfaction in water purification business in 2013 awarded by HC360.COM; and
- Top ten most influential enterprises in water purification business in 2012 and 2013 awarded by HC360.COM.

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Our Distribution Network

We source end users of our water purification services predominantly through an extensive, well-managed network of third party principal distributors and sub-distributors, or collectively, distributors, whom we manage centrally at our headquarters through our integrated databases and locally by our regional sales offices. Our distributors do not take any inventory of our water purifying machines, and are not involved in the installation and maintenance services, which are provided directly by us.

Coverage of and Revenue Contribution by Our Distribution Network

As of December 31, 2013, we had a network of 439 principal distributors and 1,263 sub-distributors that covers 125 cities in China. We rely on our distributors to expand the reach of our products and services and to maintain our existing end user relationship. Occasionally, when an end user contacts us directly online or through our hotline to place an order for water purification products and services, we assign such end user to a local principal distributor. All principal distributors and sub-distributors are independent third parties to us. None of our distributors is a former employee of ours. None of our Directors or shareholders had any equity interest in any of our distributors, and none of our distributors or their beneficial owners had any past or present relationship, including without limitation, employment or financing relationship with our Group or our directors or shareholders during the Track Record Period. In addition, our Directors believe, after due inquiries, that none of our individual distributors or their beneficial owners had any family relationship with our Directors and shareholders or trust relationship with our Group or our directors or shareholders during the Track Record Period.

During the Track Record Period, we significantly expanded our network of distributors. We consistently expanded our distributor channels, and actively managed our existing distributors. We engaged all principal distributors directly, and allow certain principal distributors to engage sub-distributors who, under our management, help us further expand our distribution network and deepen our penetration in the three regions in China where we operate. The table below sets forth the number of our distributors for the years indicated:

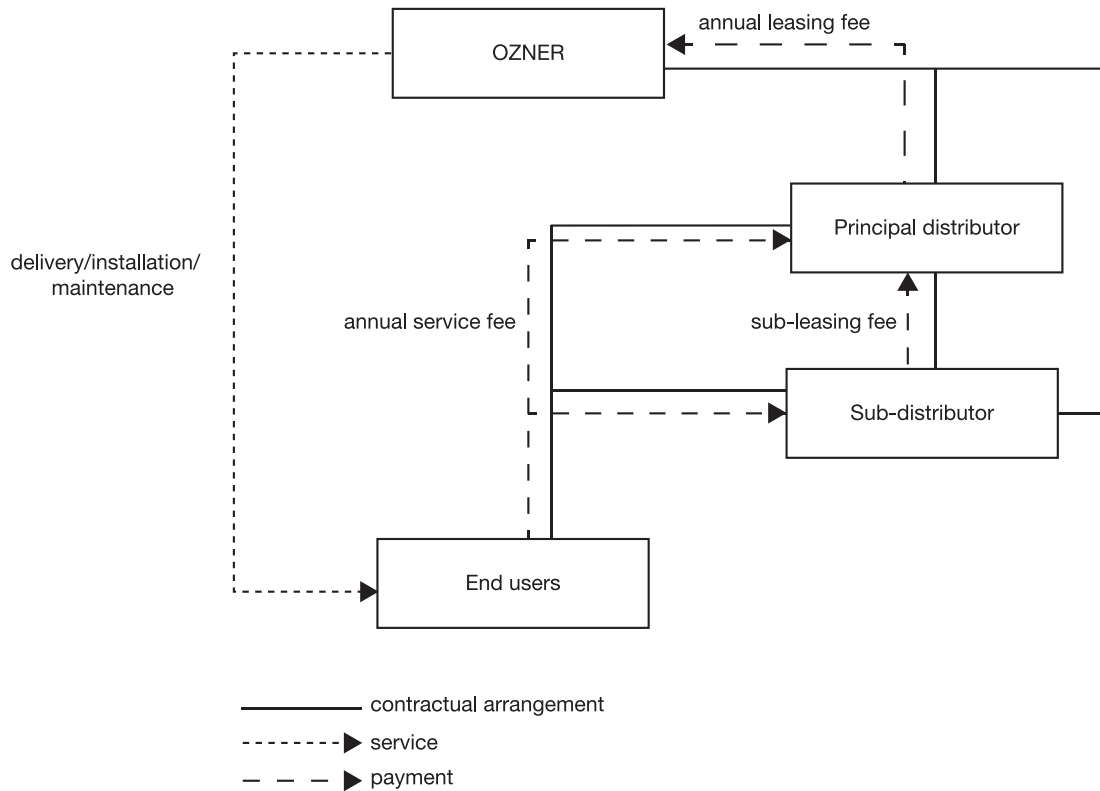
	Year ended December 31,		
	2011	2012	2013
Principal distributors			
Number at the start of the year	—	246	358
Added during the year	249	112	81
Terminated during the year	(3)	—	—
Total number at end of year	<u>246</u>	<u>358</u>	<u>439</u>
Sub-distributors			
Number at the start of the year	—	468	513
Added during the year	468	45	750
Terminated during the year	—	—	—
Total number at end of year	<u>468</u>	<u>513</u>	<u>1,263</u>
Total number of distributors			
at end of year	<u><u>714</u></u>	<u><u>871</u></u>	<u><u>1,702</u></u>

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We did not have any financial dispute with our distributors during the Track Record Period. During the Track Record Periods, three distributors terminated their contractual relationships with us voluntarily due to personal reasons.

Arrangements with Principal Distributors and Sub-distributors

We generate all rental revenue of water purification services from annual leasing fees paid to us by principal distributors. We believe only a limited number of market participants in the purified drinking water market adopt similar a fee arrangement with distributors. The diagram below illustrates the fee arrangement we have in place with principal distributors and sub-distributors:



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The table below sets forth the geographic breakdown of our rental revenue generated from distributors for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
East China ⁽¹⁾	16,246	30.5	59,088	30.1	87,094	28.5
North China ⁽²⁾	14,044	26.4	49,172	25.2	79,240	25.9
South China ⁽³⁾	16,853	31.6	65,850	33.8	105,028	34.4
Others	6,143	11.5	21,359	10.9	34,132	11.2
Total	53,286	100.0	195,469	100.0	305,494	100.0

Notes:

- (1) East China includes Shanghai, Anhui Province, Fujian Province, Jiangsu Province, Shandong Province and Zhejiang Province.
- (2) North China includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.
- (3) South China includes Guangdong Province, Hainan Province and Guangxi Autonomous Region.

We recognize rental revenue of water purification services on a straight-line basis over the one-year lease term. The table below sets forth breakdown of our contract sales and rental revenue recognition for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	Corporate model	Household model	Corporate model	Household model	Corporate model	Household model
	(RMB'000)					
Contract sales of the fiscal year	117,462	7,457	207,999	36,075	260,200	82,094
Rental income to be recognized in the next fiscal year	(66,680)	(4,953)	(100,389)	(19,849)	(114,046)	(42,992)
Rental income recognized in the fiscal year	50,782	2,504	107,610	16,226	146,154	39,102
Rental income from previous fiscal year	—	—	66,680	4,953	100,389	19,849
Rental income in the fiscal year	50,782	2,504	174,290	21,179	246,543	58,951
Total rental income in the fiscal year	53,286		195,469		305,494	

Distribution Agreement with a principal distributor

A principal distributor joins our distribution network by entering into a distribution agreement with us. The term of the distribution agreement is one year and is extended for one year upon expiration unless either party objects by writing within 30 days before expiration. In each of the three years during the Track Record Period, we negotiated and signed new

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distribution agreements with principal distributors upon the expiration of their distribution agreements. The distribution agreement sets forth various arrangements with the principal distributor, including:

- the term and geographic location for which the principal distributor is allowed to operate;
- the initial payment the principal distributor agrees to pay us upon engagement, which payment includes the payment of a guarantee deposit, a training fee and a prepayment for leasing fees;
- the principal distributor's obligation to follow our pricing policies, which may be changed by us from time to time;
- the principal distributor's joint liability for a breach of proxy distribution agreement by a sub-distributor recruited by such principal distributor; and
- our obligation to deliver water purifying machines and our rights to inspect and evaluate the principal distributor's performance.

The distribution agreement also provides certain negative covenants of the principal distributors, pursuant to which the principal distributor agrees, among other things, not to:

- misrepresent to end users its relationship with us in any way;
- act as a distributor for similar products and services;
- infringe upon our intellectual properties or use our brand name and trademarks without our prior consent; or
- compete unfairly with other distributors.

The distribution agreement does not provide a minimum sales amount to be fulfilled by the principal distributor. We are entitled to payment of damage or to levy a fine of various amounts in the event of a breach by the principal distributor. We are entitled to terminate the distribution agreement if the principal distributor's operations deteriorate significantly and fail to meet the operational standards we set, or if the principal distributor breaches the distribution agreement.

The initial payment that a principal distributor agrees to make upon engagement includes:

Guarantee deposit: The distributor is required to maintain an outstanding guarantee deposit with us against any damage of our water purifying machines or losses caused by a breach of the distribution agreement. We also offset any fines we are entitled to levy on a breach by a principal distributor against the guarantee deposit. Such arrangement provides us with security against any damage to our water purifying machines, operations or reputation. The guarantee deposit is individually negotiated by taking into consideration of the principal distributor's capacity, resource and end user reach, and is typically in the range of RMB30,000 to RMB300,000.

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Prepayment for leasing fees: We offset annual leasing fees payable to us by a principal distributor against the prepayment. Such arrangement reduces the risk of payment default by the principal distributor, especially in the initial phase of our cooperation with the principal distributor. The prepayment is individually negotiated and typically in the range of RMB150,000 to RMB5 million.

Training fee: The training fee covers the cost of initial training and other expenses upon engagement of the principal distributor. The training fee is individually negotiated and typically in the range of RMB1,000 and RMB20,000.

We allow a principal distributor who makes initial payment of RMB1.0 million or more to recruit sub-distributors, which share revenue generated from end users with their recruiting principal distributor.

During the term of the distribution agreement, we provide the principal distributor our pricing policies which set forth, among other things, (i) the range of annual service fee for each machine model that the principal distributor can charge to an end user and (ii) the amount of annual leasing fee the principal distributor agrees to pay us for each annual service fee payment received by the principal distributor from an end user upon installation or renewal of water purification service.

The annual leasing fee we charge principal distributors for each installed water purifying machine depends also on the type of the machine installed. Such annual leasing fee rates have remained largely unchanged during the Track Record Period. We generally charge lower annual leasing fees from the second and subsequent years following installation of a water purifying machine as an incentive to our principal distributors to continue to maintain end user relationship. The table below sets forth the range of annual leasing fees by machine model and service year as set forth in our pricing policies:

	First year	Subsequent years
	(RMB)	
Corporate model		
Hub model ⁽¹⁾	5,180	2,880
Other corporate models	1,010–2,380	400–1,090
Household model	1,010–1,280	400–580

Note:

(1) This model serves as a central processor with multiple water dispensers connected to it.

When an end user first places an order for water purification services with a principal distributor, our service team installs the water purifying machine on such end user's premises and the principal distributor activates the machine with the installation card associated with the unique identification number of such principal distributor. The activation process will link the machine, the end user and the principal distributor in our integrated databases. We monitor the lease term of the water purifying machine installed on the end user's premise through our end user and machine database. For more details, see "— Integrated distributor, machine and end user management system." The annual leasing fee is due upon installation or renewal of service

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and we consequently offset the amount against the principal distributor's prepayment. If during the term of the distribution agreement the prepayment balance of a distributor reduces to zero, the distributor is typically required to replenish the prepayment before it can continue to source end users. We grant a credit period of up to 90 days to certain principal distributors which have established good credit history with us. For more details on our trade receivables and turnover rates during the Track Record Period, see "Financial Information — Description of Certain Line Items in the Combined Statement of Financial Position — Trade Receivables." We recognize a portion of annual leasing fees as rental revenue monthly during the lease term on a straight-line, pro-rata basis. Conversely, we recognize all training fees as revenue upon receipt of payment. Rental revenue generated from the top five principal distributors accounted for 44.1%, 65.8% and 67.5% of our total rental revenue for water purification services in 2011, 2012 and 2013, respectively.

The distributor does not take delivery or maintain any inventory of water purifying machines or spare parts. We retain ownership of the water purifying machine throughout the lease term and repossess the machine if the lease expires without renewal. During the lease term, we provide repair and maintenance services, including changing the filter core annually, directly to the end users on the water purifying machines free of service charge. If an end user cancels service during the lease term, the distributor is not entitled to any refund of annual leasing fee from us and should be responsible for the losses and expenses of the cancellation and the removal, but the principal distributor is entitled to sublet the water purifying machine to a different end user. We believe our relationship with a principal distributor is of the seller/buyer nature and not as a principal/agent due to the fact that principal distributors (i) enter into lease agreements for water purifying machines directly with end users; (ii) have the discretion to set annual service fees that they charge end users so long as such fees are within the range prescribed under our pricing policies; (iii) bear the risk and cost of service cancellation by end users as well as any damage to the water purifying machines; and (iv) bear the credit risk of end users.

Proxy Distribution Agreement with a principal distributor and a sub-distributor

We allow principal distributors who make initial payment of RMB1.0 million or more to recruit sub-distributors. When a principal distributor engages a sub-distributor, we enter into a proxy distribution agreement with the principal distributor and the sub-distributor in order to regulate and monitor the sub-distributor's operation as well such sub-distributor's dealing with the principal distributor. The term of the proxy distribution agreement is one year and is extended for one year upon expiration unless a party to the agreement objects in writing within 30 days before expiration. In each of the three years during the Track Record Period, we negotiated and signed new proxy distribution agreements with principal and sub-distributors upon the expiration of their proxy distribution agreements. Principal terms of the proxy distribution include:

- the term and geographic location for which a sub-distributor is allowed to operate;

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- our rights to monitor and manage the sub-distributor and to substitute the principal distributor, and to assume all of the principal distributor's rights under the proxy distribution agreement should the principal distributor cease to be our principal distributor;
- the initial payment the sub-distributor agrees to pay to the principal distributor upon engagement, which payment includes a guarantee deposit, a prepayment for leasing fees and a training fee;
- the sub-distributor's obligation to follow our pricing policies, which may be changed by us from time to time; and
- our obligation to deliver water purifying machines and rights to inspect and evaluate the sub-distributor's performance.

The proxy distribution agreement also provides certain negative covenants of a sub-distributor, pursuant to which the sub-distributor agrees, among other things, not to:

- misrepresent to end users its relationships with us or with the principal distributor in any way;
- act as a distributor for similar products and services;
- infringe upon our intellectual properties or use our brand name and trademarks without our prior consent; and
- compete unfairly with other distributors.

The proxy distribution agreement does not provide a minimum sales amount to be fulfilled by the sub-distributor. We are entitled to payment of damage and to levy a fine of various amounts in the event of a breach by the sub-distributor. Both the principal distributor and we are entitled to terminate the proxy distribution agreement if the sub-distributor's operations deteriorate significantly and fail to meet the operational standard we set, or if the sub-distributor breaches the proxy distribution agreement.

A sub-distributor agrees to pay a guarantee deposit, a training fee and a prepayment to the principal distributor upon engagement, and the principal distributors shall pay an amount equal to the training fee to us. In the event that a damage of our water purifying machines is linked to a sub-distributor or a loss is caused by a breach of the proxy distribution agreement by a sub-distributor, we may offset the damage or loss against the guarantee deposit made to us by the corresponding principal distributor who recruited sub-distributor. In return, the principal distributor has the right to offset the damage or loss against guarantee deposit paid by such sub-distributor. Annual sub-leasing fees payable to the principal distributor are offset against the prepayment made by the sub-distributor to the principal distributor.

The range of the annual service fee for each machine model that a sub-distributor can charge to an end user as set forth in our pricing policies is typically the same range that a principal distributor can charge to an end user. The amount of annual leasing fee the principal

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distributor agrees to pay us for each installation or renewal of water purification service is also the same whether the end user is sourced by such principal distributor or its sub-distributor. Our pricing policies set forth the amount of sub-leasing fee the sub-distributor agrees to pay the principal distributor for each annual service fee payment received by such sub-distributor from an end user upon installation or renewal of water purification service. The sub-leasing fee that a sub-distributor pays the principal distributor is higher than the annual leasing fee the principal distributor pays us, and the difference reflects the revenue that the sub-distributor shares with the principal distributor for the installation or renewal. The sub-leasing fee depends also on the type of the machine installed and remained largely unchanged during the Track Record Period. The table below sets forth the range of sub-leasing fee rates by machine model and service year as set forth in our pricing policies:

	First year	Subsequent years
	(RMB)	
Corporate model		
Hub model ⁽¹⁾	6,280–7,880	3,680–4,680
Other corporate models	1,160–3,280	1,160–1,480
Household model	1,260–1,750	860–1,380

Note:

(1) This model serves as a central processor with multiple water dispensers connected to it.

When a sub-distributor sources an end user and activates a water purifying machine for the end user, we will collect payment of the annual leasing fee from the respective principal distributor by reducing the prepayment balance of the principal distributors, who will in turn collect payment of the sub-leasing fee from the sub-distributor by reducing the prepayment balance of the sub-distributor. We recognize revenue in the same manner as described in the section above. The sub-leasing fees are initially offset against outstanding prepayment amount made to the principal distributor. When the prepayment amount is reduced to zero, the sub-distributor is required to make annual sub-leasing fee payment to the principal distributor when it becomes due. We do not receive any payment or generate any rental revenue directly from a sub-distributor. If an end user sourced by a sub-distributor cancels service during the lease term, the sub-distributor is entitled to sublet the water purifying machine to a different end user but is not entitled to any refund of annual sub-leasing fee from the principal distributor and should be responsible for the losses and expenses of the cancellation and the removal. Although sub-distributors have contractual obligations to us and we regulate and monitor their performance, we do not generate any revenue from sub-distributors and as a result we believe we do not have any direct principal/agent or seller/buyer relationship with our sub-distributors.

Management of Distributors

We select our distributors based on factors such as the coverage of their distribution networks, their financial ability, their service quality and their understanding of our service and principles of our water purification business.

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We manage our distributors centrally at our headquarters through our integrated databases and locally by our regional sales offices. In order to effectively manage our network of principal distributors and sub-distributors, we have built a distributor database which allows us to monitor the number of distributors in our distribution network and avoid a concentration of distributors in any given region. To further manage and keep track potential competition among our distributors in the same region, we implemented a two-card system. Renewal of service of a water purifying machine can only be initiated with the installation card with matching unique identification number, which ensures that a distributor will always receive service renewal from the end users it sourced and prevent competition among distributors for existing end users. The service renewal card allows us to monitor service renewal by end users sourced by a distributor and prevent the distributor from initiating further service renewals in the event of nonpayment or breach by such distributor. For more details, see “— Integrated distributor, machine and end user management system — Distributor database and two-card system.”

Our regional sales offices are responsible for monitoring and managing local distributors. Our regional sales offices are the direct points of contact for the distributors in their designated areas. This arrangement allows us to recruit local principal distributors, provide necessary trainings to our distributors on a regular basis, and evaluate their performance through inspection. We believe it is essential for our distributors to share our dedication to safe drinking water and our belief in healthy lifestyle choices, and to understand our core technologies. We require our distributors to participate in the periodic trainings we offer regarding water purification technologies, industry trends and business updates. We inform the end users of the hotline they can call to report to us any problems or issues with their distributors.

We monitor the annual service fee that a distributor charges the end user by end user survey through our hotline. If a violation of our pricing policies is discovered by us or reported to us by an end user, another distributor or through other channels, we would levy a fine on the distributor.

We do not have any rebate arrangement with distributors. Our internal policy provides that none of our employee should pay any bribes to third parties. The annual leasing fees for all models of water purifying machines are set forth in our pricing policies and we monitor their implementation through our distributor database and regional sales offices. In addition, we manage our inventory centrally with our machine database and our distributors do not take or maintain any inventory, and thus the orders from our distributors directly reflects the orders from end users. This further reduce incentives for unauthorized rebate between our employees and distributors.

We are advised by our PRC legal adviser that our trademarks “Ozner” and “浩澤” do not entitle us to preclude third parties from using “Ozner” or “浩澤” as part of a legal entity’s name, and legal entities with “Ozner” or “浩澤” as part of their business names can be legally registered with the competent administrative bureau of industry and commerce. As such, we can only regulate such use of terms similar to our trademarks by distributors through contractual arrangements. For more details, see “Risk Factors — Risks Related to Our Business — We have limited control over our third party distributors.” Our distribution agreements and proxy distribution agreements provide that any misrepresentation to end users

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by a distributor as to its role and relationship with us constitutes a breach of the agreement. We have taken steps to prevent future potential misrepresentation. We perform periodic searches on internet and news media to detect cases of potential misrepresentations.

Integrated distributor, machine and end user management system

We have designed and implemented an IT system for our water purification business that integrates our distributor database, machine database and end user database. Such integrated system is essential to our management of our distributors and end user services during lease terms. We obtained a certificate of software copyright for our built-in software installed in each water purifying machine.

Each of our water purifying machines has a central processing unit and built-in software that performs multiple functions for the machine during lease terms. In 2013, we developed a new mobile communication system that enables us to communicate with and monitor our water purifying machines remotely through the central processing unit and built-in software. The built-in software is integrated and directly interfaces with our central servers using our new mobile communication system. The new mobile communication system is implemented in our second generation corporate and household models of water purifying machines which started to be installed for corporate and individual end users starting in April 2014. The machines with such new mobile communication system installed can be tracked and monitored without the point-of-sales devices, installation cards or service renewal cards.

Distributor database and the two-card system

Our distributor database is linked with our machine database and end user database which is essential to the management of our distributors. In addition, we issue two cards, namely, the installation card and the service renewal card to each distributor. The installation card helps us to track distributor performance and prevent competition for existing end users among distributors, and the service renewal card helps us monitor payment from distributors.

When we enter into a distribution agreement with a principal distributor or proxy distribution agreement with a principal distributor and a sub-distributor, we create an account for and assign a unique identification number to the principal distributor or sub-distributor. A sub-distributor is linked to its recruiting principal distributor in the distributor database. We provide each distributor an Ozner-branded point-of-sales device, and two cards which are all associated with the unique identification number of such distributor. When a distributor activates a water purifying machine with its installation card, the machine is linked to its unique identification number in the distributor database. Any subsequent renewal of service on that water purifying machine can only be initiated with the installation card with matching unique identification number. In addition, if multiple water purifying machines are installed on the same premises for a corporate end user, all such machines installed are linked with the same unique identification number of the distributor. This measure ensures that only the distributor who activates the machine will be able to renew service for the same machine, which effectively prevents cannibalistic competition among distributors for service renewal for existing end users and also enables us to keep track of the number of end users sourced by a distributor. Once the machine is initiated for renewal, the distributor uses the point-of-sales device to charge the

service renewal card from its account. The distributor can then use the service renewal card to activate a water purifying machine for a new lease term. Such measure helps us track payment due to us from a distributor.

We also process and monitor all payments from distributors through the distributor database. We can freeze a distributor's account and prevent such distributor from initiating new installation or service renewal through the point-of-sales device, if there is an overdue payment owed to us or in the event of a breach by the respective distributor.

Machine database

As water purifying machines remain our assets during lease terms, it is essential for us to keep track of the location and status of the machine. We have built a machine database which maintains information on each installed machine. Such machine information includes model, activation date, installation location and filter lifetime.

We have also developed software that is installed inside our machines, which enables us to achieve a number of critical objectives:

Machine tracking. Each machine is linked to the end user account and the distributor account, through which we can manage our end users and distributors and monitor lease term, the status of users and payment. With the implementation of the new mobile communication system, we are able to pinpoint any machine's location through the GPS function of the built-in software.

Machine self-diagnosis. The built-in software performs self-diagnosis and records various performance data on a regular basis. The built-in software can periodically push performance data to our central server through the new mobile communication system. Data received from water purifying machines are automatically uploaded into our machine database. Analysis of such data can prevent malfunction and help us improve our machines and technologies.

Water quality monitoring. The built-in software also continually monitors the quality of purified water. When deterioration of water quality is detected, the built-in software will display a warning on the display panel which notifies the end user to contact our service hotline. Through the new mobile communication system, the built-in software will also automatically send a warning to our central server, which helps expedite our repair services.

End user database

We maintain an end user database that is integrated with the distributor database and the machine database. We create an account in our end user database for each end user and collect relevant information when such end user first places an order for our service through a distributor. Information collected at this stage includes location of the premises, business type, number of installed machines and installation date if the end user is a corporation. Upon installation, the distributor activates the water purifying machine with an installation card, which links the end user to the machine and the distributor. The built-in software is also able to periodically push data to our central server through the new mobile communication system, which uploads the data to the database of the respective end user account.

Brand, Sales and Marketing

We conduct water purification business under our brand name, “Ozner”. We promote our brand to exemplify safety, high quality and convenience. Our sales and marketing strategy is formulated and managed by our headquarters, and is implemented through our four sales offices and with the participation of our distributors in 125 cities in 30 provinces throughout China.

To enhance the visibility of our water purification products and services and promote awareness of our brand, we undertook advertising initiatives in multiple media channels, including online advertising and social media. We also engage our distributors to participate in our promotional events, such as distributing coupons to potential end users. Our total advertising and marketing expenses were RMB3.1 million, RMB7.2 million and RMB16.6 million in 2011, 2012 and 2013, respectively, accounting for 3.0%, 2.5% and 4.1% of our total revenue during the same periods, including advertising and marketing expense incurred in the fourth quarter of 2013 in preparation of the launch of our second generation water purifying machines in April 2014. We believe these advertising and promotion efforts help promote our brands among our target end user groups. Going forward, we intend to continue to focus on marketing and promotional activities to further increase awareness of our brands. In addition, we sell a small portion of our water purifying machines directly to end users through retail or online channels mainly for the purpose of brand promotion. Revenue generated from the sale of water purifying machines accounted for less than 2.0% of our total revenue from water purification service in 2011, 2012 and 2013, respectively.

Production and Operation

Production

We lease one facility of 17,782 sq. meters in Shangyu City, Zhejiang Province for the production of water purifying machines. As of the Latest Practicable Date, the production facility has the capacity of assembling 170,000 water purifying machines annually. The production facility has warehouse floor area of approximately 5,200 sq. meters in total for storage of materials, components and water purifying machines. In addition, we lease 11 properties with aggregate gross floor area of 11,667 sq. meters for our local warehouses and regional offices. For more details on our current production facility and production facility under construction, see “— Properties.”

The production utilization rate of the facilities was 69.8%, 90.2% and 91.8% in 2011, 2012 and 2013, respectively. The increase in utilization of production capacity was in response to the increase in demand for our water purification services. The number of newly installed water purifying machines increased from approximately 107,000 in 2011 to approximately 139,000 in 2012 and 154,000 in 2013. Our Directors expect demand for our water purification services to continue to grow due to the continued increase in market demand for purified drinking water in China, the expansion of our distribution network from which we expect to source additional end users for us, and our enhanced sales and marketing efforts in 2013. As a result, our Directors believe we need to continue to increase our annual production capacity to satisfy the anticipated increase in demand.

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We are currently constructing a new production facility in Shaanxi Province with a total planned annual production capacity of 400,000 water purifying machines. We chose Shaanxi Province as the location of this new production facility for a number of reasons, including tax refund and benefits from local government, relatively low cost of land use right, and relatively low labor cost. In addition, the new facility has readily available railway and road access, which mitigates extra time and cost for the transportation of our products.

We have designed a number of unique parts of our machines that make our production processes difficult to imitate by our competitors. We outsource production of all components of water purifying machines to third party contractors. Outsourcing allows us to increase our production efficiency and minimize capital investment. We maintain strict quality control over outsourced components. We assemble water purifying machines on assembly lines at our production facilities.

Quality Control

We maintain a comprehensive quality control system for all our products and services. We believe that our success to date is attributable to the high quality control standards to which we commit in delivering safe, high-quality products and services to our end users. As a result, we have won various industrial certificates and awards for our water purification services. For more details, see “— Research and Development — Awards and Recognitions” and “— Certificates, Licenses, Permits and Approvals.”

We have put in place quality control measures at various stages of our production processes. Quality control inspections are carried out mainly by our quality control team of 15 employees. Such quality control measures are performed in the following stages:

Components in-taking. For components we order from our suppliers, we perform quality control checks before acceptance of delivery to ensure that they conform with our requirements and specifications. For bulk purchases, we usually perform sample testing.

Production. We perform quality control checks before acceptance of delivery of components. We also calibrate and test each water purifying machine after assembly.

Installation. Quality control at the installation stage is critical to smooth performance during use. Our engineers perform comprehensive testing of the installed equipment to ensure fulfillment of our client’s specifications before requesting inspection by the client.

Warranty period. For water purification services, we provide repair and maintenance to end users free of service charge. We have a quality control lab that performs test exhaustion of each batch of water purifying machines on a continuous basis and under extreme conditions, in order to discover and prevent any potential problems that could occur to water purifying machines installed on end users’ premises. In addition, our after sale call center makes periodic calls to our end users to obtain updates on the performance of our water purifying machines during the lease term.

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During the Track Record Period, we did not have any major product recalls or product liability claims. In addition, we did not have any return from end users for equipment or machine quality reasons during the Track Record Period.

Logistics and Inventory Management

Our inventory primarily consists of finished products and components related to our water purification business. We have implemented an effective inventory control system that requires close coordination among our various departments, including our sales, marketing, component procurement, production and storage departments to ensure that component procurement meets production requirements, and production and storage meets sales projections and actual demand. We maintain an inventory for components, to ensure that there are no disruptions in production. The inventory level is estimated based on our historical production volume and future projections. We believe that we manage our inventory at a reasonable level based on historical sales and management's assessment, which minimizes storage space and carrying costs, enhances working capital efficiency and reduces the risk of deterioration of products while in storage, which is especially important for our stringent quality control policy.

As of December 31, 2011, 2012 and 2013, our inventory was approximately RMB29.5 million, RMB38.8 million and RMB36.9 million, respectively, among which 98.1%, 96.0% and 95.7% was attributable to water purification business.

In addition to our production facility and warehouse in Shangyu City, Zhejiang Province, we have an additional seven regional warehouses in seven cities, mainly to serve our end users located within our coverage regions for water purification services. We maintain a certain number of water purifying machines and spare parts at each regional warehouse depending on the size of regional coverage by such regional warehouse. We perform periodic inventory count of water purifying machines kept at regional warehouses.

We keep track of water purifying machines installed on end users' premises, for which we retain ownership throughout the lease terms, through our machine database. For more details, see "— Our Distribution Network — Integrated distributor, machine and end user management system — Machine database." When a lease is terminated or expires without renewal, we repossess the water purifying machine and deliver it to one of our regional warehouses. The majority of our end users renewed their leases for our services upon expiration during the Track Record Period. When an end user opts not to renew our services at the end of the lease term, we repossess the water purifying machine. We perform maintenance and refurbishment procedures on the repossessed machines before installing the machines for new end users. During the maintenance and refurbishment period, the machine continues to be treated as our revenue generating assets and subject to monthly depreciation.

Our Customers

Our direct customers for water purification services are our third party distributors, from whom we generated all rental revenue in the form of annual leasing fees. Our top five customers in terms of rental revenue for water purification services accounted for 44.1%, 65.8% and 67.5% of our total revenue generated from rental services for water purification services in 2011, 2012 and 2013, respectively. Our largest customer in terms of rental revenue

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for water purification services accounted for 13.0%, 24.7% and 20.2% of our rental revenue for water purification services in 2011, 2012 and 2013, respectively. We have taken active measures to reduce potential reliance on distributors in our operations and financial results. For example, we maintain information of all of our end users in the end user database, and we provide direct services to, and maintain direct contact with, our end users. In the event of termination of a distribution agreement, either by us or the distributor, we can quickly assign the end users sourced by such terminated distributor to other distributors in the same region with minimal transitional cost. As we build up direct and close relationships with end-users from the continuing services we provide to them, unlike our competitor who adopt the conventional sales model, we believe the likelihood for a terminated distributor to solicit our end users and compete with our business is small. As such, we believe we will be able to make necessary changes to our current business model without incurring significant cost or lose significant number of existing end users. According to the Frost & Sullivan Report, the current water purifier market is fragmented with sustainable growth potential. As we continue to expand our operations and distribution network, we expect our reliance on any individual distributor to continue to decrease. On the other hand, distributors rely on our water purifying machines and services to generate recurring annual service fees. During the Track Record Period, only three distributors terminated their relationship with us for personal reasons. We believe we are capable of maintaining our revenue in the future as our distribution network continues to grow. None of our Directors, their associates or shareholders holding more than 5% of the issued share capital of our Company held any equity interests in any of our top ten largest distributors during the Track Record Period. For more details of our third party distributors, see “— Our Distribution Network.”

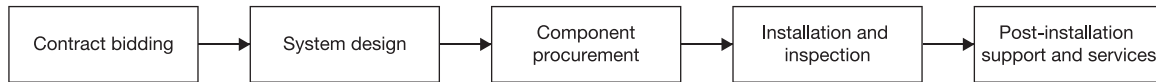
OUR AIR SANITIZATION SERVICES

We design and oversee the installation of air sanitization systems for our clients through engineering, procurement and construction, or EPC arrangements. We entered into 16, 14 and 14 EPC contracts for air sanitization system in 2011, 2012 and 2013, respectively. Revenue attributable to air sanitization business accounted for 43.9%, 31.9% and 22.0% of our total revenue in 2011, 2012 and 2013, respectively. As of December 31, 2013, we had 13 on-going air sanitization projects.

We apply ozone technologies in addition to the conventional filtration technologies in the air sanitization systems we design for clients. After many years of research and testing, we have successfully integrated our ozone technologies with the conventional filtration technologies in the systems we design, such integration enables our systems to reduce potential contamination by other potential contaminants accumulated in air conduits. The systems we designed were installed for clients in many industries, including the electronics, food, medical and healthcare industry.

EPC Arrangements

In the EPC contracts we have performed, we mainly acted as a sub-contractor. The principal contractors subcontracted the engineering, procurement and construction of certain projects to us. The flow chart below illustrates our EPC arrangement process:



During the Track Record Period, we acted as sub-contractor in 11, 13, and 14 EPC contracts for air sanitization system in 2011, 2012 and 2013, respectively, representing 68.8%, 92.9% and 100.0% of total EPC contracts during the same years. Revenue generated from the sub-contracts accounted for 65.5%, 95.0% and 100.0% of the total revenue attributable to air sanitization services in 2011, 2012 and 2013, respectively.

The contract cycle of our EPC projects, meaning the period from the commencement of system design to the completion of installation, is typically in the range of 90 days to 360 days, and the average duration of the contract cycle of air sanitization projects was 224 days during the Track Record Period. Under the EPC arrangements, we typically request clients to make payments based on the below schedule:

- 10% of the contract price as prepayment upon signing of definitive agreement;
- 10%–15% of the contract price upon delivery of key materials to our client’s site;
- 10%–30% of the contract price when the construction progress reaches 50%;
- 10%–30% of the contract price upon completion of the construction;
- 20%–55% of the contract price upon inspection; and
- 5% after one-year warranty period.

Contract bidding

The principal contractors generally obtain the projects through bidding process and our design team sometimes helps them to prepare the bid. In preparation of the bid, our sales team will conduct technical analyses on various factors and formulate solutions and models to meet the requirements of a particular project, including cost, project requirement and specifications, major challenges in equipment design as well as potential competitor biddings. Our design team will also prepare the proposals based on all the related data as well as the tender documents required for the proposal.

System design

Once we procure an EPC contract, our design team will work with the client to produce a detailed plan for equipment production and system installation based on the proposal we submitted. The detailed design will contain plans for procurement of components, specific designs of the equipment and installation, and a timeline of the production and installation. We make all designs in-house and submit the completed detailed design to the client for approval before commencing production.

Component procurement

We procure all equipment components designed by us for an EPC contract from our suppliers, and we maintain control over the cost and quality of the equipment through contractual arrangements and inspection. The types of equipment procured for an air sanitization service contract are project-specific, including:

- cleaning equipment such as air shower room and clean workbench;
- filter products such as close-pleat high-efficiency filters;
- clean air supply units such as clean pass window;
- ozone sanitization products such as ozone generator; and
- stainless steel trolleys.

Installation and inspection

We typically engage professional installation companies to perform any necessary assembly and installation of air sanitization systems at clients' sites pursuant to our designs and specifications. Our agreements with installation companies typically set forth key terms including contract price, payment schedule, quality requirements, installation and inspection procedures and warranty period. Our engineering team will perform quality control checks on the system upon completion of the installation to ensure that the installation has been properly carried out. The client will then inspect the installation and acknowledge acceptance.

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The table below sets forth breakdown of the revenue recognized for our EPC contracts for the years indicated:

	Year ended December 31,		
	2011	2012	2013
		(RMB'000)	
Contract sales entered into in the fiscal year . . .	66,908	88,477	92,430
Revenue to be recognized in the next fiscal year	<u>(30,229)</u>	<u>(37,699)</u>	<u>(50,069)</u>
Revenue recognized from contracts entered into in the fiscal year	36,679	50,778	42,361
Revenue recognized from contracts entered into in previous fiscal year	—	30,229	37,699
Total revenue recognized in the fiscal year . .	<u>36,679</u>	<u>81,007</u>	<u>80,060</u>

Post-installation support and services

After installation, we provide on-site training for use and maintenance of our air sanitization system. The typical warranty period we provide to our clients is one year after final acceptance of the system. Our warranties typically cover regular maintenance services and parts and labor for repairs. The components used in our equipment are typically covered by warranties provided by the respective suppliers.

Core Air Sanitization Technologies

Our self-developed KFT series of ozone generating devices comprise the core active ozone sterilization technologies which we apply in our air sanitization system. We have been successful at adapting the KFT series of ozone generating device in various air sanitization projects for our clients' specific needs.

Logistics and Inventory Management

For air sanitization systems, we only procure components for a project upon confirmation of the equipment design by the client. As a result, we do not have to maintain any inventory for air sanitization systems. When production of the equipment for a project is completed, we typically transport such equipment directly to the installation site. We endeavor to deliver the finished equipment to our client at the earliest possible time. We use logistics companies for the transportation and bear the transportation expenses.

Our Clients

During the Track Record Period, all of our clients for air sanitization business are corporations and institutions. Our in-house sales team mainly sources clients of air sanitization products and services through direct participation in project biddings. Our main clients of air sanitization system are in the electronics, food and medical and healthcare industry during the Track Record Period. Revenue generated from our largest client for air sanitization system accounted for 16.0%, 12.6% and 44.3% of our total revenue generated from air sanitization business in 2011, 2012 and 2013, respectively. Revenue generated from our top five clients for

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air sanitization system accounted for 57.1%, 52.2% and 81.0% of our total revenue generated from air sanitization business in 2011, 2012 and 2013, respectively. None of our Directors, their associates or shareholders holding more than 5% of the issued share capital of our Company held any equity interests in any of our top ten largest clients for our air sanitization services during the Track Record Period.

We have built a track record of providing air sanitization services to prominent corporate clients in China. We are an air sanitization service provider of China's moon-landing space program.

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to our operations, including strategic risks, operational risks, environmental risks, financial risks, and legal risks. The risk management policy sets forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management and assessing and updating our risk management policy on a quarterly basis. The risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

RAW MATERIALS, COMPONENTS AND SUPPLIERS

We purchase our key components, which include components of water purifying machines and air sanitization systems from our suppliers in China. We source our components from: (i) contract suppliers, who manufacture components that incorporate our proprietary designs and technologies; and (ii) general suppliers, from whom we purchase standardized components, which include components of water purifying machines and air sanitization systems. We selected our contract suppliers primarily based on their ability to meet our specifications, our prior dealings with them, their after-sales service, their prices and their reputation in the market.

We had 235, 259 and 342 suppliers in 2011, 2012 and 2013, respectively. We did not depend on any one supplier for sourcing during the Track Record Period. All of our suppliers are independent third parties to our Group.

Our suppliers are chosen and evaluated based on a number of criteria, including quality and pricing of their products, and their reputation in the industry. The suppliers who satisfy the evaluations by our procurement department are put onto our list of approved suppliers. Our procurement department conducts annual review of our suppliers to ensure the quality of the products supplied to us meet the requirements of our Group. We negotiate with our major suppliers and enter into framework agreements which contain legally binding terms such as the basis for determining the price, the quality of components and the payment terms.

In the year ended December 31, 2013, our five largest suppliers included four for components and one for construction material for our new production facilities in Shaanxi Province. Purchases from our five largest suppliers accounted for approximately 31.8%, 29.2% and 39.6% of our total purchases in 2011, 2012 and 2013, respectively. None of our Directors,

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their associates or shareholders holding more than 5% of the issued share capital of our Company held any equity interests in any of our five largest suppliers during the Track Record Period. Purchases from our largest supplier in 2011, 2012 and 2013 accounted for approximately 4.3%, 13.5% and 20.9% of our total purchases, respectively. Our suppliers generally grant us credit terms depending on the nature and value of the contract and the business relationship between us and the suppliers. We use multiple suppliers to mitigate impact of fluctuation of components prices. During the Track Record Period, we did not experience any material shortage or delay in the supply of components.

INTELLECTUAL PROPERTIES

We rely primarily on a combination of patents, copyrights, trademarks and technology know-how, as well as employee and third party confidentiality agreements to protect our intellectual property. We had a total of 102 patents as of the Latest Practicable Date, among which 75 are utility model patents, and 27 are design patents. Among our utility model patents, seven are related to improved reverse osmosis technology and 18 are related to ozone technology.

The validity period of our utility model patents and design patents is generally 10 years. As with patent rights in most other jurisdictions, a patent holder in China enjoys the exclusive right to exclude others from using, licensing or otherwise exploiting the patent in China.

With respect to, among other things, proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on confidentiality agreements to safeguard our interests. We believe that certain elements in our operations are not covered by patents or copyrights. We have taken security measures to protect these elements.

All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of the inventions, designs and technologies they develop during their employment with us. We also require our clients and business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our operations, technology or business plans.

During the Track Record Period, we had not been subject to any material intellectual property claims against us.

Brands and Trademarks

As of the Latest Practicable Date, we had registered 24 trademarks in the PRC, including our brand name, “Ozner” and registered one trademark in Hong Kong. Registration of intellectual property rights is usually made by our legal department.

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PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include one parcel of land of approximately 135,112 square meters and 12 leased properties with an aggregate GFA of approximately 29,448 square meters, for our offices, production facilities and warehouses.

According to Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance which require a valuation report with respect to all our Group's interests in land or buildings, for the reason that, as of December 31, 2013, none of the properties held or leased by us has a carrying amount of 15% or more of our consolidated total assets.

Owned Properties

As of the Latest Practicable Date, we occupied one parcel of land of 135,112 square meters in Qianxian, Shaanxi Province and have obtained the land use right certificate for the land. As confirmed by our PRC legal advisor, we legally own the use right of the land of 135,112 square meters.

The following table set forth a summary of the property owned by us:

<u>Address and description of location</u>	<u>Owner</u>	<u>Use of property</u>	<u>Square meters</u>	<u>Restriction on use duration of land use rights</u>	<u>Duration of land use rights</u>
South side of Qinglong Leading Path of Fuyin Express Way, Qianxian Industry Park, Xianyang City, Shaanxi Province	Shaanxi Haoze Environmental Technology	Industrial	135,112	mortgage	fifty years

Leased Properties

As of the Latest Practicable Date, our material leased properties include 12 premises with an aggregate GFA of approximately 29,448 square meters, which are used for our offices, production facilities and warehouses. Except for four leased properties for warehouse use in Beijing, Chengdu, Guangzhou and Nanjing, respectively, our other landlords are entitled to lease these spaces. For more details, see "Risk Factors — Risks Relating to Our Business — Certain portions of our material leased properties in the PRC lack title certificates and certain leases of our material leased properties have not been registered with the relevant PRC governmental authorities." Our PRC legal adviser has confirmed that we are using these leased properties in accordance with the permitted usages under the relevant lease agreements in all material aspects. We believe that there would be no difference in rental that our Company would have to pay if these leased properties did not have defective titles.

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The table below sets out a summary of the properties leased by us which are considered material as they are used as our offices, production facilities and warehouses:

Address and description of location	Lessor	Use of property	GFA (square meters)	Restriction on use	Duration of lease term
1-3/F, South Plant, Building 3, No. 60 Guiqiao Rd, Pudong New Area, Shanghai .	Shanghai Pudong Jin Xiang Industrial Company	headquarters	5,460	N/A	2012.01.10– 2017.01.09
Room B0503, Honglian Building, Honglian South Road, Xicheng District, Beijing.	Beijing Zhengjia Property Management Co., Ltd. Xicheng Branch	service center	588	N/A	2014.01.20– 2016.01.19
Room 13A, NO. 33 Huangpu West Road, Tianhe District Guangzhou, Guangdong Province	Guangzhou Sanxin Industrial Co., Ltd.	service center	511	Mortgage	2014.03.05– 2016.03.04
Room 11B-01 Benyuan Building, No. 6015 Shennan Road, Futian District, Shenzhen, Guangdong Province	Shaanxi Woman Friend Media Group Co. Ltd.	service center	350	N/A	2014.02.01– 2015.01.31
Building 2&4,1-3/F of Building 10, Building 12, No. 1728 Renmin West Road,Shangyu City, Zhejiang Province	Zhejiang Hongtian Industrial Co., Ltd.	production facility, warehouse	17,782	Mortgage	Building 2&4: 2012.09.01– 2015.08.31 1/F of Building 10: 2013.01.01– 2015.08.31 2-3/F of Building 10 & Building 12: 2012.12.01– 2015.08.31
No. 59 Lane 2622, Sanqiao Village of Jinqiao Town, Pudong New Area, Shanghai	Shanghai Hongding Investment Management Co., Ltd.	warehouse	1,580	N/A	2014.05.01– 2016.12.30
1/F, West-Tower A, No. 68 North of Baiyun Avenue, Baiyun District, Guangzhou, Guangdong Province	Guangzhou Yuhong Trading Co., Ltd.	warehouse	400	N/A	2011.07.10– 2014.07.19

BUSINESS

<u>Address and description of location</u>	<u>Lessor</u>	<u>Use of property</u>	<u>GFA (square meters)</u>	<u>Restriction on use</u>	<u>Duration of lease term</u>
1/F, East-Building 4 & 1/F, Building 8, Monli Industrial Park, No. 146 Yousong Road, Longhua Street, Baoan District, Shenzhen, Guangdong Province	EDerH Property (Shenzhen) Co., Ltd.	warehouse	700	N/A	2013.07.01– 2014.06.30
1/F, Liancheng Building, No. 69 Minqiang Road, Shilong Town, Dongguan, Guangdong Province	Dongguan Liancheng Electronic Industrial Co., Ltd.	warehouse	480	Mortgage	2013.09.07– 2014.09.06
In the Shimian Plant, Southwest of Xiao Village, South 4th Ring Road, Chaoyang District, Beijing	Yang Shuming	warehouse	600	N/A	2013.08.01– 2014.07.31
Unit 11, Renmin Yan, Shengdeng Road, Chenghua District, Chengdu, Sichuan Province	Fan Anhai	warehouse	498	N/A	2013.09.30– 2015.09.29
No. 66 Dingjiawa, Yuhuatai District, Nanjing, Jiangsu Province	Ban Jintuo	warehouse	500	N/A	2013.08.15– 2014.08.15

Properties Currently under Construction

We have acquired the land use right for properties of 135,112 square meters in Qianxian, Shaanxi Province and we have legal and valid ownership interests in this property. We are in the process of constructing new production facilities with a planned annual production capacity of 400,000 water purifying machines. The first phase of the production facilities is expected to commence commercial production in 2014, with an annual production capacity of 200,000 water purifying machines. The projected total capital expenditure on the construction of the first and second phase of this facilities is approximately RMB423 million, of which RMB91.7 million had already been incurred as of December 31, 2013. We financed the construction primarily through cash flow from operations and loans from banks. We plan to use part of the net proceeds for the Global Offering for the construction of this facilities. Our PRC legal adviser has confirmed that, as of the Latest Practicable Date, we have obtained the relevant construction approvals and permits for all of these properties under construction.

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Save as disclosed above, none of the properties held or leased by us has any material encumbrances, environmental issues, litigation, breaches or defects.

MARKET AND COMPETITION

We are subject to intense competition in the rapidly evolving and fragmented water purification and air sanitization industries. We compete primarily on the basis of technology, expertise, regulatory certifications, range of products and service offering, service quality, client recognition and industry reputation and a competitive pricing and cost structure.

Water Purification Services

In the water purifier market, we mainly compete with manufacturers and sellers of water purifiers, as well as barreled-water service providers. According to the Frost & Sullivan Report, China has the most manufacturers of water purifiers in the world, with more than 3,000 manufacturers. The market is fragmented, with over 90% of the manufacturers being small companies with retail sales value below RMB100 million in 2012. The main entry barriers to the market include:

- requirement for large capital investment to build manufacturing facilities, logistics system and service team;
- requirement for advanced management to provide satisfactory service to end users and prevent unfair competition between distributors; and
- requirement for stable end user resources to generate sustainable income.

According to the Frost & Sullivan Report, going forward the water purifying market has the following development trends:

- increasing market share for water purifying machines using reverse osmosis technology;
- increasing sophistication of end users who will favor water purifying machines with advanced technology;
- increasing functionality of water purifying machines; and
- increasing price difference between low-end and high-end water purifying machines.

As a result, advantages of early market entrants and large market participants will become more prominent.

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According to the Frost & Sullivan Report, we are the largest among the six water purifier manufacturers in China that adopt the lease and service model. The lease and service model is considered an attractive business model with significant entry barriers. The major entry barriers include:

- significant capital requirement, as manufacturers produce and retain water purifiers as revenue generating assets;
- necessity for a network of service teams in all regions the manufacturers operate to provide expeditious and high quality services to end users;
- maintenance of service quality and end user relationships, as manufacturers depend on end users' continuous renewals of services to generate recurring revenue; and
- requirement for experienced distributor and inventory management.

According to the Frost & Sullivan Report, we are recognized as a high-tech and diversified large-scale environmental company that manufactures high-end water purifying machines. We believe that in both water purification services and air sanitization business, our patented technologies provide us critical competitive advantages and differentiate us from our competitors. In addition, we believe our lease and service business model provides us with certain competitive advantages compared with both manufacturers and sellers of water purifying machines and barreled water service providers, and we are well-positioned to capture the future market growth as a market leader and an early market entrant. Going forward, we plan to increase our sales and marketing efforts to enhance awareness of our brand and promote wider acceptance of the water purification service model.

Air Sanitization Business

In the air sanitization business we mainly compete with other air sanitization system manufacturers in the regional market in which we operate, especially EPC contract manufacturers who participate in the same bidding processes for air sanitization projects. Our major competitors also include other air sanitization service providers. Although we believe that our competitive strengths provide us with advantages over many of our competitors, some of our larger competitors may have greater financial, research and other resources, access to proprietary technology, greater expertise and more extensive technical capabilities, greater pricing flexibility and greater name recognition. We also expect increasing competition as new competitors enter our market. For more discussion in relation to the risk of competition, see "Risk Factors — Risks Relating to Our Industries — We face increasing competition from domestic and foreign companies, some of which have bigger market shares and more resources than us."

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INSURANCE

Our insurance policies cover damages to our water purifying machines and air sanitization systems. We have not experienced any material product liability claims in relation to our products since our inception. In 2011, 2012 and 2013, we incurred expenses for such insurance policies in the amount of approximately RMB79,950, RMB122,590, and RMB143,406, respectively. We consider our insurance coverage to be adequate and in line with industry practices in China. However, significant uninsured damage to any of our properties, inventory or other assets, whether as a result of fire or other causes, could have a material and adverse effect on our results of operations. For more details, see “Risk Factors — Risk relating to our business — Our product liability insurance may not be sufficient to cover product liability claims against us.”

EMPLOYEES

We had a total of 1,458 employees as of December 31, 2013. We have set up six centers and three departments to manage various aspects of our business. The three departments are in charge of activities directly related to production and include water purification department, air sanitization department and production department. The six centers are human resources, finance, service, research and development, branding and marketing and material procurement. The departments and centers are managed by our management committee. Our recruiting policy emphasizes the importance of attracting competent employees through a combination of competitive salary incentives, on-job training and opportunities for development. The table below sets forth a breakdown of our employees as of December 31, 2013:

<u>Committee/ Department/Center</u>		
Management and administration/Internal control	18	1.2%
Water purification department	113	7.8%
Air sanitization department	21	1.4%
Production department	274	18.8%
Human resource center	52	3.6%
Financial center	35	2.4%
Service center	884	60.6%
Research and development center	36	2.5%
Brand and marketing center	5	0.3%
Material procurement center	<u>20</u>	<u>1.4%</u>
Total	<u><u>1,458</u></u>	<u><u>100.0%</u></u>

We had 561 employees at our headquarters in Shanghai as of December 31, 2013.

Our staff costs were approximately RMB26.2 million, RMB43.5 million, and RMB50.1 million in 2011, 2012 and 2013, respectively. We are required by PRC laws and regulations to contribute towards various government sponsored employee benefit plans, including social insurance and housing accumulation funds, in amounts equal to predetermined percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government where we operate our businesses from time to time.

BUSINESS

With respect to social insurance, we have contributed at the base of the minimum wage level as required by relevant local social insurance bureau and the underpaid amount is RMB2.1 million, RMB4.2 million and RMB6.9 million in 2011, 2012 and 2013, respectively. In respect of housing funds, we have not made any contributions to employees' housing accumulation funds before August 2012 and the underpaid amount is RMB0.5 million, RMB1.3 million and RMB1.9 million in 2011, 2012 and 2013, respectively. We have made provisions for the underpayments in selling and distribution expenses and administrative expenses.

The underpayment of social insurance and housing funds resulted from the fact that, due to the different levels of development in employee benefits in different parts of the PRC, the local policies in some jurisdictions where we operate are less stringent than the requirements under PRC laws and regulations governing PRC employee benefits. We are advised by our PRC legal adviser that PRC laws and regulations governing PRC employee benefit is applicable to us and we could be deemed as not in full compliance with such PRC laws and regulations due to underpayment. We have confirmed with the relevant government authorities which stated that we have complied with relevant laws and regulations regarding social insurance and no administrative punishment occurred during the Track Record Period. We have also obtained the confirmation from the relevant government authorities regarding housing accumulation funds which stated that we have complied with relevant laws and regulations or no administrative punishment occurred after the housing accumulation fund account was opened. We are advised by our PRC legal adviser, Shu Jin Law Firm, that the local government authorities that issued the compliance confirmation are competent supervisors on our activities in terms of the matters referenced in the compliance confirmation and such local government authorities are competent to issue such compliance confirmation. Based on the above, we believe that the chance that we would be penalized by relevant government authorities for the under-payment of the social insurance and the housing accumulation funds is remote.

ENVIRONMENTAL MATTERS

Our business is subject to relevant PRC national and local environmental laws and regulations which, among other things, require the payment of fees in connection with activities that discharge waste materials and impose fines and other penalties on facilities that threaten the environment. For more details, see "Regulatory Overview" of this prospectus.

Our production process does not cause any material damage to the environment. We have installed environmental protection equipment and facilities to treat and, where possible, recycle waste materials. We have procedures in place to treat and dispose of our waste in accordance with national and local environmental laws and regulations. We are also constantly seeking to improve our environmental protection measures, for example, by reducing our use of water and production of waste water, fuelling our equipment with natural gas instead of oil to reduce carbon emissions.

Our expenses in respect to environmental compliance matters amounted to approximately RMB120,000, RMB50,000 and RMB130,000 in 2011, 2012 and 2013. We currently do not have any specific expenditure plan with respect to environmental matters. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

BUSINESS

Our PRC legal adviser has confirmed that we have complied in all material respects with the relevant environmental laws, regulations and administrative rules. During the Track Record Period, we have not been subject to any material penalties imposed by environmental regulatory authorities in China.

CERTIFICATES, LICENSES, PERMITS AND APPROVALS

China's water purification industry is highly regulated. We are required to obtain the regulatory certifications and qualifications in connection with the sales of our products as well as the provision of services. As advised by our PRC legal adviser, Shu Jin Law Firm, as of the Latest Practicable Date, we had obtained all material licenses, permits and approvals required for our operation, including the necessary regulatory certificates for our water purification services. Shu Jin Law Firm has further advised us that they are not aware of any material legal impediment for us to renew the foregoing certifications and qualifications.

Our technologies and achievement in water purification and air sanitization have various certificates and awards both in China and overseas.

We have obtained the following certificates from international and domestic institutions:

- 2008 Standard Quality Certificate issued of ISO 9001;
- EU Product Quality Safety Standard Certificate issued by the European Union;
- CB Certification issued by the National Certification Body;
- Hygiene Licenses for products related to Drinking Water issued by Health Bureau of Zhejiang Province; and
- 3C certification issued by China Quality Certification Center.

HEALTH AND SAFETY

Our business is subject to relevant PRC safety laws and regulations. For more details, see "Regulatory Overview" of this prospectus. To comply with laws and regulations relating to safe production, we have adopted measures including establishment of an overall system and streamlined procedures for safe production, providing training and education for staff and workers in the area of safe production; instituting an internal responsibility system for the implementation of safe production measures. We conduct regular fire and machine safety checks at our production facilities and ensure that all employees have the necessary safety and protective gear. We have complied with all relevant PRC safety laws and regulations and passed all relevant examinations in this regard.

During the Track Record Period, we had no material safety accidents or labor disputes.

LEGAL COMPLIANCE AND PROCEEDINGS

There are no litigation or arbitration proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's financial condition or results of operations.

Save as disclosed in this prospectus, our Directors, as advised by our PRC legal adviser, confirm that as at the Latest Practicable Date, our Group has complied with all relevant PRC laws and regulations in all material respects and has obtained all requisite material licenses, approvals and permits from relevant regulatory authorities for our operations in China.

Compliance with Rule 8.05 of the Listing Rules

We satisfied the minimum profit requirement as set forth in Rule 8.05 of the Listing Rules ("Rule 8.05") based on the audited results, for which our financial statements are prepared in accordance with IFRS. In particular, we (i) recognize revenue of rental income of water purifying machines on a straight-line basis over the one-year lease term with principal distributors; and (ii) depreciate our water purifying machines on a straight-line basis over the estimated useful life of the machines. For more details, see "Financial Information — Critical Accounting Policies."

For the purpose of ensuring compliance with Rule 8.05, our Directors tested our financial results generated by certain hypothetical computations, assuming (i) lease terms being periods between two to 10 years instead of one year; or (ii) accelerated depreciation of water purifying machines in their first year of service. Our Directors consider such hypothetical computations to be incompatible with the actualities of our business operations and the application of IFRS. Given the actual contractual terms of our leases on water purifying machines, the application of such hypothetical computations are impermissible under IFRS. As such, they were used solely for the purpose to stress-test our compliance with Rule 8.05.

In conclusion, our Directors confirm that we would continue to meet the minimum profit requirement as set forth in Rule 8.05 if our financial results were prepared under the above mentioned hypothetical computations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account Shares which may be allotted and issued upon exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), the Pre-IPO Reorganization and the Capitalization Issue, Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited will be entitled to exercise voting rights of approximately 20.25%, 3.20% and 3.00% of the issued share capital of our Company, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited are wholly-owned by Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited under the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. Xiao (as the settlor) and the discretionary beneficiaries of which include Mr. Xiao and certain family members of Mr. Xiao. Accordingly, Mr. Xiao will, through Baida Capital Limited under the Xiao Family I Trust, Lion Rise Capital Limited under the Xiao Family II Trust and Glorious Shine Capital Limited under the Xiao Family III Trust, and in turn, Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively, control the exercise of the voting rights of the Shares in our Company. Accordingly, Baida Capital Limited, Baida Holdings Limited, Lion Rise Capital Limited, Lion Rise Holdings Limited, Glorious Shine Capital Limited, Glorious Shine Holdings Limited and Mr. Xiao are our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders and Directors confirm that he, she or it does not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from the Controlling Shareholder and their respective associates after the Global Offering.

Management Independence

The Board comprises five executive Directors (including Mr. Xiao), three non-executive Directors and four independent non-executive Directors. Mr. Xiao is also a Controlling Shareholder of the Company. Our management and operational decisions are made by our executive Directors and senior management, most of whom have served our Group for a long time and have substantial experience in the industry in which we are engaged. Please see the section “Directors, Senior Management and Employees” for further details. Each of our Directors is aware of his/her fiduciary duties as a Director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. Further, we believe our independent non-executive Directors bring independent judgment to the decision-making process of our Board. In addition, the Directors shall not vote in any Board resolution

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

approving any contract or arrangement or any other proposal in which he/she or any of his/her associates has a material interest and shall not be counted in the quorum present at the particular Board meeting.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

Operational Independence

Although the Controlling Shareholder will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and to carry out, our own business operations independently. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licences necessary to carry out our businesses, and has sufficient capital, equipment and employees to operate our business independent from the Controlling Shareholders. Each of our Controlling Shareholders (other than Mr. Xiao) is an investment holding company, and we do not rely on any operational or administration resources from them. In addition, our organizational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business. Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective associates during the Track Record Period and will continue to operate independently.

Financial Independence

Our Group has our own accounting and financial management system and is able to operate independently of our Controlling Shareholders from a financial perspective.

Fresh Water Group provided a shareholder's loan to HK Fresh Water. As of December 31, 2011, 2012 and 2013, the balance of such shareholder's loan was RMB287.8 million, RMB422.8 million and RMB408.0 million, respectively. Such shareholder's loan was partially repaid by HK Fresh Water, with the remaining balance to be capitalized pursuant to the Pre-IPO Reorganization. Fresh Water Group is the holding company of the Company prior to completion of the Pre-IPO Reorganization and after completion of the Pre-IPO Reorganization, the entire issued share capital of which will be wholly-owned by Mr. Xiao. For further details of the repayment and capitalization of such shareholder's loan, please refer to the section headed "Our History and Reorganization — Pre-IPO Reorganization" in this prospectus. Our Directors confirm that all financial assistance, including guarantees provided by Mr. Xiao and his associates to our Group were or will be released before Listing. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Our Directors also confirmed that, as at the Latest Practicable Date, our Group did not provide any loans, guarantees or pledges to our Controlling Shareholders or his associates.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and his associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that it/he fully comprehends its/his obligations to act as our Shareholders' and our best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself from the board meetings on matters in which such Director or his associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (c) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed four independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed "Directors, Senior Management and Employees – Directors – Independent non-executive Directors" in this prospectus;
- (d) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between the Group on the one hand and the Controlling Shareholders and/or the Directors on the other, the Controlling Shareholders and/or the Directors shall provide the independent non-executive Directors with all necessary information and the Company shall disclose the decisions of the independent non-executive Directors (including why business opportunities referred to it by the Controlling Shareholders were not taken up) either through its annual report or by way of announcements; and
- (e) we have appointed Guotai Junan Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

The table below sets forth certain information in respect of our Directors and senior management:

Name	Age	Position	Date of appointment	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
Directors						
Xiao Shu (肖述) . .	40	Chairman of the Board, Chief Executive Officer and Executive Director	November 19, 2013	January 1, 2011	Formulation of the overall development strategies and business plans of our Group	Brother of Xiao Lilin
Zhu Mingwei (朱明偉)	46	Vice Chairman of the Board, Deputy Chief Executive Officer, Executive Director	January 10, 2014	January 1, 2011	Overseeing the management and strategic development of our Group as well as the technology development and the management of our air purification business	N/A
He Jun (何軍) . . .	39	Executive Director	January 10, 2014	January 1, 2011	Sales and marketing of the water purification business of our Group	N/A
Tan Jibin (譚濟濱)	32	Executive Director	November 19, 2013	April 6, 2011	Overseeing the overall financial and administrative affairs of our Group	N/A
Xiao Lilin (肖利林)	39	Executive Director	January 10, 2014	January 1, 2011	Overseeing the production of our products and the construction of our production sites	Brother of Xiao Shu
Ng Benjamin Jin-Ping (吳俊平)	52	Non-executive Director	January 10, 2014	December 30, 2010	Overseeing our management and strategic development	N/A
He Sean Xing (何欣)	49	Non-executive Director	January 10, 2014	October 20, 2011	Overseeing our management and strategic development	N/A

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Date of appointment	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
Wang Haitong (王海桐)	30	Non-executive Director	January 10, 2014	November 20, 2012	Overseeing our management and strategic development	N/A
Zhou Guanxuan (周貫煊)	55	Independent Non-executive Director	May 26, 2014	May 26, 2014	Supervising and providing independent judgment to our Board	N/A
Gu Jiuchuan (顧久傳)	65	Independent Non-executive Director	May 26, 2014	May 26, 2014	Supervising and providing independent judgment to our Board	N/A
Chan Yuk Sing Gilbert (陳玉成)	55	Independent Non-executive Director	May 26, 2014	May 26, 2014	Supervising and providing independent judgment to our Board	N/A
Lau Tze Cheung Stanley (劉子祥)	51	Independent Non-executive Director	May 26, 2014	May 26, 2014	Supervising and providing independent judgment to our Board	N/A

The Board currently consists of 12 Directors, comprising five executive Directors, three non-executive Directors and four independent non-executive Directors. The functions and duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed at these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for the increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

Executive Directors

Mr. XIAO Shu (肖述), aged 40, is the Chairman of the Board, an executive Director and our chief executive officer. He is also the president and chief engineer of Shanghai Haoze Water Purification Technology, and the president of Shanghai Comfort. He was appointed as the Director on November 19, 2013 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Xiao has more than 15 years of experience in technology development, sales and marketing and strategic management. Mr. Xiao founded our business when he established Shanghai Comfort, a company which we acquired in 2012, in October 2005 and has remained as the management of Shanghai Comfort since then until he joined Shanghai Haoze Environmental Technology in January 2011. Mr. Xiao held his interest in Shanghai Comfort through Shanghai Comfort Products, a company which was engaging in the sales of air purification products and drinking water machines and which was established by Mr. Xiao as one of the founders in 2003. For further information regarding the relationship between Mr. Xiao, Shanghai Comfort, Shanghai Comfort Products and the Group, please refer to the section headed "Our History and Reorganization". Mr. Xiao is the inventor of several patented water and air purification technologies owned by the Group. Prior to establishing our business via the establishment of Shanghai Comfort, Mr. Xiao worked at

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Sinorate Enterprises Limited, a company specializing in the production of electronic goods and components, between April 1993 and April 1999 where he sequentially served as product engineer, quality control manager and director of the production department. Between June 2001 and June 2002, he worked at Shanghai Oasun Environment High Technology Company Limited (上海歐臣環境高科技有限公司) (“**Shanghai Oasun**”), a company engaging in the business of providing water purification solutions, and was in charge of research and development and production management. Mr. Xiao received a bachelor’s degree in agriculture (soilless cultivation) from Northwest A&F University (西北農林科技大學) (Shaanxi, PRC), which is formerly known as Northwest Agricultural Institute (西北農學院), in July 1992. Mr. Xiao is also accredited as an Internal Quality Auditor following the completion of an internal quality auditor course and the passage of the national internal quality auditor examination administered by the National Educational Center for Conformity Assessment in December 2001.

Mr. Xiao is the brother of Mr. Xiao Lilin, an executive Director and the general manager of the production department of Shanghai Haoze Water Purification Technology.

Mr. Xiao has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Mr. ZHU Mingwei (朱明偉), aged 46, is an executive Director, our vice chairman of the Board and deputy chief executive officer. He joined our Group on January 1, 2011 as the senior vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on January 10, 2014. Mr. Zhu is primarily responsible for overseeing the management and strategic development of our Group as well as the technology development and the management of our air purification business. Mr. Zhu has nearly 20 years of experience in technology development and operation management. Prior to joining our Group, Mr. Zhu worked at China Jiangnan Aerospace Industrial Group Company (中國江南航天工業集團公司), a company specializing in the manufacturing of automobile and automobile parts, as an assistant engineer between September 1992 and September 1995 and became an engineer in August 1998. From June 2000 to October 2002, Mr. Zhu served as the design supervisor of Shanghai Oasun. After that, he was the director and engineer of the water filter division of Shanghai Fangxin Plastic Mold Co., Limited (上海方鑫塑膠模具有限公司), a company engaging in the business of manufacturing of plastic molds. Mr. Zhu was the research and development manager, vice general manager and vice president of Shanghai Comfort between October 2005 and December 2010.

Mr. Zhu completed a professional course in mold design and manufacturing from the North China Institute of Aerospace Engineering (華北航天工業學校) (Hebei, PRC) in July 1987 and became a qualified engineer in mold design as approved by the China Aerospace Industry Corporation (China National Space Administration) (中國航天工業總公司(國家航天局)) in August 1998. In October 2013, Mr. Zhu was appointed as a member of the technology certification committee of water purification products of the China General Certification Center (北京鑒衡認證中心淨水產品認證技術委員會委員).

Mr. Zhu has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. HE Jun (何軍), aged 39, is an executive Director. He joined our Group on January 1, 2011 as the vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on January 10, 2014. Mr. He is primarily responsible for the sales and marketing of the water purification business of our Group. Mr. He has over 12 years of experience in sales and marketing in the water purification business. Prior to joining the Group, Mr. He worked at Shanghai Oasun from November 1999 to December 2001 and was primarily responsible for the sales and marketing of its water purification products. After that, Mr. He worked at the business department of Shanghai Fangxin Plastic Mold Co., Limited (上海方鑫塑膠模具有限公司), a company engaging in the business of manufacturing of plastic molds, and was responsible for the development and expansion of its water purification business. Mr. He was the assistant manager, regional director of the Northern China region and vice president of Shanghai Comfort from October 2005 to December 2010, during which he was responsible for overseeing the sales of its water purification products.

Mr. He obtained a bachelor's degree in environmental engineering from Jilin Institute of Chemical Technology (吉林化工學院) (Jilin, PRC) in July 1999 and completed a training with Shanghai Corporate Management Training Institute (上海企業管理培訓中心) (Shanghai, PRC) and was accredited as a senior quality and environment manager in October 2002.

Mr. He has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Mr. TAN Jibin (譚濟濱), aged 32, is an executive Director. He joined our Group on April 6, 2011 as the financial controller and vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on November 19, 2013. Mr. Tan is primarily responsible for overseeing the overall financial and administrative affairs of the Group. Mr. Tan has about 10 years of experience in accounting and finance. Prior to joining the Group, Mr. Tan served as a senior auditor in Deloitte Touche Tohmatsu, an accounting firm, from July 2004 to April 2009 and as an associate finance manager in China Aoyuan Property Group Limited (HKSE: 3883), a Chinese property company listed on the Stock Exchange, from May 2009 to March 2011. He obtained a bachelor's degree in international finance from Guangdong University of Foreign Studies (廣東外語外貿大學) (Guangdong, PRC) in June 2004.

Mr. Tan has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Mr. XIAO Lilin (肖利林), aged 39, is an executive Director. He joined our Group on January 1, 2011 as the general manager of the production department of Shanghai Haoze Water Purification Technology and was appointed as the Director on January 10, 2014. Mr. Xiao is primarily responsible for overseeing the production of our products and the construction of our production sites. He is also the president of Shaanxi Haoze Environmental Technology. Mr. Xiao has over 10 years of experience in production quality and supply chain management. Prior to joining the Group, between April 1996 and September 2002, he worked at Yongsheng Dongguan Group (永勝(東莞)集團), a company engaging in the business of manufacturing electronic appliance and toys, as the supervisor in the production department, and at DongGuan Leshi Electronic Plastic Co., Ltd (東莞樂詩電子塑膠有限公司), a company engaging in the business of the production of electronics products, as the production manager between

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November 2002 and December 2006. From September 2007 to November 2009, Mr. Xiao served as the deputy general manager of Guangdong DongGuan Hou Street Xitou Longteng Toy Factory (廣東東莞厚街溪頭龍騰玩具廠), a company engaging in the business of manufacturing toys.

Mr. Xiao is the brother of Mr. Xiao Shu, the Chairman of the Board, an executive Director, the president and chief engineer of our Company.

Mr. Xiao has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Non-executive Directors

Mr. NG Benjamin Jin-Ping (吳俊平), aged 52, is a non-executive Director. He was appointed to the Board on January 10, 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. He is currently a general partner of SAIF Advisors Limited, an affiliate of SAIF Partners. Prior to joining SAIF Advisors Limited in June 2006, Mr. Ng worked with Cisco Systems, an information technology support services provider, between March 1998 and May 2006 as a business development manager. Before that, Mr. Ng worked at Netlink Inc., IBM and Metaplex, all of which are engaged in the information technology industry. Mr. Ng obtained a degree of master of business administration from Macquarie University (Sydney, Australia) in April 1995. Mr. Ng has been a Director of Alchip Technologies, Limited (TWO: 3661), a company listed on the Taiwan Stock Exchange and engaging in the business of silicon design and manufacturing services, since April 2007. Save as disclosed above, Mr. Ng has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Mr. HE Sean Xing (何欣), aged 49, is a non-executive Director. He was appointed to the Board on January 10, 2014 and is primarily responsible for providing strategic advices and guidance on the business development of our Group. He is currently a senior partner of Ares Private Equity Group. Mr. He has extensive knowledge in corporate financing and merger and acquisition transactions. Prior to joining Ares Private Equity Group in March 2010, he worked at The Carlyle Group, a global asset management firm from August 2000 to March 2010, where he was promoted as a managing director of the Asia Growth Group. Before joining The Carlyle Group, Mr. He acted as an associate director of the Asia-pacific investment team of Intel Capital, an investment manager of the greater China region of Nikko Global Asset Management (Hong Kong) Limited and a senior research analyst at DBS Securities Limited, all of which are financial services providers.

Mr. He graduated from Zhejiang University (Zhejiang, PRC) with a bachelor's degree in science and engineering in July 1985, obtained a master's degree in science and engineering from Carleton University (Ottawa, Canada) in February 1991 and a master's degree in business administration from the Schulich School of Business at York University (Toronto, Canada) in June 1995. Mr. He was qualified as a Chartered Financial Analyst (CFA) of The Institute of Chartered Financial Analysts in September 1998.

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Mr. He is a non-executive director of Brilliant Circle Holdings International Limited (貴聯控股國際有限公司) (HKSE: 1008), a company listed on the Stock Exchange, since April 2011. Save as disclosed above, Mr. He has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Ms. WANG Haitong (王海桐), aged 30, is a non-executive Director. She was appointed to the Board on January 10, 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. She is an executive director of Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd, since January 2014. Before that, Ms. Wang has been an executive director of the principal investment division of Goldman Sachs Asia L.L.C. Ms. Wang has about nine years of experience in investment banking industry and corporate financing. Prior to joining Goldman Sachs, Ms. Wang was a research analyst in the Beijing representative office of Morgan Stanley Dean Witter Asia Limited, a global investment bank, from July 2005 to June 2006, after which she joined the investment banking division of Morgan Stanley Dean Witter Asia Limited's Hong Kong office from August 2006 to August 2007.

Ms. Wang obtained dual-bachelor's degrees in science and finance from Peking University (Beijing, PRC) in July 2005.

Ms. Wang has not been a director of any company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Independent Non-executive Directors

Mr. ZHOU Guanxuan (周貫煊), aged 55, is an independent non-executive Director. He was appointed to our Board on May 26, 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Zhou has more than 35 years of experience in household appliances manufacturing and operations management. From 1975 to September 1999, Mr. Zhou worked at the Midea Group Co., Ltd (SZE: 000333), a company listed on the Shenzhen Stock Exchange and engaging in the business of manufacturing of household electrical appliances, and assumed office in the technology and production department before he was promoted as the general manager of Midea Redian Group Co., Ltd, an affiliate of Midea Group Co., Ltd. From 2000 to 2007, Mr. Zhou was the president of Foshan Shunde District Beijiao Town Weigao Electronics Industry Company Limited (佛山市順德區北滘鎮偉高電器實業有限公司), a company engaging in the business of research and development, manufacturing and sale of electronic appliances. From 2011 to 2013, he was the director and general manager of Jiangxi Jingdezhen Saide Ceramics Co., Ltd. (江西景德鎮賽德陶瓷有限公司), a company engaging in the business of manufacturing, development and sale of ceramics decoration materials.

Mr. Zhou has not been a director of any company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Mr. GU Jiuchuan (顧久傳), aged 65, is an independent non-executive Director. He was appointed to our Board on May 26, 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Gu has extensive experience in and knowledge of the water purification industry. Before working at Wuxi Haide

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Membrane Technology Co., Ltd. (無錫市海德膜技術有限公司), a company engaging in the water purification business, from 1999 to 2010 as technical director, Mr. Gu worked at China Huajing Electronics Group Co., Ltd. (中國華晶電子集團公司), a company specialized in the research and development and manufacturing of semi-conductor equipment. In November 2013, Mr. Gu became the vice chairman of the China Desalination Association (中國水利企業協會脫鹽分會) and in October 2013, Mr. Gu was appointed as the managing member of the technology certification committee of water purification products of the China General Certification Center (北京鑒衡認證中心淨水產品認證技術委員會主任委員). He has been the honorary chairman of AnHui Water Purification Association (安徽省淨水行業協會) and the member of the expert guidance panel of the Fund for Drinking Water Safety and Health established by the China Health Promotion Foundation (中國健康促進基金會飲水安全與健康專項基金) since 2012, an expert member of the advisory panel of the Drinking Water Industry Committee established by the National Development and Reform Commission Public Nutrition and Development Center (國家發改委公眾營養與發展中心飲用水產業委員會) since 2011. He also served as the chief secretary of the Wuxi Water Purification Association (無錫市淨水行業協會) and the secretary of the Purified Water Industry Committee of China Private Economy Research Association (中國民(私)營經濟研究會淨水行業委員會). Mr. Gu has participated in the drafting of various national industry standards concerning water purification systems and has made numerous publications on the topic of water purification. Currently, Mr. Gu is the honorary chief editor of the magazine “中國直飲水” and the special consultant, member of the think tank and editor of the magazine “直飲水時代”.

Mr. Gu obtained a bachelor's degree in physics from Fudan University (Shanghai, PRC) in August 1970 and is qualified as a senior engineer by the Ministry of Information Industry of the PRC (中華人民共和國工業和信息化部) in December 1994 (which is formerly known as the Ministry of Electronic Industry of the PRC (中華人民共和國電子工業部)).

Mr. Gu has not been a director of any company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Dr. CHAN Yuk Sing Gilbert (陳玉成), aged 55, is an independent non-executive Director. He was appointed to our Board on May 26, 2014. Dr. Chan is an assistant professor in the department of applied biology and chemical technology of the Hong Kong Polytechnic University. His recent research focus is on the application of ozone technology. He is the chairman of the Sino Ozone Association. Over the years, Dr. Chan has made various publications and speeches on the topic of healthy water and ozone.

Dr. Chan obtained a master's degree and a PhD in Science from University of Durham (Durham, United Kingdom) in July 1990 and December 1994, respectively.

Dr. Chan has not been a director of any company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Mr. LAU Tze Cheung Stanley (劉子祥), aged 51, is an independent non-executive Director. He was appointed to our Board on May 26, 2014. He has over 20 years of experience in accounting and finance, management consulting and corporate finance. Mr. Lau served as the chief financial officer and company secretary of Asia Fashion Holdings Limited (亞洲時尚控股有限公司) (SGX: AFH), a company listed on the Singapore Stock Exchange, from January

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2008 to August 2012 and the chief financial officer of China Kangda Food Company Limited (中國康大食品有限公司) (HKSE: 834, SGX: CKANG), a company listed on both the Stock Exchange and the Singapore Stock Exchange, from December 2005 to December 2007. Before that, Mr. Lau worked at Messrs. Lo Hung Yan, Certified Public Accountant and provided management consulting, auditing and corporate secretarial services and advice to his clients since April 1993.

Mr. Lau obtained a bachelor's degree in business administration from the Open University of Hong Kong (Hong Kong) in December 1997 and a master's degree in international accounting from City University of Hong Kong (Hong Kong) in November 2006. Mr. Lau has been an associate member of the Hong Kong Institute of Certified Public Accounts since September 2001 (which is formerly known as the Hong Kong Society of Accountants), an associate member of the Association of International Accountants since July 2001, an associate member of the Taxation Institute of Hong Kong since July 2001, an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom since November 1997 and an associate member of the Hong Kong Institute of Company Secretaries since November 1997. Mr. Lau has also been a guest lecturer in various commercial, accounting and corporate finance courses conducted by City University of Hong Kong (from January 2012 to April 2012 and from July 2012 to June 2013), Kaplan Financial (March 2010), the Chinese University of Hong Kong (since January 2008), the Hong Kong Institute of Certified Public Accountants (September 2009) and Syracuse University (March 2005).

Mr. Lau has not been a director of any company listed in Hong Kong or overseas during the three years preceding the date of this prospectus.

Please refer to the section headed "Appendix IV – Statutory and General Information" in this prospectus for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed in this prospectus, there are no other matters in respect of each of our directors that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other material matters relating to our directors that need to be brought to the attention of our shareholders.

SENIOR MANAGEMENT

Apart from the executive Directors, our Group does not have any other members of senior management. For details of the biography of the executive Directors, please see the paragraph headed "Directors – Executive Directors" above.

JOINT COMPANY SECRETARIES

Mr. TAN Jibin (譚濟濱), aged 32, is one of the joint company secretaries of our Company and was appointed on January 10, 2014. Please refer to his biography under the paragraph headed " – Executive Directors" above.

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Ms. LAI Siu Kuen (黎少娟), aged 38, is one of the joint company secretaries of our Company and was appointed on January 10, 2014 and her appointment will become effective upon Listing. Ms. Lai is a manager of the Listing Services Department of KCS Hong Kong Limited, a company engaging in the business of providing corporate services. She has extensive professional and in-house experience in company secretarial field. Ms. Lai is currently the joint company secretary of several companies listed on the Main Board of the Stock Exchange, including Jingrui Holdings Limited (Stock code: 1862), a company engaging in the business of property development and Boyaa Interactive International Limited (Stock code: 434), a company engaging in the business of development and operation of online card and board games. She obtained a Bachelor of Arts degree in Accountancy from The Hong Kong Polytechnic University in November 1997. Ms. Lai is a fellow member of the Hong Kong Institute of Chartered Secretaries since October 2012 and the Institute of Chartered Secretaries and Administrators in the United Kingdom since October 2012.

BOARD COMMITTEES

Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The audit committee consists of four members, namely Mr. Lau Tze Cheung Stanley, Mr. Zhou Guanxuan, Mr. Gu Jiuchuan and Dr. Chan Yuk Sing Gilbert, all being our independent non-executive Directors. Mr. Lau Tze Cheung Stanley has been appointed as the chairman of the audit committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee has three members, namely Mr. Zhou Guanxuan, Mr. Zhu Mingwei and Mr. Lau Tze Cheung Stanley. Mr. Zhou Guanxuan, our independent non-executive Director, has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations on employee benefit arrangement.

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee consists of two independent non-executive Directors, being Mr. Gu Jiuchuan and Dr. Chan Yuk Sing Gilbert, and one executive Director, Mr. Xiao Shu, who

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is the chairman of the nomination committee. The primary duties of the nomination committee are to make recommendations to our Board on the appointment and removal of Directors of our Company.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. Xiao is our Chairman and Chief Executive Officer. With extensive experience in the water purification service industry, Mr. Xiao is responsible for the overall strategic planning and general management of our Group and is instrumental to our growth and business expansion during the Track Record Period. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced and high-calibre individuals. Our Board currently comprises five executive Directors (including Mr. Xiao), three non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

WAIVERS GRANTED BY THE STOCK EXCHANGE

Qualification of one of our Joint Company Secretaries

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under and in respect of Rule 3.28 and Rule 8.17 of the Listing Rules in relation to the requirement on the qualifications of one of our joint company secretaries, Mr. TAN Jibin. For details of the waiver, please see the section headed “Waivers from Compliance with the Listing Rules and Exemption from Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver in relation to our Joint Company Secretary” in this prospectus.

Management presence

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see the section headed “Waivers from Compliance with the Listing Rules and Exemption from Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver in relation to Management Presence in Hong Kong” in this prospectus.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation from our Company in the form of fees, salaries, contributions to pension schemes and allowances and benefits in kind. The aggregate amount of remuneration our Directors have received (including fees, salaries, contributions to pension schemes and allowances and benefits in kind) for the years ended December 31, 2011, 2012 and 2013 was nil, nil and RMB73,004, respectively.

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The aggregate amount of salaries, contributions to pension schemes and allowances and benefits in kind paid to our five highest paid individuals of our Company for the years ended December 31, 2011, 2012 and 2013 was approximately RMB0.6 million, RMB0.7 million and RMB0.9 million, respectively. The five highest paid individuals during the year ended December 31, 2013 included two executive Directors appointed on November 19, 2013 and three executive Directors appointed on January 10, 2014.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2014 is estimated to be approximately RMB6.6 million.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2011, 2012 and 2013. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of the years ended December 31, 2011, 2012 and 2013 by the Group to the Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following the Listing, will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser (the "Compliance Adviser") upon listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will provide advice to us when consulted by us in the following circumstances:

- (i) the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date and this appointment may be subject to extension by mutual agreement.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

PRE-IPO SHARE OPTION SCHEME

In order to assist us in attracting, retaining and motivating our key employees, we have conditionally adopted a Pre-IPO Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme is summarized in the section headed “Appendix IV – Statutory and General Information – D. Share Option Schemes – 1. Pre-IPO Share Option Scheme” in this prospectus.

SHARE OPTION SCHEME

We have also conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the section headed “Appendix IV – Statutory and General Information – D. Share Option Schemes – 2. Share Option Scheme” in this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Pre-IPO Reorganization, the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the following persons will have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Nature of interest	Shares/Underlying Shares held immediately prior to completion of the Global Offering (but after completion of the Capitalization Issue and the Pre-IPO Reorganization)		Shares/Underlying Shares held immediately following the completion of the Global Offering	
		Number	Percentage	Number	Percentage
Standard Chartered Trust (Singapore) Limited	Trustee of a trust	446,518,200 ⁽²⁾	35.27%	446,518,200 ⁽²⁾	26.45%
		111,661,200 ⁽⁹⁾	8.82%	111,661,200 ⁽⁹⁾	6.62%
		558,179,400	44.09%	558,179,400	33.07%
SCTS Capital Pte. Ltd.	Nominee for another person	446,518,200 ⁽²⁾	35.27%	446,518,200 ⁽²⁾	26.45%
		111,661,200 ⁽⁹⁾	8.82%	111,661,200 ⁽⁹⁾	6.62%
		558,179,400	44.09%	558,179,400	33.07%
Mr. Xiao	Founder of a discretionary trust Beneficial owner	446,518,200 ⁽²⁾	35.27%	446,518,200 ⁽²⁾	26.45%
		51,086,706 ⁽⁴⁾	4.04%	51,086,706 ⁽⁴⁾	3.03%
		497,604,906	39.31%	497,604,906	29.48%
Tang Renmei ⁽³⁾	Beneficiary of a discretionary trust	392,460,000	31.00%	392,460,000	23.25%
Baida Holdings Limited ⁽⁵⁾	Beneficial owner	341,820,000	27.00%	341,820,000	20.25%
Baida Capital Limited ⁽⁵⁾	Interest in a controlled corporation	341,820,000	27.00%	341,820,000	20.25%
SAIF Partners IV L.P. ⁽⁶⁾	Beneficial owner	334,857,000	26.45%	334,857,000	19.84%
SAIF IV GP, L.P. ⁽⁶⁾	Interest in a controlled corporation	334,857,000	26.45%	334,857,000	19.84%
SAIF IV GP Capital Ltd. ⁽⁶⁾	Interest in a controlled corporation	334,857,000	26.45%	334,857,000	19.84%
Mr. Andrew Y. Yan ⁽⁶⁾	Interest in a controlled corporation	334,857,000	26.45%	334,857,000	19.84%
Ares FW Holdings, L.P. ⁽⁷⁾	Beneficial owner	233,956,800	18.48%	233,956,800	13.86%
ACOF Asia GP Ltd. ⁽⁷⁾	Interest in a controlled corporation	233,956,800	18.48%	233,956,800	13.86%
ACOF Asia Management, L.P. ⁽⁷⁾	Interest in a controlled corporation	233,956,800	18.48%	233,956,800	13.86%
Ares Management (Cayman), Ltd. ⁽⁷⁾	Interest in a controlled corporation	233,956,800	18.48%	233,956,800	13.86%
Watercube Holdings, L.L.C. ⁽⁸⁾	Beneficial owner	139,006,800	10.98%	139,006,800	8.24%
GS Direct, L.L.C. ⁽⁸⁾	Interest in a controlled corporation	139,006,800	10.98%	139,006,800	8.24%
Goldman, Sachs & Co. ⁽⁸⁾	Interest in a controlled corporation	139,006,800	10.98%	139,006,800	8.24%

SUBSTANTIAL SHAREHOLDERS

<u>Name</u>	<u>Nature of interest</u>	<u>Shares/Underlying Shares held immediately prior to completion of the Global Offering (but after completion of the Capitalization Issue and the Pre-IPO Reorganization)</u>		<u>Shares/Underlying Shares held immediately following the completion of the Global Offering</u>	
		<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
The Goldman, Sachs & Co. L.L.C. ⁽⁸⁾	Interest in a controlled corporation	139,006,800	10.98%	139,006,800	8.24%
The Goldman Sachs Group, Inc. ⁽⁸⁾	Interest in a controlled corporation	139,006,800	10.98%	139,006,800	8.24%
Mr. Wang ⁽⁹⁾	Founder of a discretionary trust	111,661,200	8.82%	111,661,200	6.62%
Zhang Jing ⁽¹⁰⁾	Interest of spouse and beneficiary of a discretionary trust	111,661,200	8.82%	111,661,200	6.62%
Mr. Daniel Saul Och	Interest of controlled corporation	—	—	125,312,000 ⁽¹¹⁾	7.42%
Och-Ziff Capital Management Group LLC (“Och-Ziff Capital”)	Interest of controlled corporation	—	—	125,312,000 ⁽¹¹⁾	7.42%
OZ Management, L.P. (“OZ Management”)	Investment manager	—	—	125,312,000 ⁽¹¹⁾	7.42%

Notes:

- (1) All interests stated are long positions.
- (2) Standard Chartered Trust (Singapore) Limited, the trustee of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, holds the entire issued share capital of Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited through SCTS Capital Pte. Ltd. (as nominee for Standard Chartered Trust (Singapore) Limited). Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited in turn hold the entire issued share capital of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited hold 341,820,000 Shares, 54,058,200 Shares and 50,640,000 Shares, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. Xiao (as the settlor) and the discretionary beneficiaries of which include Mr. Xiao and certain of his family members. Accordingly, each of Mr. Xiao, Standard Chartered Trust (Singapore) Limited and SCTS Capital Pte. Ltd. are deemed to be interested in the aggregate number of 446,518,200 Shares held by Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.
- (3) These 392,460,000 Shares represents the total of 341,820,000 Shares held by Baida Holdings Limited under the Xiao Family I Trust and 50,640,000 Shares held by Glorious Shine Holdings Limited under the Xiao Family III Trust. Ms. Tang Renmei is the mother of Mr. Xiao and is one of the beneficiaries of each of the Xiao Family I Trust and the Xiao Family III Trust.
- (4) Mr. Xiao was granted options under the Pre-IPO Share Option Scheme which entitle him to subscribe for 51,086,706 Shares.
- (5) The entire issued share capital of Baida Holdings Limited is held by Baida Capital Limited. Accordingly, Baida Capital Limited is deemed to be interested in the 341,820,000 Shares held by Baida Holdings Limited.

SUBSTANTIAL SHAREHOLDERS

- (6) Assuming the 6,120 Series A Preferred Shares held by SAIF Partners IV L.P. are converted into common shares of Fresh Water Group on a one-for-one basis and that 334,857,000 Shares are transferred to SAIF Partners IV L.P. upon repurchase by Fresh Water Group of 6,120 common shares then held by SAIF Partners IV L.P., after the conversion, SAIF Partners IV L.P. shall hold 334,857,000 Shares, representing approximately 19.84% of the total issued share capital of the Company upon Listing (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

SAIF Partners IV L.P. is a limited partnership fund established in the Cayman Islands whose sole general partner is SAIF IV GP, L.P., a limited partnership established in the Cayman Islands. The sole general partner of SAIF IV GP, L.P. is SAIF IV GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands, which is wholly owned and controlled by Mr. Andrew Y. Yan.

- (7) Assuming the 3,680 Series B Preferred Shares and the 596 Series C Preferred Shares held by Ares FW Holdings, L.P. are converted into common shares of Fresh Water Group on a one-for-one basis and that 233,956,800 Shares are transferred to Ares FW Holdings, L.P. upon repurchase by Fresh Water Group of 4,276 common shares then held by Ares FW Holdings, L.P., after the conversion, Ares FW Holdings, L.P. shall hold 233,956,800 Shares, representing approximately 13.86% of the total issued share capital of the Company upon Listing (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

Ares FW Holdings, L.P. is an exempted limited partnership organized and existing under the laws of the Cayman Islands and is 100% controlled by ACOF Asia GP Ltd. which in turn is 100% controlled by ACOF Asia Management, L.P. and which in turn is 100% controlled by Ares Management (Cayman), Ltd.

- (8) Assuming the 2,540 Series C Preferred Shares held by Watercube Holdings, L.L.C. are converted into common shares of Fresh Water Group on a one-for-one basis and that 139,006,800 Shares are transferred to Watercube Holdings, L.L.C. upon repurchase by Fresh Water Group of 2,540 common shares then held by Watercube Holdings, L.L.C., after the conversion, Watercube Holdings, L.L.C. shall hold 139,006,800 Shares, representing approximately 8.24% of the total issued share capital of the Company upon Listing (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

Watercube Holdings, L.L.C. is a limited liability company organized under the laws of Delaware. GS Direct, L.L.C., a limited liability company organized under the laws of Delaware, is the managing member of Watercube Holdings L.L.C. and owns 80.1% of the voting interest in Watercube Holdings L.L.C. Goldman, Sachs & Co., a limited partnership organized under the laws of New York, is the managing member of GS Direct, L.L.C. The Goldman, Sachs & Co. L.L.C., a limited liability company organized under the laws of Delaware, is the general partner of Goldman, Sachs & Co. The Goldman Sachs Group, Inc., a corporation organized under the laws of Delaware, holds (i) 100% voting interests of The Goldman, Sachs & Co. L.L.C.; (ii) 99.8% voting interests of Goldman, Sachs & Co.; and (iii) 100% non-voting interests of GS Direct, L.L.C. The Goldman Sachs Group, Inc. is listed on the New York Stock Exchange.

- (9) Standard Chartered Trust (Singapore) Limited, the trustee of the Wang Family I Trust and the Wang Family II Trust, holds the entire issued share capital of Baoye Capital Limited and Giant Century Capital Limited through SCTS Capital Pte. Ltd. (as nominee for Standard Chartered Trust (Singapore) Limited). Baoye Capital Limited and Giant Century Capital Limited in turn hold the entire issued share capital of Baoye International Limited and Giant Century International Limited, respectively. Baoye International Limited and Giant Century International Limited hold 69,883,200 Shares and 41,778,000 Shares, respectively. Each of the Wang Family I Trust and the Wang Family II Trust is a discretionary trust established by Mr. Wang (as the settlor) and the discretionary beneficiaries of which include Mr. Wang and his spouse. Accordingly, each of Mr. Wang, Standard Chartered Trust (Singapore) Limited and SCTS Capital Pte. Ltd. are deemed to be interested in the aggregate number of 111,661,200 Shares held by Baoye International Limited and Giant Century International Limited, respectively.

SUBSTANTIAL SHAREHOLDERS

- (10) Ms. Zhang Jing is the wife of Mr. Wang and is deemed to be interested in the Shares which are interested in by Mr. Wang under the SFO. Ms. Zhang Jing is one of the beneficiaries of each of the Wang Family I Trust and the Wang Family II Trust.
- (11) Certain affiliated investment funds of Och-Ziff Capital Management Group LLC (collectively, “OZ Funds”) have agreed to subscribe for such number of Cornerstone Investor Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be subscribed for with an aggregate amount of US\$40 million (equivalent to approximately HK\$310 million) at the Offer Price. Assuming an Offer Price of HK\$2.475, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that OZ Funds would subscribe for would be 125,312,000, representing approximately 7.42% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Och-Ziff Holding Corporation (“Och-Ziff Holding”) is the sole general partner of OZ Management, and Och-Ziff Capital is in turn the sole shareholder of Och-Ziff Holding. Mr Daniel Saul Och controlled approximately 64.2% of the voting power at general meetings of Och-Ziff Capital. OZ Management, Och-Ziff Holding, Och-Ziff Capital and Mr Daniel Saul Och would be deemed to be interested in the shares of the Company held by OZ Funds under the SFO.

Other than as disclosed above, the substantial shareholders are not related to one another.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Pre-IPO Reorganization, the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO.

CORNERSTONE INVESTOR

THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement (the “Cornerstone Investment Agreement”) with the following investor (the “Cornerstone Investor”), pursuant to which the Cornerstone Investor agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) that may be subscribed for with an aggregate amount of US\$40 million (equivalent to approximately HK\$310 million) (the “Cornerstone Investor Shares”). The table below sets forth the total number of Cornerstone Investor Shares that the Cornerstone Investor would subscribe and the respective approximate percentages of the Shares in issue immediately following completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is not exercised and without taking into account Shares which may be allotted and issued upon exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme):

	Total number of Cornerstone Investor Shares (rounded down to the nearest whole board lot of 1,000 Shares)	Approximate percentages of the Shares in issue immediately following completion of the Global Offering and the Capitalization Issue
Assuming an Offer Price of HK\$2.25 (being the low end of the Offer Price range stated in this prospectus). . . .	137,843,000	8.17%
Assuming an Offer Price of HK\$2.475 (being the mid-point of the Offer Price range stated in this prospectus). . . .	125,312,000	7.42%
Assuming an Offer Price of HK\$2.70 (being the high end of the Offer Price range stated in this prospectus). . . .	114,869,000	6.81%

The Cornerstone Investor is independent from our Company, our connected persons and their respective associates. The Cornerstone Investor will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreement. Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any board representation in our Company, nor will the Cornerstone Investor become a substantial shareholder of our Company. The shareholdings of the Cornerstone Investor will be counted towards the public float of our Shares.

The cornerstone placing forms part of the International Offering. The Cornerstone Investor Shares to be purchased by the Cornerstone Investor will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section entitled “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation” in this prospectus. Details of the allocations to the Cornerstone Investor will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on June 16, 2014.

CORNERSTONE INVESTOR

THE CORNERSTONE INVESTOR

Details of the Cornerstone Investor are set forth below:

Och-Ziff Capital Management Group

Certain affiliated investment funds of Och-Ziff Capital Management Group LLC (collectively, "OZ Funds") have agreed to subscribe for such number of Cornerstone Investor Shares (rounded down to the nearest board lot of 1,000 Shares) which may be subscribed for with an aggregate amount of US\$40 million (equivalent to approximately HK\$310 million) at the Offer Price.

Each of the OZ Funds is incorporated or formed in the Cayman Islands or the BVI or the State of Delaware, United States. The investment manager of each of the OZ Funds is either OZ Management LP or OZ Management II LP, affiliates of Och-Ziff Capital Management Group LLC. Och-Ziff Capital Management Group LLC is one of the largest institutional alternative asset managers in the world with approximately US\$43.5 billion in assets under management as of May 1, 2014.

CONDITIONS PRECEDENT

The obligation of the Cornerstone Investor under the Cornerstone Investment Agreement is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Purchase Agreement having been entered into and having become unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in such agreements (or such other time and date as may be agreed by the parties thereto);
- (b) neither the Hong Kong Underwriting Agreement nor the International Purchase Agreement having been terminated;
- (c) the Offer Price having been agreed upon between the Company and the Joint Bookrunners;
- (d) no laws having been enacted or promulgated by any governmental authority which prohibit the consummation of the Hong Kong Public Offering or the International Offering or the consummation of the purchase of the Cornerstone Investor Shares by the Cornerstone Investor pursuant to the Cornerstone Investment Agreement and no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of any such transactions;
- (e) the Listing Committee having granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked; and

CORNERSTONE INVESTOR

- (f) the respective representations, warranties, undertakings and confirmations of the Company and the Joint Bookrunners in the Cornerstone Investment Agreement being accurate and true in all material respects and that there is no material breach of the Cornerstone Investment Agreement by the relevant parties.

RESTRICTIONS ON THE CORNERSTONE INVESTOR'S INVESTMENT

The Cornerstone Investor has agreed that, without the prior written consent of our Company and the Joint Bookrunners, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of (as defined in the Cornerstone Investment Agreement) any of the Shares subscribed for pursuant to the Cornerstone Investment Agreement, other than transfers to any affiliate of such Cornerstone Investor provided that, among other things, such affiliate undertakes in writing to, and such Cornerstone Investor undertakes in writing to procure that such affiliate will, abide by the restrictions on disposals imposed on such Cornerstone Investor.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized share capital of our Company as of the Latest Practicable Date and immediately following the completion of the Global Offering.

Authorized share capital as of the Latest Practicable Date

<u>Shares</u>	<u>Total nominal value</u>
	<u>HK\$</u>
<u>38,000,000</u>	<u>380,000</u>

Authorized share capital immediately following the completion of the Global Offering

<u>Shares</u>	<u>Total nominal value</u>
	<u>HK\$</u>
<u>4,000,000,000</u>	<u>40,000,000</u>

The following is a description of the issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Global Offering.

Issued share capital

<u>Shares</u>	<u>Description of Shares</u>	<u>Total nominal value</u>
		<u>HK\$</u>
2	Share in issue as of the date of this prospectus	0.02
1,265,999,998	Shares to be issued pursuant to the Capitalization Issue	12,659,999.98
<u>422,000,000</u>	Shares to be issued pursuant to the Global Offering	<u>4,220,000</u>
<u>1,688,000,000</u>	Total	<u>16,880,000</u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

SHARE CAPITAL

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering – Conditions of the Global Offering” in this prospectus, our Directors have been granted general unconditional mandates to issue and repurchase our Shares.

For further details of these general mandates, please see the section headed “Statutory and General Information – A. Further Information About the Group – 3. Resolutions in Writing of the Sole Shareholder of Our Company” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks pari passu with the other shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary shareholders’ resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by shareholders’ special resolution. For more details, please see the section headed “Summary of the Constitution of our Company and Cayman Companies Law – 2. Articles of Association – (c) Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For more details, please see “Summary of the Constitution of our Company and Cayman Companies Law – 2. Articles of Association – (d) Variation of rights of existing Shares or classes of Shares” in Appendix III to this prospectus.

SHARE OPTION SCHEMES

We have adopted the Pre-IPO Share Option Scheme and conditionally adopted the Share Option Scheme. Under the Pre-IPO Share Option Scheme, certain persons were granted options prior to the Listing Date. The principle terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarized in the section “Statutory and General Information – D. Share Option Schemes” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis with our audited combined financial information, including the notes thereto as of and for the years ended December 31, 2011, 2012 and 2013 included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with IFRS. The following discussion and analysis and other parts of this prospectus contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a leading water purification service provider in China, as we were the third largest water purifier manufacturer in China in terms of retail sales value in 2012 with a market share of 1.1% in a fragmented market, according to the Frost & Sullivan Report. In addition, we were the leader in the commercial segment of the market in terms of retail sales value in 2012 according to the same report. Under our innovative lease and service business model, we provide water purification services to end users through the lease of our water purifying machines installed at end users' premises. We manufacture water purifying machines that utilize our patented and proprietary ozone technologies. Our machines purify tap water into drinking water that meets or exceeds all technical parameters of the national standards in China. We also design and install air sanitization system for corporate clients through EPC arrangements. We have been involved in high-profile air sanitization projects, such as China's moon-landing space program, for corporate clients in China. In 2013, revenue derived from our water purification services and air sanitization system represented 78.0% and 22.0% of our total revenue, respectively.

Our revenue and profit increased significantly during the Track Record Period. Revenue increased significantly from RMB102.3 million in 2011 to RMB290.4 million in 2012, and increased by 38.5% to RMB402.3 million in 2013, primarily due to the significant growth of our water purification business. Revenue from water purification services was RMB57.4 million, RMB197.8 million and RMB314.0 million in 2011, 2012 and 2013, respectively, accounting for 56.1%, 68.1% and 78.0% of our total revenue during the respective periods. Revenue from air sanitization business was RMB44.9 million, RMB92.6 million and RMB88.4 million in 2011, 2012 and 2013. Our net profit increased significantly from RMB23.0 million in 2011 to RMB101.7 million in 2012 and increased by 50.3% to RMB152.9 million in 2013.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 15, 2013. Fresh Water Group is and will remain our holding company prior to our Company becoming our holding company and listing vehicle. See “Our History and Reorganization — Pre-IPO Reorganization.” Fresh Water Group was incorporated in the BVI on November 30, 2010 by Mr. Wang. On December 7, 2010, HK Fresh Water became a wholly-owned subsidiary of Fresh Water Group. HK Fresh Water, which established and operates one of our primary PRC operating subsidiaries, Shanghai Haoze Environmental Technology, was incorporated in Hong Kong on August 31, 2010 by Mr. Wang. HK Fresh Water established Shanghai Haoze Environmental Technology as its wholly-owned subsidiary on November 17, 2010.

Our Group is and will continue to be under the common control of Fresh Water Group Limited before and after the Pre-IPO Reorganization. Accordingly, the financial information of our Group for the Track Record Period as contained in the Accountant’s Report in Appendix I to this prospectus has been prepared on a combined basis by applying the principles of merger accounting as if the Pre-IPO Reorganization had been completed at the beginning of the Track Record Period.

Acquisition of Park Wealth

In June 2012, Fresh Water Group entered into a sale and purchase agreement with Successtime for the acquisition of 100% of Park Wealth for a net cash consideration of HK\$68.5 million. Shanghai Comfort was then a wholly-owned subsidiary of Park Wealth. The acquisition was consummated in September 2012. We began including the financial results of Park Wealth in our financial results subsequent to the completion of such acquisition.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Number of Water Purifying Machines Installed

We generate all of our rental revenue from annual leasing fees paid to us by our third-party principal distributors, which in turn receive payment of annual service fees from end users or sub-leasing fees from sub-distributors for water purification services provided through our water purifying machines. As a result, our rental revenue is affected by the number of water purifying machines installed on end users’ premises. As of the Latest Practicable Date, we had 26 different corporate models and six different household models of water purifying machines.

FINANCIAL INFORMATION

The table below sets forth the number of corporate model and household model water purifying machines installed at end users' premises for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	%	%	%	%	%	%
	(in thousands, except for percentage data)					
Corporate model						
At the beginning of the year	—	—	101	32.7	276	59.6
Newly installed.	101	94.4	112	36.2	95	20.5
Acquisition of Park Wealth	—	—	63	20.4	—	—
Written off	—	—	—	—	*	*
At the end of the year ⁽¹⁾	<u>101</u>	<u>94.4</u>	<u>276</u>	<u>89.3</u>	<u>371</u>	<u>80.1</u>
Household model						
At the beginning of the year	—	—	6	2.0	33	7.1
Newly installed.	6	5.6	27	8.7	59	12.8
Written off	—	—	—	—	*	*
At the end of the year	<u>6</u>	<u>5.6</u>	<u>33</u>	<u>10.7</u>	<u>92</u>	<u>19.9</u>
Total at end of the year	<u>107</u>	<u>100.0</u>	<u>309</u>	<u>100.0</u>	<u>463</u>	<u>100.0</u>

* In 2013, we performed a physical inspection of all of our water purifying machines installed at end users' premises. We wrote off 83 machines that were missing or damaged, 78 and 5 of which were corporate and household models, respectively.

(1) Among which 193, 371 and 509 were hub models as of December 31, 2011, 2012 and 2013.

The number of water purifying machines we installed for end users increased significantly during the Track Record Period, which contributed to our growth in rental revenue of water purification services. We had approximately 107,000, 309,000 and 463,000 water purifying machines installed as of December 31, 2011, 2012 and 2013, respectively. Water purifying machines installed as of December 31, 2012 and 2013 included approximately 63,000 water purifying machines previously owned and operated by Park Wealth, which we acquired as part of the acquisition of Park Wealth in September 2012.

FINANCIAL INFORMATION

Mix of Machine and Fee Type

The annual leasing fee rates we charge principal distributors for each installed water purifying machine remained largely unchanged during the Track Record Period. The annual leasing fee for each installed water purifying machine depends on the type of the machine and whether the service is a new order or a renewal. The annual leasing fee rate we charge on any given model remained largely unchanged during the Track Record Period. The table below sets forth the range of annual leasing fee rates by machine model and service year as of December 31, 2013:

	First year	Subsequent years
	(RMB)	
Corporate model		
Hub model ⁽¹⁾	5,180	2,880
Other corporate models	1,010–2,380	400–1,090
Household model	1,010–1,280	400–580

Note:

(1) This model serves as a central processor with multiple water dispensers connected to it.

The table below sets forth a breakdown of our rental income from water purification business by machine type for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Corporate models						
Hub models	599	1.1	1,288	0.7	1,540	0.5
Other corporate models	50,183	94.2	173,002	88.5	245,003	80.2
Total corporate models	50,782	95.3	174,290	89.2	246,543	80.7
Household models	2,504	4.7	21,179	10.8	58,951	19.3
Total	53,286	100.0	195,469	100.0	305,494	100.0

We charge a higher annual leasing fee for the first year of service. The cost of service associated with each water purifying machine is the depreciation of the machine on a straight-line basis and is the same for each year during the lifetime of the machine. As a result, a water purifying machine generates higher rental revenue in the first year of service and has a higher gross profit margin for the rental income it generates as compared with the subsequent years of service.

FINANCIAL INFORMATION

The table below sets forth a breakdown of our rental income from water purification business by machine service age and percentages to total revenue from water purification services for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
First year of service	53,286	100.0	161,992	82.9	175,395	57.4
Subsequent years of service	—	—	33,477	17.1	130,099	42.6
Total	<u>53,286</u>	<u>100.0</u>	<u>195,469</u>	<u>100.0</u>	<u>305,494</u>	<u>100.0</u>

Expansion of Our Distributor Network

We generate all our rental revenue from annual leasing fees paid to us by our third-party principal distributors, the number of which affects our revenue. We allow certain of our principal distributors to recruit sub-distributors, and annual service fees paid by end users sourced by sub-distributors also indirectly contribute to our rental income. The amount of annual leasing fee a principal distributor agrees to pay us for each installation or renewal of water purification service is typically the same whether the end user is sourced by a principal distributor or a sub-distributor. As of December 31, 2013, we had 439 principal distributors and 1,263 sub-distributors in 125 cities in 30 provinces in China.

The table below sets forth the number of our distributors for the years indicated:

	Year ended December 31,		
	2011	2012	2013
Principal distributors			
Number at the start of the year	—	246	358
Added during the year	249	112	81
Terminated during the year	(3)	—	—
Total number at end of year	<u>246</u>	<u>358</u>	<u>439</u>
Sub-distributors			
Number at the start of the year	—	468	513
Added during the year	468	45	750
Terminated during the year	—	—	—
Total number at end of year	<u>468</u>	<u>513</u>	<u>1,263</u>
Total number of distributors at end of year	<u>714</u>	<u>871</u>	<u>1,702</u>

FINANCIAL INFORMATION

The increase in the number of our principal distributors and sub-distributors is in line with and contributed to the expansion of our business during the Track Record Period. The number of sub-distributors increased significantly in 2013, primarily due to our initiatives to deepen the penetration of our services by allowing selected principal distributors to recruit more sub-distributors. The initiatives were in anticipation of the roll-out of the new generation of our water purifying machines.

Increasing Awareness of Importance of Purified Drinking Water and Its Impact on Health

Diminishing water resource and deteriorating water quality are key factors resulting in unsafe drinking water in China. Moreover, China has diminishing fresh water resources, and its per capita internal renewable freshwater resource was only one third of the world average level. According to China's National Development and Reform Commission, over 600 million people were covered by piped water in 2010. Serious contamination in both surface and ground freshwater is not able to be completely processed in water treatment plants. As a result, processed water, such as piped water, still contains harmful substances. In addition, piped water that is distributed to supply terminals such as faucets is subject to secondary contamination in the pipe network. In China, aging equipment, under-qualified pipe material and weak management have caused serious secondary pollution.

The growth of China's economy and per capita disposable income have led to increasing spending to attain better life quality, especially among the urban population. As a result, the urban population in China will have significant purchasing power and will be an important factor in driving domestic consumption. Such urban population is also willing to spend more on discretionary consumer goods to satisfy personal preferences, improve living conditions, and pursue better health. In particular, such urban population will increasingly search for water purification solutions and drive demands for water purifying machines and services.

CRITICAL ACCOUNTING POLICIES

Our financial statements have been prepared in accordance with IFRS. Our significant accounting policies are set forth in Note 4 to the Accountants' Report, attached as Appendix I to this prospectus. IFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate under the circumstances for the purposes of giving a true and fair view of our results and financial position. Critical accounting policies are those that require management to exercise judgment and make estimates which would yield materially different results if management were to apply different assumptions or make different estimates. We believe that the most complex and sensitive judgments, because of their significance to our financial information, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas may differ from our estimates. We have identified below the accounting policies that we believe are the most critical to our financial information and that involve the most significant estimates and judgments.

FINANCIAL INFORMATION

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

Rental income of water purification services

Rental income arising from operating leases on revenue generating assets, which are our water purifying machines installed at end users' premises, is recognized on a time proportion basis over the lease terms.

Under International Accounting Standard 17 ("IAS 17"), a lease is classified as a finance lease if it transfers substantially all of the risks and rewards incidental to ownership of the leased asset. A lease other than a finance lease is classified as an operating lease. The Group's business arrangements with the principal distributors qualify as operating leases. According to paragraph 50 of IAS 17, lease income from operating leases is recognized in the income statement on a straight-line basis over the lease term, which we believe is in line with the accounting policies adopted by other international leading water purifying machine leasing companies. Lease term is defined in paragraph 4 of IAS 17 as the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. In the case of the Group, all of our leasing arrangements with our principal distributors have lease term of 12 months, and are not automatically renewed upon expiration. There is no guarantee or commitment that the lease contracts would be renewed. As a result, at the inception of a leasing arrangement the expected lease period is 12 months. On this basis, the Group recognizes the leasing income on a straight line basis over the lease term of 12 months.

Contracts for air sanitization services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labor and other costs of personnel directly engaged in providing the services and attributable overhead.

Revenue from the rendering of services is recognized based on percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is determined by surveys of work performed. Where the outcome of a contract cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.

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Estimated useful life of water purifying machines

Our Group engaged an independent certified professional appraiser, Wuxi Rellab Testing Services Co., Ltd., on the estimation of useful life of the water purifying machines for rental services. The estimation report analyzed the expected service lives of critical components as well as machine body and took into account factors such as the expected usage of the machines by a typical end-user, the expected physical wear and tear, and the technical obsolescence arising from changes or improvements in production or from changes in the market demand for the products.

Depreciation of water purifying machines is calculated on a straight-line basis to write off the cost to its residual value over its estimated useful life. The principal estimated useful life of water purifying machines is 10 years and the residual value is 5%. We believe there is currently no indication that the core purification technologies implemented in our water purifying machines will become obsolete in the foreseeable future that would shorten the current expected useful life of our water purifying machines.

According to paragraph 60 of IAS 16, depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The Group's use of the straight-line depreciation method assumes that the wear and tear (i.e., consumption of future economic benefits) of the water purifying machines occurs evenly over the estimated useful life. The rate of straight-line depreciation method corresponds to the rate of the expected wear and tear. We believe the straight-line depreciation over the estimated useful life of water purifying machines is in line with the accounting policies adopted by other international leading water purifying machine leasing companies. As the conclusion, the Group believes the straight line depreciation method reasonably reflects the pattern in which the water purifying machine's future economic benefits are expected to be consumed by the Group.

Estimation uncertainty

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

Impairment of goodwill

Our Group determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires our Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets (other than goodwill)

Our Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair

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value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of these cash flows.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment on trade receivables

The provision policy for impairment of trade receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of those receivables, including the creditworthiness and the past collection history of each customer. If the financial condition of the customers of our Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

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COMBINED STATEMENT OF COMPREHENSIVE INCOME

The table below sets forth our combined statements of comprehensive income for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue						
Water purification services	57,379	56.1	197,793	68.1	313,960	78.0
Air sanitization services	44,913	43.9	92,603	31.9	88,374	22.0
Total	102,292	100.0	290,396	100.0	402,334	100.0
Cost of sales						
Water purification services	(10,467)	(10.2)	(38,601)	(13.3)	(66,746)	(16.6)
Air sanitization services	(33,832)	(33.1)	(64,403)	(22.2)	(62,796)	(15.6)
Total	(44,299)	(43.3)	(103,004)	(35.5)	(129,542)	(32.2)
Gross profit	57,993	56.7	187,392	64.5	272,792	67.8
Other income and gains	5,282	5.2	2,486	0.9	20,792	5.2
Selling and distribution costs	(19,205)	(18.8)	(38,284)	(13.2)	(56,969)	(14.2)
Administrative expenses	(12,798)	(12.5)	(20,966)	(7.2)	(44,646)	(11.1)
Other expenses	(2,368)	(2.3)	(6,595)	(2.3)	(6,542)	(1.6)
Finance costs	(20)	(0.1)	—	—	(1,848)	(0.5)
Profit before tax	28,884	28.2	124,033	42.7	183,579	45.6
Income tax expense	(5,933)	(5.8)	(22,342)	(7.7)	(30,667)	(7.6)
Profit and total comprehensive income for the year	22,951	22.4	101,691	35.0	152,912	38.0

DESCRIPTION OF CERTAIN LINE ITEMS OF THE COMBINED STATEMENT OF COMPREHENSIVE INCOME

Revenue

The table below sets forth a breakdown of our revenue by segments and percentages to total revenue for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Water purification business	57,379	56.1	197,793	68.1	313,960	78.0
Air sanitization business	44,913	43.9	92,603	31.9	88,374	22.0
Total	102,292	100.0	290,396	100.0	402,334	100.0

Revenue from water purification business

During the Track Record Period, the majority and increasing portion of our revenue was generated from our water purification business, which accounted for 56.1%, 68.1% and 78.0% of our total revenue in the years ended December 31, 2011, 2012 and 2013, respectively. The increases in percentages were primarily due to our focus on water purification services as our main business which resulted in its fast growth during the relevant years. We expect revenue

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contribution of our water purification services to continue to increase in the foreseeable future. The table below sets forth a breakdown of our revenue from water purification business for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Rental income	53,286	92.9	195,469	98.8	305,494	97.3
Training fee	3,114	5.4	1,276	0.7	8,380	2.7
Sales of machines	979	1.7	1,048	0.5	86	<0.1
Total	57,379	100.0	197,793	100.0	313,960	100.0

Rental income consists of annual leasing fees paid to us by principal distributors for water purifying machines installed on end users' premises. Rental income increased significantly from RMB53.3 million in the year ended December 31, 2011 to RMB195.5 million in the year ended December 31, 2012, and increased by 56.3% to RMB305.5 million in the year ended December 31, 2013. The increases in our rental income were primarily due to the increase in the cumulative number of water purifying machines installed at end users' premises during the respective years. The annual leasing fee rates we charge to principal distributors remained largely unchanged during the Track Record Period.

The table below sets forth a further breakdown of our rental income from water purification services by machine type and service age for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Corporate Model						
<i>Hub Model</i>						
First year of service	599	1.1	955	0.5	692	0.2
Subsequent years of service	—	—	333	0.2	848	0.3
Total	599	1.1	1,288	0.7	1,540	0.5
<i>Other Corporate Model</i>						
First year of service	50,183	94.2	140,653	71.9	123,259	40.3
Subsequent years of service	—	—	28,689	14.7	98,183	32.2
Shanghai Comfort machines	—	—	3,660	1.9	23,561	7.7
Total	50,183	94.2	173,002	88.5	245,003	80.2
Total Corporate Model	50,782	95.3	174,290	89.2	246,543	80.7
Household Model						
First year of service	2,504	4.7	20,384	10.4	51,444	16.8
Subsequent years of service	—	—	795	0.4	7,507	2.5
Total Household Model	2,504	4.7	21,179	10.8	58,951	19.3
Total Rental Income	53,286	100.0	195,469	100.0	305,494	100.0

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We generally offset the full amount of the annual leasing fee against a principal distributor's prepayment upon installation of water purifying machine or renewal of service, but we recognize rental revenue on a straight line basis over the one-year lease term and the portion of received payment not yet recognized as revenue is booked as deferred revenue. The table below sets forth our contract sales and rental income recognition for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	Corporate model	Household model	Corporate model	Household model	Corporate model	Household model
	(RMB'000)					
Contract sales of the fiscal year	117,462	7,457	207,999	36,075	260,200	82,094
Rental income to be recognized in next fiscal year	(66,680)	(4,953)	(100,389)	(19,849)	(114,046)	(42,992)
Rental income recognized in the fiscal year	50,782	2,504	107,610	16,226	146,154	39,102
Rental income from previous fiscal year	—	—	66,680	4,953	100,389	19,849
Rental income in the fiscal year . .	50,782	2,504	174,290	21,179	246,543	58,951
Total rental income in the fiscal year	53,286	2,504	195,469	21,179	305,494	58,951

Beginning in September 2012, we began to consolidate the rental revenue and other financial results of the approximately 63,000 water purifying machines we acquired from Park Wealth. For more details on the acquisition and its impacts on our financial positions and results of operations, see “— Basis of Presentation — Acquisition of Park Wealth” and note 29 of the Accountants' Report included in Appendix I. Such rental revenue was RMB3.7 million and RMB23.6 million in the year ended December 31, 2012 and 2013, respectively, representing 1.9% and 7.7% of our rental income during the respective periods.

Revenue generated from training fees paid to us by principal distributors on behalf of itself or sub-distributors it recruited upon joining our distribution network accounted for 5.4%, 0.7% and 2.7% of our revenue from water purification business in the years ended December 31, 2011, 2012 and 2013, respectively. Revenue generated from sales of water purifying machines at selected online stores as advertising and promotion initiatives accounted for 1.7%, 0.5% and 0.03% of our revenue from water purification business in the years ended December 31, 2011, 2012 and 2013, respectively.

Revenue generated from air sanitization business

The table below sets forth a breakdown of our revenue and percentages to total revenue from air sanitization business for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Rendering of services	36,679	81.7	81,007	87.4	80,060	90.6
Sales of equipment	8,234	18.3	7,656	8.3	6,224	7.0
Consulting fee	—	—	3,940	4.3	2,090	2.4
Total	44,913	100.0	92,603	100.0	88,374	100.0

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Revenue generated from rendering of services accounted for the majority of our revenue generated from air sanitization business. Due to the relatively long contract cycles of our EPC arrangements for air sanitization services, we recognize revenue of our air sanitization services on the percentage of completion basis.

The table below sets forth the breakdown of our EPC contract sales and revenue recognition for the years indicated:

	Year ended December 31,		
	2011	2012	2013
	(RMB'000)		
Contract sales entered into in the fiscal year	66,908	88,477	92,430
Revenue to be recognized in next fiscal year	(30,229)	(37,699)	(50,069)
Revenue recognized from contract sales entered into in the fiscal year	36,679	50,778	42,361
Revenue recognized from contract entered into sales in previous fiscal year	—	30,229	37,699
Total revenue recognized in the current fiscal year	36,679	81,007	80,060

Revenue from rendering of services increased significantly from RMB36.7 million in the year ended December 31, 2011 to RMB81.0 million in the year ended December 31, 2012, and decreased by 1.2% to RMB80.1 million in the year ended December 31, 2013. The increase in revenue from rendering of services from the year ended December 31, 2011 to the year ended December 31, 2012 was primarily attributable to the increase in the contract sales size of EPC contracts we performed during the respective years. We entered into 16 EPC contracts for a total contract sales of RMB66.9 million in 2011 and 14 EPC contracts for a total contract sales of RMB88.5 million in 2012, respectively. The slight decrease in revenue from rendering of services from the year ended December 31, 2012 to the year ended December 31, 2013 was primarily attributable to the increase in amount of revenue deferred to the next fiscal year due to the completion stage of EPC projects in the year ended December 31, 2013. We also generated revenue from sales of certain air sanitization equipment, which accounted for 18.3%, 8.3% and 7.0% of our revenue generated from air sanitization business in the years ended December 31, 2011, 2012 and 2013, respectively. Consulting fees consisted of fees in relation to training we provided for clients after installation of air sanitization system.

During the Track Record Period, revenue contribution from our air sanitization business decreased from 43.9% in the year ended December 31, 2011 to 31.9% in the year ended December 31, 2012 and decreased further to 22.0% in the year ended December 31, 2013. We expect this trend to continue in the foreseeable future as we focus on, and expect to sustain rapid growth of, our water purification services.

Revenue generated from sales of air sanitization equipment was RMB8.2 million, RMB7.7 million and RMB6.2 million in the years ended December 31, 2011, 2012 and 2013, respectively, and was principally attributable to sales to clients of air sanitization systems assembled by us.

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Cost of Sales

The table below sets forth a breakdown of our cost of sales by segments for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Water purification business	10,467	23.6	38,601	37.5	66,746	51.5
Air sanitization business	33,832	76.4	64,403	62.5	62,796	48.5
Total	44,299	100.0	103,004	100.0	129,542	100.0

Our cost of sales associated with the water purification services consists primarily of (i) depreciation cost on our water purifying machines installed at end users' premises, which was RMB5.7 million, RMB26.4 million and RMB54.4 million in the years ended December 31, 2011, 2012 and 2013, respectively, and correlated to the cumulative number of water purifying machines installed; and (ii) other costs, including cost of sales of water purifying machines, cost of post-installation services and business tax, which was RMB4.8 million, RMB12.2 million and RMB12.3 million in the years ended December 31, 2011, 2012 and 2013. Cost of sales in connection with the water purification services increased significantly from RMB10.5 million in the year ended December 31, 2011 to RMB38.6 million in the year ended December 31, 2012, and further increased by 72.8% to RMB66.7 million in the year ended December 31, 2013. The increases were in line with the increase in the cumulative number of water purifying machines installed during the relevant years.

Our cost of sales associated with rendering of air sanitization services consists mainly of payments we made to our suppliers for components of the air sanitization system under the EPC arrangements. Cost associated with rendering of services increased significantly from RMB26.7 million in the year ended December 31, 2011 to RMB57.4 million in the year ended December 31, 2012, and decreased by 0.9% to RMB56.9 million in the year ended December 31, 2013. The changes in cost associated with rendering of services during the Track Record Period was in line with the changes in revenue generated from rendering of services during the same years.

Gross Profit and Gross Profit Margin

The table below sets forth our gross profit and gross profit margin by business segment for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000		RMB'000		RMB'000	
Water purification business	46,912	81.8%	159,192	80.5%	247,214	78.7%
Air sanitization business	11,081	24.7%	28,200	30.5%	25,578	28.9%
Total	57,993	56.7%	187,392	64.5%	272,792	67.8%

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Our gross profit margin for our water purification business was 81.8%, 80.5% and 78.7% in the years ended December 31, 2011, 2012 and 2013, respectively. A water purifying machine has a higher gross profit margin in the first year of service compared with the subsequent years of service, as we generally charge a lower annual leasing fee on a machine following the first year of service. As a result, our annual gross profit margins from 2011 to 2013 declined as the number of water purifying machines of renewed services accumulated and the percentage to total number of machines installed increased. For more details, see “— Significant Factors Affecting Our Financial Condition and Results of Operations — Mix of machine type and fee type.”

The table below sets forth a breakdown of our gross profit and gross profit margin of air sanitization business for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	Gross profit margin	RMB'000	Gross profit margin	RMB'000	Gross profit margin
Rendering of services	9,981	27.2%	23,648	29.2%	23,131	28.9%
Sales of equipment	1,100	13.4%	612	8.0%	357	5.7%
Consulting fee	—	—	3,940	100.0%	2,090	100.0%
Total	11,081	24.7%	28,200	30.5%	25,578	28.9%

Our gross profit margin for air sanitization business increased from 24.7% in the year ended December 31, 2011 to 30.5% in the year ended December 31, 2012 and decreased to 28.9% in the year ended December 31, 2013. The increase from the year ended December 31, 2011 to the year ended December 31, 2012 was primarily due to the increase in percentage of revenue generated from air sanitization services which had higher gross profit margins than sales of equipment. The slight decrease from the year ended December 31, 2012 to the year ended December 31, 2013 was primarily due to the decrease in the amount and percentage of revenue contribution of consulting fees, which had minimal associated cost and a gross margin close to 100%.

Primarily due to the increase in percentages of revenue contribution from water purification business which had higher gross profit margins compared with air sanitization business, our total gross margin was 56.7%, 64.5% and 67.8% in the years ended December 31, 2011, 2012 and 2013, respectively.

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Selling and Distribution Expenses

The table below sets forth a breakdown of our selling and distribution expenses and their percentages to total revenue for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Salary and welfare	9,673	9.5	18,430	6.3	21,672	5.4
Advertising and marketing expenses	3,064	3.0	7,201	2.5	16,570	4.1
Depreciation and amortization.	227	0.2	3,643	1.3	7,657	1.9
Rental expenses	1,532	1.5	1,951	0.7	2,360	0.6
Traveling expenses.	1,127	1.1	1,939	0.7	1,947	0.5
Communication expenses.	641	0.6	1,806	0.6	1,527	0.4
Office expenses.	692	0.7	1,097	0.4	2,115	0.5
Others.	2,249	2.2	2,217	0.7	3,121	0.8
Total.	19,205	18.8	38,284	13.2	56,969	14.2

Our selling and distribution expenses were RMB19.2 million, RMB38.3 million and RMB57.0 million in the years ended December 31, 2011, 2012 and 2013, respectively, representing 18.8%, 13.2% and 14.2% of the revenue of the same years. The decrease in percentage of the revenue from the year ended December 31, 2011 to the year ended December 31, 2012 was a result of the significant increase in our revenue and an increase in economies of scale as we expanded our water purification operations. The increase in percentage of the revenue from the year ended December 31, 2012 to the year ended December 31, 2013 was primarily due to an increase of RMB9.4 million in advertising and marketing expense, including advertising and marketing expenses incurred in the fourth quarter of 2013 in preparation of the launch of our second generation water purifying machines in April 2014. Selling and distribution expenses during the Track Record Period comprised primarily:

- *salary and welfare*, which consisted primarily of salaries and compensations we paid to our sales staff, including staff that work at our regional sales office and staff that operates our hotlines;
- *advertising and marketing expenses*, which consisted primarily of expenses incurred in connection with the promotion of our water purification services, including online advertisement and promotional events; and
- *depreciation and amortization*, which consisted primarily of depreciation and amortization recognized on our assets used for exhibition and promotion of our water purification services at general retail stores, including water purifying machines and display stations.

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Administrative Expenses

The table below sets forth a breakdown of our administrative expenses and their percentages of total revenue for the years indicated:

	Year ended December 31,					
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Salary and welfare	5,025	4.9	7,916	2.7	11,077	2.8
Professional service	1,495	1.5	2,505	0.9	18,212	4.5
Rental expenses	1,620	1.6	2,617	0.9	2,959	0.7
Depreciation and amortization	315	0.3	1,046	0.3	2,784	0.7
Office supplies	1,240	1.2	2,231	0.8	3,192	0.8
Entertainment fee	621	0.6	1,237	0.4	1,656	0.4
Travelling expenses	907	0.9	1,144	0.4	1,425	0.4
Others	1,575	1.5	2,270	0.8	3,341	0.8
Total	12,798	12.5	20,966	7.2	44,646	11.1

Our administrative expenses were RMB12.8 million, RMB21.0 million and RMB44.6 million in the years ended December 31, 2011, 2012 and 2013, respectively, representing 12.5%, 7.2% and 11.1% of the revenue during the respective years. The decrease in percentage of the revenue from the year ended December 31, 2011 to the year ended December 31, 2012 was a result of the significant increase in our revenue. The increase in percentage of the revenue from the year ended December 31, 2012 to the year ended December 31, 2013 was primarily due to the significant increase in professional service fees incurred in connection with the Global Offering.

Income Tax Expense

Pursuant to relevant laws, rules and regulations in the PRC and with approval from tax authorities, our water purification business enjoys certain preferential treatments, including (i) Shanghai Haoze Water Purification Technology qualifying as a High and New Technology Enterprise entitled to the preferential tax rate of 15% for three years from 2012 to 2014; (ii) Shanghai Comfort qualifying as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2011 to 2013; and (iii) Shaanxi Haoze Environmental Technology being approved by the competent tax authority where it is located to be an enterprise engaging in an encouraged industry established in western China and enjoying the preferential tax rate of 15% in 2012 and 2013.

As a result of the preferential tax treatment we received in relation to our water purification services, our income tax expense was RMB5.9 million, RMB22.3 million and RMB30.7 million in the years ended December 31, 2011, 2012 and 2013, respectively, representing effective tax rates (calculated by dividing income tax expense by profit before tax) of 20.5%, 18.0% and 16.7% for the same years.

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The table below sets forth a breakdown of our income tax expense for the years indicated:

	Year ended December 31,		
	2011	2012	2013
		(RMB'000)	
Current tax	10,132	23,266	32,888
Deferred tax.	(4,199)	(924)	(2,221)
Total.	5,933	22,342	30,667

Net Profit and Net Profit Margin

Our net profit was RMB23.0 million, RMB101.7 million and RMB152.9 million for the years ended December 31, 2011, 2012 and 2013, respectively, representing a net profit margin of 22.4%, 35.0% and 38.0% in the respective periods. The increase in the net profit margin was primarily due to (i) the increase in our gross profit margin; and (ii) the increase in the economies of scale as we expanded and grew our water purification services.

RESULTS OF OPERATIONS

Year ended December 31, 2013 compared with year ended December 31, 2012

Revenue

Our total revenue increased by 38.5% from RMB290.4 million in the year ended December 31, 2012 to RMB402.3 million in the year ended December 31, 2013, primarily attributable to increases in revenue from our water purification services.

Revenue from water purification services increased by 58.7% from RMB197.8 million in the year ended December 31, 2012 to RMB314.0 million in the year ended December 31, 2013, primarily due to the increase in the total number of cumulative water purifying machines installed from approximately 309,000 as of December 31, 2012 to approximately 463,000 as of December 31, 2013.

Revenue generated from air sanitization services decreased by 4.5% from RMB92.6 million in the year ended December 31, 2012 to RMB88.4 million in the year ended December 31, 2013, primarily attributable to the increase in amount of revenue deferred to the next fiscal year due to the completion stage as of December 31, 2013.

Cost of Sales

Our total cost of sales increased by 25.8% from RMB103.0 million in the year ended December 31, 2012 to RMB129.5 million in the year ended December 31, 2013. The increase was primarily attributable to a 73.1% increase in cost of sales associated with water purification services from RMB38.6 million in the year ended December 31, 2012 to RMB66.7 million in the year ended December 31, 2013, which was in line with the increase in the total number of water purifying machines installed from approximately 309,000 as of December 31, 2012 to approximately 463,000 as of December 31, 2013.

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The cost associated with air sanitization business decreased by 2.6% from RMB64.4 million in the year ended December 31, 2012 to RMB62.8 million in the year ended December 31, 2013, which was in line with the decrease in revenue generated from air sanitization services during the respective years.

Gross Profit Margin

Our gross profit margin increased from 64.5% in the year ended December 31, 2012 to 67.8% in the year ended December 31, 2013, primarily attributable to the increase in percentages of revenue contribution from water purification business, which had higher gross profit margin compared with air sanitization business. Gross profit margin of water purification services decreased from 80.5% in the year ended December 31, 2012 to 78.7% in the year ended December 31, 2013, primarily due to an increase in the total number of water purifying machines of renewed services, which had lower gross profit margins than water purifying machines of the first year of service. Gross profit margin of air sanitization business decreased from 30.5% in the year ended December 31, 2012 to 28.9% in the year ended December 31, 2013, primarily due to the decrease in the amount and percentage of revenue contribution of consulting fees, which had minimal associated cost and a gross margin close to 100%.

Other Income and Gains

Our other income and gains increased significantly from RMB2.5 million in the year ended December 31, 2012 to RMB20.8 million in the year ended December 31, 2013, primarily attributable to a significant increase in foreign exchange gain from nil in the year ended December 31, 2012 to RMB14.6 million in the year ended December 31, 2013. The increase in foreign exchange gain was primarily attributable to the change in currency translation from U.S./Hong Kong Dollar to the RMB of the amount due to Fresh Water Group and Standard Chartered Bank as a result of the appreciation of the RMB.

Operating Expenses

Selling and distribution expenses. Our selling and distribution expenses increased by 48.8% from RMB38.3 million in the year ended December 31, 2012 to RMB57.0 million in the year ended December 31, 2013. The increase was primarily attributable to:

- (i) a 17.6% increase in salary and welfare expenses from RMB18.4 million in the year ended December 31, 2012 to RMB21.7 million in the year ended December 31, 2013, which was primarily due to an increase in average salary paid to our employees in the sales and marketing department;
- (ii) a significant increase in advertising and marketing expenses from RMB7.2 million in the year ended December 31, 2012 to RMB16.6 million in the year ended December 31, 2013, including expenses incurred in preparation of the launch of our second generation water purifying machines in April 2014; and

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- (iii) a significant increase in depreciation and amortization from RMB3.6 million in the year ended December 31, 2012 to RMB7.7 million in the year ended December 31, 2013, primarily due to the increase in the numbers of our exhibition machines and fixtures at, third-party outlets in connection with promotion activities.

As a result of the above, our selling and distribution expenses as percentages of the revenue increased from 13.2% in the year ended December 31, 2012 to 14.2% in the year ended December 31, 2013.

Administrative expenses. Our administrative expenses increased significantly from RMB21.0 million in the year ended December 31, 2012 to RMB44.6 million in the year ended December 31, 2013. The increase was primarily attributable to:

- (i) a 39.9% increase in salary and welfare expenses from RMB7.9 million in the year ended December 31, 2012 to RMB11.1 million in the year ended December 31, 2013, which was primarily due to the increase in the number of our administrative staff as a result of the expansion of our operations; and
- (ii) a significant increase in professional service expenses from RMB2.5 million in the year ended December 31, 2012 to RMB18.2 million in the year ended December 31, 2013, which was incurred for services provided by various professional parties in connection with the Global Offering.

As a result of the above, our administrative expenses as percentages of the revenue increased from 7.2% in the year ended December 31, 2012 to 11.1% in the year ended December 31, 2013.

Other expenses. Our other expenses decreased by 1.5% from RMB6.6 million in the year ended December 31, 2012 to RMB6.5 million in the year ended December 31, 2013.

Net Profit and Net Profit Margin

As a result of the foregoing, our net profit increased by 50.4% from RMB101.7 million in the year ended December 31, 2012 to RMB152.9 million in the year ended December 31, 2013. Our net profit margin increased from 35.0% in the year ended December 31, 2012 to 38.0% in the year ended December 31, 2013. The increase in the net profit margin was primarily due to (i) the increase in our gross profit margin; and (ii) the increase of economies of scale as we rapidly expand and grow our water purification business.

Year ended December 31, 2012 compared with year ended December 31, 2011

Revenue

Our total revenue increased by 183.9% from RMB102.3 million in the year ended December 31, 2011 to RMB290.4 million in the year ended December 31, 2012, attributable to increases in revenue from both our water purification and air sanitization businesses.

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Revenue from the water purification business increased significantly from RMB57.4 million in the year ended December 31, 2011 to RMB197.8 million in the year ended December 31, 2012, primarily due to the increase in the number of water purifying machines installed from approximately 107,000 as of December 31, 2011 to approximately 309,000 as of December 31, 2012, which resulted in a 95.4% increase in contract sales from RMB124.9 million in 2011 to RMB244.1 million in 2012. The significant increase in the number of water purifying machines installed and contract sales is primarily due to (i) the fact that Fresh Water Group commenced business on January 1, 2011 under our current management and we quickly ramped up our business in 2012 after the first year of operations, and (ii) a substantial majority of the water purifying machines we installed in 2011 were renewed in 2012. In addition to the increase in number of water purifying machines, the apparent increase in revenue was also attributable to the deferral of RMB71.6 million rental revenue from 2011 to 2012. The contract sales corresponding to such deferred revenue was generated from the leases of water purifying machines entered into in the year ended December 31, 2011 but the amount was recognized as revenue in the year ended December 31, 2012 as we recognized revenue on a time proportion basis.

Revenue generated from the air sanitization business also increased significantly from RMB44.9 million in the year ended December 31, 2011 to RMB92.6 million in the year ended December 31, 2012, primarily due to the increase in the number of air sanitization service contracts completed from seven in the year ended December 31, 2011 to 15 in the year ended December 31, 2012, a portion of which were entered into in the year ended December 31, 2011 and completed in the year ended December 31, 2012 and resulted in deferred revenue of RMB30.2 million from 2011 to 2012.

Cost of Sales

Our total cost of sales increased by 132.5% from RMB44.3 million in the year ended December 31, 2011 to RMB103.0 million in the year ended December 31, 2012. The increase was primarily attributable to:

- (i) a significant increase in cost of sales associated with our water purification business from RMB10.5 million in the year ended December 31, 2011 to RMB38.6 million in the year ended December 31, 2012, which was primarily driven by the increase in the total number of water purifying machines installed from approximately 107,000 as of December 31, 2011 to approximately 309,000 as of December 31, 2012; and
- (ii) a 90.4% increase in cost of sales associated with the air sanitization business from RMB33.8 million in the year ended December 31, 2011 to RMB64.4 million in the year ended December 31, 2012, primarily due to the increase in the number of air sanitization service contracts completed from seven in the year ended December 31, 2011 to 15 in the year ended December 31, 2012, a portion of which were entered into in the year ended December 31, 2011 and completed in the year ended December 31, 2012 and resulted in the deferral of the relevant cost from 2011 to 2012.

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Gross Profit Margin

Our gross profit margin increased from 56.7% in the year ended December 31, 2011 to 64.5% in the year ended December 31, 2012, primarily attributable to (i) the increase of revenue from our water purification business as a percentage of our total revenue; and (ii) to a lesser extent, the increase of gross profit margins from our air sanitization business, which was in turn attributable to the increase in the percentage of revenue generated from air sanitization services with higher gross profit margins as compared to that of sales of equipment. Our gross profit margin for water purification services decreased slightly from 81.8% in the year ended December 31, 2011 to 80.5% in the year ended December 31, 2012.

Other Income and Gains

Our other income and gains decreased by 52.9% from RMB5.3 million in the year ended December 31, 2011 to RMB2.5 million in the year ended December 31, 2012, primarily attributable to the decrease in foreign exchange gain from RMB4.1 million in the year ended December 31, 2011 to nil in the year ended December 31, 2012. The decrease in foreign exchange gain was attributable to the change in currency translation of amount due to Fresh Water Group from U.S. Dollar to the RMB as a result of the appreciation of the RMB against the U.S. Dollar. The decrease was partially offset by an increase in government grants from nil in the year ended December 31, 2011 to RMB2.0 million in the year ended December 31, 2012, which related to a tax refund extended to Shaanxi Haoze Environmental Technology by the local government in Shaanxi in 2012 as an incentive for us to establish our production facilities.

Operating Expenses

Selling and distribution expenses. Our selling and distribution expenses increased by 99.3% from RMB19.2 million in the year ended December 31, 2011 to RMB38.3 million in the year ended December 31, 2012. The increase was primarily attributable to:

- a 90.5% increase in salary and welfare expenses from RMB9.7 million in the year ended December 31, 2011 to RMB18.4 million in the year ended December 31, 2012, which was primarily due to increase in both the average salary we paid and the number of our employees in the sales and marketing department;
- a significant increase in advertising and marketing expenses from RMB3.1 million in the year ended December 31, 2011 to RMB7.2 million in the year ended December 31, 2012 as we enhance our sales and marketing undertakings in 2012 including online advertisement and promotional events; and
- a significant increase in depreciation and amortization from RMB0.23 million in the year ended December 31, 2011 to RMB3.6 million in the year ended December 31, 2012, primarily due to the significant increase in our exhibition and promotion activities at general retail stores.

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Our selling and distribution expenses as percentages of the revenue decreased from 18.8% in the year ended December 31, 2011 to 13.2% in the year ended December 31, 2012, as a result of the significant increase in our revenue and economies of scale as we expanded our water purification operations.

Administrative expenses. Our administrative expenses increased by 63.8% from RMB12.8 million in the year ended December 31, 2011 to RMB21.0 million in the year ended December 31, 2012. The increase was primarily attributable to:

- a 57.5% increase in salary and welfare expenses from RMB5.0 million in the year ended December 31, 2011 to RMB7.9 million in the year ended December 31, 2012, which was in line with the expansion of our business and the increase in the number of our administrative staff; and
- an 67.6% increase in professional service expenses from RMB1.5 million in the year ended December 31, 2011 to RMB2.5 million in the year ended December 31, 2012, an 61.5% increase in rental expenses from RMB1.6 million in the year ended December 31, 2011 to RMB2.6 million in the year ended December 31, 2012, an 79.9% increase in office supplies from RMB1.2 million in the year ended December 31, 2011 to RMB2.2 million in the year ended December 31, 2012, all of which were in line with the expansion of our business.

Our administrative expenses as percentages of revenue decreased from 12.5% in the year ended December 31, 2011 to 7.2% in the year ended December 31, 2012, as a result of the significant increase in our revenue and improvements in our operational efficiency through staff training and cost management.

Other expenses. Our other expenses increased significantly from RMB2.4 million in the year ended December 31, 2011 to RMB6.6 million in the year ended December 31, 2012, primarily attributable to: (i) the increase in foreign exchange loss from nil in the year ended December 31, 2011 to RMB2.2 million in the year ended December 31, 2012 due to the exchange of proceeds of Pre-IPO Investment from U.S. Dollar to the RMB; (ii) the increase in research and development cost from RMB2.3 million in the year ended December 31, 2011 to RMB4.2 million in the year ended December 31, 2012, as we intensified our research and development efforts in 2012.

Net Profit and Net Profit Margin

As a result of the foregoing, our net profit increased significantly from RMB23.0 million in the year ended December 31, 2011 to RMB101.7 million in the year ended December 31, 2012. Our net profit margin increased from 22.4% in the year ended December 31, 2011 to 35.0% in the year ended December 31, 2012, primarily due to (i) the increase in our gross profit margin; and (ii) the increase in economies of scale as we rapidly expanded our water purification services.

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COMBINED STATEMENTS OF FINANCIAL POSITION

The table below sets forth our combined statements of financial position as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Non-current assets			
Revenue generating assets	148,051	384,127	585,345
Property, plant and equipment	23,897	87,121	231,962
Intangible assets	774	44,417	68,890
Goodwill	545	26,037	26,037
Prepayment for acquiring property, plant and equipment	5,476	19,215	32,007
Deferred tax assets	4,343	5,460	7,141
Total non-current assets	183,086	566,377	951,382
Current assets			
Inventories	29,538	38,800	36,891
Trade receivables	10,662	37,639	50,629
Prepayments, deposits and other receivables	66,658	50,504	49,443
Pledged deposits	—	—	67,019
Cash and cash equivalents	170,241	169,198	154,341
Total current assets	277,099	296,141	358,323
Current liabilities			
Interest-bearing bank loans and other borrowings	—	—	212,717
Trade payables	43,197	37,040	57,813
Other payables, advances from customers and accruals	49,756	88,586	130,396
Due to a shareholder	—	17,026	—
Due to a related party	287,757	422,820	407,955
Deferred revenue	46,405	75,083	96,532
Income tax payable	10,151	34,209	64,166
Total current liabilities	437,266	674,764	969,579
Net current liabilities	(160,167)	(378,623)	(611,256)
Non-current liabilities			
Deferred tax liabilities	—	7,124	6,584
Total non-current liabilities	—	7,124	6,584
Net assets	22,919	180,630	333,542
Equity			
Share capital	—	—	—
Reserves	22,919	180,630	333,542
Total Equity	22,919	180,630	333,542

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DESCRIPTION OF CERTAIN LINE ITEMS IN THE COMBINED STATEMENT OF FINANCIAL POSITION

Revenue Generating Assets

Revenue generating assets are capitalized cost associated with the manufacturing and installation of water purifying machines that are installed at end users' premises. Such cost included cost of components, labor and other resources incurred in the manufacturing and installation process.

Revenue generating assets amounted to RMB148.1 million, RMB384.1 million and RMB585.3 million as of December 31, 2011, 2012 and 2013, respectively, reflecting the increase in the number of water purifying machines installed at end users' premises, which was approximately 107,000, 309,000 and 463,000 as of the same dates, respectively. Revenue generating assets as of December 31, 2012 and 2013 included approximately 63,000 water purifying machines we acquired in connection with the acquisition of Park Wealth in September 2012 in the aggregate amount of RMB56.6 million at the time of acquisition.

Property, Plant and Equipment

Our property, plant and equipment were RMB23.9 million, RMB87.1 million and RMB232.0 million as of December 31, 2011, 2012 and 2013, respectively, which included primarily of (i) furniture and fixtures, (ii) plant and machinery which consisted primarily of our production facilities and production lines and (iii) leasehold improvement, which consisted primarily of decoration and renovation of leased office spaces.

The increase from RMB23.9 million as of December 31, 2011 to RMB87.1 million as of December 31, 2012 was primarily due to a RMB26.6 million increase in plant and machinery in connection with the construction of our production facilities in Shangyu City and a RMB2.6 million increase in connection with the acquisition of Park Wealth. The increase from RMB87.1 million as of December 31, 2012 to RMB232.0 million as of December 31, 2013 was primarily due to a RMB91.7 million increase in construction in progress in connection with the construction of our new production facilities in Shaanxi Province.

Intangible Assets

Our intangible assets were RMB0.8 million, RMB44.4 million and RMB68.9 million as of December 31, 2011, 2012 and 2013, respectively.

The significant increase from December 31, 2011 to December 31, 2012 was primarily due to the acquisition of Park Wealth in September 2012. Intangible assets we acquired from Park Wealth consisted of intellectual properties including patents and trademarks in the aggregate amount of RMB44.0 million. Our intangible assets increased by 55.2% from RMB44.4 million as of December 31, 2012 to RMB68.9 million as of December 31, 2013, primarily due to the RMB32.2 million purchase of software developed for our second generation water purifying machines.

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Goodwill

Our goodwill was RMB0.5 million, RMB26.0 million and RMB26.0 million as of December 31, 2011, 2012 and 2013, respectively.

The increase of goodwill from RMB0.5 million as of December 31, 2011 to RMB26.0 million as of December 31, 2012 was due to the goodwill we recognized upon the acquisition of Park Wealth in September 2012. Goodwill remained unchanged as of December 31, 2013 as compared with December 31, 2012.

Inventories

The table below sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Raw materials	13,198	11,869	12,172
Work in progress	2,801	4,289	5,193
Finished goods	13,539	22,642	19,526
Total	29,538	38,800	36,891

Our inventories during the Track Record Period were predominantly related to water purification services, which accounted for 98.1%, 96.0% and 95.7% of the total inventory outstanding as of December 31, 2011, 2012 and 2013, respectively. Raw materials in relation to water purification services were components we procured from suppliers. Work in progress in relation to water purification services was water purifying machines in the process of being assembled. Finished goods in relation to water purification services were assembled water purifying machines not yet installed at end users' premises. For more details on our inventory management of water purifying machines, see "Business — Production and Operation — Logistics and inventory management." Inventories increased by 31.4% from RMB29.5 million as of December 31, 2011 to RMB38.8 million as of December 31, 2012. The increase was primarily due to a 67.2% increase in finished good from RMB13.5 million as of December 31, 2011 to RMB22.6 million as of December 31, 2012, primarily attributable to the increase in the production of water purifying machines to maintain sufficient water purifying machines for installation in anticipation to the increased demand for our services. Inventories decreased by 4.9% from RMB38.8 million as of December 31, 2012 to RMB36.9 million as of December 31, 2013, primarily due to a 13.8% decrease in finished goods from RMB22.6 million as of December 31, 2012 to RMB19.5 million as of December 31, 2013 as a result of our inventory management in anticipation of the roll-out of our second generation machines. Commercial production of our second generation water purifying machines started in April 2014.

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Our average inventory turnover days¹ were 36 days, 60 days and 54 days for the years ended December 31, 2011, 2012 and 2013, respectively. The average inventory turnover days during the Track Record Period was primarily affected by change in finished goods.

Trade Receivables

Our trade receivables include primarily of (i) receivables from clients for air sanitization services and (ii) annual leasing fee receivable from selected principal distributors to whom we granted credit periods.

The table below sets forth a breakdown of our trade receivables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Trade receivables			
for water purification business	1,146	875	273
for air sanitization business	9,516	36,764	50,256
Bill receivables.	—	—	100
Total.	<u>10,662</u>	<u>37,639</u>	<u>50,629</u>

Trade receivables related to air sanitization business primarily resulted from the timing difference between revenue recognition and payment. We recognize revenue of our air sanitization services on the percentage of completion basis, but we typically do not send bills to clients immediately upon recognition of revenue. We typically bill clients at certain intervals or after the outstanding amount accumulates to a certain amount. We typically request clients to make payments based on the below schedule:

- 10% of the contract price as prepayment upon signing of definitive agreement;
- 10%–15% of the contract price upon delivery of key materials to our client's site;
- 10–30% of the contract price when the construction progress reaches 50%;
- 10–30% of the contract price upon completion of the construction;
- 20–55% of the contract price upon inspection; and
- 5% after one-year warranty period.

¹ The average inventory turnover days of a period was calculated by dividing the number of days in the period by the inventory turnover ratio. The inventory turnover ratio was calculated by dividing changes in original cost of revenue generated assets of the period by the average of (i) inventory balance as of the beginning of the period and (ii) inventory balance as of the end of the period.

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Trade receivables for air sanitization business increased significantly from RMB9.5 million as of December 31, 2011 to RMB36.8 million as of December 31, 2012. The increase was in line with the increase in revenue generated from air sanitization services and partially due to the deferral of revenue recognition from the year ended December 31, 2011 to the year ended December 31, 2012. Trade receivables for our air sanitization business increased by 36.7% from RMB36.8 million as of December 31, 2012 to RMB50.3 million as of December 31, 2013, primarily due to the increase in number of EPC contracts with larger scale and contract sales amount which have longer contract cycles. We do not offer credit terms to our air sanitization business clients. To assess the collectability of our trade receivables, our Directors closely monitor the ages of our trade receivables, payment and credit history, subsequent settlement, on-going business relationship and financial condition of the relevant clients. Our sales persons also visit customers whose balances are overdue to understand their financial status.

Trade receivables related to our water purification business resulted from credit periods granted to certain principal distributors for unpaid annual leasing fees already recognized as rental revenue. We generally require a principal distributor to maintain an outstanding balance of prepayment against which payment of annual leasing fees due to us are offset. For a number of selected principal distributors who have established a good credit history with us, we do not require such outstanding prepayment balance and grant such principal distributor a credit period of up to 90 days. Each principal distributor has a maximum credit limit. Our trade receivables related to water purification services were RMB1.1 million, RMB0.9 million and RMB0.3 million as of December 31, 2011, 2012 and 2013, respectively.

The table below sets forth the aging analysis of the trade receivables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Within 90 days	10,393	35,267	39,815
Over 90 days and within 180 days	164	140	3,947
Over 180 days and within 1 year	105	1,503	824
Over 1 year and within 2 years	—	729	5,609
Over 2 years and within 3 years	—	—	434
Total	<u>10,662</u>	<u>37,639</u>	<u>50,629</u>

We seek to maintain strict control over our outstanding receivables and closely monitor them to minimize credit risk. Trade receivables with ages within the 90-day credit period accounted for 97.5%, 93.7% and 78.6% of our total trade receivables as of December 31, 2011, 2012 and 2013, respectively. The significant increase in trade receivables over one year and within two years from December 31, 2012 to December 31, 2013 was primarily attributable to increases in the portion of payment that would become due after the one-year warranty period and in line with the increase in the number of air sanitization projects we finished in 2012 and 2013. Our trade receivables are unsecured and non-interest-bearing. Overdue balances are reviewed regularly by our senior management, which performs assessment of recoverability on a case-by-case basis. Provision will be made if there is objective evidence to suggest that there is substantial likelihood that we will not be able to collect the receivables in relation to a particular project.

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The table below sets forth turnover days of our trade receivables as of the dates indicated:

	For the year ended December 31,		
	2011	2012	2013
Turnover days of trade receivables			
for water purification business	7	2	1
for air sanitization business	47	91	180
Total	23	30	40

Our average trade receivable turnover days⁽¹⁾ were 23 days, 30 days and 40 days for the years ended December 31, 2011, 2012 and 2013, respectively. Trade receivables turnover days for air sanitization business increased from 47 days in the year ended December 31, 2011 to 91 days in the year ended December 31, 2012 and further to 180 days in the year ended December 31, 2013. The increases were primarily due to the increase in number of EPC contracts with larger scale and contract sales amount which have longer contract cycles. In particular, the increase in turnover days for air sanitization business was caused by (i) the increase in trade receivables with age between 90 days to 180 days from RMB140,000 as of December 31, 2012 to RMB3.9 million as of December 31, 2013, primarily attributable to a RMB3.8 million receivables from one project for which we subsequently collected RMB1.2 million as of February 28, 2014 and expect to collect in full amount; and (ii) the increase in trade receivables with age between one year to two years from RMB729,000 as of December 31, 2012 to RMB5.6 million as of December 31, 2013, primarily attributable to increases in the payment that would become due after the one-year warranty period and in line with the increase the number of air sanitization projects we finished in 2012 and 2013. Our Directors are in the process of analyzing our trade receivable collection process and results for air sanitization business and plan to intensify our receivable collection efforts in 2014 to reduce receivables amount and collection cycle. Such collection efforts include (i) shorten billing cycles to our clients once relevant works are completed and revenue recognized, (ii) make regular contact, either through phone calls or personal visit, to expedite bill collection and (iii) assign an employee from our financial department to oversee the trade receivables collection process and report to our management on regularly basis. As of February 28, 2014, we collected RMB16.8 million, or 33.4% of trade receivables related to the air sanitization business that were outstanding as of December 31, 2013. In particular, we collected RMB4.2 million, or 70.3% of trade receivables that were outstanding over one year as of December 31, 2013.

Note:

- (1) The average trade receivable turnover days of a period was calculated by dividing the number of days in the period by the trade receivable turnover ratio. The trade receivable turnover ratio was calculated by dividing revenue of the period by the average of (i) trade receivable balance as of the beginning of the period and (ii) trade receivable balance as of the end of the period.

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During the Track Record Period, we generated gross profit of RMB60.0 million and net cash inflow of RMB17.6 million from our air sanitization business. The table below sets forth the cash flow in relation to our air sanitization business in the years indicated:

	Year ended December 31,			Total
	2011	2012	2013	
	RMB'000			
Segment results ⁽¹⁾	10,834	26,712	22,472	60,018
At the end of the year				
Trade receivables	9,516	36,764	50,256	—
Inventories	575	1,546	1,576	—
Trade payables	<u>(2,223)</u>	<u>(6,493)</u>	<u>(9,371)</u>	<u>—</u>
Net balance	<u>7,868</u>	<u>31,817</u>	<u>42,461</u>	<u>—</u>
Change in working capital	<u>(7,868)</u>	<u>(23,949)</u>	<u>(10,644)</u>	<u>(42,461)</u>
Net cash inflow from air sanitization business	<u>2,966</u>	<u>2,763</u>	<u>11,828</u>	<u>17,557</u>

Note:

- (1) The segment results do not include any corporate and other unallocated expenses, exchange difference, finance costs and income tax expense.

We expect to recover the outstanding trade receivables in full and as such, we do not expect the outstanding trade receivables to have a material adverse impact on our cash flow and financial results.

Prepayments, Deposits and Other Receivables

The table below sets forth our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Other receivables	32,388	14,542	5,306
Deposits	1,104	1,165	1,324
Prepayments	<u>38,642</u>	<u>54,012</u>	<u>74,820</u>
	72,134	69,719	81,450
non-current portion	<u>(5,476)</u>	<u>(19,215)</u>	<u>(32,007)</u>
Total	<u>66,658</u>	<u>50,504</u>	<u>49,443</u>

Prepayments

Prepayments included primarily input Value Added Tax (“VAT”) receivables, prepayments made to construction contractors and prepayment made to suppliers of air sanitization business.

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VAT receivables were related to transfer of titles of water purifying machines from Shangyu Haorun Environmental Technology, which is in charge of machine manufacturing, to Shanghai Haoze Environmental Technology and Shaanxi Haoze Environmental Technology, which is in charge of machine leasing. VAT receivables were generated primarily due to the time it takes to finish the certification process with the relevant tax authorities. Such input VAT receivables can be offset against output VAT payables. VAT receivables were RMB20.9 million, RMB16.7 million and RMB20.0 million as of December 31, 2011, 2012 and 2013, respectively.

Prepayments we made to contractors for the construction of equipment and production lines for our production facilities were RMB5.5 million, RMB19.2 million and RMB32.0 million as of December 31, 2011, 2012 and 2013. Such prepayments as of December 31, 2012 and 2013 was primarily made for our production facilities in Shangyu City and Shaanxi Province, respectively.

Prepayments we made to suppliers of components of air sanitization business were RMB7.3 million, RMB10.2 million and RMB15.3 million as of December 31, 2011, 2012 and 2013, respectively. The increase in prepayments for purchases was in line with the expansion of our operational scale and number of EPC contracts performed in air sanitization business.

Other receivables

Other receivables as of December 31, 2012 included an interest-bearing personal loan HK Fresh Water granted to an independent third party in the principal amount of HKD12.0 million pursuant to a loan agreement entered into on January 1, 2012 in an effort to foster potential business relationship. The loan was repaid in full in November 2013. We were advised by our PRC Legal Adviser that, as HK Fresh Water is an entity incorporated in Hong Kong and the fund transfer took place in Hong Kong, the transaction was not governed by the PRC General Lending Provision (貸款通則). We have recently implemented internal policies that prevent us from making any loans to third parties. In particular, our finance department is not authorized to make any cash payments to any third parties without approval from management or the Directors. Also, our management and Directors are now expressly prohibited from approving loans to third parties.

Non-current receivables

The non-current portion of receivables was related to prepayment for acquiring property, plant and equipment. The non-current portion of receivables as of December 31, 2013 consisted primarily of prepayment for purchasing equipment for the production facilities in Shaanxi Province.

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Trade Payables

Our trade payables consisted primarily of payables to suppliers of components of water purification machines. The table below sets forth our trade payables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Trade payables			
from water purification business	40,974	30,547	39,715
from air sanitization business	2,223	6,493	9,371
Bill payables	—	—	8,727
Total	43,197	37,040	57,813

Trade payables from water purification business were RMB41.0 million, RMB30.5 million and RMB39.7 million as of December 31, 2011, 2012 and 2013, respectively. The increase as of December 31, 2013 from December 31, 2012 was primarily due to suppliers offering us longer credit periods as a result of our enhanced bargaining power due to the increase of our business scale. Trade payables from air sanitization business was RMB2.2 million, RMB6.5 million and RMB9.4 million as of December 31, 2011, 2012 and 2013, respectively. The increases were generally driven by the increase in revenue generated from air sanitization business during the respective periods.

The table below set forth the aging analysis of the trade payables as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Within 90 days	39,302	34,989	43,722
Over 90 days and within 180 days	3,220	951	5,617
Over 180 days and within 1 year	675	759	7,062
Over 1 year and within 2 years	—	341	1,102
Over 2 years and within 3 years	—	—	310
Total	43,197	37,040	57,813

Trade payables with ages within 90 days accounted for 91.0%, 94.5% and 75.6% of our total trade payables as of December 31, 2011, 2012 and 2013, respectively.

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Other Payables, Advances from Customers and Accruals

The table below sets forth a breakdown of our other payables, advances from customers and accruals as of the dates indicated:

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Other payables	42,420	75,598	90,399
Advances from customers	4,557	9,780	15,510
Accruals	<u>2,779</u>	<u>3,208</u>	<u>24,487</u>
Total	<u>49,756</u>	<u>88,586</u>	<u>130,396</u>

Other payables

Other payables included primarily output VAT payables, guarantee deposits from distributors and salary and employee benefit payables.

Output VAT payables consisted primarily of output VAT payables related to (i) transfer of titles of water purifying machines to our operational subsidiaries and (ii) annual leasing fees paid to us by principal distributors. Output VAT payables were generated primarily due to the time it takes to finish the certification process with the relevant tax authorities. Output VAT payables related to transfer of titles of water purifying machines to our operational subsidiaries were RMB21.4 million, RMB18.9 million and RMB20.0 million as of December 31, 2011, 2012 and 2013, respectively and can be offset with input VAT receivables. Output VAT payables related to annual leasing fees were nil, RMB3.9 million and RMB18.3 million as of December 31, 2011, 2012 and 2013, respectively, which was in line with the increase in the number of water purifying machines we installed.

Guarantee deposit made to us by distributors was RMB7.2 million, RMB10.3 million and RMB14.3 million as of December 31, 2011, 2012 and 2013, respectively, which was largely driven by the increase in the number of our principal distributors.

Salary and employee benefit payables consisted of (i) salary payables and (ii) employee benefit payables which reflected the difference between the minimum wage level as required by relevant local social insurance bureau and the amount required by PRC laws and regulations. Salary and employee benefit payables were RMB5.2 million, RMB9.2 million and RMB13.9 million as of December 31, 2011, 2012 and 2013.

Advances from Customers

Advances from customers are prepayments made to us by principal distributors pursuant to the distribution agreement. Our advances from customers were RMB4.6 million, RMB9.8 million and RMB15.5 million as of December 31, 2011, 2012 and 2013, and such increases were primarily driven by the increase in the number of our principal distributors.

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Deferred Revenue

Our deferred revenue represents the portion of payments of annual leasing fees received from principal distributors that are not yet recognized as rental revenue as of the corresponding date. All of the deferred revenue is expected to be recognized as revenue within one year. Our deferred revenue as of December 31, 2011, 2012 and 2013 was RMB46.4 million, RMB75.1 million and RMB96.5 million, respectively. The increase was in line with the increase in the number of water purifying machines installed that generate annual leasing fees paid to us.

Income tax payable

Our income tax payable was RMB10.2 million, RMB34.2 million and RMB64.2 million as of December 31, 2011, 2012 and 2013, respectively. Income tax payable was primarily attributable to the timing difference in revenue recognition for accounting and tax reporting purposes. We recognize revenue of water purification services on a monthly basis over the one-year lease term for accounting purposes, whereas revenue reported to local tax bureau is revenue for which invoices were already issued to principal distributors. We typically issue invoices to principal distributors at the end of lease terms, which we believe is consistent with market practice for the leasing business. This resulted in the difference between the amounts of profit before tax and tax payable in accordance with IFRS and for tax reporting purposes. We are advised by our PRC legal adviser we did not have any non-compliance with regard to our tax obligations during the Track Record Period.

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Net Current Liabilities

The table below sets forth our current financial position as of the dates indicated:

	As of December 31,			As of
	2011	2012	2013	April 30,
	(RMB'000)			2014
Current assets				
Inventories	29,538	38,800	36,891	64,262
Trade receivables	10,662	37,639	50,629	36,628
Prepayments, deposits and other receivables	66,658	50,504	49,443	42,208
Pledged deposits	—	—	67,019	69,124
Cash and cash equivalents . .	170,241	169,198	154,341	87,578
Total current assets	277,099	296,141	358,323	299,800
Current liabilities				
Interest-bearing bank loans and other borrowings	—	—	212,717	214,930
Trade payables	43,197	37,040	57,813	74,399
Other payables, advances from customers and accruals	49,756	88,586	130,396	147,002
Due to a shareholder	—	17,026	—	—
Due to a related party	287,757	422,820	407,955	407,979
Deferred revenue	46,405	75,083	96,532	98,332
Income tax payable	10,151	34,209	64,166	76,044
Total current liabilities	437,266	674,764	969,579	1,018,686
Net current liabilities	(160,167)	(378,623)	(611,256)	(718,886)

We recorded net current liabilities of RMB160.2 million, RMB378.6 million, RMB611.3 million and RMB718.9 million as of December 31, 2011, 2012 and 2013 and April 30, 2014, respectively, primarily due to the amount due to Fresh Water Group of RMB287.8 million, RMB422.8 million, RMB408.0 million and RMB408.0 million as of the same dates. Amount due to Fresh Water Group were proceeds from Pre-IPO Investments that was granted to us as related party loans. Such shareholder's loan was partially repaid by HK Fresh Water, with the remaining balance to be capitalized by having HK Fresh Water issue one share of HK\$1.00 to Ozner Water Group immediately following the Global Offering becoming unconditional as part of the Pre-IPO Reorganization and would not result in cash outflow. Excluding the impact of such amount due to Fresh Water Group and deferred revenue, we would have recorded net current assets of RMB174.0 million and RMB119.3 million as of December 31, 2011 and 2012, respectively.

Net current liabilities as of December 31, 2013 and April 30, 2014 was also attributable to outstanding Standard Chartered Loan in the amount of RMB212.7 million and RMB214.9 million, respectively. Excluding the impact of the amount due to Fresh Water Group and deferred revenue, we would have net current liabilities of RMB106.8 million and RMB212.6 million as of December 31, 2013 and April 30, 2014, respectively. We plan to repay 50% of outstanding Standard Chartered Loan amount with the net proceeds we will receive from the Global Offering. Assuming (i) the capitalization of the loans due to Fresh Water Group in the amount of RMB408.0 million, (ii) partial repayment of RMB106.4 million of the Standard

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Chartered Loan, and (iii) receipt of RMB773.0 million net proceeds from the Global Offering, assuming an offering price of HK\$2.475, being the mid-point of the estimated Offer Price range, we would have had a net current assets of RMB569.7 million and a gearing ratio of 7.0% as of December 31, 2013.

Our current assets decreased from RMB358.3 million as of December 31, 2013 to RMB299.8 million as of April 30, 2014, primarily due to a decrease of cash and cash equivalents from RMB154.3 million as of December 31, 2013 to RMB87.6 million as of April 30, 2014 as a result of cash expended on the manufacturing of our second generation water purifying machines and construction of our new manufacturing facilities in Shaanxi. Decrease in current assets was partially offset by an increase of inventories from RMB36.9 million as of December 31, 2013 to RMB64.3 million as of April 30, 2014 as we built up our inventory of second generation water purifying machines in connection of the commencement of its offering to end users in April 2014.

As we are in the early development and fast growing phase of our business, we made significant investment in our non-current assets as we expand our operational scale. The non-current assets we invested in include primarily water purifying machines as our revenue generating assets and the new production facilities in Shaanxi Province as part of our property, plant and equipment. Due to our lease and service model, our revenue generating assets generate recurring revenue for us in the form of annual leasing fee during their useful life. During the Track Record Period, our aggregate capital expenditure was RMB907.2 million. Conversely, we generated cash from operating activities in the aggregate amount of RMB525.1 million. Our Directors believe we will be able to satisfy our liquidity requirement in the next 12 months. For more details, see “— Capital Expenditure.”

Related Party Transactions

	As of December 31,		
	2011	2012	2013
		(RMB'000)	
Due to Fresh Water Group Limited	287,757	422,820	407,955
Due to Mr. Xiao Shu.	—	17,026	—

During the Track Record Period, Mr. Xiao Shu extended certain interest-free loans to us. The outstanding amount of the loans was nil, RMB17.0 million and nil as of December 31, 2011, 2012 and 2013, respectively. We do not expect to borrow similar loan from Mr. Xiao going forward.

Due to Fresh Water Group Limited during the Track Record Period was proceeds from pre-IPO investment to Fresh Water Group Limited. The pre-IPO investment proceeds was consideration paid in exchange of preferred shares in Fresh Water Group. Fresh Water Group then transferred the proceeds to HK Fresh Water, its direct wholly-owned subsidiary, as interest-free and unsecured loans. Such loans were partially repaid by HK Fresh Water, with the remaining balance to be capitalized by having HK Fresh Water issue one share of HK\$1.00 to Ozner Water Group immediately following the Global Offering becoming unconditional as part of the Pre-IPO Reorganization. For more details, see “Our History and Reorganization — Pre-IPO Investments” and “— Pre-IPO Reorganization.”

Our Directors believe that the related party transactions described above were carried out on an arm’s length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of capital are to satisfy our working capital and capital expenditure, including funding the production of our water purification machines and the construction, expansion and upgrade of our production facilities. During the Track Record Period, we finance our working capital and capital expenditure primarily from (i) cash generated from operating activities, (ii) bank borrowings and (iii) equity financing from our pre-IPO investments. As of December 31, 2013, we do not have any distributable reserve.

The table below sets forth a summary of our cash flow for the indicated periods:

	Year ended December 31,		
	2011	2012	2013
	(RMB'000)		
Net cash generated from operating activities	68,450	150,214	306,435
Net cash used in investing activities	(189,752)	(283,551)	(514,437)
Net cash generated from financing activities	280,175	132,297	193,341
Net increase/(decrease) in cash and cash equivalents	158,873	(1,040)	(14,661)
Cash and cash equivalents at end of period.	170,241	169,198	154,341

Net Cash Flows from Operating Activities

In the year ended December 31, 2013, our net cash generated from operating activities was RMB306.4 million, which was primarily attributable to: (i) the profit before tax of RMB183.6 million, adjusted by reconciliation of non-cash items of RMB56.0 million, which mainly included adding back depreciation recognized on the water purifying machines and property, plant and equipment in the amount of RMB54.4 million and RMB12.4 million, respectively, and deducting unrealised exchange gain of RMB14.4 million; (ii) an increase in trade payables of RMB20.8 million primarily as suppliers offered longer credit period to us as a result of our enhanced bargaining power due to the increase of our business scale; (iii) an increase in other payables, advances from customers and accruals of RMB37.9 million, primarily due to the increase in output VAT payables and was in line with the increase in the number of water purifying machines we installed; and (iv) an increase in deferred revenue of RMB21.4 million, which was in line with the increase of our contract sales of water purification services. The net cash generated was partially offset by an increase in trade receivables of RMB13.4 million in our air sanitization services.

In the year ended December 31, 2012, our net cash generated from operating activities was RMB150.2 million, which was primarily attributable to: (i) the profit before tax of RMB124.0 million, adjusted by adding back depreciation recognized on the water purifying machines and property, plant and equipment in the amount of RMB26.4 million and RMB6.4 million, respectively; (ii) an increase in other payables, advances from customers and accrual of RMB20.4 million, primarily due to the increase in output VAT payables and in line with the increase in the number of water purifying machines we installed; and (iii) an increase in deferred revenue of RMB28.7 million, which is in line with the increase of our contract sales of water purification services. The net cash generated was partially offset by (i) an increase of RMB27.0 million in trade receivables in line with the increase of our revenue in air sanitization services;

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and (ii) an increase of RMB12.3 million in prepayments, deposits and other receivables due to the increase in input VAT receivables and prepayment to suppliers which were primarily driven by the increase of our production activities.

In the year ended December 31, 2011, our net cash generated from operating activities was RMB68.5 million, which was primarily attributable to: (i) the profit before tax of RMB28.9 million, adjusted by adding back depreciation recognized on the water purifying machines and property, plant and equipment in the amount of RMB5.7 million and RMB1.4 million, respectively; (ii) an increase in other payables, advances from customers and accruals of RMB48.7 million, primarily due to the increase in output VAT payables and in line with the increase in the number of water purifying machines we installed; (iii) an increase in deferred revenue of RMB46.4 million, which was in line with the increase of the number of water purifying machines; and (iv) an increase of RMB41.1 million in trade payables. The net cash generated was partially offset by (i) an increase of RMB56.6 million in prepayments, deposits and other receivables due to the increase in input VAT receivables and prepayment to suppliers which were primarily driven by the increase of our production activities; (ii) an increase of RMB28.7 million in inventories due to the increase in number of water purifying machines we produced and (iii) an increase of RMB8.6 million in trade receivables primarily driven by the increase of our air sanitization services.

Net Cash Flows Used in Investing Activities

In the year ended December 31, 2013, our net cash used in investing activities was RMB514.4 million, which was primarily attributable to: (i) investment in revenue generating assets of RMB244.8 million which was cash expended in production of our water purifying machines; (ii) purchase of property, plant and equipment of RMB166.2 million which was mainly cash expended in our new production plants in Shaanxi Province; and (iii) an increase in pledged deposits of RMB67.0 million due to the increase in our bank loans.

In the year ended December 31, 2012, our net cash used in investing activities was RMB283.6 million, which was primarily attributable to: (i) investment in revenue generating assets of RMB200.8 million which was cash expended in production of our water purifying machines; and (ii) purchase of property, plant and equipment of RMB74.9 million which was cash expended in the construction of our new production facilities in Shaanxi Province.

In the year ended December 31, 2011, our net cash used in investing activities was RMB189.8 million, which was primarily attributable to: (i) investment in revenue generating assets of RMB153.4 million which was cash expended in production of our water purifying machines; and (ii) purchase of property, plant and equipment of RMB30.5 million which was cash expended in the construction of our new production facilities in Shaanxi Province.

Net Cash Flows from Financing Activities

In the year ended December 31, 2013, our net cash generated from financing activities was RMB193.3 million, which was primarily attributable to the proceeds from borrowings in the amount of RMB214.5 million, partially offset by the repayment of loan to a shareholder in the amount of RMB17.0 million which is the payment we made to Mr. Xiao to settle an interest free loan granted to us.

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In the year ended December 31, 2012, our net cash generated from financing activities was RMB132.3 million, which was primarily attributable to loans from Fresh Water Group in the amount of RMB191.8 million representing proceeds from Pre-IPO Investment from Financial Investors. For more details, see “— Related Party Transaction.”

In the year ended December 31, 2011, our net cash generated from financing activities was RMB280.2 million, which was primarily attributable to loan from Fresh Water Group in the amount of RMB280.2 million representing proceeds from Pre-IPO Investment from Financial Investors. For more details, see “— Related Party Transaction.”

CAPITAL EXPENDITURE

Our capital expenditure consists primarily expenditure on (i) revenue generating assets, which is manufacturing of water purifying machines; (ii) property, plant and equipment, which is primarily construction of our new production facilities in Shangyu City and Shaanxi Province and (iii) intangible assets, which is primarily purchase and upgrade of our information system. Our capital expenditure was RMB180.0 million, RMB276.8 million and RMB450.4 million in the years ended December 31, 2011, 2012 and 2013, respectively. The increases were in line with the expansion of our operations and business scale. The table below sets forth our capital expenditure in the years indicated:

	Year ended December 31,		
	2011	2012	2013
	(RMB'000)		
Revenue generating assets	153,713	205,851	255,671
Property, plant and equipment	25,461	69,887	162,558
Intangible assets	797	1,055	32,213
Total	179,971	276,793	450,442

To date, we have primarily financed our capital expenditure through a combination of internally generated cash flows, pre-IPO investment and bank loans. Going forward, we believe our liquidity requirements for capital expenditure will be satisfied by the above-mentioned sources in addition to proceeds from the Global Offering. We monitor our anticipated cash flow in relation to our estimated capital expenditures. In calculating anticipated cash flow, we take into consideration, among other things, anticipated sales, settlement arrangements with principal distributors and suppliers, production cost and other expense, and financing resources and liabilities. Our expected capital expenditure in 2014 includes capital expenditure on the construction and other expenses in relation to the first phase of our new production facilities in Shaanxi Province, which we expect to be approximately RMB74 million, including (i) RMB38 million for the purchase of land use right of the properties in Shaanxi Province for our new production facilities; (ii) RMB20 million for the construction of the new production facilities in Shaanxi Province; and (iii) RMB16 million for machinery and equipment of the new production facilities. After due consideration, our Directors believe that there will not be any material changes in the composition and trend of our capital expenditure in the next 12 months and our current cash and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures for at least the next 12 months. After due consideration and discussions with the Company's

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management and based on the above and the assumption that there is no material change in the composition and trend of the Group's capital expenditure, the Joint Sponsors have no reason to believe that the Company cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

CAPITAL AND OPERATING LEASE ARRANGEMENTS

Capital commitment

During the Track Record Period, our capital commitments consisted primarily of unpaid amount of executed agreements for the acquisition of land use rights and buildings for our production facilities. We expect to fulfill our capital commitments mainly through cash on hand. The table below sets forth our outstanding capital commitments as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB'000)		
Within one year	3,631	7,540	7,078
In the second to fifth year, inclusive	5,008	7,327	2,191
Property, plant and equipment	738	4,264	64,576

Lease receivables

Lease receivables were RMB25.2 million, RMB45.2 million and RMB60.5 million as of December 31, 2011, 2012 and 2013, respectively, and were resulted from credit periods granted to certain principal distributors for unpaid annual leasing fee payments which are not yet recognized as rental revenue. The increase in lease receivables was largely in line with the increase in our contract sales of water purification services.

INDEBTEDNESS

The table below sets forth our indebtedness as of the indicated dates:

	As of December 31,			As of
	2011	2012	2013	April 30,
	(RMB'000)			2014
				(unaudited)
Current				
Bank loans	—	—	212,717	214,930

The amount of bank loans as of December 31, 2011 and 2012 was nil and nil, respectively. HK Fresh Water, our wholly-owned subsidiary, entered into a loan facility agreement for the Standard Chartered Loan in September 2013. In anticipation of the Global Offering, HK Fresh Water, Fresh Water Group, Park Wealth, Mr. Xiao Shu, Ozner Water Group, the Company and Standard Chartered Bank (Hong Kong) Limited entered into an amendment and restatement agreement in May 2014 to, among other things, amend certain provisions of the loan facility agreement to facilitate the Pre-IPO Reorganization and the Global Offering. Our lease and service business model is capital intensive, especially in the early stages of business

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development. In the second half of 2013, our Directors decided, after due analysis of our business scale and anticipated market demand, to raise additional capital through bank loans to further expand our operations. After analyzing relevant market data, our Directors expect demand for our water purification services to continue to grow in the near future, which is in line with the anticipated growth of the water purifier market growing in China at a CAGR of 31.5% and 21.0% for commercial and residential segments from 2013 to 2017 according to the Frost & Sullivan Report. Our Directors believe we need to continue to increase our annual production capacity in order to meet the anticipated increase in demand. The utilization rate of our current production facility was 90.2% and 91.8% in the year ended December 31, 2012 and 2013, respectively. Our Directors expect to incur approximately RMB200 million for the construction for the first phase of our new production facility, for which we do not expect to use any of the net proceeds of the Global Offerings. Our Directors believe using bank loans in combination with cash on hand to satisfy our capital needs is a prudent measure to ensure liquidity and lower operational risks.

The loan was secured by the shares of HK Fresh Water and Park Wealth, a charge over deposit as well as the land use right to the property where our Shaanxi facilities are located. In addition, the loan was guaranteed by Park Wealth, Ozner Water Group and the Company. The Standard Chartered Loan is also secured by a personal pledge by Mr. Xiao which will be released upon Listing. The loan facility agreement has certain financial covenants, including (i) our consolidated total debt should not exceed 1.5 times of our consolidated EBITDA of a given financial year, which is our profit before tax and before deducting amortization, finance payment of the loan and other exceptional items; (ii) our consolidated EBITDA of a given financial year should be at least 10 times of the relevant interest and other finance payments of the loan and (iii) our certain capital expenditure should not exceed RMB375 million and RMB320 million in 2013 and 2014, respectively. The Standard Chartered Loan was used as working capital and for the construction of the Shaanxi production facility. In addition, pursuant to the loan facility agreement, we should use up to 15% of the net proceeds of the Global Offering to repay 50% of the outstanding amount of the Standard Chartered Loan.

Our Directors confirm that we did not have any default in payment of trade payables, bank borrowings or any breach of financial covenants during the Track Record Period.

As of the date of this prospectus, we do not have any definitive external financing plan.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on the information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated. Since the Latest Practicable Date, there has been no material adverse change in our contingent liabilities.

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KEY FINANCIAL RATIOS

The table below sets forth key financial ratios as of and for the period ended the date indicated:

	As of and for the year ended December 31,		
	2011	2012	2013
Gross profit margin	56.7%	64.5%	67.8%
Net profit margin	22.4%	35.0%	38.0%
Current ratio ⁽¹⁾	1.9	1.2	0.6
Gearing ratio ⁽²⁾	—	9.4%	63.8%
Return on equity ⁽³⁾	7.4%	22.2%	22.7%
Return on assets ⁽⁴⁾	5.0%	15.4%	14.1%

Notes:

- (1) Current ratio is calculated by dividing (i) current assets by (ii) current liabilities less due to Fresh Water Group.
- (2) Gearing ratio is calculated by dividing (i) total debt less due to Fresh Water Group by (ii) total equity, which will be settled before Listing with no cash outflow.
- (3) Return on equity is calculated by dividing (i) net profit by (ii) the average of the beginning and end balance of shareholders' equity and due to Fresh Water Group.
- (4) Return on assets is calculated by dividing net profit by the average of the beginning and end balance of total assets of a given period.

Gross Profit Margin and Net Profit Margin

For more details on our gross profit margin and net profit margin, see “— Description of Certain Line Items of the Combined Statement of Comprehensive Income — Gross profit and gross profit margin” and “— Net profit and net profit margin.”

Current Ratio

Our current ratio was 1.9, 1.2 and 0.6 as of December 31, 2011, 2012 and 2013, respectively. The decreases were primarily due to the increases in (i) other payables, advances from customers and accruals and (ii) deferred revenue, which were both in line with the increase in our operational scale and the cumulative number of water purifying machines installed.

Gearing Ratio

Our gearing ratio was nil, 9.4% and 63.8% as of December 31, 2011, 2012 and 2013, respectively. The amount of bank borrowings as of December 31, 2011 and 2012 was nil and nil, respectively. The gearing ratio as of December 31, 2012 was primarily due to loans granted to us by Mr. Xiao. The significant increase in gearing ratio as of December 31, 2013 was primarily due to the Standard Chartered Loan.

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Return on Equity

Our return on equity was 7.4%, 22.2% and 22.7% in the years ended December 31, 2011, 2012 and 2013, respectively. The increase from the year ended December 31, 2011 to the year ended December 31, 2012 was primarily due to the significant increase in net profit during the respective years, which was in turn partially attributable to the revenue deferred from the year ended December 31, 2011 to the year ended December 31, 2012. The return on equity was relatively stable in the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Return on Assets

Our return on assets was 5.0%, 15.4% and 14.1% in the years ended December 31, 2011, 2012 and 2013, respectively. The increase from the year ended December 31, 2011 to the year ended December 31, 2012 was primarily due to the significant increase in net profit during the respective years, which was in turn partially attributable to the revenue deferred from the year ended December 31, 2011 to the year ended December 31, 2012. The decrease from the year ended December 31, 2012 to the year ended December 31, 2013 was primarily due to the Standard Chartered Loan which was primarily used for the construction of our new production facilities in Shaanxi Province.

MARKET FACTORS

In the ordinary course of our business, we are exposed to various types of market risks. The main risks arising from our financial instruments are foreign currency risk, credit risk and liquidity risk. Our risk management strategy aims to minimize the potential adverse effects of such risks on our financial performance.

Foreign currency risk

We are exposed to foreign currency risk primarily related to the payable due to Fresh Water Group that is denominated in United States dollar ("US\$"), currency other than the functional currency of the operations to which the transactions relate. We have not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. For more details, see note 36 of the Accountant's Report in Appendix I to this prospectus.

Credit risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

All of our cash and cash equivalents are held in major financial institutions located in Mainland China and Hong Kong, which do not have recent history of default.

The carrying amounts of cash and cash equivalents, pledged deposits, trade receivables and financial assets included in prepayments, deposits and other receivables included in the combined statements of financial position represent our maximum exposure to credit risk in relation to its financial assets. We have no other financial assets which carry significant exposure to credit risk.

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Liquidity risk

Our policy is to monitor regularly the current and expected liquidity requirements to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and long term. The maturity profile of our financial liabilities as at the end of the each of the Track Record Periods, based on the contractual undiscounted payments, is as follows:

	<u>On demand</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2011				
Trade payables	—	43,197	—	43,197
Other payables and accruals.	10,985	—	—	10,985
Due to a related party	<u>287,757</u>	<u>—</u>	<u>—</u>	<u>287,757</u>
	<u>298,742</u>	<u>43,197</u>	<u>—</u>	<u>341,939</u>
As of December 31, 2012				
Trade payables	—	37,040	—	37,040
Other payables and accruals.	25,372	—	—	25,372
Due to a shareholder	17,026	—	—	17,026
Due to a related party	<u>422,820</u>	<u>—</u>	<u>—</u>	<u>422,820</u>
	<u>465,218</u>	<u>37,040</u>	<u>—</u>	<u>502,258</u>
As of December 31, 2013				
Interest-bearing bank loans .	—	219,840	—	219,840
Trade and bill payables	—	57,813	—	57,813
Other payables and accruals.	48,783	—	—	48,783
Due to a related party	<u>407,955</u>	<u>—</u>	<u>—</u>	<u>407,955</u>
	<u>456,738</u>	<u>277,653</u>	<u>—</u>	<u>734,391</u>

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

The Directors confirm that as of the Latest Practicable Date, there were no circumstances which would give rise to a disclosure required under Rules 13.13 to 13.19 of the Listing Rules upon the listing of the Shares on the Stock Exchange.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since December 31, 2013, being the date of the latest audited consolidated financial position of the Group as set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business — Our Strategies and Future Plans” for a detailed description of our future plans.

USE OF PROCEEDS

The table below sets for the estimate of the net proceeds of the Global Offering which we will receive after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering:

	<u>Assuming the Over-allotment Option is not exercised</u>	<u>Assuming the Over-allotment Option is exercised in full</u>
Assuming an Offer Price of HK2.475 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK\$971.2 million	Approximately HK\$1,122.4 million
Assuming an Offer Price of HK2.70 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK\$1,062.8 million	Approximately HK\$1,227.7 million
Assuming an Offer Price of HK2.25 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK\$879.6 million	Approximately HK\$1,017.0 million

We intend to use the net proceeds of the Global Offering for the following purposes:

- (i) approximately 54% will be used for the manufacturing of approximately 226,000 water purification machines in total, among which approximately 117,000 and 109,000 are planned to be manufactured in 2014 and 2015, respectively;
- (ii) approximately 20% will be used for the construction and other related expenses for the second phase of our production facility in Shaanxi Province;
- (iii) approximately 11%, and in any case no more than 15%, will be used for the repayment of 50% of the outstanding balance of the Standard Chartered Loan. For more details, please see “Financial Information — Description of Certain Line Items in the Combined Statement of Financial Position — Indebtedness” of this prospectus;
- (iv) approximately 5% will be used for sales and marketing; and
- (v) the remaining amount of approximately not more than 10% will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

The table below sets forth a breakdown of our use of proceeds and capital expenditure plan for 2014 and 2015 in terms of the second phase of our new production facilities in Shaanxi Province:

	For the year ended December 31,		Description	Source of funding
	2014	2015		
	RMB'000	RMB'000		
Property	—	107,700	primarily construction of building	net proceeds of the Global Offering
Machinery	—	40,800	primarily construction of new production line	cash from operations
Furniture and Fixture . .	—	13,500	remodeling and purchase of furniture and fixture	net proceeds of the Global Offering
Motor Vehicles	—	1,100	purchase of transportation vehicles	net proceeds of the Global Offering
Land	40,000	—	acquisition of land use right	net proceeds of the Global Offering
Total	<u>40,000</u>	<u>163,100</u>		

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Global Coordinators

Goldman Sachs (Asia) L.L.C.
Standard Chartered Securities (Hong Kong) Limited

Joint Bookrunners and Joint Lead Managers

Goldman Sachs (Asia) L.L.C.
Standard Chartered Securities (Hong Kong) Limited

UNDERWRITING AGREEMENT AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement dated June 3, 2014 and entered into among us, the Joint Global Coordinators and the Hong Kong Underwriters, we are offering initially 42,200,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares and any Shares which may be issued pursuant to the exercise of options granted or to be granted under the Share Option Scheme; (ii) the International Purchase Agreement having been signed and becoming unconditional; and (iii) certain other conditions set forth in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

Grounds for Termination

- (A) The Joint Global Coordinators, for themselves and on behalf of the Hong Kong Underwriters, shall be entitled by notice (orally or in writing) to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:
- (a) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional or international event or circumstance in the nature of force majeure (including any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism); or

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- (ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or
- (iii) any moratorium, suspension or restriction (including any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities of the Company or generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market or the London Stock Exchange; or
- (iv) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of the Company listed or quoted on a stock exchange or an over-the-counter market; or
- (v) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority), the PRC, the Cayman Islands, the BVI, New York (imposed at Federal or New York State level or other competent Authority), London, or the European Union, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or
- (vi) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws, in each case, in or affecting any relevant jurisdictions as set out in the Hong Kong Underwriting Agreement; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States, United Nations or the European Union on Hong Kong or the PRC; or
- (viii) a change or development involving a prospective change in or affecting Taxation or exchange control, currency exchange rates or foreign investment regulations (including a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any relevant jurisdictions as set out in the Hong Kong Underwriting Agreement; or
- (ix) any litigation or claim of any third party being threatened or instigated against any member of the Group; or

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- (x) any executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) Mr. Xiao vacating his offices; or
- (xii) an authority or a political body or organization in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any executive Director; or
- (xiii) a contravention by any member of the Group of the Listing Rules or applicable laws; or
- (xiv) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xvi) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies (Winding Up And Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC, unless such supplement or amendment has been issued with the prior approval of the Joint Sponsors; or
- (xvii) an order or petition for the winding-up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators, (1) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or is likely to have the effect of making any

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part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Global Coordinators:
- (i) that any statement contained in any of this prospectus, the Application Forms, and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or in any notices or announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement (other than upon any of the Hong Kong Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any material liability of any of the indemnifying parties as set out in the Hong Kong Underwriting Agreement; or
 - (v) any material adverse change, or any development involving a prospective material adverse change, in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance the Group; or
 - (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any material respect, any of the representations, warranties, agreements and undertakings of the Company and the Controlling Shareholders set out in the Hong Kong Underwriting Agreement; or
 - (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than

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subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

- (viii) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (ix) any person (other than the Joint Global Coordinators or the Joint Sponsors) has withdrawn or subject to withdraw its consent to being named in this prospectus or to the issue of either this prospectus and/or the Application Forms.

UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertaking by Us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within such period), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertaking by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that except pursuant to the Global Offering and the Over-allotment Option, he or it shall not and shall procure that the relevant registered holder(s) shall not:

- in the period commencing from the Latest Practicable Date and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create, any options, rights, interests or encumbrances in respect of, any of those Shares or securities of the Company in respect of which he or it is shown in this prospectus to be the beneficial owner(s); or
- in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of, or enter into any agreement to dispose of or otherwise create, any options, rights, interests or encumbrances in respect of, any of the Shares or securities of the Company referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it or all of them as a group would cease to be our Controlling Shareholders.

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Pursuant to Note 3 to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has further undertaken to each of the Company and the Stock Exchange that, within the period commencing on the Latest Practicable Date and ending on the date which is 12 months from the Listing Date, he or it will:

- when he or it pledges or charges any Shares or other securities of the Company beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or other securities of the Company so pledged or charged; and
- when he or it receives any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities will be disposed of, immediately inform us of any such indications.

We have agreed and undertaken to the Stock Exchange that, we shall inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement as soon as possible.

UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

Undertaking by Us

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Hong Kong Underwriters and the Joint Sponsors not to, and to procure each other member of the Group not to, without the prior written consent of the Joint Sponsors, the Joint Global Coordinators and the Joint Bookrunners (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “First Six-Month Period”):

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as

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applicable), or deposit any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires, the Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company. Each Controlling Shareholder undertakes to each of the Joint Global Coordinators, the Joint Bookrunners, the Hong Kong Underwriters and the Joint Sponsors to procure the Company to comply with the above undertakings.

Undertaking by Controlling Shareholders

Each of the Controlling Shareholders has undertaken to each of the Company, the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules (including without limitation Note (2) to Rule 10.07 of the Listing Rules):

- (a) he or it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit

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any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (a)(i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (a)(i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

- (b) he or it will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, he or it will take reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

UNDERTAKINGS BY EXISTING SHAREHOLDERS

Each of SAIF Partners IV L.P., Ares FW Holdings, L.P. and Watercube Holdings, L.L.C. has undertaken to the Company and the Joint Global Coordinators that, except with the prior written consent of the Joint Global Coordinators, it will not and, will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind (“Encumbrance”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in

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whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in clause (i) or (ii) of this paragraph, or (iv) offer to or agree to or announce any intention to effect any transaction specified in clause (i), (ii) or (iii) of this paragraph, in each case, whether any of the transactions specified in clause (i), (ii) or (iii) of this paragraph is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period); provided, that the foregoing sentence shall not apply to transactions relating to any Shares acquired by it in open market transactions after the Listing.

HONG KONG UNDERWRITERS' INTEREST IN OUR COMPANY AND THE INDEPENDENCE OF JOINT SPONSORS

Goldman Sachs and Goldman Sachs (Asia) L.L.C. are affiliates. Goldman Sachs invested in the Company in 2012 by subscribing for 2,642 Series C Preferred Shares, the details of which is disclosed in "Our History and Reorganization — Pre-IPO Investment". As Goldman Sachs holds approximately 10.98% of our share capital prior to the completion of the Global Offering and will hold approximately 8.24% of our share capital upon the completion of the Global Offering (assuming (i) the Over allotment Option has not been exercised; and (ii) all outstanding Series A Preference Shares, Series B Preference Shares and Series C Preference Shares have been fully converted into Shares), Goldman Sachs (Asia) L.L.C. is not regarded as an independent sponsor pursuant to Rule 3A.07 of the Listing Rules. Standard Chartered Securities (Hong Kong) Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Other than the disclosure in the above paragraph and their obligations under the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters is interested legally or beneficially, directly or indirectly, in any Shares or other securities in our Company or any other member of the Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any Shares or other securities in our Company or any other member of the Group. Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

INTERNATIONAL OFFERING

International Purchase Agreement

In connection with the International Offering, it is expected that we will enter into the International Purchase Agreement with the International Purchasers, among other parties. Under the International Purchase Agreement, the International Purchasers, subject to certain conditions, will agree severally and not jointly to purchase, or procure purchasers for, the International Offer Shares being offered pursuant to the International Offering.

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Under the International Purchase Agreement, it is expected that we will grant to the International Purchasers the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Purchasers, in whole or in part at one or more times, at any time from the Listing Date until the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 63,300,000 additional Shares, representing in aggregate not more than approximately 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price to cover, among other things, over-allocations, if any, in the International Offering.

We have agreed to indemnify the International Purchasers against certain liabilities, including liabilities under the U.S. Securities Act.

UNDERWRITING COMMISSION AND LISTING EXPENSES

The Underwriters will receive an underwriting commission per Offer Share of 2.5% of the Offer Price from the Company (including Offer Shares sold pursuant to the Over-allotment Option). The Company may, at its discretion, pay certain Underwriters an incentive fee of up to 1.5% of the Offer Price per Offer Share. For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Purchasers (but not the Hong Kong Underwriters).

The aggregate commission and fees, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, which are currently estimated to be approximately HK\$92.4 million in aggregate (based on an Offer Price of HK\$2.475 per Share, being the mid-point of the Offer Price range of between HK\$2.25 and HK\$2.70 per Share, and the assumption that the Over-allotment Option is not exercised) is to be borne by us.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of 42,200,000 Offer Shares (subject to adjustments as mentioned below) in Hong Kong as described below in “— The Hong Kong Public Offering”; and
- the International Offering of initially 379,800,000 Offer Shares (subject to adjustments and the Over-allotment Option as mentioned below) outside the United States in offshore transactions in reliance on Regulation S, and in the United States solely to Qualified Institutional Buyers as defined in Rule 144A pursuant to an exemption from the registration requirements of the U.S Securities Act, as described below in “— The International Offering”.

Investors may either:

- apply for the Hong Kong Offer Shares under the Hong Kong Public Offering; or
- apply for or indicate an interest for the International Offer Shares under the International Offering,

but may not do both.

The 422,000,000 Offer Shares in the Global Offering will represent approximately 25.00% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of our enlarged share capital immediately following the completion of the Global Offering.

References to applications, application forms, application monies or procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

We are initially offering 42,200,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10.00% of the total number of Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set forth below in “— Conditions of the Global Offering”.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of HK\$5.0 million (excluding the brokerage fee, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and
- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of more than HK\$5.0 million (excluding the brokerage fee, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 21,100,000 Hong Kong Offer Shares will be rejected.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. In accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 to the Listing Rules, if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Hong Kong Offer Shares will be increased to 126,600,000 Offer Shares (in the case of (i)), 168,800,000 Offer Shares (in the case of (ii)) and 211,000,000 Offer Shares (in the case of (iii)), representing approximately 30.0%, 40.0% and 50.0% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), respectively.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators shall have the discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.70 per Hong Kong Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share amounting to a total of HK\$2,727.22 for one board lot of 1,000 Shares. If the Offer Price, as finally determined in the manner described in “— Pricing and Allocation”, is less than the maximum price of HK\$2.70 per Offer Share, appropriate refund payments (including the brokerage, the

STRUCTURE OF THE GLOBAL OFFERING

SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For more details, see “How to Apply for Hong Kong Offer Shares”.

THE INTERNATIONAL OFFERING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Offering 379,800,000 Offer Shares, representing approximately 90.00% of the Offer Shares under the Global Offering and approximately 22.50% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Share. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to the Price Determination Date.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of us and our shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any applications of Hong Kong Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation” or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Purchasers.

Pursuant to the Over-allotment Option, the International Purchasers have the right, exercisable by the Joint Global Coordinators on behalf of the International Purchasers at any time during the 30 day period from the last date for lodging applications under the Hong Kong Public Offering, to require the Company to issue up to 15% of the total number of the Offer Shares initially available under the Global Offering at the Offer Price under the International Offering to cover, among other things, over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Shares to be issued pursuant thereto will represent approximately 3.75% of our issued share capital immediately following the completion of the Global Offering before the issue of such additional Shares. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any persons acting for it, to conduct any such stabilizing action. Such stabilizing action, if taken, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

STRUCTURE OF THE GLOBAL OFFERING

Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time period for which the Stabilizing Manager will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and is expected to expire on Thursday, July 10, 2014, being the 30th day after the last day for lodging applications under the Hong Kong Public Offer. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager or any person acting for it may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

Stock Borrowing Agreement

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 63,300,000 Shares from our Controlling Shareholders pursuant to a stock borrowing agreement which is expected to be entered into between the Stabilizing Manager and our Controlling Shareholder(s). The stock

STRUCTURE OF THE GLOBAL OFFERING

borrowing arrangements under the stock borrowing agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between us and the Joint Global Coordinators on behalf of the Underwriters, on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Tuesday, June 10, 2014 (Hong Kong time), and in any event, not later than Friday, June 13, 2014 (Hong Kong time). Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus.

The Offer Price will not be more than HK\$2.70 and is expected to be not less than HK\$2.25, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offer as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offer, you must pay the maximum offer price of HK\$2.70 per Offer Share, plus 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee. This means that for one board lot of 1,000 Shares, you should pay HK\$2,727.22 at the time of your application.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$2.70, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see “How to Apply for Hong Kong Offer Shares”.

The International Purchasers will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) of the reduction and posted on the website of the Stock Exchange (www.hkexnews.hk) and on our website (www.ozner.net) (the contents of the website do not form a part of the prospectus).

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Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised offer price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also confirm or revise, as appropriate, the working capital statement, the Global Offering statistics as currently set out in the section “Summary”, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with the Company and the Joint Global Coordinators (on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

The Offer Price, an indication of the level of interest in the International Offering, the basis of allotment of Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section “How to Apply for Hong Kong Offer Shares – Despatch/Collection of Share Certificates and Refund Monies”.

UNDERWRITING AGREEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the Company and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Purchase Agreement relating to the International Offering on the Price Determination Date. These underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Purchase Agreement, are summarized in the section “Underwriting”.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our Shares in issue (including Shares to be issued pursuant to the exercise of any Options which may be granted pursuant to the Share Option Scheme);
- the Offer Price being duly determined;

STRUCTURE OF THE GLOBAL OFFERING

- the execution and delivery of the International Purchase Agreement on the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Purchasers under the International Purchase Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Purchase Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Friday, June 13, 2014. If, for any reason, the Offer Price is not agreed between the Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before Friday, June 13, 2014, the Global Offering will not proceed and will lapse. The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange (www.hkexnews.hk) and on our website (www.ozner.net) on the next day following such lapse. In such situation, all application monies will be returned, without interest, on the terms set forth in the section “How to Apply for Hong Kong Offer Shares – Despatch/Collection of Share Certificates and Refund Monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Hong Kong Banking Ordinance.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, June 17, 2014, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, June 17, 2014.

The Shares will be traded in board lots of 1,000 Shares each and the stock code of the Shares will be 2014.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website of the **White Form eIPO** Service Provider, referred herein as the “**White Form eIPO**”; or
- give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

None of you or your joint applicant(s) may make more than one application (whether individually or jointly), except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a United States person (as defined in Regulation S under the U.S. Securities Act);
- are outside the United States and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply online through the **White Form eIPO** Service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** for the Hong Kong Offer Shares.

We, the Joint Global Coordinators or the designated **White Form eIPO** Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are an associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of the Company (or its subsidiaries) or will become a connected person of the Company (or its subsidiaries) immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, June 5, 2014 until 12:00 noon on Tuesday, June 10, 2014 from:

- any of the following offices of the Joint Bookrunners:

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

**Standard Chartered Securities
(Hong Kong) Limited**

15/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- any of the following branches of the receiving bank for the Hong Kong Public Offer:

Standard Chartered Bank (Hong Kong) Limited

District	Branch	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4–4A, Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong, Kowloon.
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617–623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 8A–10 Granville Road, Tsimshatsui
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
New Territories	Metroplaza Branch	Shop No. 175–176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
	Tseung Kwan O Branch	Shop G37–40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O
	Tai Po Branch	G/F shop No. 2, 23–25 Kwong Fuk Road, Tai Po Market, Tai Po

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, June 5, 2014 until 12:00 noon on Tuesday, June 10, 2014 from:

- The Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- Your stockbroker, who may have such Application Forms and this prospectus available.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Horsford Nominees Limited – Ozner Water Public Offer**" for the payment, should be securely stapled and deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Thursday, June 5, 2014 – 9:00 a.m. to 5:00 p.m.
- Friday, June 6, 2014 – 9:00 a.m. to 5:00 p.m.
- Saturday, June 7, 2014 – 9:00 a.m. to 1:00 p.m.
- Monday, June 9, 2014 – 9:00 a.m. to 5:00 p.m.
- Tuesday, June 10, 2014 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, June 10, 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** Service Provider, among other things, you:

- undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with the Companies (Winding Up And Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form(s) and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- agree to disclose to the Company, our Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form(s);
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** Service by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO

General

Individuals who meet the criteria in “2. Who can apply” may apply by filling out the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application by filling out the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

Time for Submitting Applications under the White Form eIPO

You may submit your application through the **White Form eIPO** Service at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, June 5, 2014 until 11:30 a.m. on Tuesday, June 10, 2014 and the latest time for

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, June 10, 2014 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of the **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under the **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application by filling out the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up And Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up And Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up And Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “**Ozner Water International Holding Limited**” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre

2/F Infinitus Plaza

199 Des Voeux Road Central

Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HKSCC Nominees will do the following things on your behalf:

- (a) agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- (b) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- (c) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

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- (d) declare that only one set of **electronic application instructions** has been given for your benefit;
- (e) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- (f) confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- (g) authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- (h) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (i) confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- (j) agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- (k) agree to disclose your personal data to the Company, our Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
- (l) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- (m) agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up And Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- (n) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- (o) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- (p) agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up And Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association; and
- (q) agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer

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Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, June 5, 2014	—	9:00 a.m. to 8:30 p.m. ⁽¹⁾
Friday, June 6, 2014	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Saturday, June 7, 2014	—	8:00 a.m. to 1:00 p.m. ⁽¹⁾
Monday, June 9, 2014	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Tuesday, June 10, 2014	—	8:00 a.m. ⁽¹⁾ to 12:00 noon

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, June 5, 2014 until 12:00 noon on Tuesday, June 10, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, June 10, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up And Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up And Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up And Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares by filling out the **White Form eIPO** is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying by filling out the **White Form eIPO** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, June 10, 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

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for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or by filling out the **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or by filling out the **White Form eIPO** in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

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For more details on the Offer Price, see “Structure of the Global Offering – Pricing and Allocation”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 10, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, June 10, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, June 16, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on the Company’s website at www.ozner.net and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.ozner.net and the Stock Exchange’s website at www.hkexnews.hk by no later than Monday, June 16, 2014;
- from the designated results of allocations website at www.iporeresults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m., Monday, June 16, 2014 to 12:00 midnight, Sunday, June 22, 2014;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, June 16, 2014 to Thursday, June 19, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, June 16, 2014 to Wednesday, June 18, 2014 at all the receiving bank branches and sub-branches.

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If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. For more details, see “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) *If your application is revoked:*

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up And Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up And Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.70 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – The Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Monday, June 16, 2014.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Monday, June 16, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m., on Tuesday, June 17, 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, June 16, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Monday, June 16, 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, June 16, 2014, by ordinary post and at your own risk.

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If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, June 16, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- If you are applying as a CCASS investor participant

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, June 16, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply by filling out the White Form eIPO*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, June 16, 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, June 16, 2014 by ordinary post at your own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) *If you apply via Electronic Application Instructions to HKSCC*

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, June 16, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Monday, June 16, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, June 16, 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, June 16, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on 5:00 p.m. on Monday, June 16, 2014.

15. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, June 17, 2014.

The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 2014.

16. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report on Ozner Water International Holding Limited, prepared for inclusion in this prospectus, received from the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong.



22/F, CITIC Tower
1 Tim Mei Avenue
Hong Kong

June 5, 2014

The Board of Directors
Ozner Water International Holding Limited
Goldman Sachs (Asia) L.L.C.
Standard Chartered Securities (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information of Ozner Water International Holding Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the combined statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2011, 2012 and 2013 (the “Relevant Periods”), and the combined statements of financial position of the Group as at December 31, 2011, 2012 and 2013, together with the notes thereto (the “Financial Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated June 5, 2014 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on November 15, 2013. Pursuant to a group reorganisation (the “Reorganisation”) as set out in note 2.1 of Section II below, the Company became the holding company of the other subsidiaries comprising the Group on March 13, 2014. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted December 31 as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the combined financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended December 31, 2011, 2012 and 2013, were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at December 31, 2011, 2012 and 2013 and of the combined results and cash flows of the Group during the Relevant Periods.

I. FINANCIAL INFORMATION

Combined statements of comprehensive income

The following is the financial information of the Group for the Relevant Periods prepared on the basis set out in Section II below:

		Year ended December 31,		
		2011	2012	2013
		RMB	RMB	RMB
	<i>Notes</i>			
Revenue	6	102,292,330	290,395,537	402,333,608
Cost of revenue		<u>(44,299,384)</u>	<u>(103,003,929)</u>	<u>(129,541,790)</u>
Gross profit		57,992,946	187,391,608	272,791,818
Other income and gains	6	5,282,075	2,486,284	20,792,232
Selling and distribution expenses . .		(19,204,624)	(38,284,662)	(56,969,247)
Administrative expenses		(12,798,460)	(20,965,780)	(44,645,541)
Other expenses		(2,368,167)	(6,594,772)	(6,542,139)
Finance costs	8	<u>(20,000)</u>	<u>—</u>	<u>(1,847,980)</u>
Profit before tax	7	28,883,770	124,032,678	183,579,143
Income tax expense	11	<u>(5,932,497)</u>	<u>(22,341,588)</u>	<u>(30,667,047)</u>
Profit and total comprehensive income for the year		<u>22,951,273</u>	<u>101,691,090</u>	<u>152,912,096</u>

Combined statements of financial position

		As at December 31,		
		2011	2012	2013
		RMB	RMB	RMB
	Notes			
NON-CURRENT ASSETS				
Revenue generating assets	13	148,051,412	384,126,896	585,345,521
Property, plant and equipment	14	23,897,126	87,121,099	231,961,879
Intangible assets	15	773,527	44,417,044	68,890,645
Goodwill	16	544,917	26,036,642	26,036,642
Prepayment for acquiring property, plant and equipment	20	5,476,000	19,215,407	32,006,950
Deferred tax assets	17	4,343,040	5,460,219	7,140,778
TOTAL NON-CURRENT ASSETS		183,086,022	566,377,307	951,382,415
CURRENT ASSETS				
Inventories	18	29,538,153	38,800,236	36,891,498
Trade and bills receivables	19	10,662,465	37,639,349	50,628,815
Prepayments, deposits and other receivables	20	66,657,400	50,503,730	49,443,352
Pledged deposits	21	—	—	67,018,777
Cash and cash equivalents	21	170,240,754	169,197,839	154,340,692
TOTAL CURRENT ASSETS		277,098,772	296,141,154	358,323,134
CURRENT LIABILITIES				
Interest-bearing bank loan	22	—	—	212,716,680
Trade and bills payables	23	43,196,826	37,039,802	57,812,727
Other payables, advances from customers and accruals	24	49,756,184	88,586,198	130,395,728
Due to a shareholder	33	—	17,026,364	—
Due to a related party	33	287,757,213	422,820,024	407,955,002
Deferred revenue	25	46,405,170	75,082,580	96,532,237
Income tax payable		10,150,885	34,209,053	64,166,838
TOTAL CURRENT LIABILITIES		437,266,278	674,764,021	969,579,212
NET CURRENT LIABILITIES		(160,167,506)	(378,622,867)	(611,256,078)
TOTAL ASSETS LESS CURRENT LIABILITIES		22,918,516	187,754,440	340,126,337
NON-CURRENT LIABILITY				
Deferred tax liabilities	17	—	7,124,164	6,583,965
TOTAL NON-CURRENT LIABILITY		—	7,124,164	6,583,965
NET ASSETS		22,918,516	180,630,276	333,542,372
EQUITY				
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT				
Share capital	27	—	—	—
Reserves	28	22,918,516	180,630,276	333,542,372
TOTAL EQUITY		22,918,516	180,630,276	333,542,372

Combined statements of changes in equity

	Attributable to owners of the parent				Total equity
	Share capital	Retained earnings	Merger reserve	Other reserves	
	RMB (note 27)	RMB	RMB (note 28(b))	RMB (note 28(a))	
At January 1, 2011	—	(69,058)	30,636	5,665	(32,757)
Total comprehensive income for the year	—	22,951,273	—	—	22,951,273
Transfer from retained earnings	—	(2,526,620)	—	2,526,620	—
At December 31, 2011 and January 1, 2012	—	20,355,595	30,636	2,532,285	22,918,516
Total comprehensive income for the year	—	101,691,090	—	—	101,691,090
Acquisition of a subsidiary	—	—	56,020,670	—	56,020,670
Transfer from retained earnings	—	(9,004,403)	—	9,004,403	—
At December 31, 2012 and January 1, 2013	—	113,042,282	56,051,306	11,536,688	180,630,276
Total comprehensive income for the year	—	152,912,096	—	—	152,912,096
Transfer from retained earnings	—	(20,993,122)	—	20,993,122	—
At December 31, 2013	—	244,961,256	56,051,306	32,529,810	333,542,372

Combined statements of cash flows

	Notes	Year ended December 31,		
		2011	2012	2013
		RMB	RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		28,883,770	124,032,678	183,579,143
Adjustments for:				
Depreciation of revenue generating assets	13	5,661,571	26,384,665	54,375,728
Depreciation of property, plant and equipment . . .	7	1,396,415	6,375,527	12,357,307
Amortisation of intangible assets	7	53,355	578,189	1,979,383
Unrealised exchange gain		(9,799,047)	(705,625)	(14,363,394)
Loss on disposal of property, plant and equipment		—	17,378	12,039
Loss on disposal of revenue generating assets . . .		—	—	76,641
Gain on disposal of subsidiaries	6	—	—	(669,086)
Finance costs	8	20,000	—	1,847,980
Provision for doubtful collection of account receivables		—	—	362,465
		<u>26,216,064</u>	<u>156,682,812</u>	<u>239,558,206</u>
(Increase)/decrease in inventories		(28,651,527)	(9,262,083)	1,908,738
Increase in trade and bills receivables		(8,645,193)	(26,976,884)	(13,351,931)
(Increase)/decrease in prepayments, deposits and other receivables		(56,633,729)	(12,268,830)	1,090,378
Increase/(decrease) in trade and bills payables		41,051,360	(7,009,982)	20,772,925
Increase in other payables, advances from customers and accruals		48,707,776	20,395,074	37,936,800
Increase in deferred revenue		46,405,170	28,677,410	21,449,657
Cash generated from operations		<u>68,449,921</u>	<u>150,237,517</u>	<u>309,364,773</u>
Income tax paid		—	(23,528)	(2,930,020)
Net cash flows from operating activities		<u>68,449,921</u>	<u>150,213,989</u>	<u>306,434,753</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of revenue generating assets		(153,446,302)	(200,832,808)	(244,805,597)
Purchases of items of property, plant and equipment .		(30,508,666)	(74,891,591)	(166,220,979)
Proceeds from disposal of items of property, plant and equipment		—	6,455	—
Purchases of intangible assets		(797,375)	(8,517,690)	(36,458,541)
Increase in pledged deposits		—	—	(67,018,777)
Acquisition of subsidiaries, net of cash acquired . . .	29	(5,000,000)	684,237	—
Disposal of subsidiaries	30	—	—	66,617
Net cash flows used in investing activities		<u>(189,752,343)</u>	<u>(283,551,397)</u>	<u>(514,437,277)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid		(20,000)	—	(3,662,980)
Loans from a related party		280,194,954	191,809,374	—
Proceeds from borrowings		—	—	214,531,680
Repayment of loans to a related party		—	(56,040,938)	(501,628)
Repayment of loans to a shareholder		—	(3,471,553)	(17,026,364)
Net cash flows from financing activities		<u>280,174,954</u>	<u>132,296,883</u>	<u>193,340,708</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		158,872,532	(1,040,525)	(14,661,816)
Cash and cash equivalents at beginning of year		11,630,043	170,240,754	169,197,839
Effect of foreign exchange rate changes, net		(261,821)	(2,390)	(195,331)
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	<u>170,240,754</u>	<u>169,197,839</u>	<u>154,340,692</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		170,240,754	169,197,839	221,359,469
Less: Pledged deposits		—	—	(67,018,777)
Cash and cash equivalents as stated in the statements of financial position and statements of cash flows	21	<u>170,240,754</u>	<u>169,197,839</u>	<u>154,340,692</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on November 15, 2013. The registered office of the Company is situated at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

The Company is an investment holding company. During each of the years ended December 31, 2011, 2012 and 2013 (the "Relevant Periods"), the Company's subsidiaries were involved in the following principal activities (the "Listing Business") in the People's Republic of China (the "PRC"):

- Water purification services
- Air sanitisation services

The ultimate holding company of the Company is Fresh Water Group Limited, which is incorporated in the British Virgin Islands ("BVI").

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in paragraph headed "Reorganisation" in the section headed "Our History and Reorganisation" to the Prospectus.

As at the date of this report, the Company had direct or indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

<u>Name of company</u>	<u>Place and date of incorporation/ registration and business</u>	<u>Nominal value of issued ordinary/ registered share capital</u>	<u>Percentage of equity interest attributable to the Company</u>	<u>Principal activities</u>
Hong Kong Fresh Water International Group Limited ("Fresh Water HK") ⁽¹⁾	Hong Kong/ August 31, 2010	HK\$35,000	100%	Investment holding
Park Wealth International Limited ("Park Wealth") ⁽²⁾	BVI/ May 23, 2007	US\$50,000	100%	Investment holding
Shanghai Haoze Environmental Technology Co., Ltd. ⁽³⁾	PRC/ November 17, 2010	HK\$200,000,000	100%	Sale of water purification/air sanitisation products
Shanghai Haoze Water Purification Technology Development Co., Ltd. ("Shanghai Haoze") ⁽³⁾	PRC/ July 30, 2009	RMB5,000,000	100%	Water purifying services
Shangyu Haorun Environmental Protection Technology Co., Ltd. ⁽⁴⁾	PRC/ December 15, 2009	RMB1,000,000	100%	Manufacturing of water purification/air sanitisation products
Shanghai Haorun Environmental Works Co., Ltd. ⁽²⁾	PRC/ December 18, 2010	RMB1,000,000	100%	Air sanitisation construction service
Shaanxi Haoze Environmental Technology Development Co., Ltd. ("Shaanxi Haoze") ⁽⁵⁾	PRC/ March 7, 2012	RMB70,853,900	100%	Water purifying services
Shaanxi Haoze Air Purification Technology Co., Ltd. ⁽⁶⁾	PRC/ August 22, 2012	RMB3,000,000	100%	Air sanitisation products

<u>Name of company</u>	<u>Place and date of incorporation/ registration and business</u>	<u>Nominal value of issued ordinary/ registered share capital</u>	<u>Percentage of equity interest attributable to the Company</u>	<u>Principal activities</u>
Shanghai Haoze Comfort Environment and Science Co., Ltd. ⁽³⁾	PRC/ September 23, 2005	RMB54,815,300	100%	Development and manufacturing of water purification/air sanitisation products
Shanghai Comfort Water Development Co., Ltd. ⁽²⁾	PRC/ July 31, 2006	RMB3,000,000	100%	Development and manufacturing of water purification/air sanitisation products
Chengdu Comfort Water Co., Ltd. ⁽²⁾	PRC/ March 28, 2007	RMB500,000	100%	Development and manufacturing of water purification/air sanitisation products
Beijing Haoze Kangjie Environmental Technology Co., Ltd. ⁽²⁾	PRC/ February 25, 2008	RMB500,000	100%	Technology promotion service
Shenzhen Comfort Environmental Technology Development Co., Ltd. ⁽²⁾	PRC/ May 14, 2007	RMB1,000,000	100%	Development and manufacturing of water purification/air sanitisation products
Shanghai Comfort Environmental Works Co., Ltd. ⁽²⁾	PRC/ December 7, 2007	RMB5,100,000	100%	Air sanitisation construction service
Shanghai Comfort Water Purification Co., Ltd. ⁽²⁾	PRC/ December 7, 2007	RMB100,000	100%	Development and manufacturing of water purification/air sanitisation products
Shanghai Hongjia Air Purification Equipment Co., Ltd. ⁽²⁾	PRC/ December 20, 2007	RMB500,000	100%	Sale of air sanitisation products

* These entities were disposed of in 2013.

- (1) The statutory financial statements from August 31, 2010 (date of incorporation) to December 31, 2010 and for the year ended December 31, 2011 and 2012 prepared in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance were audited by Ernst & Young.
- (2) No audited financial statements have been prepared and issued for these entities since the dates of their respective incorporation as these companies are not subject to any statutory audit requirement under the relevant rules and regulations in their jurisdiction of incorporation or establishment.
- (3) The statutory financial statements for the years ended December 31, 2011 and 2012 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Shanghai Wei-Zhong Yong-Guang Certified Public Accountants Co., Ltd., a certified public accounting firm registered in the PRC.

- (4) The statutory financial statements for the years ended December 31, 2011 and 2012 prepared in accordance with PRC GAAP were audited by Shangyu United Firms of Tian Ma Certified Public Accountants Co., Ltd, a certified public accounting firm registered in the PRC.
- (5) The statutory financial statements for the years ended December 31, 2012 prepared in accordance with PRC GAAP were audited by Shanxi New World Certified Public Accountants Co., Ltd., a certified public accounting firm registered in the PRC.
- (6) The statutory financial statements for the years ended December 31, 2012 prepared in accordance with PRC GAAP were audited by Shanxi New World Certified Public Accountants Co., Ltd., a certified public accounting firm registered in the PRC.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed “Pre-IPO Reorganisation” in the section headed “Our History and Reorganisation” to the Prospectus, the Company became the holding company of the companies now comprising the Group subsequent to the Relevant Periods on March 13, 2014. The companies now comprising the Group were under the common control of the ultimate holding company before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The combined statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the ultimate holding company, where this is a shorter period. The combined statements of financial position of the Group as at December 31, 2011, 2012 and 2013 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the ultimate holding company’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from January 1, 2013 and Amendments to IAS 36, Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets (early adopted), together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi (“RMB”) except when otherwise indicated.

Basis of combination

The combined financial statements include the financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition of all other subsidiaries during the Relevant Periods is accounted for using the acquisition method.

The merger accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling shareholder. The net assets of the combining entities or business are combined using the existing book value from the perspective of the controlling shareholder of the Company. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

2.3 NET CURRENT LIABILITIES

Notwithstanding the Group has combined net current liabilities of RMB611,256,078 at December 31, 2013, the Financial Information has been prepared by the Directors on a going concern basis. The net current liabilities were mainly resulted from the amount due to the ultimate holding company of RMB407,955,002 and deferred revenue of RMB96,532,237. The ultimate holding company has undertaken not demanding repayment from the Group during the next twelve months to enable the Group to meet its liabilities as and when they fall due. The deferred revenue represented the non-refundable advances received for water purification services and would not result in cash outflow subsequently. Excluding the impact of the amount due to the ultimate holding company and the deferred revenue, the Group had adjusted combined net current liabilities of RMB106,768,839 as at December 31, 2013.

In the opinion of the directors of the Company, the Group is considered as a going concern in the next twelve months taking into account financial support from the ultimate holding company and the cash flow to be generated by the Group. Based on the aforesaid factors, the directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial liabilities as they fall due for the foreseeable future. Accordingly, the Financial Information have been prepared on a going concern basis.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information.

IFRS 9	<i>Financial Instruments</i> ⁴
Amendments to IFRS 9, IFRS 7 and IAS 39	<i>Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39</i> ⁴
Amendments to IFRS 10, IFRS 12 and IAS 27	<i>Investment Entities</i> ¹
Amendments to IAS 32	<i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ¹
Amendments to IAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
IFRIC 21	<i>Levies</i> ¹
Amendments to IAS 19	<i>Defined Benefit Plans—Employee Contributions</i> ¹
Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16	<i>Annual Improvements 2010–2012 Cycle</i> ²
IAS 38 and IAS 24	
Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	<i>Annual Improvements 2011–2013 Cycle</i> ²
IFRS 14	<i>Regulatory Deferral Accounts</i> ³

¹ Effective for annual periods beginning on or after January 1, 2014

² Effective for annual periods beginning on or after July 1, 2014

³ Effective for annual periods beginning on or after January 1, 2016

⁴ No mandatory effective date

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's results of operations and financial position.

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Impairment is determined by accessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment, revenue generating assets and depreciation

Property, plant and equipment, other than construction in progress and revenue generating assets, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment and revenue generating assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment and revenue generating assets have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment and revenue generating assets are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment and revenue generating assets to its residual value over its estimated useful life. The principal estimated useful lives and residual value of property, plant and equipment and revenue generating assets are as follows:

<u>Category</u>	<u>Useful life</u>	<u>Residual value</u>
Revenue generating assets	10 years	5%
— water purification machines		
Leasehold improvements	Over the shorter of the lease terms and 5 years	0%
Plant and machinery.	5 to 10 years	5%
Furniture and fixtures	3 to 5 years	5%
Motor vehicles	5 years	5%

Where parts of an item of property, plant and equipment and revenue generating assets have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and revenue generating assets including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal or retirement recognised in the statement of profit or loss in the year the assets is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and trademarks

The patents have been granted for a period of 10 years by the relevant government agency. Trademarks are granted for a period of 10 years with the option of renewal at the end of this period.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Software

Software is stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 2 to 10 years.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investment and other financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

- *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in other expenses for loans and receivables.

- *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the

financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- ***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

- ***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and accruals, an amount due to a shareholder and an amount due to a related party.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

- *Loans and borrowings*

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price, less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event, and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Income tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Rental income

Rental income arising from operating leases on revenue generating assets is recognised on a time proportion basis over the lease terms.

Rendering of services

Revenue from the rendering of services is recognised on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Training service income

Revenue from training service is recognised when the service is rendered and the inflow of economic benefit is probable.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is determined by surveys of work performed. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Pursuant to the relevant regulations of the PRC government, the companies comprising the Group operating in Mainland China ("PRC Group companies") have participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the PRC Group companies are required to contribute a certain percentage of the salaries of their employees to the Scheme to fund their retirement benefits. The only obligation of the Group with respect to the Scheme is to pay the ongoing contribution under the Scheme. Contributions under the Scheme are charged to the statement of comprehensive income in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in RMB, which is the functional and presentation currency of each entity in the Group.

Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on the items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

4.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

(a) *Operating lease commitments – Group as lessor*

The Group has entered into commercial leases on its water purification machines. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these machines which are leased out on operating leases.

Estimation uncertainty

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

(a) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(b) *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of these cash flows.

(c) *Estimated useful life of water purification machines*

The Group engaged an independent appraiser on the estimation of useful life of the revenue generating assets (i.e. water purification machines for rental services). The estimation takes into account factors such as the expected usage of the assets by the Group, the expected physical wear and tear, and the technical obsolescence arising from changes or improvements in production or from changes in the market demand for the products.

(d) *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(e) *Impairment on trade receivables*

The provision policy for impairment of trade receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Further details are contained in note 19.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the water purification segment engages in leasing water purification machines and providing relevant services to customers; and in the sale of water purification products;
- (b) the air sanitisation segment engages in the provision of air sanitisation construction service and in the sale of air sanitisation products.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance costs and exchange gain/(loss), as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude amounts due to a related party and a shareholder, tax payable and deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

No further geographical segment information is presented as the Group's revenue from external customers is derived solely from its operation in Mainland China and no non-current assets are located outside the Mainland China.

Revenue of approximately 17%, 13%, 11% and 19%, 16%, 13% was derived from sales by the water purification segment to three customers for each of the years ended December 31, 2012 and 2013. No information about major customers is presented as no single customer individually contributed to over 10% of the Group's revenue for the year ended December 31, 2011.

Operating segments

The following tables present revenue, cost of revenue, profit and certain asset, liability and expenditure information for the Group's operating segments for the Relevant Periods:

Year ended December 31, 2011	Water purification	Air sanitisation	Total
	RMB	RMB	RMB
Segment revenue			
Sales to external customers	57,378,719	44,913,611	102,292,330
Segment cost of revenue			
Sales to external customers	10,466,807	33,832,577	44,299,384
Segment results	23,395,129	10,834,223	34,229,352
<i>Reconciliations:</i>			
Corporate and other unallocated expenses			(9,403,976)
Exchange gain			4,078,394
Finance costs			(20,000)
Profit before tax			28,883,770
Segment assets	211,713,667	15,887,340	227,601,007
<i>Reconciliations:</i>			
Corporate and other unallocated assets			232,583,787
Total assets			460,184,794
Segment liabilities	104,340,199	5,153,865	109,494,064
<i>Reconciliations:</i>			
Corporate and other unallocated liabilities			327,772,214
Total liabilities			437,266,278
Other segment information			
Depreciation and amortisation	5,463,772	1,647,569	7,111,341
Capital expenditure*	176,195,649	3,775,375	179,971,024

* Capital expenditure consists of additions to revenue generating assets, property, plant and equipment and intangible assets.

Operating segments

Year ended December 31, 2012	Water purification	Air sanitation	Total
	RMB	RMB	RMB
Segment revenue			
Sales to external customers	197,792,928	92,602,609	290,395,537
Segment cost of revenue			
Sales to external customers	38,600,904	64,403,025	103,003,929
Segment results	108,983,817	26,712,152	135,695,969
<i>Reconciliations:</i>			
Corporate and other unallocated expenses			(9,478,323)
Exchange loss			(2,184,968)
Profit before tax			<u>124,032,678</u>
Segment assets	537,182,735	38,399,284	575,582,019
<i>Reconciliations:</i>			
Corporate and other unallocated assets			286,936,442
Total assets			<u>862,518,461</u>
Segment liabilities	194,062,666	9,712,477	203,775,143
<i>Reconciliations:</i>			
Corporate and other unallocated liabilities			478,113,042
Total liabilities			<u>681,888,185</u>
Other segment information			
Depreciation and amortisation	32,427,777	910,604	33,338,381
Capital expenditure*	<u>274,259,054</u>	<u>2,533,190</u>	<u>276,792,244</u>

* Capital expenditure consists of additions to revenue generating assets, property, plant and equipment and intangible assets.

Year ended December 31, 2013	Water purification	Air sanitation	Total
	RMB	RMB	RMB
Segment revenue			
Sales to external customers	313,959,922	88,373,686	402,333,608
Segment cost of revenue			
Sales to external customers	66,746,214	62,795,576	129,541,790
Segment results	167,751,338	22,472,104	190,223,442
<i>Reconciliations:</i>			
Corporate and other unallocated expenses			(19,421,289)
Exchange gain			14,624,970
Finance costs			(1,847,980)
Profit before tax			<u>183,579,143</u>
Segment assets	957,703,337	57,139,301	1,014,842,638
<i>Reconciliations:</i>			
Corporate and other unallocated assets			294,862,911
Total assets			<u>1,309,705,549</u>
Segment liabilities	230,979,386	14,094,680	245,074,066
<i>Reconciliations:</i>			
Corporate and other unallocated liabilities			731,089,111
Total liabilities			<u>976,163,177</u>
Other segment information			
Depreciation and amortisation	67,459,841	1,252,577	68,712,418
Capital expenditure*	<u>450,187,731</u>	<u>253,718</u>	<u>450,441,449</u>

* Capital expenditure consists of additions to revenue generating assets, property, plant and equipment and intangible assets.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the rental income of water purification machines, air sanitisation service income, training service income and sales of water purification/air sanitisation products. The revenue is analysed as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Revenue			
<i>Water purification services</i>			
Rental income	53,286,371	195,468,510	305,494,542
Training services	3,113,830	1,276,159	8,380,440
Sales of goods.	978,518	1,048,259	84,940
<i>Air sanitisation services</i>			
Rendering of services.	36,678,800	81,006,900	80,059,200
Sales of goods.	8,234,811	7,655,709	6,224,486
Others.	—	3,940,000	2,090,000
	<u>102,292,330</u>	<u>290,395,537</u>	<u>402,333,608</u>
Other income and gains			
Government grants.	—	2,002,045	2,977,221
Interest income	87,345	317,272	2,226,856
Exchange gain	4,078,394	—	14,624,970
Gain on disposal of subsidiaries (<i>note 30</i>)	—	—	669,086
Others.	1,116,336	166,967	294,099
	<u>5,282,075</u>	<u>2,486,284</u>	<u>20,792,232</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended December 31,		
		2011	2012	2013
		RMB	RMB	RMB
	Notes			
Cost of services provided		25,520,519	57,359,056	56,928,447
Cost of inventories sold		8,040,144	8,046,104	5,867,129
Depreciation of revenue generating assets	13	5,661,571	26,384,665	54,375,728
Depreciation of property, plant and equipment	14	1,663,096	9,250,299	17,462,947
Less: Amount capitalised in revenue generating assets		<u>(266,681)</u>	<u>(2,874,772)</u>	<u>(5,105,640)</u>
		1,396,415	6,375,527	12,357,307
Amortisation of intangible assets	15	53,355	1,432,649	7,739,140
Less: Amount capitalised in revenue generating assets		<u>—</u>	<u>(854,460)</u>	<u>(5,759,757)</u>
		53,355	578,189	1,979,383
Research and development costs		2,278,283	4,231,934	5,724,065
Auditors' remuneration		710,875	1,215,093	2,343,090
Employee benefit expense (including directors' remuneration (note 9)):				
Total wages and salaries		21,937,780	35,949,361	40,076,463
Less: Amount capitalised in revenue generating assets		<u>(9,685,103)</u>	<u>(13,941,690)</u>	<u>(14,560,741)</u>
		12,252,677	22,007,671	25,515,722
Total pension scheme contributions		4,249,549	7,539,585	10,008,272
Less: Amount capitalised in revenue generating assets		<u>(1,156,237)</u>	<u>(2,095,686)</u>	<u>(2,109,009)</u>
		3,093,312	5,443,899	7,899,263
Operating lease expenses		5,409,642	7,495,884	10,153,303
Less: Amount capitalised in revenue generating assets		<u>(2,451,315)</u>	<u>(2,937,008)</u>	<u>(4,863,867)</u>
		2,958,327	4,558,876	5,289,436
Warranty provision	26	882,918	3,680,942	13,316,090
Foreign exchange differences, net		(4,078,394)	2,184,968	(14,624,970)
Impairment of trade and bills receivables	19	—	—	362,465
Loss on disposal of items of property, plant and equipment		—	17,378	12,039
Loss on disposal of revenue generating assets		—	—	76,641
Gain on disposal of subsidiaries	30	—	—	669,086

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Interest on bank loan	20,000	—	3,621,245
Less: interest capitalised	—	—	(1,773,265)
	<u>20,000</u>	<u>—</u>	<u>1,847,980</u>

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules, is as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	—	—	67,600
Pension scheme contributions	—	—	5,404
	<u>—</u>	<u>—</u>	<u>73,004</u>

(a) Independent non-executive directors

No independent non-executive director was appointed during the Relevant Periods.

(b) Executive directors, non-executive directors and the chief executive**Year ended December 31, 2013**

Name of Directors	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB	RMB	RMB	RMB
Executive directors:				
Mr. Xiao Shu*	—	36,000	2,702	38,702
Mr. Tan Jibin	—	31,600	2,702	34,302
	<u>—</u>	<u>67,600</u>	<u>5,404</u>	<u>73,004</u>

* Mr. Xiao Shu is also the chief executive of the Group.

Mr. Xiao Shu and Mr. Tan Jibin were appointed as executive directors of the Company on November 18, 2013 and no other director was appointed during the Relevant Periods.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during 2013 included two executive directors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the Relevant Periods of the five highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Salaries, allowances and benefits in kind	535,636	645,200	759,200
Pension scheme contributions	66,004	69,917	52,864
	<u>601,640</u>	<u>715,117</u>	<u>812,064</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended December 31,		
	2011	2012	2013
Nil to RMB1,000,000	<u>5</u>	<u>5</u>	<u>3</u>

11. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI. No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the Relevant Periods.

All of the Group's subsidiaries registered in the PRC and only having operations in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. During the 5th Session of the 10th National People's Congress which was concluded on March 16, 2007, the PRC Enterprise Income Tax Law (the "New Enterprise Income Tax Law") was approved and became effective from January 1, 2008. The New Enterprise Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Shanghai Haoze, qualified as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2012 to 2014.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Shanghai Haoze Comfort Environment and Science Co., Ltd., qualified as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2011 to 2013.

Pursuant to the document "Shan Fa Gai Wai Zi (2013) No. 618" issued by the Development and Reform Commission of Shaanxi Province on May 2, 2013, one of the Group's subsidiaries, Shaanxi Haoze is entitled to the preferential tax rate of 15% from 2012 to 2020.

Pursuant to the document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on December 10, 2008, the Group is entitled to an income tax credit of RMB248,223, RMB267,115 and RMB317,781 for the years ended December 31, 2011, 2012 and 2013, respectively, relating to the additional deduction of research and development cost.

The major components of income tax expense are as follow:

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Current tax	10,132,002	23,265,751	32,887,805
Deferred tax (<i>note 17</i>)	(4,199,505)	(924,163)	(2,220,758)
	<u>5,932,497</u>	<u>22,341,588</u>	<u>30,667,047</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Profit before tax	<u>28,883,770</u>	<u>124,032,678</u>	<u>183,579,143</u>
Tax at the statutory tax rate	7,220,943	31,008,170	45,894,786
Lower tax rates for specific provinces or enacted by local authority	—	(9,342,906)	(14,713,682)
Effect on opening deferred tax of decrease in rates	—	376,965	—
Expenses not deductible for tax	153,363	138,665	1,092,848
Income not subject to tax	(1,193,586)	—	(2,676,696)
Unrecognised tax losses	—	427,809	1,387,572
Additional deduction of research and development cost	<u>(248,223)</u>	<u>(267,115)</u>	<u>(317,781)</u>
Tax charge at the Group's effective rate	<u>5,932,497</u>	<u>22,341,588</u>	<u>30,667,047</u>

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. REVENUE GENERATING ASSETS

	Revenue generating assets
	RMB
At December 31, 2010 and at January 1, 2011:	
Cost	—
Accumulated depreciation.	—
Net carrying amount.	—
At January 1, 2011, net of accumulated depreciation	—
Additions.	153,712,983
Depreciation provided during the year	(5,661,571)
At December 31, 2011, net of accumulated depreciation.	<u>148,051,412</u>
At December 31, 2011:	
Cost	153,712,983
Accumulated depreciation.	(5,661,571)
Net carrying amount.	<u>148,051,412</u>
At January 1, 2012, net of accumulated depreciation	148,051,412
Additions.	205,851,079
Acquisition of subsidiaries (<i>note 29</i>)	56,609,070
Depreciation provided during the year	(26,384,665)
At December 31, 2012, net of accumulated depreciation.	<u>384,126,896</u>
At December 31, 2012:	
Cost	416,173,132
Accumulated depreciation.	(32,046,236)
Net carrying amount.	<u>384,126,896</u>
At January 1, 2013, net of accumulated depreciation	384,126,896
Additions.	255,670,994
Disposals	(76,641)
Depreciation provided during the year	(54,375,728)
At December 31, 2013, net of accumulated depreciation.	<u>585,345,521</u>
At December 31, 2013:	
Cost	671,731,947
Accumulated depreciation.	(86,386,426)
Net carrying amount.	<u>585,345,521</u>

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB
At December 31, 2010 and at January 1, 2011:						
Cost	—	70,677	12,046	16,833	—	99,556
Accumulated depreciation	—	—	—	—	—	—
Net carrying amount . .	—	70,677	12,046	16,833	—	99,556
At January 1, 2011, net of accumulated depreciation	—	70,677	12,046	16,833	—	99,556
Additions	2,674,612	2,758,408	19,853,278	136,898	37,470	25,460,666
Depreciation provided during the year	(287,554)	(45,609)	(1,304,181)	(25,752)	—	(1,663,096)
At December 31, 2011, net of accumulated depreciation	2,387,058	2,783,476	18,561,143	127,979	37,470	23,897,126
At December 31, 2011:						
Cost	2,674,612	2,829,085	19,865,324	153,731	37,470	25,560,222
Accumulated depreciation	(287,554)	(45,609)	(1,304,181)	(25,752)	—	(1,663,096)
Net carrying amount . .	2,387,058	2,783,476	18,561,143	127,979	37,470	23,897,126
January 1, 2012, net of accumulated depreciation	2,387,058	2,783,476	18,561,143	127,979	37,470	23,897,126
Additions	11,535,734	26,579,971	27,221,681	280,000	4,269,189	69,886,575
Acquisition of subsidiaries (note 29)	—	2,290,540	219,990	101,000	—	2,611,530
Depreciation provided during the year	(1,372,202)	(1,223,116)	(6,520,787)	(134,194)	—	(9,250,299)
Disposals	—	(3,358)	(20,475)	—	—	(23,833)
At December 31, 2012, net of accumulated depreciation	12,550,590	30,427,513	39,461,552	374,785	4,306,659	87,121,099
At December 31, 2012:						
Cost	14,210,346	31,695,886	47,283,396	534,731	4,306,659	98,031,018
Accumulated depreciation	(1,659,756)	(1,268,373)	(7,821,844)	(159,946)	—	(10,909,919)
Net carrying amount . .	12,550,590	30,427,513	39,461,552	374,785	4,306,659	87,121,099
At January 1, 2013, net of accumulated depreciation	12,550,590	30,427,513	39,461,552	374,785	4,306,659	87,121,099
Additions	3,027,614	29,072,683	32,586,230	6,220,326	91,650,861	162,557,714
Depreciation provided during the year	(2,813,869)	(3,977,922)	(10,198,435)	(472,721)	—	(17,462,947)
Disposal of subsidiaries (note 30)	—	(241,948)	—	—	—	(241,948)
Disposals	—	(4,081)	(7,958)	—	—	(12,039)
At December 31, 2013, net of accumulated depreciation	12,764,335	55,276,245	61,841,389	6,122,390	95,957,520	231,961,879
At December 31, 2013:						
Cost	17,237,960	60,474,403	79,855,139	6,755,057	95,957,520	260,280,079
Accumulated depreciation	(4,473,625)	(5,198,158)	(18,013,750)	(632,667)	—	(28,318,200)
Net carrying amount . .	12,764,335	55,276,245	61,841,389	6,122,390	95,957,520	231,961,879

As December 31, 2013, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB36,766,847 were pledged to secure banking facilities granted to the Group (note 22).

The net carrying amount of the Group's property, plant and equipment held under finance lease is as below:

	Motor vehicles
	RMB
At December 31, 2013:	
Cost	3,270,892
Accumulated depreciation	<u>(188,173)</u>
Net carrying amount	<u>3,082,719</u>

15. INTANGIBLE ASSETS

	Patents and trademark	Software	Total
	RMB	RMB	RMB
At December 31, 2010 and at January 1, 2011:			
Cost	29,507	—	29,507
Accumulated amortisation	—	—	—
Net carrying amount	<u>29,507</u>	<u>—</u>	<u>29,507</u>
At January 1, 2011, net of accumulated amortisation . . .	29,507	—	29,507
Addition	—	797,375	797,375
Amortisation provided during the year	<u>(3,039)</u>	<u>(50,316)</u>	<u>(53,355)</u>
At December 31, 2011, net of accumulated amortisation	<u>26,468</u>	<u>747,059</u>	<u>773,527</u>
At December 31, 2011:			
Cost	29,507	797,375	826,882
Accumulated amortisation	<u>(3,039)</u>	<u>(50,316)</u>	<u>(53,355)</u>
Net carrying amount	<u>26,468</u>	<u>747,059</u>	<u>773,527</u>
At January 1, 2012, net of accumulated amortisation	26,468	747,059	773,527
Addition	—	1,054,590	1,054,590
Acquisition of subsidiaries (<i>note 29</i>)	44,021,576	—	44,021,576
Amortisation provided during the year	<u>(1,268,883)</u>	<u>(163,766)</u>	<u>(1,432,649)</u>
At December 31, 2012, net of accumulated amortisation	<u>42,779,161</u>	<u>1,637,883</u>	<u>44,417,044</u>
At December 31, 2012:			
Cost	44,051,083	1,851,965	45,903,048
Accumulated amortisation	<u>(1,271,922)</u>	<u>(214,082)</u>	<u>(1,486,004)</u>
Net carrying amount	<u>42,779,161</u>	<u>1,637,883</u>	<u>44,417,044</u>
At January 1, 2013, net of accumulated amortisation . . .	42,779,161	1,637,883	44,417,044
Addition	—	32,212,741	32,212,741
Amortisation provided during the year	<u>(5,066,413)</u>	<u>(2,672,727)</u>	<u>(7,739,140)</u>
At December 31, 2013, net of accumulated amortisation.	<u>37,712,748</u>	<u>31,177,897</u>	<u>68,890,645</u>
At December 31, 2013:			
Cost	44,051,083	34,064,706	78,115,789
Accumulated amortisation	<u>(6,338,335)</u>	<u>(2,886,809)</u>	<u>(9,225,144)</u>
Net carrying amount	<u>37,712,748</u>	<u>31,177,897</u>	<u>68,890,645</u>

16. GOODWILL

	RMB
At January 1, 2011:	
Cost	544,917
Accumulated impairment	—
Net carrying amount.	<u>544,917</u>
At January 1, 2011, net of accumulated impairment	544,917
Impairment during the year	—
At December 31, 2011, net of accumulated impairment	<u>544,917</u>
At December 31, 2011:	
Cost	544,917
Accumulated impairment	—
Net carrying amount.	<u>544,917</u>
At January 1, 2012, net of accumulated impairment	544,917
Acquisition of subsidiaries (<i>note 29</i>)	25,491,725
Impairment during the year	—
At December 31, 2012, net of accumulated impairment	<u>26,036,642</u>
At December 31, 2012:	
Cost	26,036,642
Accumulated impairment	—
Net carrying amount.	<u>26,036,642</u>
At January 1, 2013, net of accumulated impairment	26,036,642
Impairment during the year	—
At December 31, 2013, net of accumulated impairment	<u>26,036,642</u>
At December 31, 2013:	
Cost	26,036,642
Accumulated impairment	—
Net carrying amount.	<u>26,036,642</u>

The carrying amount of goodwill is allocated to the water purification services cash-generating unit ("CGU"). The recoverable amount of the CGU in connection with water purification services is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

The key assumptions used for value-in-use calculations as at December 31, 2011, 2012 and 2013 are as follows:

	As at December 31,		
	2011	2012	2013
Growth rate	5%	5%	5%
Discount rate	10%	10%	10%

Management determined budgeted growth rate based on past performance and its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business. The discount rates used are pre-tax and reflect specific risks relating to the operating segment.

Management does not foresee any significant change in the key assumptions used in the value-in-use calculation that will cause the recoverable amount of goodwill to be less than its carrying amount.

17. DEFERRED TAX ASSETS/LIABILITIES

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Elimination of unrealised profit	Accruals	Losses available for offsetting against future taxable profit	Total
	RMB	RMB	RMB	RMB
At January 1, 2011	—	—	143,535	143,535
Income tax (charged)/credited to the statement of comprehensive income during the year (<i>note 11</i>) . .	<u>2,975,880</u>	<u>1,367,160</u>	<u>(143,535)</u>	<u>4,199,505</u>
At December 31, 2011 and January 1, 2012	2,975,880	1,367,160	—	4,343,040
Income tax (charged)/credited to the statement of comprehensive income during the year (<i>note 11</i>) . .	<u>(809,979)</u>	<u>102,015</u>	<u>1,825,143</u>	<u>1,117,179</u>
At December 31, 2012	<u>2,165,901</u>	<u>1,469,175</u>	<u>1,825,143</u>	<u>5,460,219</u>
Income tax (charged)/credited to the statement of comprehensive income during the year (<i>note 11</i>) . .	<u>(923,042)</u>	<u>1,014,551</u>	<u>1,589,050</u>	<u>1,680,559</u>
At December 31, 2013	<u>1,242,859</u>	<u>2,483,726</u>	<u>3,414,193</u>	<u>7,140,778</u>

Deferred tax liabilities:

	Accrued government grant	Fair value adjustment arising from acquisition of subsidiaries	Total
	RMB	RMB	RMB
At January 1, 2011, December 31, 2011 and January 1, 2012	—	—	—
Acquisition of subsidiaries (<i>note 29</i>)	—	6,931,148	6,931,148
Deferred tax charged/(credited) to the statement of comprehensive income during the year (<i>note 11</i>)	<u>270,135</u>	<u>(77,119)</u>	<u>193,016</u>
At December 31, 2012	<u>270,135</u>	<u>6,854,029</u>	<u>7,124,164</u>
Deferred tax charged/(credited) to the statement of comprehensive income during the year (<i>note 11</i>)	<u>29,996</u>	<u>(570,195)</u>	<u>(540,199)</u>
At December 31, 2013	<u>300,131</u>	<u>6,283,834</u>	<u>6,583,965</u>

Deferred tax assets have not been recognised in respect of these losses of RMB1,711,236 and RMB7,261,524 as at December 31, 2012 and 2013 as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At the end of each reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB15,701,297, RMB110,099,220 and RMB287,235,837 as at December 31, 2011, 2012 and 2013.

18. INVENTORIES

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Raw materials	13,197,629	11,869,513	12,171,780
Work in progress	2,801,589	4,288,914	5,193,079
Finished goods	13,538,935	22,641,809	19,526,639
	<u>29,538,153</u>	<u>38,800,236</u>	<u>36,891,498</u>

19. TRADE AND BILLS RECEIVABLES

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Trade receivables	10,662,465	37,639,349	50,891,280
Bills receivables	—	—	100,000
	10,662,465	37,639,349	50,991,280
Impairment	—	—	(362,465)
Net trade and bills receivables	<u>10,662,465</u>	<u>37,639,349</u>	<u>50,628,815</u>

Trade and bills receivables mainly represent water purification service rental receivables from distributors and receivables for air sanitisation service. The Group usually requires a payment in advance before installation of water purification machines from most of the distributors. The Group only grants credit period to some distributors with long-term relationship and good credit history. The credit period is generally three months. For air sanitisation service receivables, the payment term are stipulated in the relevant contracts. The credit period is generally one month with retention period of 1 year. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are unsecured and non-interest-bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

An aged analysis of the trade and bills receivables as at the end of each of the Relevant Periods, based on the revenue recognition date and net of provisions, is as follows:

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Within 90 days	10,393,334	35,267,865	39,814,634
Over 90 days and within 180 days	164,397	139,641	3,946,710
Over 180 days and within 1 year	104,734	1,503,203	824,461
Over 1 year and within 2 years	—	728,640	5,608,510
Over 2 years and within 3 years	—	—	434,500
	<u>10,662,465</u>	<u>37,639,349</u>	<u>50,628,815</u>

The movements in provision for impairment of trade and bills receivables are as follows:

	As at December 31, 2013
	RMB
At January 1,	—
Impairment losses recognised (<i>note 7</i>).	362,465
	<u>362,465</u>

Included in the above provision for impairment of trade and bills receivables is a provision for individually and fully impaired trade and bills receivables.

The balance of the trade and bills receivables of RMB434,500 as at December 31, 2013 was over three months past due. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The balances of the trade and bills receivables as at December 31, 2011 and 2012 were neither past due nor impaired.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Other receivables	32,387,801	14,542,048	5,306,734
Deposits	1,103,907	1,164,874	1,323,758
Prepayments	<u>38,641,692</u>	<u>54,012,215</u>	<u>74,819,810</u>
	72,133,400	69,719,137	81,450,302
Less: non-current portion	<u>(5,476,000)</u>	<u>(19,215,407)</u>	<u>(32,006,950)</u>
	<u>66,657,400</u>	<u>50,503,730</u>	<u>49,443,352</u>

The above balances are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of deposits and other receivables approximate to their fair values.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Prepayments included the Mainland China Value Added Tax ("VAT") receivable amounting to RMB20,890,311, RMB16,723,815 and RMB19,969,255 as at December 31, 2011, 2012 and 2013. Input VAT on purchases can be deducted from output VAT payable. The VAT receivable is deductible input VAT which has not been claimed to the tax bureau.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Cash and bank balances	170,240,754	10,026,839	199,147,543
Time deposits	—	<u>159,171,000</u>	<u>22,211,926</u>
Total cash and bank balances	170,240,754	169,197,839	221,359,469
Less: Pledged as security for bank loan	—	—	61,500,000
Pledged as collateral for issuance of bank acceptance notes	—	—	<u>5,518,777</u>
Cash and cash equivalents	<u>170,240,754</u>	<u>169,197,839</u>	<u>154,340,692</u>
Denominated in RMB	164,978,542	164,976,905	214,262,040
Denominated in HK\$	4,666,366	3,089,925	6,526,470
Denominated in US\$	<u>595,846</u>	<u>1,131,009</u>	<u>570,959</u>
Total cash and bank balances	<u>170,240,754</u>	<u>169,197,839</u>	<u>221,359,469</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between 1 month and 2 months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents approximate to their fair values.

22. INTEREST-BEARING BANK LOAN

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Current			
Bank loan — secured	—	—	212,716,680

The Group's borrowings are all denominated in HK\$. The bank loan bears an interest at floating rate of HIBOR +4% per annum. The Group's bank loan is secured by the pledge of collateral deposit of RMB61,500,000 as set out in note 21 above.

The Group's bank loan is also secured by mortgages over the Group's property, plant and equipment, which had an aggregate carrying value as at December 31, 2013 of approximately RMB36,766,847 (note 14).

The Group's bank loan is guaranteed by Mr. Xiao, Fresh Water Group Limited and Park Wealth as at 31 December 2013.

23. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables of the Group as at the end of each of the Relevant Periods is as follows:

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Within 90 days	39,301,947	34,989,066	43,722,338
Over 90 days and within 180 days	3,219,416	950,357	5,616,838
Over 180 days and within 1 year	675,463	759,027	7,061,551
Over 1 year and within 2 years	—	341,352	1,102,100
Over 2 year and within 3 years	—	—	309,900
	<u>43,196,826</u>	<u>37,039,802</u>	<u>57,812,727</u>

The trade and bills payables are unsecured, non-interest-bearing and normally repayable within one to two months or on demand. The carrying amount of trade and bills payables approximates to their fair value due to their relatively short maturity terms.

24. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Other payables	42,420,032	75,598,108	90,399,123
Advances from customers	4,557,033	9,780,222	15,510,166
Accruals	2,779,119	3,207,868	24,486,439
	<u>49,756,184</u>	<u>88,586,198</u>	<u>130,395,728</u>

The above balances are unsecured, non-interest-bearing and repayable on demand. The carrying amounts of other payables and accruals approximate to their fair values.

25. DEFERRED REVENUE

Deferred revenue represented the advances received from distributors, being amortized over the lease term of the Group's water purification services, at the end of each of the Relevant Periods. All of the advances are expected to be recognised as revenue within one year.

26. PROVISION

	<u>Warranty</u>
	RMB
At January 1, 2011	—
Additional provision	882,918
Amounts utilised during the year	<u>(498,499)</u>
At December 31, 2011	384,419
Additional provision	3,680,942
Amounts utilised during the year	<u>(3,883,639)</u>
At December 31, 2012	181,722
Additional provision	13,316,090
Amounts utilised during the year	<u>(12,278,187)</u>
At December 31, 2013	<u>1,219,625</u>

The Group provides repair and maintenance to its end users on water purification service free of charge over the lease terms. The amount of the provision is estimated based on the number of water purification machines installed and past experience of the level of repairs and maintenance. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

27. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on November 15, 2013 with an authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.

28. RESERVES**(a) Statutory reserve**

Statutory reserve funds comprise:

(i) Reserve fund

PRC laws and regulations require wholly-owned foreign enterprises ("WFOE") to provide for the reserve fund by appropriating a part of the net profit (based on the entity's statutory accounts) before dividend distribution. Each subsidiary being WFOE is required to appropriate at least 10% of its net profit after tax to the statutory reserve until the balance of such fund has reached 50% of its registered capital. The statutory reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

(ii) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the registered capital after the capitalisation.

(b) Merger reserve

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation as mentioned in note 2.1 of Section II to the Financial Information.

29. BUSINESS COMBINATION**Acquisition in 2012 – Acquisition of Park Wealth and its subsidiaries**

On September 2012, Fresh Water Group Limited acquired 100% equity interest of Park Wealth and its subsidiaries from Successtime Limited, an independent third party, with a total consideration of HK\$68,500,000 (equivalent to RMB56,020,670). Upon the completion of the acquisition, Fresh Water Group Limited owned 100% shareholding and 100% voting rights of Park Wealth and obtained control. The acquisition was made as part of the Group's strategy to expand its market share of water purification products and services.

The fair value of the identifiable assets and liabilities of Park Wealth as at the date of acquisition were:

	Fair value recognised on acquisition
	RMB
Assets	
Revenue generating assets (Note 13)	56,609,070
Property, plant and equipment (Note 14)	2,611,530
Intangible assets (Note 15)	44,021,576
Cash and cash equivalents	684,237
	<u>103,926,413</u>
Liabilities	
Trade payables	(852,958)
Other payables, advance from customers and accruals	(15,877,000)
Due to a shareholder	(20,497,917)
Income tax payables	(815,945)
Deferred tax liabilities (Note 17)	(6,931,148)
	<u>(44,974,968)</u>
Total identified net assets at fair value	58,951,445
Goodwill arising on acquisition (Note 16)	25,491,725
Purchase consideration agreed	84,443,170
Satisfied by:	
Cash	56,020,670
Carrying value of the pre-existing payable to the Group	28,422,500
	<u>84,443,170</u>

The analysis of cash flow on the acquisition is as follows:

Cash and bank balances acquired and net cash inflow on acquisition in 2012	<u>684,237</u>
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Consideration of RMB56,020,670 was settled by the ultimate holding company in 2012.

The results of Park Wealth acquired in the year ended December 31, 2012 has no significant impact on the Group's combined revenue or profit for that year.

30. DISPOSAL OF SUBSIDIARIES

The Group disposed of its 100% equity interests in Shanghai Comfort Water Development Co., Ltd., Chengdu Comfort Water Co., Ltd., Beijing Haoze Kangjie Environmental Technology Co., Ltd., and Shenzhen Comfort Environmental Protection Technology Development Co., Ltd. to Ms. Qiu Ling, Mr. Xiao Lixue, Ms. Liu Shuqin and Mr. Ren Huazhen (all third parties) in 2013 with an aggregate consideration of RMB110,000.

	<u>RMB</u>
Net assets disposed of:	
Cash and cash equivalents	13,383
Property, plant and equipment	241,948
Other payables, advances from customers and accruals	<u>(814,417)</u>
	(559,086)
Gain on disposal of a subsidiary	<u>669,086</u>
	<u>110,000</u>
Satisfied by:	
Cash	<u>110,000</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

Cash consideration received	80,000
Cash and cash equivalents disposed of	<u>(13,383)</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>66,617</u>

31. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its water purifying machines under operating lease arrangements, with leases negotiated for term of one year.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<u>As at December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	RMB	RMB	RMB
Within one year	<u>25,227,046</u>	<u>45,154,253</u>	<u>60,505,851</u>

(b) As lessee

The Group leases certain of its warehouses and factory properties under operating lease arrangements, negotiated for terms of one to four years with an option for renewal after the end of lease terms, at which time all terms will be renegotiated.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Within one year	3,630,537	7,540,490	7,077,854
In the second to fifth years, inclusive.	5,008,368	7,327,482	2,190,787
	<u>8,638,905</u>	<u>14,867,972</u>	<u>9,268,641</u>

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Contracted, but not provided for:			
Property, plant and equipment	<u>738,200</u>	<u>4,264,000</u>	<u>64,576,224</u>

33. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

<u>Name of related party</u>	<u>Relationship with the Group</u>
Fresh Water Group Limited	Ultimate holding company
Mr. Xiao Shu	Shareholder

(b) Related party transactions

In addition to the transactions and balances disclosed elsewhere in this report, the Group had the following material transactions with related parties during the Relevant Periods:

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
(1) Repayment of advance from a shareholder — Mr. Xiao Shu	<u>—</u>	<u>3,471,553</u>	<u>17,026,364</u>
(2) Advance from a related party — Fresh Water Group Limited.	<u>280,194,954</u>	<u>191,809,374</u>	<u>—</u>
(3) Repayment of advance from a related party — Fresh Water Group Limited.	<u>—</u>	<u>56,040,938</u>	<u>501,628</u>

(c) Outstanding balances with related parties

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
(1) Due to a shareholder — Mr. Xiao Shu	<u>—</u>	<u>17,026,364</u>	<u>—</u>
(2) Due to a related party — Fresh Water Group Limited.	<u>287,757,213</u>	<u>422,820,024</u>	<u>407,955,002</u>

Balances with the related parties were unsecured, non-interest-bearing and had no fixed repayment terms.

(d) Compensation of key management personnel of the Group

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Short term employee benefits	535,636	645,200	826,800
Pension scheme contributions	66,004	69,917	58,268
Total compensation paid to key management personnel.	<u>601,640</u>	<u>715,117</u>	<u>885,068</u>

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets – loans and receivables

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Trade and bills receivables	10,662,465	37,639,349	50,628,815
Financial assets included in prepayments, deposits and other receivables	33,491,707	15,706,922	6,630,492
Pledged deposit.	—	—	67,018,777
Cash and cash equivalents	170,240,754	169,197,839	154,340,692
	<u>214,394,926</u>	<u>222,544,110</u>	<u>278,618,776</u>

Financial liabilities – financial liabilities at amortised cost

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Interest-bearing bank loan	—	—	212,716,680
Trade and bills payables	43,196,826	37,039,802	57,812,727
Financial liabilities included in other payables, advances from customers and accruals	10,985,070	25,372,024	48,782,886
Due to a shareholder	—	17,026,364	—
Due to a related party.	287,757,213	422,820,024	407,955,002
	<u>341,939,109</u>	<u>502,258,214</u>	<u>727,267,295</u>

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair values of the financial assets and liabilities:

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables, advances from customers and accruals amounts due to a shareholder and a related party and interest-bearing bank loan approximate to their carrying amounts largely due to the short term maturities of these instruments.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowing set out in note 23. The Group has not used any interest rate swaps to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity, other than retained earnings.

	<u>Increase/ (decrease) in basis points</u>	<u>Increase/ (decrease) in profit before tax</u>	<u>Increase/ (decrease) in revenue generating assets*</u>	<u>Increase/ (decrease) in property, plant and equipment*</u>
		RMB	RMB	RMB
2013				
HK\$ denominated loan	+100	(302,282)	187,776	102,285
HK\$ denominated loan	-100	302,282	(187,776)	(102,285)

* The interest costs are partly capitalised as part of the cost of revenue generating assets and property, plant and equipment.

Foreign currency risk

The Group is exposed to foreign currency risk primarily related to the payable due to a related party that is denominated in United States dollar ("US\$"), currency other than the functional currency of the operations to which the transactions relate.

The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Group's profit before tax.

	<u>Increase/ decrease in US\$ rate</u>	<u>Increase/ (decrease) in profit before tax</u>
		RMB
2011		
If US\$ weakens against RMB	-5%	14,433,012
If US\$ strengthens against RMB	+5%	(14,433,012)
2012		
If US\$ weakens against RMB	-5%	24,002,366
If US\$ strengthens against RMB	+5%	(24,002,366)
2013		
If US\$ weakens against RMB	-5%	23,282,162
If US\$ strengthens against RMB	+5%	(23,282,162)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

All the Group's cash and cash equivalents are held in major financial institutions located in Mainland China and Hong Kong, which do not have recent history of default.

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables and financial assets included in prepayments, deposits and other receivables included in the combined statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

Liquidity risk

The Group's policy is to monitor regularly the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The maturity profile of the Group's financial liabilities as at the end of the each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

December 31, 2013

	<u>On demand</u>	<u>Less than 1 year</u>	<u>Total</u>
	RMB	RMB	RMB
Interest-bearing bank loan	—	219,839,662	219,839,662
Trade and bills payables	—	57,812,727	57,812,727
Other payables and accruals	48,782,886	—	48,782,886
Due to a related party	407,955,002	—	407,955,002
	<u>456,737,888</u>	<u>277,652,389</u>	<u>734,390,277</u>

December 31, 2012

	<u>On demand</u>	<u>Less than 1 year</u>	<u>Total</u>
	RMB	RMB	RMB
Trade and bills payables	—	37,039,802	37,039,802
Other payables and accruals	25,372,024	—	25,372,024
Due to a shareholder	17,026,364	—	17,026,364
Due to a related party	422,820,024	—	422,820,024
	<u>465,218,412</u>	<u>37,039,802</u>	<u>502,258,214</u>

December 31, 2011

	<u>On demand</u>	<u>Less than 1 year</u>	<u>Total</u>
	RMB	RMB	RMB
Trade and bills payables	—	43,196,826	43,196,826
Other payables and accruals	10,985,070	—	10,985,070
Due to a related party	287,757,213	—	287,757,213
	<u>298,742,283</u>	<u>43,196,826</u>	<u>341,939,109</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity attributable to owners of the parent. The Group includes, within total debt, interest-bearing bank loan and an amount due to a shareholder. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Interest-bearing bank loan	—	—	212,716,680
Due to a shareholder	—	17,026,364	—
Total debt	<u>—</u>	<u>17,026,364</u>	<u>212,716,680</u>
Equity attributable to owners of the parent.	<u>22,918,516</u>	<u>180,630,276</u>	<u>333,542,372</u>
Gearing ratio	<u>—</u>	<u>9.4%</u>	<u>63.8%</u>

37. EVENTS AFTER THE REPORTING PERIOD

On March 13, 2014, Ozner Water Group Limited, a subsidiary incorporated in the BVI with the Company as its sole shareholder acquired the entire issued share capital of Fresh Water HK and Park Wealth at the consideration of HK\$35,000 and US\$1,000, respectively, from the ultimate holding company of the Company, Fresh Water Group Limited.

On March 18, 2014, the Company allotted and issued one share to the ultimate holding company of the Company, Fresh Water Group Limited, at a subscription price of RMB600,000 and Ozner Water Group Limited allotted and issued one share to the Company at a subscription price of RMB600,000.

The Company granted options to subscribe at an exercise price equivalent to 85% of the offering price for the initial public offering of the shares of the Company on the Stock Exchange, for an aggregate of 168,800,000 shares in the Company (the "Pre-IPO Share Option Scheme"). The principal terms of the Pre-IPO Share Option Scheme were approved by written resolutions of the sole shareholder on May 26, 2014. The principal terms of the Pre-IPO Share Option Scheme are summarized in Appendix IV "Statutory and General Information — D. Share Option Schemes" to the Prospectus.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to December 31, 2013.

Yours faithfully,
Ernst & Young
Certified Public Accountants
 Hong Kong

The information set out in this appendix does not form part of the Accountants' Report on the financial information of the Group for the Track Record Period prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included in this prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus, the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted combined net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the combined net tangible assets of the Group attributable to equity holders of the Company as if the share offer had taken place on December 31, 2013.

The unaudited pro forma statement of adjusted combined net tangible assets of the Group has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true and fair picture of the combined net tangible assets of the Group had the Global offering been completed at December 31, 2013 or at any future dates.

	Audited combined net tangible assets of the Group as at December 31, 2013 ⁽¹⁾	Forecast net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted combined net tangible assets of our Group	Unaudited pro forma adjusted combined net tangible assets per Share ^{(3) (4)}	
	RMB (Note 1)	RMB (Note 2)	RMB	RMB (Note 3)	HKD
Based on the minimum indicative Offer Price of HK\$2.25 per Share	238,615,805	700,035,303	938,650,388	0.56	0.70
Based on the maximum indicative Offer Price of HK\$2.70 per Share	238,615,085	845,886,764	1,084,501,849	0.64	0.81

Notes:

- (1) The audited combined net tangible assets of the Group as at December 31, 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined equity attributable to owners of the parent as of December 31, 2013 of RMB333,542,372 less intangible assets as of December 31, 2013 of RMB68,890,645 and goodwill as of December 31, 2013 of RMB26,036,642.
- (2) The estimated net proceeds from the Global Offering are based on the minimum and maximum indicative Offer Price of HK\$2.25 and HK\$2.70 per Share, respectively, assuming no exercise of the Over-allotment Option, after deduction of underwriting fees and estimated expenses payable by our Group.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is based on a total of 1,688,000,000 Shares expected to be in issue immediately following the completion of the Global Offering. No account has been taken of (i) any Shares which may be allotted and issued upon exercise of the Over-allotment Option, (ii) any Shares which may be issued upon exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme.
- (4) The Renminbi amount has been translated into Hong Kong dollar amount at HK\$1.00: RMB0.7959.

**B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of report, prepared for the purpose of incorporation in this prospectus, received from Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company.



22/F, CITIC Tower
1 Tim Mei Avenue
Hong Kong

June 5, 2014

To the Directors of Ozner Water International Holding Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Ozner Water International Holding Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma combined net tangible assets as at 31 December 2013 and related notes as set out in Appendix II of the Prospectus issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II of the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering and placing of shares of the Company on the Group’s financial position as at 31 December 2013 as if the transaction had taken place at 31 December 2013. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the year ended 31 December 2013, on which an accountant’s report has been published.

DIRECTORS’ RESPONSIBILITY FOR THE PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

REPORTING ACCOUNTANT’S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering and placing of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the global offering and placing of shares of the Company, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

This Appendix contains a summary of the Memorandum and Articles of Association of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection – 2. Documents Available for Inspection" in Appendix V to this prospectus, a copy of the Memorandum and Articles of Association is available for inspection.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 15, 2013 under the Companies Law. The Memorandum and Articles which were adopted pursuant to a shareholders' resolution, conditional upon and with effect from the Listing Date comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) *Composition of the board*

Unless otherwise determined by the Company in general meeting, the number of directors shall not be less than three. There is no maximum number of directors. At least one-third, or three members, of the board, whichever is greater, shall be Independent Non-Executive Directors.

(ii) *Power to allot and issue Shares and warrants*

Subject to the Articles, any direction that may be given by the Company in general meeting and, where applicable, the Listing Rules and without prejudice to any special rights or restrictions for the time being attached to any Shares or any class of Shares, all Shares for the time being unissued shall be under the control of the Directors who may designate, re-designate, offer, issue, allot and dispose of the same to such persons, in such manner, on such terms and having such rights and being subject to such restrictions as they may from time to time determine but so that no Shares shall be issued at a discount; and grant options with respect to such Shares and issue warrants, convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of Shares or securities in the capital of the Company on such terms as they may from time to time determine, and, for such purposes, the Directors may reserve an appropriate number of Shares for the time being unissued.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose.

(iii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(v) *Loans and provision of security for loans to Directors*

There are provisions in the Articles restricting the making of loans or provision of security to the Directors.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid remuneration in respect of any such other office or place of profit (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

Subject as otherwise provided by the Articles, the board may exercise or cause to be exercised the voting power conferred by the shares in any other company held or owned by the Company, or exercisable by them as directors of such other company, in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established, provided that a Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board of Directors approving any contract or arrangement or any other proposal in which he or any of his associate(s) has/have a material interest, but this prohibition shall not apply in respect of the following matters:

1. the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
2. the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility, in whole or in part, whether alone or jointly under a guarantee or indemnity or by the giving of security;
3. any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
4. any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;
5. any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of:
 1. any employees' share scheme or any share incentive or a share option scheme under which a Director or his associate(s) may benefit; or
 2. a pension fund or retirement, death or disability benefits scheme which relates both to directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates; or

6. any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

A company shall be deemed to be a company in which a Director and/or his associate(s) owns 5 per cent. or more if and so long as (but only if and so long as) he and/or his associate(s), (either directly or indirectly) are the holders of or beneficially interested in 5 per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associate(s) is derived). For the purpose of this paragraph, there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder.

Where a company in which a Director and/or his associate(s) holds 5 per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall be entitled to only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all necessary travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of Shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request from the board, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of

salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

(viii) *Retirement, appointment and removal*

At each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board provided that at least one-third, or three members, of the board, whichever is greater, shall be Independent Non-Executive Directors. Any Director so appointed by the board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any Shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place.

The office of Director shall also be vacated if:

- (aa) the Director resigns his office by notice in writing to the Company at its registered office or its head office;
- (bb) an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (cc) the Director, without leave, is absent from meetings of Directors (unless an alternate Director appointed by him attends in his place) for a continuous period of 12 months, and the Directors resolve that his office be vacated;
- (dd) the Director becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) the Director ceases to be or is prohibited from being a director by law or by virtue of any provisions in the Articles; or

(ff) the Director is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

If an Independent Non-Executive Director has served on the board for more than nine years, the further appointment of such Independent Non-Executive Director will be subject to the separate approval of the members by ordinary resolution.

The Directors may from time to time appoint any person, whether or not a Director to hold such office in the Company as the Directors may think necessary for the administration of the Company, including but not limited to, the office of president, one or more vice-presidents, treasurer, assistant treasurer, manager or controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. Any person so appointed by the Directors may be removed by the Directors. The Directors may also appoint one or more of their number to the office of managing director upon like terms, but any such appointment shall *ipso facto* determine if any managing director ceases from any cause to be a Director, or if the Company by resolution resolves that his tenure of office be terminated.

The Directors may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorize the members of any such local board, or any of them to fill any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation.

(ix) *Borrowing powers*

The board may exercise all the powers of the Company to borrow money and to mortgage or charge all or part of its undertaking, property and uncalled capital or any part thereof, and subject to the Companies Law, to issue debentures, debenture stock, and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(x) *Proceedings of the Board*

The board may meet together with (either within or outside the Cayman Islands) for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(xi) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of Directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty days of any change in such Directors or officers.

(b) *Alterations to constitutional documents/Change of Name*

The Articles may be altered or amended by the Company in general meeting by special resolution. The Companies Law provides that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) *Alteration of capital*

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into Shares of such classes and amount, as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into Shares of larger amount than its existing Shares;
- (iii) convert all or any of its paid up Shares into stock and reconvert that stock into paid up Shares of any denomination;
- (iv) subdivide its Shares, or any of them into Shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced Share shall be the same as it was in case of the Share from which the reduced Share is derived; or
- (v) cancel any Shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the Shares so cancelled.

The Company may by special resolutions reduce its Share capital and any capital redemption reserve in any manner authorized by law.

(d) Variation of rights of existing Shares or classes of Shares

Whenever the capital of the Company is divided into different classes the rights attached to any such class may, subject to any rights or restrictions for the time being attached to any class, only be materially adversely varied or abrogated with the consent in writing of the holders of not less than three-fourths of the issued Shares of the relevant class, or with the sanction of a resolution passed at a separate meeting of the holders of the Shares of such class by a majority of not less than three-fourths of the votes cast at such a meeting. To every such separate meeting all the provisions of the Articles relating to general meetings of the Company or to the proceedings thereat shall *mutatis mutandis*, apply except that the necessary quorum shall be one or more persons at least holding or representing by proxy one-third in nominal or par value amount of the issued Shares of the relevant class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present, those shareholders who are present shall form a quorum) and that, subject to any rights or restrictions for the time being attached to the Shares of that class, every shareholder of the class shall on a poll have one vote for each Share of the class held by him.

The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the Shares of that class, be deemed to be materially adversely varied or abrogated by, *inter alia*, the creation, allotment or issue of further Shares ranking *pari passu* with or subsequent to them or the redemption or purchase of any Shares of any class by the Company.

(e) Transfer of Shares

Title to the Company's listed shares may be evidenced and transferred in accordance with Hong Kong law and the Listing Rules.

Transfers of Shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve, which is consistent with the standard form of transfer as approved by the Directors or prescribed by the Stock Exchange (as appropriate). All instruments of transfer must be left at the registered office of the Company or at such other place as the Directors may appoint. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any Share which is not fully paid up or on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless (i) a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, (ii) the instrument of transfer, if applicable, is properly stamped, (iii) the instrument of transfer is in respect of only one class of Share, (iv) the instrument of transfer is validly lodged with the Company accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do), (v) in the case of a transfer to joint holders, the number of joint holders to which the share is to be transferred does not exceed four, and (vi) the Shares concerned are free of any lien in favour of the Company.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to and in accordance with the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles or by advertisement published in any newspapers, be suspended and the register of members closed at such times for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended or the register of members closed for more than 30 days in each year, or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

(f) *Power for the Company to purchase its own Shares*

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements of the Listing Rules.

(g) *Power for any subsidiary of the Company to own Shares in the Company*

There are no provisions in the Articles relating to ownership of Shares in the Company by a subsidiary.

(h) *Requirements for annual general meetings*

An annual general meeting of the Company must be held in each year (within a period of not more than 15 months after the holding of the last preceding annual general meeting and so long as the first annual general meeting of the Company is held within 18 months of the adoption of the Articles, it needs not be held in the year of its incorporation or immediate following year) at such time and place as may be determined by the board.

(i) *Notices of meetings and business to be conducted thereat*

An annual general meeting shall be called by notice of not less than 21 clear days and not less than 20 clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall be called by notice of at least 21 clear

days and not less than 10 clear business days. All other extraordinary general meetings shall be called by notice of at least 14 clear days and not less than 10 clear business days. The notice shall specify the time, place, and agenda of the meeting, particulars of the resolutions to be considered at the meeting and in the case of special business (as defined in the Articles) the general nature of that business. Notice of every general meeting shall be given to all members of the Company (except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the register of members), the Company's auditors, each Director and alternate Director, the Stock Exchange, and such other person(s) to whom such notice is required to be given in accordance with the Listing Rules.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. in nominal value of the issued Shares giving that right.

All business carried out at a general meeting shall be deemed special with the exception of (a) declaration and sanctioning a dividend; (b) the consideration of the accounts, balance sheets, and any report of the Directors or of the Company's auditors; (c) the election of Directors whether by rotation or otherwise in the place of those retiring; (d) the appointment of the Company's auditors and other officers; (e) the fixing of the remuneration of the company's auditors, and the voting of remuneration or extra remuneration to the Directors; (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued Shares in the capital of the Company representing not more than 20 per cent. in nominal value of its existing issued share capital; and (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

No special business shall be transacted at any general meeting without the consent of all members of the Company entitled to receive notice of that meeting unless notice of such special business has been given in the notice convening that meeting.

(j) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate

class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be one or more persons holding or representing by proxy not less than one-third in nominal value of the issued Shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(k) *Special/Ordinary resolution-majorities required*

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of such members as, being entitled so to do, vote in person or, in the case of such members being corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution, has been duly given in accordance with the Articles, or in writing by all members of the Company entitled to vote at a general meeting of the Company.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of such members as, being entitled to do so, vote in person or, in the case of such members being corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution, has been duly given in accordance with the Articles, or in writing by all members of the Company entitled to vote at a general meeting of the Company.

(l) *Voting rights*

Subject to any special rights or restrictions as to voting for the time being attached to any Shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid Share of which he is the holder but so that no amount paid up or credited as paid up on a Share in advance of calls or installments is treated for the foregoing purposes as paid up on the Share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll, except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)), being a corporation, is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of Shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the Shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(m) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(n) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one days before the date of the meeting and at

the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, rules and regulations, including the Listing Rules, the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the Directors' report instead which shall be in the form and containing the information required by applicable laws and regulations, provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(o) *Dividends and other methods of distribution*

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide that dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of Share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of Shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the Shares at his address as appearing in the register of members or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any Share shall bear interest against the Company.

(p) *Inspection of register of listed shares*

Pursuant to the Articles any Company's branch register kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by a member without charge and any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the directors may determine for each inspection.

(q) *Call on Shares and forfeiture of Shares*

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any moneys unpaid on the Shares held by them (whether on account of the nominal value of the Shares or by way of premium). If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of eight per cent. per annum from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the moneys uncalled and unpaid or installments payable upon any Shares held by him, and upon all or any of the moneys so advanced the Company may pay interest at such rate (not exceeding without the sanction of an ordinary resolution, eight per cent. per annum) as may be agreed upon between the member and the board.

If a member fails to pay any call or installment of a call in respect of partly paid shares on the day appointed for payment thereof, the board may serve not less than fourteen clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and stating that, in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any Share in respect of which notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the date of forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the Shares forfeited, but this liability shall cease if and when the Company receives payment in full of the amount unpaid on the Shares forfeited.

(r) *Rights of the minorities in relation to fraud or oppression*

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix III.

(s) *Procedures on liquidation*

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution, except where the Company is to be wound up voluntarily because it is unable to pay its debts as they fall due. In such case the resolution shall be an ordinary resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the Shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the authority of an ordinary resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any Shares or other property in respect of which there is a liability.

(t) *Untraceable members*

Pursuant to the Articles, the Company may sell any of the Shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the Shares in question (being not less than three in total number) for any sum payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) following the expiry of the 12 year period, the Company has caused an advertisement to be published in accordance with the Listing Rules giving notice of its intention to sell such Shares and a period of three months, or such shorter period as may be permitted by the Stock Exchange, has elapsed since the date of such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) *Subscription rights reserve*

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) *Operations*

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) *Share Capital*

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in any manner provided in section 37 of the Cayman Islands Companies Law; (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Memorandum and Articles conditionally adopted include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) *Financial Assistance to Purchase Shares of a Company or its Holding Company*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the Directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) *Purchase of Shares and Warrants by a Company and its Subsidiaries*

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of the purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the Company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the Directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) *Dividends and Distributions*

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account.

(f) *Protection of Minorities*

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up. Or, as an alternative to a winding-up order, the Court may make the following orders: (a) an order regulating the conduct of the company's affairs in the future; (b) an order requiring the company to refrain from doing or continuing an act complained of by the petitioner or to do an act which the petitioner has complained it has omitted to do; (c) an order authorizing civil proceedings to be brought in the name of and on behalf of the company by the petitioner on such terms as the Court may direct; or (d) an order providing for the purchase of the shares of any members of the company by other members or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) *Management*

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) *Accounting and Auditing Requirements*

A Cayman Islands exempted company shall cause proper books of account, including, where applicable, material underlying documentation including contracts and invoices to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company. Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions. A Cayman Islands exempted company shall cause all its books of account to be retained for a minimum period of five years from the date on which they are prepared.

(i) *Exchange Control*

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) *Taxation*

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) *Stamp Duty on Transfers*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) *Loans to Directors*

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) *Inspection of Corporate Records*

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. An exempted company may also maintain a separate register of members in respect of its listed shares. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) *Winding Up*

A company may be wound up by either an order of the Court, voluntarily or subject to the supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily (a) when the period (if any) fixed for the duration of the company by its memorandum or articles of association expires; (b) if the event (if any) occurs, on the occurrence of which the memorandum or articles of association provide that the company is to be wound up; (c) if the company resolves by special resolution that it be wound up voluntarily; or (d) if the company resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as

they fall due. In the case of a voluntary winding up, such company shall from the commencement of its winding up, cease to carry on its business except so far as it may be beneficial for its winding up.

In circumstances where a company is solvent (the directors of the company will need to provide a statutory declaration to this effect), the company can be wound up by a special resolution of its shareholders, and the liquidation will not require the supervision of the Court. Unless one or more persons have been designated as liquidator or liquidators of the company in the company's memorandum and articles of association, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Alternatively, where the financial position of the company is such that a declaration of solvency cannot be given by the directors, the winding up will be initiated by an ordinary resolution of the company's shareholders and will occur subject to the supervision of the Court. In this case, a licensed insolvency practitioner will need to be appointed as liquidator (known as "an official liquidator"). The Court may determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. The Court may appoint a foreign practitioner to act jointly with a qualified insolvency practitioner. A person may qualify as an official liquidator if that person holds the qualifications specified in the Insolvency Practitioners Regulations of the Cayman Islands. The Court may appoint a foreign practitioner to act jointly with a qualified insolvency practitioner.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation for it. At least 21 days before the meeting the liquidator must send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Cayman Islands Gazette.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. While a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Mergers and Consolidations

The Companies Law provides that any two or more Cayman Islands companies limited by shares (other than segregated portfolio companies) may merge or consolidate in accordance with the Companies Law. The Companies Law also allows one or more Cayman Islands companies to merge or consolidate with one or more foreign companies (provided that the laws of the foreign jurisdiction permit such merger or consolidation).

To effect a merger or consolidation of one or more Cayman Islands companies the directors of each constituent company must approve a written plan of merger or consolidation in accordance with the Companies Law. The Plan must then be authorized by each constituent company by a special resolution of members and such other authorization, if any, as may be specified in such constituent company's articles of association.

Where a Cayman Islands parent is merging with one or more of its Cayman Islands subsidiaries, shareholder consent is not required if a copy of the plan of merger is given to every member of each subsidiary company to be merged, unless that member agrees otherwise.

To effect a merger or consolidation of one or more Cayman Islands companies with one or more foreign companies, in addition to the approval requirements applicable to the merger or consolidation of Cayman Islands companies (in relation to Cayman Islands companies) only, the merger or consolidation must also be effected in compliance with the constitutional documents of, and laws of the foreign jurisdiction applicable to, the foreign companies).

(q) Compulsory Acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety per cent of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should

exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(r) *Indemnification*

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Walkers, the Company's legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of the Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and available for inspection" in Appendix V to this Prospectus. Any person wishing to have a detailed summary of the Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of Our Company**

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on November 15, 2013. We have established a principal place of business in Hong Kong at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the old Companies Ordinance (Chapter 32 of the Laws of Hong Kong which was in effect until March 3, 2014) on January 6, 2014. Ms. Lai Siu Kuen has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum of Association and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum of Association and Articles of Association is set out in the section headed "Summary of the Constitution of Our Company and Cayman Companies Law" in Appendix III to this prospectus.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of HK\$380,000, divided into 38,000,000 shares of HK\$0.01 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- On November 15, 2013, we allotted and issued one Share to Walkers Nominees Limited at par value, which was transferred to Fresh Water Group on November 19, 2013.
- On March 18, 2014, we allotted and issue one Share to Fresh Water Group at a subscription price of RMB600,000.

The following changes in the share capital of our Company will take place after the date of this prospectus:

- Upon the Global Offering becoming unconditional, the authorized share capital of our Company will be increased from HK\$380,000 to HK\$40,000,000 by the creation of an additional 3,962,000,000 Shares.
- Immediately following the Global Offering becoming unconditional, 1,265,999,998 Shares will be allotted and issued, credited as fully paid, to Fresh Water Group pursuant to the Capitalization Issue, and Fresh Water Group will transfer 341,820,000 Shares to Baida Holdings Limited, 54,058,200 Shares to Lion Rise Holdings Limited, 50,640,000 Shares to Glorious Shine Holdings

Limited, 69,883,200 Shares to Baoye International Limited, 41,778,000 Shares to Giant Century International Limited, 334,857,000 Shares to SAIF Partners IV L.P., 233,956,800 Shares to Ares FW Holdings, L.P., 139,006,800 Shares to Watercube Holdings, L.L.C. in consideration of the repurchase by Fresh Water Group of its issued shares from Mr. Xiao, Mr. Wang, SAIF Partners IV L.P., Ares FW Holdings, L.P. and Watercube Holdings, L.L.C.^{Note}

Note: Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited are wholly-owned by Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited under the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. Xiao (as the settlor) and the discretionary beneficiaries of which include Mr. Xiao and certain of his family members. Fresh Water Group transferred an aggregate of 446,518,200 Shares to Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited at the direction of Mr. Xiao.

Baoye International Limited and Giant Century International Limited are wholly-owned by Baoye Capital Limited and Giant Century Capital Limited under the Wang Family I Trust and the Wang Family II Trust, respectively. Each of the Wang Family I Trust and the Wang Family II Trust is a discretionary trust established by Mr. Wang (as the settlor) and the discretionary beneficiaries of which include Mr. Wang and his spouse. Fresh Water Group transferred an aggregate of 111,661,200 Shares to Baoye International Limited and Giant Century International Limited at the direction of Mr. Wang.

Assuming that the Global Offering becomes unconditional, the authorized share capital of our Company will be increased from HK\$380,000 to HK\$40,000,000 divided into 4,000,000,000 Shares on the Listing Date, and assuming further that the Capitalization Issue is completed and the Offer Shares are issued but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$16,880,000, divided into 1,688,000,000 Shares, all fully paid or credited as fully paid, with 2,312,000,000 Shares remain unissued.

Save as disclosed above and in this prospectus, there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in Writing of the Sole Shareholder of Our Company

Pursuant to the written resolutions passed by the sole Shareholder on May 26, 2014, it was resolved, among others,

- (a) conditional on (1) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (2) the Offer Price being fixed on the Price Determination Date and (3) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not being terminated in accordance with the terms therein (unless and to the extent such conditions are validly waived on or before such dates and times as may be specified in the Underwriting Agreements) or otherwise:
 - (i) our Company approved and adopted the Memorandum and Articles of Association with effect from the date of Listing;
 - (ii) the authorized share capital of our Company was increased from HK\$380,000 to HK\$40,000,000 by the creation of an additional 3,962,000,000 Shares with a nominal value of HK\$0.01 each;
 - (iii) the Global Offering and the Over-allotment Option were approved and the Directors were authorized to allot and issue the new Shares pursuant to the Global Offering and the Over-allotment Option;
 - (iv) the proposed Listing was approved and the Directors were authorized to implement the Listing;
 - (v) subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 1,265,999,998 Shares credited as fully paid at par to the holder(s) of Shares on the register of members of our Company at the close of business on the date of passing this resolution (or as it/they may direct) in proportion to its/their respective shareholdings in the Company (as nearly as possible without fractions) by way of capitalization of the sum of HK\$12,659,999.98 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares;
 - (vi) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the

Directors other than pursuant to (i) a rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, (iii) the exercise of options granted pursuant to the Pre-IPO Share Option Scheme and/or options to be granted pursuant to the Share Option Scheme or (iv) the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of passing the relevant resolution or (v) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme) and (2) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (vii) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting and the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “Applicable Period”);

- (vii) a general unconditional mandate was granted to the Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), such mandate to remain in effect during the Applicable Period;
- (viii) the general unconditional mandate mentioned in paragraph (vii) above be extended by the addition to the total nominal value of the share capital of our Company which may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to such general mandate of an amount representing the total nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in (vii) above, provided that such extended amount shall not exceed 10% of

the total nominal value of the Company's share capital in issue immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme); and

- (b) conditional on (1) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which are granted pursuant to the Pre-IPO Share Option Scheme and options which may be granted pursuant to the Share Option Scheme and (2) the commencement of trading of the Shares on the Main Board of the Stock Exchange, (i) the adoption of the Pre-IPO Share Option Scheme and the Share Option Scheme was approved and (ii) the Directors was authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options which are granted pursuant to the Pre-IPO Share Option Scheme and options which may be granted pursuant to the Share Option Scheme and to take all such actions as may be necessary and/or desirable to implement and give effect to the Pre-IPO Share Option Scheme and/or the Share Option Scheme.

4. Our Corporate Reorganization

The companies comprising the Group underwent the Pre-IPO Reorganization in preparation for the Listing. Please refer to the section headed "Our History and Reorganization – Pre-IPO Reorganization" in this prospectus for further details.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants' Report, we do not have any other subsidiaries.

The following alterations in the share capital or registered capital (as the case may be) of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(a) Ozner Water Group

On November 21, 2013, Ozner Water Group was incorporated in the BVI with limited liability. Ozner Water Group is authorized to issue a maximum of 50,000 shares of US\$1.00 each, of which one share was allotted and issued to our Company on November 21, 2013.

On March 18, 2014, Ozner Water Group allotted and issued one share of US\$1.00 to our Company at a subscription price of RMB600,000.

(b) Shaanxi Haoze Air Purification Technology

On August 22, 2012, Shaanxi Haoze Air Purification Technology was incorporated in the PRC as a limited liability company with registered capital of RMB3,000,000 which had been fully paid up. Shaanxi Haoze Air Purification Technology was held as to 100% by Shanghai Haoze Environmental Technology.

Save as disclosed above, there have been no alterations in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchases of Our Own Securities**(a) Provisions of the Listing Rules**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then sole Shareholder on May 26, 2014, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and any options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by the Cayman Companies Law or by our Articles of Association or any other applicable laws of the Cayman Islands to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles of Association of our Company and the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in

accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchases by our Company may be made out of the profits of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

(iii) *Trading Restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) *Status of Repurchased Shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) *Suspension of Repurchase*

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date

of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) *Reporting Requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) *Connected Persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a connected person is prohibited from knowingly selling his securities to the company.

(b) *Reasons for Repurchases*

The Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. The Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

(c) *Funding of Repurchases*

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with its Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, the Directors do not propose to

exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the repurchase mandate, on the basis of 1,688,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering and assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any options which were granted under the Pre-IPO Share Option Scheme or may be granted pursuant to the Share Option Scheme, could accordingly result in up to 168,800,000 Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) the date when the repurchase mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public falling below 25% of the total number of Shares in issue, being the relevant prescribed minimum percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the repurchase mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

No connected person of our Company has notified our Company that he or she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the equity interest transfer agreement dated August 15, 2013 entered into between Shanghai Comfort and Qiu Ling (邱玲), pursuant to which Shanghai Comfort agreed to transfer its 100% equity interest in Shanghai Comfort Water Development to Qiu Ling for a consideration of RMB30,000;
- (b) the equity interest transfer agreement dated August 27, 2013 entered into between Shanghai Comfort and Liu Shuqin (劉書芹), pursuant to which Shanghai Comfort agreed to transfer its 100% equity interest in Beijing Comfort to Liu Shuqin for a consideration of RMB30,000;
- (c) the equity interest transfer agreement dated October 23, 2013 entered into between Shanghai Comfort and Ren Huazhen (任華珍), pursuant to which Shanghai Comfort agreed to transfer its 100% equity interest in Shenzhen Comfort to Ren Huazhen for a consideration of RMB20,000;
- (d) the equity interest transfer agreement dated October 23, 2013 entered into between Shanghai Comfort and Xiao Lixue (肖立學), pursuant to which Shanghai Comfort agreed to transfer its 100% equity interest in Chengdu Comfort to Xiao Lixue for a consideration of RMB30,000;
- (e) the share purchase agreement dated March 13, 2014 entered into between Fresh Water Group as vendor and Ozner Water Group as purchaser pursuant to which Ozner Water Group acquired the entire issued share capital of HK Fresh Water from Fresh Water Group at a consideration of HK\$35,000;
- (f) the share purchase agreement dated March 13, 2014 entered into between Fresh Water Group as vendor and Ozner Water Group as purchaser pursuant to which Ozner Water Group acquired the entire issued share capital of Park Wealth from Fresh Water Group at a consideration of US\$1,000;
- (g) the capitalisation of loan agreement dated March 20, 2014 entered into between Fresh Water Group and HK Fresh Water pursuant to which Fresh Water Group subscribed for one share in the share capital of HK Fresh Water (the “**Subscription Share**”) in cash at a subscription price of RMB409,220,502.76

(equivalent to HK\$518,788,669.83), which subscription price shall be satisfied by capitalizing the shareholder's loan owed by HK Fresh Water to Fresh Water Group as at the date thereof;

- (h) the cornerstone investment agreement dated May 29, 2014 entered into among our Company, the Joint Bookrunners, OZ Master Fund, Ltd., Gordel Capital Limited, OZEA, L.P., OZ Global Equity Opportunities Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Eureka Fund, L.P., OZ Global Special Investments Master Fund, L.P., OZ ELS Master Fund, Ltd., OZC Global Equities Master Fund, L.P. and OZ Enhanced Master Fund, Ltd., pursuant to which OZ Master Fund, Ltd., Gordel Capital Limited, OZEA, L.P., OZ Global Equity Opportunities Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Eureka Fund, L.P., OZ Global Special Investments Master Fund, L.P., OZ ELS Master Fund, Ltd., OZC Global Equities Master Fund, L.P. and OZ Enhanced Master Fund, Ltd. agreed to purchase our Shares, at the Offer Price, in the aggregate amount of US\$40,000,000 (equivalent to HK\$310,148,000); and
- (i) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of the Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date	Expiry Date
1.	诺屋	11	Shanghai Haoze Water Purification Technology	PRC	10361470	May 7, 2013	May 6, 2023
2.	诺屋	40	Shanghai Haoze Water Purification Technology	PRC	10361508	May 7, 2013	May 6, 2023
3.	淨水	11	Shanghai Haoze Water Purification Technology	PRC	10594204	May 7, 2013	May 6, 2023
4.	淨水	32	Shanghai Haoze Water Purification Technology	PRC	10594328	June 7, 2013	June 6, 2023
5.	淨水	40	Shanghai Haoze Water Purification Technology	PRC	10594257	May 7, 2013	May 6, 2023

No.	Trademark	Type and Class	Registered Owner	Place of Registration	Registration Number	Registration Date	Expiry Date
6.	浩水	11	Shanghai Haoze Water Purification Technology	PRC	10594214	May 7, 2013	May 6, 2023
7.	浩水	40	Shanghai Haoze Water Purification Technology	PRC	10594247	May 7, 2013	May 6, 2023
8.	Novowater	11	Shanghai Haoze Water Purification Technology	PRC	8890612	December 14, 2011	December 13, 2021
9.	伊泉净品	11	Shanghai Haoze Water Purification Technology	PRC	8890615	December 14, 2011	December 13, 2021
10.		11	Shanghai Comfort	PRC	6061367	January 21, 2010	January 20, 2020
11.		11	Shanghai Comfort	PRC	6061368	January 21, 2010	January 20, 2020
12.	浩泽	10	Shanghai Comfort	PRC	6827827	April 14, 2010	April 13, 2020
13.	浩泽	11	Shanghai Comfort	PRC	6370344	April 21, 2010	April 20, 2020
14.	浩泽	40	Shanghai Comfort	PRC	6827824	May 7, 2010	May 6, 2020
15.	康福特	40	Shanghai Comfort	PRC	6827822	May 7, 2010	May 6, 2020
16.	COMFORT	40	Shanghai Comfort	PRC	6827823	May 7, 2010	May 6, 2020
17.		10	Shanghai Comfort	PRC	6827829	April 14, 2010	April 13, 2020
18.	APO [®] 活水系统	40	Shanghai Comfort	PRC	6900225	May 14, 2010	May 13, 2020
19.	OZNER	10	Shanghai Comfort	PRC	6964349	May 21, 2010	May 20, 2020
20.	OZNER	11	Shanghai Comfort	PRC	6964348	August 28, 2010	August 27, 2020
21.	OZNER	40	Shanghai Comfort	PRC	6964347	June 14, 2010	June 13, 2020
22.	浩翼	11	Shanghai Haoze Environmental Technology	PRC	9728443	September 7, 2012	September 6, 2022
23.	浩翼	40	Shanghai Haoze Environmental Technology	PRC	9728442	August 28, 2012	August 27, 2022
24.		43	Shanghai Comfort	PRC	11179479	November 28, 2013	November 27, 2023
25.		11	Shanghai Comfort	Hong Kong	301542096	February 9, 2010	February 8, 2020

As of the Latest Practicable Date, we have applied for the registration of the following trademarks:

No.	Trademark	Name of Applicant	Type and Class	Application Date	Application Number	Place of Application
1.	OZNER	Shanghai Comfort	11	November 19, 2013	302808315	Hong Kong
2.	OZNER	Shanghai Comfort	40	November 19, 2013	302808324	Hong Kong
3.	OZNER	Shanghai Comfort	43	November 19, 2013	302808333	Hong Kong
4.	OZNER 浩泽	Shanghai Comfort	11	November 19, 2013	302808379	Hong Kong
5.	OZNER 浩泽	Shanghai Comfort	40	November 19, 2013	302808388	Hong Kong
6.	OZNER 浩泽	Shanghai Comfort	43	November 19, 2013	302808397	Hong Kong
7.	浩泽	Shanghai Comfort	11	November 19, 2013	302808342	Hong Kong
8.	浩泽	Shanghai Comfort	40	November 19, 2013	302808351	Hong Kong
9.	浩泽	Shanghai Comfort	43	November 19, 2013	302808360	Hong Kong

(b) Domain Names

As of the Latest Practicable Date, we have registered the following domain names:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1.	ozner.net	Shanghai Haoze Environmental Technology	August 13, 2011	August 13, 2015
2.	cftcn.com	Shanghai Haoze Water Purification Technology	March 1, 2004	March 1, 2017
3.	oznerair.com	Shanghai Haoze Water Purification Technology	September 2, 2011	September 2, 2022
4.	oznerec.com	Shanghai Haoze Water Purification Technology	September 2, 2011	September 2, 2022
5.	oznerec.mobi	Shanghai Haoze Water Purification Technology	October 15, 2013	October 15, 2014
6.	oznerec.net	Shanghai Haoze Water Purification Technology	October 15, 2013	October 15, 2014

No.	Domain Name	Registrant	Date of Registration	Expiry Date
7.	oznerec.com.cn	Shanghai Haoze Water Purification Technology	October 15, 2013	October 15, 2014
8.	oznerec.cn	Shanghai Haoze Water Purification Technology	October 15, 2013	October 15, 2014
9.	oznerwater.com	Shanghai Haoze Water Purification Technology	September 2, 2011	September 2, 2022
10.	gift360.net	Shanghai Haoze Water Purification Technology	October 8, 2011	October 8, 2018
11.	gift1000.cn	Shanghai Haoze Water Purification Technology	October 8, 2011	October 8, 2018
12.	4008202667.com	Shanghai Haoze Water Purification Technology	October 20, 2011	October 20, 2015
13.	4008216788.com	Shanghai Haoze Water Purification Technology	October 20, 2011	October 20, 2016
14.	4008202667.net	Shanghai Haoze Water Purification Technology	May 15, 2012	May 15, 2015
15.	4008202667.cn	Shanghai Haoze Water Purification Technology	May 15, 2012	May 15, 2015
16.	hwater.cn	Shanghai Haoze Water Purification Technology	May 25, 2012	May 25, 2015
17.	noory.cn	Shanghai Haoze Water Purification Technology	May 25, 2012	May 25, 2015

No.	Domain Name	Registrant	Date of Registration	Expiry Date
18.	novowater.net	Shanghai Haoze Water Purification Technology	May 25, 2012	May 25, 2015
19.	novowater.cn	Shanghai Haoze Water Purification Technology	May 25, 2012	May 25, 2017
20.	4007201688.com	Shanghai Haoze Water Purification Technology	October 18, 2012	October 18, 2015
21.	伊泉淨品.com	Shanghai Haoze Water Purification Technology	November 6, 2012	November 6, 2014
22.	浩澤.com	Shanghai Haoze Water Purification Technology	November 6, 2012	November 6, 2014
23.	伊水.com	Shanghai Haoze Water Purification Technology	November 6, 2012	November 6, 2014
24.	浩水.com	Shanghai Haoze Water Purification Technology	November 6, 2012	November 6, 2014
25.	浩澤.cn	Shanghai Haoze Water Purification Technology	January 4, 2013	January 4, 2015
26.	ozner.org	Shanghai Haoze Water Purification Technology	August 5, 2013	August 5, 2014
27.	oznermall.cn	Shanghai Haoze Water Purification Technology	August 23, 2013	August 23, 2014
28.	oznermall.mobi	Shanghai Haoze Water Purification Technology	August 23, 2013	August 23, 2014

No.	Domain Name	Registrant	Date of Registration	Expiry Date
29.	oznermall.com	Shanghai Haoze Water Purification Technology	August 23, 2013	August 23, 2014
30.	oznermall.net	Shanghai Haoze Water Purification Technology	August 23, 2013	August 23, 2014

(c) Patents

As of the Latest Practicable Date, we have registered the following patents:

No.	Patent	Type	Registered Owner	Place of Registration	Registration Number	Registration Period
1.	Ozone sterilizer of water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020270084.8	10 years starting from July 23, 2010
2.	Automatic sensor energy saving device of water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020270064.0	10 years starting from July 23, 2010
3.	Automatic leaking control device of water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020270055.1	10 years starting from July 23, 2010
4.	Mobile top up device of frequency prepaid card of water purifying machine	Utility Model	Shanghai Comfort	PRC	ZL201020270101.8	10 years starting from July 23, 2010
5.	Tubular ozone generator	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020272948.X	10 years starting from July 27, 2010
6.	Faucet for desktop water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020272957.9	10 years starting from July 27, 2010
7.	Automatic water saving and anti-filtration processing device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020273027.5	10 years starting from July 27, 2010
8.	Faucet with in-built water purifying device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020272971.9	10 years starting from July 27, 2010
9.	Shower with in-built purifying device	Utility Model	Shanghai Comfort	PRC	ZL201020272966.8	10 years starting from July 27, 2010
10.	Drum of belt sludge pressing dehydration machine	Utility Model	Shanghai Comfort	PRC	ZL201020277660.1	10 years starting from July 30, 2010

No.	Patent	Type	Registered Owner	Place of Registration	Registration Number	Registration Period
11.	Pillar water cooling device with ozone generator	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020277647.6	10 years starting from July 30, 2010
12.	Multi-functional conversion water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020277672.4	10 years starting from July 30, 2010
13.	Belt sludge pressing dehydration machine	Utility Model	Shanghai Comfort	PRC	ZL201020280805.3	10 years starting from August 3, 2010
14.	Car washing waste water recycling device	Utility Model	Shanghai Comfort	PRC	ZL201020284766.4	10 years starting from August 6, 2010
15.	Ultra-filtration processing device with cleaning function	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020284758.X	10 years starting from August 6, 2010
16.	Multi-functional filter cartridge service extension device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020284746.7	10 years starting from August 6, 2010
17.	Combined water discharge magnetic valve	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201120520539.1	10 years starting from December 14, 2011
18.	Water machine ozone tail gas heating and dissolution device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201120521352.3	10 years starting from December 14, 2011
19.	New-type ozone aerator	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201120521339.8	10 years starting from December 14, 2011
20.	Quick connection filter cartridge module structure	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201120521342.X	10 years starting from December 14, 2011
21.	Single water direction control device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201120521345.3	10 years starting from December 14, 2011
22.	Working station for installing household appliance	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201120538588.8	10 years starting from December 20, 2011
23.	Ozone ultra-violet combined bacteria killing device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201120546173.5	10 years starting from December 23, 2011
24.	Wall mounting water purifying machine	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201130498500.X	10 years starting from December 26, 2011
25.	Water purifying machine	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201130498484.4	10 years starting from December 26, 2011

<u>No.</u>	<u>Patent</u>	<u>Type</u>	<u>Registered Owner</u>	<u>Place of Registration</u>	<u>Registration Number</u>	<u>Registration Period</u>
26.	Water purifying machine (A11 multi-media machine)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230297531.3	10 years starting from July 5, 2012
27.	Water purifying machine (A11)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230297584.5	10 years starting from July 5, 2012
28.	Water purifying machine ozone tail gas recycled device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201120520516.0	10 years starting from December 14, 2011
29.	Filter cartridge (2+1)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230297609.1	10 years starting from July 5, 2012
30.	Water purifying machine (A8)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230297575.6	10 years starting from July 5, 2012
31.	Magnetic valve (2-in-1)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230297594.9	10 years starting from July 5, 2012
32.	Magnetic valve (3-in-1)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230297598.7	10 years starting from July 5, 2012
33.	Filter cartridge (3+1)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230297543.6	10 years starting from July 5, 2012
34.	Bacteria-free water supply device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201220352825.6	10 years starting from July 19, 2012
35.	Water pipe filter	Utility Model	Shanghai Comfort	PRC	ZL201120537912.4	10 years starting from December 20, 2011
36.	Water purifying machine (Wall mounting machine)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230554247.X	10 years starting from November 15, 2012
37.	Water purifying machine (Touch-ordinary)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230554244.6	10 years starting from November 15, 2012
38.	Water purifying machine (entity key-ordinary)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230554246.5	10 years starting from November 15, 2012
39.	Water purifying machine (touch-multi-media)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230554500.1	10 years starting from November 15, 2012

No.	Patent	Type	Registered Owner	Place of Registration	Registration Number	Registration Period
40.	Water purifying machine (entity key-multi media)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230554245.0	10 years starting from November 15, 2012
41.	Under counter kitchen water machine	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230554248.4	10 years starting from November 15, 2012
42.	Counter top kitchen water machine	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201230554243.1	10 years starting from November 15, 2012
43.	Air-cooled tubular ozone generator	Utility Model	Shanghai Comfort	PRC	ZL200620039559.6	10 years starting from February 17, 2006
44.	One-off spraying tray for automatic spray paint production line	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200620039560.9	10 years starting from February 17, 2006
45.	Car washing waste water recycling device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200620039928.1	10 years starting from March 6, 2006
46.	Water purifying machine (1)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL200630040347.5	10 years starting from September 5, 2006
47.	Water purifying machine (2)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL200630040348.X	10 years starting from September 5, 2006
48.	Card-type water purifying machine	Utility Model	Shanghai Comfort	PRC	ZL200620045979.5	10 years starting from September 19, 2006
49.	Automatic filtration protection device of water purifying machine	Utility Model	Shanghai Comfort	PRC	ZL200620045978.0	10 years starting from September 19, 2006
50.	Household water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200620046119.3	10 years starting from September 21, 2006
51.	Heating and energy saving device of water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200620046975.9	10 years starting from October 20, 2006
52.	Ozone — nitric oxide vegetables and fruits preservation device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200620048601.0	10 years starting from December 5, 2006
53.	Nitric oxide generator	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200620048602.5	10 years starting from December 5, 2006
54.	Ozone water cleaning and sterilization device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200620048738.6	10 years starting from December 8, 2006
55.	Nitric oxide generation system for medical use	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200620049063.7	10 years starting from December 15, 2006

No.	Patent	Type	Registered Owner	Place of Registration	Registration Number	Registration Period
56.	Conveyor belt turning device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200720068000.0	10 years starting from March 20, 2007
57.	Ozone generator	Design	Shanghai Haoze Water Purification Technology	PRC	ZL200730079112.1	10 years starting from July 17, 2007
58.	The portable ozone generator	Design	Shanghai Haoze Water Purification Technology	PRC	ZL200730079114.0	10 years starting from July 17, 2007
59.	Bursting disk of ozone for sterilization	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200720074309.0	10 years starting from August 31, 2007
60.	Eco water purifying machine with reverse osmosis	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200820056222.5	10 years starting from March 14, 2008
61.	The structure of storage tank of Eco water dispenser with reverse osmosis	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200820056221.0	10 years starting from March 14, 2008
62.	Cover (drinking water for public)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL200830069347.7	10 years starting from March 26, 2008
63.	Water purifying machine with reverse osmosis	Utility Model	Shanghai Comfort	PRC	ZL200820152542.0	10 years starting from August 29, 2008
64.	Ozone aeration water purification device	Utility Model	Shanghai Comfort	PRC	ZL200820152543.5	10 years starting from August 29, 2008
65.	Purifying machine anti-cleansing device with PPF filter	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200820152541.6	10 years starting from August 29, 2008
66.	Manual water purifying machine with reverse osmosis	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200820152544.X	10 years starting from August 29, 2008
67.	Water purifying machine (3)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL200830067330.8	10 years starting from August 29, 2008
68.	Label (fresh water)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL200830067329.5	10 years starting from August 29, 2008
69.	Water purifying machine operated by magnetic card	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200820153252.8	10 years starting from September 19, 2008
70.	Water purifying machine operated by magnetic card	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200820153249.6	10 years starting from September 19, 2008
71.	Sets of machines with polymeric flocculant and diluent	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200920066801.2	10 years starting from January 13, 2009

No.	Patent	Type	Registered Owner	Place of Registration	Registration Number	Registration Period
72.	Device for sludge concentration and dehydration	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200920066802.7	10 years starting from January 13, 2009
73.	Small scale water-cooling ozone generator	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200920067038.5	10 years starting from January 16, 2009
74.	Multi-use water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200920212945.4	10 years starting from December 11, 2009
75.	Portable laser-card reader for water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200920213360.4	10 years starting from December 18, 2009
76.	Portable laser-card recharge machine for water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200920213361.9	10 years starting from December 18, 2009
77.	Innovative water sterilization device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL200920214856.3	10 years starting from December 24, 2009
78.	Multi-function water purifying machine filter	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020683016.4	10 years starting from December 27, 2010
79.	A text-message controlling system for water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020686942.7	10 years starting from December 29, 2010
80.	Auto-backwash water purifying machine	Utility Model	Shanghai Comfort	PRC	ZL201020690327.3	10 years starting from December 30, 2010
81.	Water dispenser managed by text messages	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201020674446.X	10 years starting from December 22, 2010
82.	Installation parts of filter	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320142353.6	10 years starting from March 26, 2013
83.	Clapboard fast connection device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320142351.7	10 years starting from March 26, 2013
84.	Filter installation parts	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320142290.4	10 years starting from March 26, 2013
85.	Side frame structure of water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320143450.7	10 years starting from March 26, 2013

<u>No.</u>	<u>Patent</u>	<u>Type</u>	<u>Registered Owner</u>	<u>Place of Registration</u>	<u>Registration Number</u>	<u>Registration Period</u>
86.	Four-way valve for water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320142352.1	10 years starting from March 26, 2013
87.	Water tank locking device of water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320143448.X	10 years starting from March 26, 2013
88.	Water tank of water purifying machine	Utility Model	Shaanxi Haoze Environmental Technology	PRC	ZL201320035724.0	10 years starting from January 23, 2013
89.	Water purifying machine cricket leaking protection device	Utility Model	Shaanxi Haoze Environmental Technology	PRC	ZL201320034990.1	10 years starting from January 23, 2013
90.	Water purifying machine slide-away plate installation structure	Utility Model	Shaanxi Haoze Environmental Technology	PRC	ZL201320142765.X	10 years starting from March 26, 2013
91.	New water tank locking device of water purifying machine	Utility Model	Shaanxi Haoze Environmental Technology	PRC	ZL201320140045.X	10 years starting from March 26, 2013
92.	Reverse frame connection structure	Utility Model	Shaanxi Haoze Environmental Technology	PRC	ZL201320141805.9	10 years starting from March 26, 2013
93.	Water tank locking device of water purifying machine	Utility Model	Shaanxi Haoze Environmental Technology	PRC	ZL201320142875.6	10 years starting from March 26, 2013
94.	three-in-one water tank of water purifying machine	Utility Model	Shaanxi Haoze Environmental Technology	PRC	ZL201320141803.X	10 years starting from March 26, 2013
95.	Water purifying machine (A5-50S)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201330186890.6	10 years starting from May 17, 2013
96.	Water purifying machine (campus)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201330186923.7	10 years starting from May 17, 2013
97.	Faucet (Water saving household machine)	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201330394728.3	10 years starting from August 18, 2013
98.	Vehicle-carrying multi-functional air purifying and sterilizing device	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320442239.5	10 years starting from July 23, 2013
99.	Water saving anti-filtration pure water purifying machine	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320442238.0	10 years starting from July 23, 2013

<u>No.</u>	<u>Patent</u>	<u>Type</u>	<u>Registered Owner</u>	<u>Place of Registration</u>	<u>Registration Number</u>	<u>Registration Period</u>
100.	Water purifying machine display unit protection device	Utility Model	Shaanxi Haoze Environmental Technology	PRC	ZL201320035741.4	10 years starting from January 23, 2013
101.	Water machine	Design	Shanghai Haoze Water Purification Technology	PRC	ZL201330394729.8	10 years starting from August 18, 2013
102.	Ultra-filtration membrane combined water purifying device with bacteria killing function	Utility Model	Shanghai Haoze Water Purification Technology	PRC	ZL201320442108.7	10 years starting from July 23, 2013

(d) Copyrights

As of the Latest Practicable Date, we were the registered owner of and had the right to use the following copyrights in the PRC:

<u>No.</u>	<u>Copyright</u>	<u>Registration No.</u>	<u>Type of Work</u>	<u>Registered Owner</u>	<u>Completion Date</u>	<u>Registration Date</u>
1.	Comfort magnetic card water machine control software V1.0	2008SR09447	Software	Shanghai Comfort	January 30, 2008	May 20, 2008
2.	Comfort magnetic card bagged water machine control software V2.0	2009SR00810	Software	Shanghai Comfort	September 30, 2008	January 6, 2009
3.	Embedded 2G control software for water purifying machine V1.0	2014SR049247	Software	Shanghai Haoze Water Purification Technology	December 1, 2013	April 25, 2014

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of the Directors and the Chief Executive of Our Company*

Immediately following the completion of the Capitalization Issue and the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares that may be issued pursuant to the exercise of options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the interests or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

<u>Name of Directors</u>	<u>Capacity/Nature of Interest</u>	<u>Number of Shares/ Underlying Shares</u>	<u>Approximate % shareholding interest immediate following the completion of the Capitalization Issue and the Global Offering⁽¹⁾</u>
Mr. Xiao	Founder of a discretionary trust Beneficial owner	446,518,200 ⁽³⁾	26.45%
		<u>51,086,706⁽⁴⁾</u>	<u>3.03%</u>
		497,604,906	29.48%
ZHU Mingwei.	Beneficial owner	11,160,859 ⁽⁴⁾	0.66%
HE Jun	Beneficial owner	10,662,531 ⁽⁴⁾	0.63%
TAN Jibin	Beneficial owner	8,547,535 ⁽⁴⁾	0.51%
XIAO Lilin	Beneficial owner	7,596,652 ⁽⁴⁾	0.45%

Notes:

- (1) The calculation is based on the total number of 1,688,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

- (2) All interests stated are long positions.
- (3) These 446,518,000 Shares are held as to 341,820,000 Shares by Baida Holdings Limited, 54,058,200 Shares by Lion Rise Holdings Limited and 50,640,000 Shares by Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited are wholly-owned by Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited under the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. Xiao (as the settlor) and the discretionary beneficiaries of which include Mr. Xiao and certain of his family members. Accordingly, Mr. Xiao is deemed to be interested in the 341,820,000 Shares, 54,058,200 Shares and 50,640,000 Shares held by each of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.
- (4) These Shares represent the Shares to be issued upon exercise of options granted under the Pre-IPO Share Option Scheme.

(b) *Interests of the Substantial Shareholders*

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Director or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares or the underlying Shares which, once the Shares are listed, would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

2. *Directors’ Service Agreements*

Each of our executive Directors has entered into a service agreement with us on January 10, 2014 and we have issued letters of appointment to each of our non-executive Directors and independent non-executive Directors. The service agreements with each of our executive Directors and the letters of appointment with each of our non-executive Directors are for an initial fixed period of three years commencing from January 10, 2014. The letters of appointment with each of our independent non-executive Directors are for an initial fixed period of three years from May 26, 2014. The service agreements and the letters of appointment are subject to termination in accordance with their respective terms and the term of which may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of the Directors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' Remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes and allowances and benefits in kind) paid to the Directors for the year ended December 31, 2011, 2012 and 2013 were nil, nil and approximately RMB0.07 million, respectively.

The aggregate amount of salaries, contributions to pension schemes and allowances and benefits in kind paid to our five highest paid individuals of our Company for the years ended December 31, 2011, 2012 and 2013 was approximately RMB0.6 million, RMB0.7 million and RMB0.9 million, respectively. The five highest paid individuals during the year ended December 31, 2013 included two executive Directors appointed on November 19, 2013 and three executive Directors appointed on January 10, 2014.

Save as disclosed above, no other payments have been made or are payable, in respect of the year ended December 31, 2011, 2012 and 2013, by any of member of the Group to any of the Directors.

Pursuant to the service agreements entered into between our Company and each of our executive Directors, the basic annual salary and the contractual annual performance bonus payable to each of our executive Directors are as follows:

Director	Remuneration (per annum) (HK\$)	Performance Bonus (per annum) (HK\$)
Mr. Xiao	1,500,000	500,000
Mr. ZHU Mingwei	1,000,000	500,000
Mr. HE Jun	1,000,000	400,000
Mr. TAN Jibin	1,000,000	300,000
Mr. XIAO Lilin	1,000,000	200,000

Each of our independent non-executive Directors shall be entitled to a director's fee of HK\$200,000 per annum. Our non-executive Directors are not entitled to any director's fees.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of the Directors for the year ending December 31, 2014 to be approximately RMB6.6 million in aggregate.

4. Directors' Competing Interests

None of our Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (c) none of the Directors nor any of the persons listed in the section headed “— F. Other Information — 5. Qualification of Experts” below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) none of the Directors nor any of the persons listed in the section headed “— F. Other Information — 5. Qualification of Experts” below is materially interested in any contract or arrangement with the Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of the Group as a whole;
- (e) save in connection with Underwriting Agreements, none of the persons listed in the section headed “— F. Other Information — 5. Qualification of Experts” below has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (f) none of the Directors has entered or has proposed to enter into any service agreements with our Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and

- (g) none of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company's five largest customer and five largest suppliers.

D. SHARE OPTION SCHEMES

1. Pre-IPO Share Option Scheme

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme approved and adopted by our sole Shareholder on May 26, 2014.

(a) Purpose

The purpose of the Pre-IPO Share Option Scheme is to incentivize and reward the Eligible Participants for their contribution to our Group and to align their interests with that of our Company so as to encourage them to work towards enhancing the value of our Group.

(b) Who may participate

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Pre-IPO Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of our Group or associated companies of our Company ("Eligible Participants").

(c) Maximum number of Shares in respect of which options may be granted

The maximum number of Shares which may be issued upon exercise of all options granted under the Pre-IPO Share Option Scheme must not exceed 10% of the total number of Shares in issue as at the Listing Date. Options lapsed in accordance with the terms of the Pre-IPO Share Option Scheme will not be counted for the purpose of calculating this limit.

(d) Acceptance of an offer of options

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Participant concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Pre-IPO Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK\$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(e) Exercise price

The exercise price in respect of any option granted under the Pre-IPO Share Option Scheme shall be 85% of the Offer Price and may be adjusted in accordance with sub-paragraph (r) below.

(f) Duration of Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme shall be valid and effective for a period from the date of adoption and expiring on the Listing Date, after which period no further options will be granted but the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Pre-IPO Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme.

(g) Time of vesting and exercise of options

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfillment of the vesting conditions (as the case may be).

Any exercise of the options granted under the Pre-IPO Share Option Scheme is conditional upon:

- the Company not having received any objections from the Listing Committee before the Listing Date in relation to any provision of the Pre-IPO Share Option Scheme;
- the Listing Committee granting approval for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Pre-IPO Share Option Scheme;
- the obligations of the underwriters under the underwriting agreements relating to the initial public offering of Shares of the Company becoming unconditional (including, if relevant, as a result of waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise; and
- the commencement of dealings in the Shares of the Company on the Stock Exchange.

If the conditions above are not satisfied on or before the date which is 30 days after the date of the Hong Kong prospectus in respect of the initial public offering of Shares of the Company, and in any event by December 31, 2015 or such other date as determined by the Shareholder(s) of the Company in general meeting (the “Long Stop Date”):

- (i) the Pre-IPO Share Option Scheme shall forthwith determine;
- (ii) any options granted or agreed to be granted pursuant to the Pre-IPO Share Option Scheme and any offer of such a grant shall immediately lapse; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligation under or in respect of the Pre-IPO Share Option Scheme or any option thereunder.

Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from Listing Date. Any option which remains unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option (the “Option Period”).

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised. Such terms and conditions determined by the Board must not be contrary to the purpose of the Pre-IPO Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

(h) *Ranking of the Shares*

No dividends (including distributions made upon the liquidation of our Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. Shares allotted and issued on the exercise of an option will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

(i) *Restrictions on transfer*

Except for the transmission of an option on the death of an option-holder to his personal representatives, neither the option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any option-holder to any other

person or entity. If an option-holder transfers, assigns or disposes of any such option or rights, whether voluntarily or involuntarily, then the relevant option will immediately lapse.

(j) *Rights on voluntary resignation*

If an option-holder ceases to be an Eligible Participant by reason of his voluntary resignation (other than in circumstances where he is constructively dismissed), any outstanding offer of options shall continue to be open for acceptance for such period as determined by the Board at its absolute discretion and notified to such Eligible Participant, and any unvested option will lapse on the date the option-holder ceases to be an Eligible Participant. All options (to the extent vested but not already exercised) will continue to be exercisable for such period as the Board may determine at its absolute discretion and notify to such Eligible Participant on the date of cessation of employment of such Eligible Participant.

(k) *Rights on termination of employment*

If an option-holder ceases to be an Eligible Participant by reason of (i) his employer terminating his contract of employment in accordance with its terms or any right conferred on his employer by law, or (ii) his contract of employment, being a contract for a fixed term, expiring and not being renewed, or (iii) his employer terminating his contract for serious or gross misconduct, then any outstanding offer of an option and all options, vested or unvested, will lapse on the date the option-holder ceases to be an Eligible Participant.

(l) *Rights on death, disability, retirement and transfer*

If an option-holder ceases to be an Eligible Participant by reason of:

- his death; or
- his serious illness or injury which in the opinion of the Board renders the option-holder concerned unfit to perform the duties of his employment and which in the normal course would render the option-holder unfit to continue performing the duties under his contract of employment for the following 12 months provided such illness or injury is not self-inflicted; or
- his retirement in accordance with the terms of an option-holder's contract of employment; or
- his early retirement by agreement with the option-holder's employer; or
- his employer terminating his contract of employment by reason of redundancy; or
- his employer ceasing to be a member of our Group or an associated company of our Company or under the control of our Company; or

- a transfer of the business, or the part of the business, in which the option-holder works to a person who is neither under the control of our Company nor a member of our Group or associated companies of our Company; or
- if the Board determines in its absolute discretion that circumstances exist which mean that it is appropriate and consistent with the purpose of the Pre-IPO Share Option Scheme to treat an option-holder whose options would otherwise lapse so that such options do not lapse but continue to subsist in accordance with (and subject to) the provisions of the Pre-IPO Share Option Scheme,

then, any outstanding offer of an option which has not been accepted and any unvested option will lapse and the option-holder or his personal representatives (if appropriate) may exercise all his options (to the extent vested but not already exercised) within a period of three months of the date of cessation of employment. Any option not exercised prior to the expiry of this period shall lapse.

If the Board determines that an option-holder who ceases to be an Eligible Participant in circumstances such that his options continue to subsist in accordance with this sub-paragraph (l):

- (i) is guilty of any misconduct which would have justified the termination of his contract of employment for cause but which does not become known to our Company until after he has ceased employment with any member of our Group or associated companies; or
- (ii) is in breach of any material term of contract of employment (or other contract or agreement related to his contract of employment), without limitation, any confidentiality agreement or agreement containing non-competition or non-solicitation restrictions between him and any member of our Group or associated companies; or
- (iii) has disclosed trade secrets or confidential information of any member of our Group or associated companies; or
- (iv) has entered into competition with any member of our Group or associated companies or breached any non-solicitation provisions in his contract of employment,

then it may, in its absolute discretion, determine that any unexercised options, vested or not vested, held by the option-holder shall immediately lapse upon the Board resolving to make such determination (whether or not the option-holder has been notified of the determination).

(m) *Rights on cessation to be a director*

In the event that any director ceases to be a director of any member of our Group or associated companies, our Company shall, as soon as practicable thereafter, give notice to the relevant option-holder who as a result ceases to be an Eligible Participant. Any outstanding offer of an option which has not been accepted and any unvested option will lapse on the date the option-holder ceases to be an Eligible Participant. The option-holder (or his personal representative) may exercise all his options (to the extent vested but not already exercised) within a period of three months of the date of the notification by the Board. Any option not exercised prior to the expiry of this period shall lapse.

(n) *Rights on a general offer*

If as a result of any general offer made to the holders of Shares, the Board becomes aware that the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of our Company has or will become vested in the offeror, any company controlled by the offeror and any person associated with or acting in concert with the offeror (a "Change of Control"), the Board will notify every option-holder of this within 14 days of becoming so aware or as soon as practicable after any legal or regulatory restriction on such disclosure no longer applies. Each option-holder will be entitled to exercise his options (to the extent vested but not already exercised) during the period of one month starting on the date of the Board's notification to the option-holders. All options, vested or unvested, not exercised before the end of such period will lapse.

(o) *Rights on company reconstructions*

In the event of a compromise or arrangement, our Company shall give notice to all option-holders on the same date as it gives notice of the meeting to the Shareholders or creditors to consider such a compromise or arrangement and each option-holder (or his personal representative) may at any time thereafter, but before such time as shall be notified by our Company, exercise all or any of his options (to the extent vested but not already exercised), and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

(p) *Rights on winding up*

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall on the same date as or soon after we dispatch such notice to the Shareholders give notice thereof to all option-holders and each option-holder shall be entitled to exercise all or any of his options (to the extent vested but not already exercised) at any time no later than

seven days prior to the proposed general meeting of our Company, and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

(q) *Lapse of option*

An option will lapse on the earliest of:

- (i) the expiry of the option period as determined by the Board;
- (ii) the date of on which an option-holder is in breach of sub-paragraph (i);
- (iii) the Long Stop Date where the conditions referred to in sub-paragraph (g) above are not satisfied before such date;
- (iv) the expiry of the time provided for in the applicable rule where any of the circumstances provided in sub-paragraphs (j) to (p) above apply.

(r) *Effect of alteration to share capital*

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, further rights issues of Shares, consolidation or subdivision of shares, or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to the number of Shares, the subject matter of the option (insofar as it is unexercised) and/or the price at which the options are exercisable, as the auditors of our Company or an independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable. Notice of any adjustments shall be given by our Company to an option-holder.

Any such adjustments shall be made on the basis that an option-holder shall have the same proportion of the issued share capital of our Company as that to which he was entitled before such adjustment. No such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of our Company for which any option-holder would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustments.

The auditors of our Company or the independent financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange, except where such adjustment is made on a capitalization issue.

The capacity of the auditors or independent financial advisers is that of experts and not of arbitrators and their certification shall be final and binding on our Company and the option-holders in the absence of fraud or manifest error. The costs of the auditors or independent financial advisers shall be borne by our Company.

(s) *Cancellation of option*

Notwithstanding any other provision in the Pre-IPO Share Option Scheme, the Board may cancel any option granted under the Pre-IPO Share Option Scheme. Unless the option-holder agrees, the Board may only cancel an option (which has been granted but not yet exercised) if, at the election of the Board, either:

- (i) our Company pays to the option-holder an amount equal to the fair market value of the option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors of our Company or an independent financial adviser appointed by the Board; or
- (ii) the Board offers to grant to the option-holder replacement options (or options under any other share option scheme of any member of our Group) or makes such arrangements as the option-holder may agree to compensate him for the loss of the option; or
- (iii) the Board makes such arrangements as the option-holder may agree to compensate him for the cancellation of the option.

(t) *Termination of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme will expire automatically on the Listing Date. The Board may terminate the Pre-IPO Share Option Scheme at any time without Shareholders' approval by resolving that no further options shall be granted under the Pre-IPO Share Option Scheme and in such case, no new offers to grant options under the Pre-IPO Share Option Scheme will be made and any options which have been granted but not yet exercised shall either (i) continue subject to the Pre-IPO Share Option Scheme, or (ii) be cancelled in accordance with sub-paragraph (s).

(u) *Amendments to the Pre-IPO Share Option Scheme*

The Board may amend any of the provisions of the Pre-IPO Share Option Scheme (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights

which have accrued to any option-holder at that date), except that amendments which are to the advantage of present or future option-holders in respect of certain matters must be approved by the Shareholders in general meeting.

Any amendments to the terms and conditions of the Pre-IPO Share Option Scheme which are of a material nature or any amendments to the terms of any options granted may only be made with the approval of the shareholders of our Company save where the amendments take effect automatically under the existing terms of the Pre-IPO Share Option Scheme.

Any amendments to the terms of any options granted may only be made with the approval of the Shareholders of the Company in general meeting save where the amendments take effect automatically under the existing terms of the Pre-IPO Share Option Scheme.

Any change to the authority of the Board in relation to any amendment of the rules of the Pre-IPO Share Option Scheme may only be made with the approval of the Shareholders in general meeting.

Outstanding options granted under the Pre-IPO Share Option Scheme

All of the options granted under the Pre-IPO Share Option Scheme were granted on May 26, 2014. Options representing a total of 168,800,000 Shares were granted. As at the date of this prospectus, options to subscribe for an aggregate of 168,800,000 Shares, representing 10% of the enlarged issued share capital of our Company immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme) are outstanding.

The options granted under the Pre-IPO Share Option Scheme shall (unless our Company shall otherwise determine and so notify the option holders in writing) vest in accordance with the following schedule:

<u>Vesting period</u>	<u>Maximum cumulative percentage of options vested</u>
Upon 12 months after the Listing Date	40%
Upon 24 months after the Listing Date	70%
Upon 36 months after the Listing Date	100%

Any vested option which has not lapsed may, unless the Board determines otherwise in its absolute discretion, be exercised at any time. Any option which remains unexercised shall lapse upon the expiry of the Option Period.

As at the date of this prospectus, none of the options granted under the Pre-IPO Share Option Scheme has been exercised. No further options will be granted under the Pre-IPO Share Option Scheme prior to the Listing Date.

We have applied for, and have been granted an exemption from the SFC from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules in connection with the information of the options granted under the Pre-IPO Share Option Scheme. For further details, please refer to the section headed “Waivers from Compliance with the Listing Rules and Exemption from Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance – Waiver from Compliance with the Listing Rules and Exemption from Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the Pre-IPO Share Option Scheme” in this prospectus.

The options have been granted based on the performance of the option holders who have made important contributions to and are important to the long term growth and profitability of our Group. There are altogether 304 option holders including five executive Director of our Company, five director of subsidiaries of the Company and 294 other employees of our Group. Details of the options granted under the Pre-IPO Share Option Scheme are set out below:

Name of option holder	Position held with our Group	Address	Number of Shares represented by options	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
Director of our Company				
XIAO Shu (肖述)	Chairman, Chief Executive Officer and Executive Director	Unit 1001, No.13 393 Dongjing Road Pudong New District, Shanghai, PRC	51,086,706	3.03%
ZHU Mingwei (朱明偉) . . .	Vice Chairman, Deputy Chief Executive Officer and Executive Director	No.80, Ningbo Road Huichuan District, Zunyi City Guizhou, PRC	11,160,859	0.66%
HE Jun (何軍)	Executive Director	No.1996 Zhangyang Road Pudong New District, Shanghai, PRC	10,662,531	0.63%
TAN Jibin (譚濟濱)	Executive Director	Unit 609 No.5 Li Yun Street Huang Shi Road East Bai Yun District Guangzhou, PRC	8,547,535	0.51%

Name of option holder	Position held with our Group	Address	Number of Shares represented by options	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
XIAO Lilin (肖利林)	Executive Director	Unit 504, Block 10 Cheng Nan Shui Xiang Liang Hu County Shangyu City Zhejiang, PRC	7,596,652	0.45%
Sub-total:			89,054,283	5.28%
Director of our subsidiary				
LI Honggao (李紅高)	Director of Shanghai Comfort	No.60, Guiqiao Road Pudong New District Shanghai, PRC	3,200,000	0.19%
CHEN Jie (陳潔)	Director of Shanghai Haoze Environmental Technology	Unit 603, Building 16 Lane 743, Taopu Road Pudong New District Shanghai, PRC	1,128,547	0.07%
XIAO Jianping (肖建平)	Director of Shanghai Haorun Environmental Works	Group 1, Maojiacha Village Xiaodukou Town, Li County Changde City Hunan, PRC	875,464	0.05%
PAN Jianming (潘建明)	Director of Shanghai Hongjia Air Purification, Shanghai Comfort Environmental Works and Shanghai Comfort Water Purification	Unit 1302 No.17, Lane 353, Jinmu Road Pudong New District Shanghai, PRC	456,065	0.03%
XIN Junwei (辛軍偉)	Director of Shanghai Haoze Water Purification Technology	No.154, Jiazhuang Group 12, Zhaohai Village Jiaozhuang Town, Xiping County Zhumadian City Henan, PRC	63,009	0.004%
Sub-total:			5,723,085	0.34%
Other option-holders whose options would entitle each of them to subscribe 2,000,000 Shares or more				
Zhou Xuebo (周學博)	General Manager of Production Department	Unit 101, Building 14 Sub-lane 90, Lane 1189 Deping Road Putdong New District Shanghai, PRC	3,200,000	0.19%
Yu Huiling (余惠玲)	General Manager of Production Department	Unit 401, Building 7 Lane 2567 Pudong Da Dao Pudong New District Shanghai, PRC	3,200,000	0.19%
Li Jiahuan (李家歡)	Assistant to Chairman	Lane 1280 Changdao Road Pudong New District Shanghai, PRC	3,041,189	0.18%

Name of option holder	Position held with our Group	Address	Number of Shares represented by options	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
Yuan Guodong (苑國棟) . .	General Manager of Production Department	No. 45, Ding Wu Bei Jie Village Ding Wu County Laoling City Shandong, PRC	2,901,943	0.17%
Lei Yongzhi (雷勇智)	General Manager of Production Department	No. 8, Huaiyuan Street Yuebei Village Yuebi Town Pingyao County Shanxi, PRC	2,857,833	0.17%
Gao Ping (高萍)	Finance Manager	Dormitory of Agriculture College Lane Five North Huazhong East Road Yingjiang District Anqing City Anhui, PRC	2,740,250	0.16%
Sub-total:			<u>17,941,215</u>	<u>1.06%</u>
Other option-holders				
288 other employees of the Group			56,081,417	3.32%
Total			<u>168,800,000</u>	<u>10.00%</u>

Assuming that all the options granted under the Pre-IPO Share Option Scheme had been exercised in full during the year ending December 31, 2014 and that 1,856,800,000 Shares, comprising 1,688,000,000 Shares to be in issue immediately after completion of the Global Offering and 168,800,000 Shares to be issued upon the exercise of all the options granted under the Pre-IPO Share Option Scheme, were deemed to have been in issue throughout the year ending December 31, 2014, there will be a dilution effect of approximately 9.09% on the audited earnings per Share for the year ended December 31, 2013.

The options granted under the Pre-IPO Share Option Scheme represent 10% of the enlarged issued share capital of our Company immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme). If all the options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 9.09%. However, as the options are exercisable over an ten-year period, any such dilutive effect on earnings per Share will be staggered over several years.

An application has been made to the Listing Committee to the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which were granted pursuant to the Pre-IPO Share Option Scheme.

2. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by our sole Shareholder on May 26, 2014 and its implementation is conditional on the Listing.

(a) *Purpose*

The purpose of the Share Option Scheme is to incentivize and reward the Eligible Persons for their contribution to our Group and to align their interests with that of our Company so as to encourage them to work towards enhancing the value of our Group.

(b) *Who may participate*

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to (i) an employee (whether full time or part-time) or a director of a member of our Group or associated companies of our Company; and (ii) a distributor or a full-time employee of any distributor of our Group or associated companies of our Company (“Eligible Person”).

(c) *Maximum number of Shares in respect of which options may be granted*

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (including but not limited to the Pre-IPO Share Option Scheme, the “Other Schemes”) of our Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date (the “Scheme Mandate Limit”). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Scheme of our Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Board may, with the approval of the Shareholders in general meeting refresh, the Scheme Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any Other Schemes of our Company under the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date of on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any Other Schemes of our Company (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the Scheme Mandate Limit as “refreshed”. The Board may, with the approval of the Shareholders in general meeting, grant options to any Eligible Person specifically identified by them which would case the Scheme Mandate

Limit to be exceeded. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any Other Schemes of our Company to Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of our Company whether by way of capitalization of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of our Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

(d) *Maximum entitlement of each individual*

No options shall be granted to any Eligible Person under the Share Option Scheme and any Other Schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date.

Any further grant of options to an Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such Eligible Person and his associates abstaining from voting. Our Company must send a circular to the Shareholders disclosing the identity of the Eligible Person in question, the number and terms of the options to be granted (and options previously granted to such Eligible Person) and such other information required under the Listing Rules.

The number and terms (including the exercise price) of the options to be granted to such Eligible Person must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

(e) *Grant of options to connected persons*

Each grant of options to a Director (including an independent non-executive Director) of any member of our Group or associated company of our Company, chief executive or substantial shareholder of our Company, or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial Shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the securities as the date of each grant, in excess of HK\$5 million,

such further grant of options by the Board must be approved by the Shareholders in general meeting. Any Shareholder who is a connected person of our Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person may vote against such resolution subject to requirements of the Listing Rules. The Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

(f) *Acceptance of an offer of options*

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK\$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(g) *Exercise price*

Subject to any adjustment made as described in the sub-paragraph (u) below, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the highest of:

- the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;
- the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and
- the nominal value of the Shares.

(h) Duration of Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

(i) Time of vesting and exercise of options

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfillment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option (the "Option Period").

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised. Such terms and conditions determined by the Board must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

(j) Restriction on the time of grant of options

A grant of options may not be made after inside information has come to our knowledge until such inside information has been announced as required under the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of:

- the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

- the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

(k) *Ranking of the Shares*

No dividends (including distributions made upon the liquidation of our Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. Shares allotted and issued on the exercise of an option will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

(l) *Restrictions on transfer*

Except for the transmission of an option on the death of an option-holder to his personal representatives, neither the option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any option-holder to any other person or entity. If an option-holder transfers, assigns or disposes of any such option or rights, whether voluntarily or involuntarily, then the relevant option will immediately lapse.

(m) *Rights on voluntary resignation*

If an option-holder ceases to be an Eligible Person by reason of his voluntary resignation (other than in circumstances where he is constructively dismissed), any outstanding offer of options shall continue to be open for acceptance for such period as determined by the Board at its absolute discretion and notified to such Eligible Person, and any unvested option will lapse on the date the option-holder ceases to be an Eligible Person. All options (to the extent vested but not already exercised) will continue to be exercisable for such period as the Board may determine at its absolute discretion and notify to such Eligible Person on the date of cessation of employment of such Eligible Person.

(n) *Rights on termination of employment*

If an option-holder ceases to be an Eligible Person by reason of (i) his employer terminating his contract of employment in accordance with its terms or any right conferred on his employer by law, or (ii) his contract of employment, being a contract for a fixed term, expiring and not being renewed, or (iii) his employer terminating his contract for serious or gross misconduct, then any outstanding offer of an option and all options, vested or unvested, will lapse on the date the option-holder ceases to be an Eligible Person.

(o) *Rights on death, disability, retirement and transfer*

If an option-holder ceases to be an Eligible Person by reason of:

- (i) his death; or
- (ii) his serious illness or injury which in the opinion of the Board renders the option-holder concerned unfit to perform the duties of his employment and which in the normal course would render the option-holder unfit to continue performing the duties under his contract of employment for the following 12 months provided such illness or injury is not self-inflicted; or
- (iii) his retirement in accordance with the terms of an option-holder's contract of employment; or
- (iv) his early retirement by agreement with the option-holder's employer; or
- (v) his employer terminating his contract of employment by reason of redundancy; or
- (vi) his employer ceasing to be a member of our Group or an associated company of our Company or under the control of our Company; or
- (vii) a transfer of the business, or the part of the business, in which the option-holder works to a person who is neither under the control of our Company nor a member of our Group or associated companies of our Company; or
- (viii) if the Board determines in its absolute discretion that circumstances exist which mean that it is appropriate and consistent with the purpose of the Share Option Scheme to treat an option-holder whose options would otherwise lapse so that such options do not lapse but continue to subsist in accordance with (and subject to) the provisions of the Share Option Scheme,

then, any outstanding offer of an option which has not been accepted and any unvested option will lapse and the option-holder or his personal representatives (if appropriate) may exercise all his options (to the extent vested but not already exercised) within a period of three months of the date of cessation of employment. Any option not exercised prior to the expiry of this period shall lapse.

If the Board determines that an option-holder who ceases to be an Eligible Person in circumstances such that his options continue to subsist in accordance with this sub-paragraph (o):

- (a) is guilty of any misconduct which would have justified the termination of his contract of employment for cause but which does not become known to our Company until after he has ceased employment with any member of our Group or associated companies; or

- (b) is in breach of any material term of contract of employment (or other contract or agreement related to his contract of employment), without limitation, any confidentiality agreement or agreement containing non-competition or non-solicitation restrictions between him and any member of our Group or associated companies; or
- (c) has disclosed trade secrets or confidential information of any member of our Group or associated companies; or
- (d) has entered into competition with any member of our Group or associated companies or breached any non-solicitation provisions in his contract of employment,

then it may, in its absolute discretion, determine that any unexercised options, vested or not vested, held by the option-holder shall immediately lapse upon the Board resolving to make such determination (whether or not the option-holder has been notified of the determination).

(p) *Rights on cessation to be a director*

In the event that any director ceases to be a director of any member of our Group or associated companies, our Company shall, as soon as practicable thereafter, give notice to the relevant option-holder who as a result ceases to be an Eligible Person. Any outstanding offer of an option which has not been accepted and any unvested option will lapse on the date the option-holder ceases to be an Eligible Person. The option-holder (or his personal representative) may exercise all his options (to the extent vested but not already exercised) within a period of three months of the date of the notification by the Board. Any option not exercised prior to the expiry of this period shall lapse.

(q) *Rights on a general offer*

If as a result of any general offer made to the holders of Shares, the Board becomes aware that the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of our Company has or will become vested in the offeror, any company controlled by the offeror and any person associated with or acting in concert with the offeror (a "Change of Control"), the Board will notify every option-holder of this within 14 days of becoming so aware or as soon as practicable after any legal or regulatory restriction on such disclosure no longer applies. Each option-holder will be entitled to exercise his options (to the extent vested but not already exercised) during the period of one month starting on the date of the Board's notification to the option-holders. All options, vested or unvested, not exercised before the end of such period will lapse.

(r) *Rights on company reconstructions*

In the event of a compromise or arrangement, our Company shall give notice to all option-holders on the same date as it gives notice of the meeting to the Shareholders or creditors to consider such a compromise or arrangement and each option-holder (or his personal representative) may at any time thereafter, but before such time as shall be notified by our Company, exercise all or any of his options (to the extent vested but not already exercised), and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

(s) *Rights on winding up*

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall on the same date as or soon after we dispatch such notice to the Shareholders give notice thereof to all option-holders and each option-holder shall be entitled to exercise all or any of his options (to the extent vested but not already exercised) at any time no later than seven days prior to the proposed general meeting of our Company, and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

(t) *Lapse of option*

An option will lapse on the earliest of:

- (i) the expiry of the option period as determined by the Board;
- (ii) the date of on which an option-holder is in breach of sub-paragraph (l);
- (iii) the expiry of the time provided for in the applicable rule where any of the circumstances provided in sub-paragraphs (m) to (s) above apply.

(u) *Effect of alteration to share capital*

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, further rights issues of Shares, consolidation or subdivision of shares, or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to the number of Shares, the subject matter of the option (insofar as it is unexercised) and/or the price at which the options are exercisable, as the auditors of our Company or an independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable. Notice of any adjustments shall be given by our Company to an option-holder.

Any such adjustments shall be made on the basis that an option-holder shall have the same proportion of the issued share capital of our Company as that to which he was entitled before such adjustment. No such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of our Company for which any option-holder would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustments.

The auditors of our Company or the independent financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of the Note to paragraph 17.03(13) of the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange, except where such adjustment is made on a capitalization issue.

The capacity of the auditors or independent financial advisers is that of experts and not of arbitrators and their certification shall be final and binding on our Company and the option-holders in the absence of fraud or manifest error. The costs of the auditors or independent financial advisers shall be borne by our Company.

(v) *Cancellation of option*

Notwithstanding any other provision in the Pre-IPO Share Option Scheme, the Board may cancel any option under the Pre-IPO Share Option Scheme. Unless the option-holder agrees, the Board may only cancel an option (which has been granted but not yet exercised) if, at the election of the Board, either:

- (i) our Company pays to the option-holder an amount equal to the fair market value of the option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors of our Company or an independent financial adviser appointed by the Board; or

- (ii) the Board offers to grant to the option-holder replacement options (or options under any other share option scheme of any member of our Group) or makes such arrangements as the option-holder may agree to compensate him for the loss of the option; or
- (iii) the Board makes such arrangements as the option-holder may agree to compensate him for the cancellation of the option.

(w) *Termination of the Share Option Scheme*

The Share Option Scheme will expire automatically on the day immediately preceding the tenth anniversary of the Listing Date. The Board may terminate the Share Option Scheme at any time without Shareholders' approval by resolving that no further options shall be granted under the Share Option Scheme and in such case, no new offers to grant options under the Share Option Scheme will be made and any options which have been granted but not yet exercised shall either (i) continue subject to the Share Option Scheme, or (ii) be cancelled in accordance with subparagraph (v).

(x) *Amendments to the Share Option Scheme*

The Board may amend any of the provisions of the Share Option Scheme (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights which have accrued to any option-holder at that date), except that amendments which are to the advantage of present or future option-holders in respect of matters contained in Rule 17.03 of the Listing Rules must be approved by the Shareholders in general meeting.

Any amendments to the terms and conditions of the Share Option Scheme which are of a material nature or any amendments to the terms of any options granted may only be made with the approval of the shareholders of our Company save where the amendments take effect automatically under the existing terms of the Share Option Scheme.

Any amendments to the terms of options granted to an option-holder who is a substantial shareholder of our Company or an independent non-Executive Director, or any of their respective associates, must be approved by the Shareholders in general meeting. The resolution to approve the amendment must be taken on a poll and any connected person of our Company must abstain from voting on the resolution to approve such amendment, except that such a connected person may vote against such resolution.

Any change to the authority of the Board in relation to any amendment of the rules of the Share Option Scheme may only be made with the approval of the Shareholders in general meeting.

(y) Conditions of the Share Option Scheme

The adoption of the Share Option Scheme is conditional on:

- (a) the Listing Committee granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme; and
- (b) the commencement of the dealings in the Shares on the Stock Exchange.

If the conditions above are not satisfied on or before the date following six months after the date the Share Option Scheme was conditionally adopted:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligation under or in respect of the Share Option Scheme or any option.

(z) General

An application has been made to the Listing Committee to the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which may be granted pursuant to the Share Option Scheme.

As of the Latest Practicable date, no option had been granted or agreed to be granted by our Company pursuant to the Share Option Scheme.

Details of the Share Option Scheme, including particulars and movements of the options granted during each financial year of our Company, and our employee costs arising from the grant of the options will be disclosed in our annual report.

F. OTHER INFORMATION**1. Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed “Business – Legal Compliance and Proceedings” in this prospectus, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on its business, financial condition or results of operations.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the Capitalization Issue and the exercise of the Over-allotment Option), the Shares to be issued pursuant to the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted pursuant to the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

Standard Chartered Securities (Hong Kong) Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Goldman Sachs (Asia) L.L.C. is not regarded as an independent sponsor pursuant to Rule 3A.07 of the Listing Rules. Please refer to the section headed “Underwriting – Hong Kong Underwriters’ Interest in Our Company and the Independence of Joint Sponsors” for details regarding the independence of the Joint Sponsors.

The fees payable to each of the Joint Sponsors are US\$600,000 and are payable by our Company.

4. No Material Adverse Change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since December 31, 2013 (being the date to which the latest audited combined financial statements of the Group were prepared).

5. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) who have given opinions or advice which are contained in this prospectus:

Name	Qualification
Goldman Sachs (Asia) L.L.C.	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities under the SFO
Standard Chartered Securities (Hong Kong) Limited.	Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Shu Jin Law Firm	PRC legal advisers
Walkers	Cayman Islands legal advisers
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
Wuxi Rellab Testing Services Co., Ltd.	Independent appraiser

6. Consents of Experts

Each of Goldman Sachs (Asia) L.L.C., Standard Chartered Securities (Hong Kong) Limited, Ernst & Young, Shu Jin Law Firm, Walkers, Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. and Wuxi Rellab Testing Services Co., Ltd. has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

Save as disclosed in this prospectus, none of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Preliminary Expenses

The preliminary expenses incurred by our Company were approximately HK\$10,000 and were payable by us.

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) insofar as applicable.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
 - (iv) no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;

- (v) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (b) Our Directors confirm that:
 - (i) since December 31, 2013 (being the date on which the latest audited combined financial statements of the Group was made up), there has been no material adverse change in our financial or trading position or prospects;
 - (ii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus; and
 - (iii) our Company has no outstanding convertible debt securities or debentures.
- (c) No company within our Group is presently listed on any stock exchange or traded on any trading system.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to in the section headed “Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the section headed “Statutory and General Information – F. Other Information – 6. Consents of Experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Simpson Thacher & Bartlett, 35/F, ICBC Tower, 3 Garden Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the Accountants’ Report and the report on the unaudited pro forma financial information prepared by Ernst & Young, the texts of which are set out in Appendices I and II to this prospectus;
- (c) the audited consolidated financial statements of the Group for the financial years ended December 31, 2011, 2012 and 2013;
- (d) the legal opinions issued by Shu Jin Law Firm, our PRC legal adviser in respect of certain aspects of the Group and the property interests of the Group;
- (e) the letter of advice prepared by Walkers, our Cayman legal adviser summarizing certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (f) the appraisal report issued by Wuxi Rellab Testing Services Co., Ltd. in respect of the estimation of useful life of the water purifying machines of the Group;
- (g) the material contracts referred to the section headed “Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts” in Appendix IV to this prospectus;

- (h) the written consents referred to in the section headed “Statutory and General Information – F. Other Information – 6. Consents of Experts” in Appendix IV to this prospectus;
- (i) service contracts and letters of appointment referred to in the section headed “Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders – 2. Directors’ Service Agreements” in Appendix IV to this prospectus;
- (j) the rules of the Share Option Scheme;
- (k) the rules of the Pre-IPO Share Option Scheme;
- (l) the full list of all the grantees who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; and
- (m) the Cayman Islands Companies Law.



OZNER 浩澤

Ozner Water International Holding Limited
浩澤淨水國際控股有限公司