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)

CLARIFICATION ANNOUNCEMENT
AND
RESUMPTION OF TRADING

This announcement is made by Ozner Water International Holding Limited (the "**Company**") further to the announcement of the Company dated February 16, 2015 with respect to a report (the "**Report**") recently issued by an entity which contains allegations against the Company's business operations and financial results, and is published by the Company pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") to refute and/or clarify the certain allegations made in the Report. Save as disclosed in this announcement, after having made enquiries with respect to the Company as is reasonable in the circumstances, the Company confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or any inside information that needs to be disclosed under the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the SFO.

The Report disclosed that its authors have a short interest in the shares of the Company (the "Shares") and therefore stand to realize significant gains in the event that the price of the Shares declines. As such, the board of directors of the Company would like to emphasize that shareholders of the Company and potential investors should exercise extreme caution in reading the Report and that its allegations should be read in light of the significant gains its authors may stand to realize. As explained in detail below, the Report contains a concoction of errors of fact, deliberately misleading statements, and unfounded speculations which the Company believes are combined in the Report with a view to manipulate the price of the Shares and undermine the Company's reputation.

CLARIFICATION ANNOUNCEMENT

The Company denies and refutes the unfounded allegations in the Report

The Company hereby responds to and refutes the allegations made in the Report on the business operations and financial results of the Company and its subsidiaries (collectively, the "**Group**").

1. False allegation of material exaggeration of sales, production and profit.

a. ***Cost of sales of Shangyu Haorun and the Group***

The Report alleged the Company "materially exaggerated" its scale of production, due to a purported discrepancy between the cost of sales ("**COS**") of Shangyu Haorun Environmental Technology Co., Ltd. ("**Shangyu Haorun**") as shown in its SAIC filings and the costs of raw materials and components of the entire Group.

The Company firmly refutes such allegation, which appears to be based on an incorrect assumption that Shangyu Haorun "should have incurred all" production costs of the Group. The Company notes (i) COS of the Group consists primarily of the depreciation cost of the water purifying machines, while procurement cost of raw materials and components used for assembly of water purifying machines are capitalized as revenue generating assets; and (ii) Shangyu Haorun is responsible for the assembly of water purifying machines from components and raw materials procured by other subsidiaries of the Company. As discussed in detail below, the relevant facts were clearly disclosed in the Company's prospectus dated June 5, 2014 (the "**Prospectus**"), the Company therefore believes the use of such incorrect assumption by the Report is intentionally misleading and the allegation is made with a view to undermine the Company's reputation.

As disclosed on page 153 of the Prospectus, the Group outsources the production of components of water purifying machines to third party contractors and assembles the water purifying machines at its production facilities at Shangyu. The Group manages the procurement of raw materials and components at the Group level. Shangyu Haorun is only responsible for assembling the water purifying machines from raw materials and components procured by other subsidiaries of the Company. Consequently, Shangyu Haorun charges service income to intra-group companies and COS incurred by Shangyu Haorun mainly consists of staff costs and production overhead for assembly-related operations.

As disclosed on page I-7 of the Prospectus, Shangyu Haorun's principal activity is the manufacture of water purification/air sanitization products. Before March 2012, Shanghai Haoze Environmental Technology Co., Ltd. ("**Shanghai Haoze Environmental**"), a wholly-owned subsidiary of the Company, was responsible for the procurement of raw materials and components. For approximately two months in 2011 during the initial period of the Group's operations Shangyu Haorun was in charge of the procurement of raw materials and components before Shanghai Haoze Environment took over the procurement function. After the establishment of Shaanxi Haoze Environmental Technology Development Co., Ltd.

(“**Shaanxi Haoze**”), a wholly-owned subsidiary of the Company, in March 2012, Shaanxi Haoze became responsible for the procurement of raw materials and components. The principal activity of the Shanghai Haoze Water Purification Technology Development Co., Ltd. (“**Shanghai Haoze Water Purification**”) and Shaanxi Haoze is water purification service. During the years ended December 31, 2011 and 2012, the Group purchased raw materials and components in the approximate amount of RMB135.7 million and RMB175.1 million, respectively, the majority of which were purchased through Shanghai Haoze Environmental and Shaanxi Haoze. As disclosed on pages 207 and 218 of the Prospectus, costs associated with the manufacture of water purifying machines, including cost of raw materials and components, had been capitalized as revenue generating assets. Revenue generating assets owned by Shanghai Haoze Water Purification and Shaanxi Haoze, accounted for under IFRS, were approximately RMB159.3 million* and RMB169.5 million* as of December 31, 2012, respectively, which accounted for 85.6% of the Group’s revenue generating assets as of the same date.

In addition, the purported significant discrepancy in revenue generating assets and property, plant and equipment (“**PP&E**”) between the amount reported in the SAIC filings and the amount disclosed in the Prospectus as stated in the Report was due to miscalculations by the Report. Contrary to the assumption used in the Report, the amount of revenue generating assets and PP&E reported in the SAIC filings and in the Prospectus did not include investments related to the construction of the new facilities in Shaanxi Province in 2011 and 2012, because the investment was incurred in 2013. As disclosed on page 218 of the Prospectus, the investment in the construction of production facilities was included in the PP&E, and the amount of construction of the production facilities in Shaanxi was RMB91.7 million for the year ended December 31, 2013.

Fixed assets and depreciation
(五)、固定资产及累计折旧

Items 项　目	Begining balance 期初余额	Addition during the period 本期增加	Decrease during the period 本期减少	Closing balance 期末余额
Fixed assets at costs 一、固定资产原价		183,368,016.62		183,368,016.62
including: Machine and equipment 其中：机器设备		183,364,116.62		183,364,116.62
Office equipment 办公设备		3,900.00		3,900.00
Accumulated depreciation 二、累计折旧合计		6,500,314.79		6,500,314.79
including: Machine and equipment 其中：机器设备		6,500,314.79		6,500,314.79
Office equipment 办公设备				
Fixed assets at net book value 三、固定资产净值		183,368,016.62	6,500,314.79	176,867,701.83

Addition in fixed assets during the period was RMB183,368,016.62, including demo water machines
本期增加固定资产共计183,368,016.62元，其中：显示屏可点空壳机、水机的机器设
with display and water machines in aggregated amounts of RMB183,364,116.62, and samsung 3-in-1
备计183,364,116.62元，三星一体机2台计3,900.00元。
printer amounting to RMB3,900.

The above excerpt from the 2012 statutory financial statements of Shaanxi Haoze shows that the majority of PP&E in the amount of RMB176.9 million* was related to the revenue generating assets.

The table below sets forth a comparison of revenue generating assets and PP&E attributable to Shanghai Haoze Water Purification and Shaanxi Haoze between the SAIC filings and the amounts under International Financial Reporting Standards (“**IFRS**”) and details of the revenue generating assets and PP&E of other subsidiaries under IFRS:

	Year ended December 31, 2012		
Revenue generating assets and PP&E	**SAIC filings**	**IFRS**	**Difference**
		RMB’000	
Shanghai Haoze Water Purification	181,058#	193,659*	6.5%
Shaanxi Haoze	176,868#	180,960*	2.3%
	357,926	**374,619**	**4.5%**
Shangyu Haorun		29,941*	
Park Wealth		57,683*	
Other subsidiaries		4,699*	
Construction in progress (Per page I-32 of the Prospectus)		4,306	
Total (Per page 217 of the Prospectus)		**471,248**	

The differences represent conversion adjustments between SAIC filings and IFRS:

	Note	Shanghai Haoze Water Purification	Shaanxi Haoze
		RMB'000	
Per SAIC filings		181,058#	176,868#
Reconciling items:			
Reclassification of prepayment for acquiring PP&E to PP&E		9,586*	280*
Reclassification of capitalizable expenditures to revenue generating assets		7,180*	9,808*
Reclassification of leasehold improvements to PP&E		5,483*	—
Adjustment for under-recorded depreciation expense		(1,420)*	(3,066)*
Reclassification of construction-in-progress to PP&E		2,722*	14*
Intra-group transactions	*1*	(10,950)*	(2,944)*
— Subtotal		12,601	4,092
Per IFRS		193,659*	180,960*

Note:

(1) Intra-group transactions represented the unrealized profits generated from the intra-group transactions in relation to revenue generated assets, such profits are eliminated under IFRS.

b. *Revenue recognized and reported in the SAIC filings*

The Report stated that the rental income reported in the 2011 and 2012 SAIC filings of the Company's leasing subsidiaries were approximately 53% and 54%, respectively, lower than the rental income in connection with the water purification services as disclosed in the Prospectus. The Company notes that, as disclosed on page 227 of the Prospectus, the purported discrepancy in the Report is primarily attributable to the timing difference in revenue recognition for accounting and tax reporting purposes.

As disclosed in the Prospectus, the Group recognizes rental income from water purification services on a monthly basis over the one-year lease term under IFRS, whereas rental income reported to the local tax bureau in SAIC filings was recognized when relevant invoices were issued to principal distributors. The Group typically issues invoices to principal distributors at the end of lease terms. As a result, a portion of rental income recognized in a certain fiscal year under IFRS was in effect recognized in the subsequent fiscal year for tax reporting purposes.

The table below sets forth of a reconciliation of rental income from water purification services recognized under IFRS and tax reporting:

	Year ended December 31, 2011	2012	2013	2014	Rental income under statutory financial statements[1]	Difference between rental income under IFRS and statutory financial statements
	RMB'000					
Filed with SAIC in the year of						
— 2011	24,972	—	—	—	24,972#	28,314
— 2012	28,314	62,422	—	—	90,736#	104,733
— 2013	—	133,047	19,326	—	152,373#	153,121
— 2014	—	—	286,168	31,517	317,685*	
Rental income recognized under IFRS as per page 204 of the Prospectus	**53,286**	**195,469**	**305,494**			

Notes:

(1) Rental income reported in the statutory financial statements is consistent with amounts included in the SAIC filings in 2011 and 2012. No SAIC filing was made due to changes of SAIC administrative requirements since 2013. The 2013 amount is derived from the related statutory financial statements. The 2014 amount is based on the Group's accounting records in relation to invoice issued, as the statutory financial statement for the fiscal year 2014 is still being prepared and not available as of the date of this Announcement. The tax filing deadline for the fiscal year 2014 is May 31, 2015.

As indicated in the table above, for the rental income recognized in 2011 under IFRS, the Group issued invoices and reported rental income in SAIC filings in the approximate amount of RMB28.3 million in 2012, which was the primary reason of the apparent loss reflected in the 2011 SAIC filings.

For the rental income recognized in 2012 under IFRS, the Group issued invoices and recognized rental income in the statutory financial statements in the approximate amount of RMB133.0 million in 2013. Reported rental income in the SAIC filings in 2012 also contained RMB28.3 million of rental income recognized in 2011 under IFRS, which resulted in a difference in rental income recognized in the amount of RMB104.7 million.

For the rental income recognized in 2013 under IFRS, the Group estimated that it issued invoices and would recognize rental income in the statutory financial statements in the approximate amount of RMB286.2 million in 2014. Rental income recognized in statutory financial statements in 2013 also contained RMB133.0 million of rental income recognized in 2012 under IFRS, which resulted in a difference in rental income recognized in the approximate amount of RMB153.1 million.

Approximately 53.1%, 68.1% and 93.7% of rental income recognized under IFRS for the years ended December 31, 2011, 2012 and 2013 was reported in the statutory financial statements in the next fiscal year, respectively. The increases in the proportion were driven by a number of factors in connection with the rapid growth of the Group's water purification service business during the Track Record Period, including:

- as the lease and service business model became readily accepted and the Group's bargaining power with distributors increased as a result of the growth of the business, the Group was able to more consistently apply its invoice practice by agreeing with an increasing portion of principal distributors to issue relevant invoices at the end of lease terms; and

- the significant increase in the number of water purifying machines and distributors led to increased handling of invoice issuance as the Group needs to carry out certain internal procedures in order to issue invoices, including identifying, quantifying, and validating each invoice to be issued, which in turn lengthened the time it took to issue and deliver relevant invoices to principal distributors after the end of lease terms.

During the Track Record Period, the length of time it took to issue invoices to distributors ranged from one to a few months from the end of the lease term. To optimize the time necessary for handling invoices at the end of lease terms resulting from the rapid growth, the Group plans to implement additional measures for this function, including:

- optimize the size of dedicated workforce for this function to handle the increasing volume of work;

- elevate the importance of this routine function to that of an initiative involved sponsorship from the directors of the Group, including periodic reporting to executive and finance management on the timeliness of invoice issuance; and

- enforce compliance with procedures and policies for the invoice issuance process to ensure adherence across internal staff and principal distributors.

The Group was informed by its PRC legal adviser that the Group's practice of issuing invoices to principal distributors and recognizing rental service revenue at the end of each lease term for local income tax purposes was in compliance with the relevant PRC tax regulations during the Track Record Period and has been in compliance with the relevant PRC tax regulations up to the date of this Announcement. The Group's PRC legal adviser, Shu Jin Law Firm, is a law firm established in 1993 with practices focusing on securities offering and merger and acquisition. Shu Jin Law Firm is a licensed PRC law firm qualified to issue legal opinions on compliance with relevant PRC laws and regulations.

c. ***Trade payables comparison***

The Report stated the trade payable balances of Shangyu Haorun in its SAIC filings as of December 31, 2011 and 2012 were significantly lower than the trade payable balances in the Prospectus as of the same dates. As discussed in responses No.1a above, Shangyu Haorun is not responsible for the procurement of raw materials and components, as such the trade payable balance of the Shangyu Haorun represented a small portion of trade payable balance of the Group. The table below sets forth the reconciliation of trade payable balance of Shangyu Haorun, Shanghai Haoze Environmental and Shaanxi Haoze between their respective SAIC filings and the Prospectus.

		As of December 31, 2011			
	Note	**Shangyu Haorun**	**Shanghai Haoze Environmental**	**Shaanxi Haoze**	**Total**
			RMB'000		
Per SAIC filing		890#	60,460#	—	61,350
Intra-group balance	*1*	—	(10,302)*	—	(10,302)
Offsetting with prepayments for same counterparties		—	(11,779)*	—	(11,779)
Other adjustments		(243)*	(273)*	—	(516)
Per IFRS		647*	38,106*	—	38,753
Other subsidiaries					4,444*
Per page 217 of the Prospectus					43,197

		As of December 31, 2012			
	Note	Shangyu Haorun	Shanghai Haoze Environmental	Shaanxi Haoze	Total
			RMB'000		
Per SAIC filing		686#	13,739#	5,968#	20,393
Intra-group balance	*1*	—	(2,040)*	(25,945)*	(27,985)
Offsetting with prepayments for same counterparties		—	(8,606)*	—	(8,606)
Reclassification of prepayment balances recorded in trade payable account	*2*	—	—	45,938*	45,938
Other adjustments		(199)*	(207)*	(39)*	(445)
Per IFRS		487*	2,886*	25,922*	29,295
Other subsidiaries					7,745*
Per page 217 of the Prospectus					37,040

Notes:

(1) The intra-group balance was eliminated on the consolidated level.

(2) Trade payable accounts contained amounts for prepayments, which was reclassified to prepayment asset account.

2. Unfounded speculation on differences in operational results

The Report stated that the water purification business was operated by Chaoyue Group Limited ("**CGL**") from 2009 to 2012 and resulted in losses during that period. The Report further stated that after the Group acquired the water purification business in September 2012, it had been operated under the same brand, management and business model, using similar machine models with the same technology, but it quickly turned profitable.

The Company notes that the statement on the similarities of the businesses operated by CGL and the Group ignores key differences in the operations of the water purification business by CGL and the Group as indicated below, and the statement that the authors of the Report "do not believe" such quick turnaround is intentionally misleading by omitting substantial factual information that is available publicly.

The table below sets forth factors which the Company believes were some of the key reasons behind the different results achieved by CGL and the Group in respect of a similar business:

	CGL[1]	**The Group**
Business focus	CGL operated a wide range of other unrelated businesses, including garment manufacturing and trading, gold mining and corporate services.	Water purification business is the focus of the Group's operations and accounts for the majority and an increasing portion of the Group's revenue.
Investment	Performance of the water purification business under CGL's ownership was not satisfactory 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.	Between January 2011 and September 2012, the Group had invested approximately RMB300 million in the water purification business. The Company made significant investment in the water purification business utilizing funds from three rounds of pre-IPO capital raising.
Expansion of geographic reach	CGL operated in 10 cities in China from November 2010 to September 2012, without expanding into any new city.	The Group expanded its distribution network to 125 cities as of December 31, 2013.
Expansion of distributor network	CGL had nine distribution agents in 2009 and 2010 and a sole agent since 2011.	The number of distributors of the Group was 714 as of December 31, 2011 and further increased significantly from 871 as of December 31, 2012 to 1,702 as of December 31, 2013. The Group also implemented a combination of management measures for its distributor network, including distributor database, the two-card system, and inspections and trainings.

	CGL[1]	The Group
Water purifying machines installed	CGL installed approximately 64,000 water purifying machines as of March 31, 2009, and did not install any additional water purifying machines after November 2010.	The Group installed approximately 215,000 water purifying machines between January 2011 and September 2012. The number of water purifying machines further increased from approximately 309,000 as of December 31, 2012 to approximately 463,000 as of December 31, 2013.
Board and management expertise	Senior management of Shanghai Ozner Comfort Environment & Service Co., Ltd. ("**Shanghai Comfort**") was not on the CGL board.	Executive directors with extensive experience in operating the water purification business; institutional investors and board members also provided strategic advice and business guidance.

Note:

(1) Information extracted from CGL's annual reports.

The Company notes that as disclosed on page 196 of the Prospectus, the acquisition of Park Wealth International Limited ("**Park Wealth**") from CGL in September 2012 included approximately 63,000 water purifying machines (the "**Park Wealth Machines**") originally leased by Park Wealth, among other things. Rental income generated by the Park Wealth Machines for the period between October 2012 to December 2012 was RMB3.7 million*, representing 1.3% of the total revenue of the Group in the year ended December 31, 2012. The Park Wealth Machines did not contribute to the Group's profit in 2012. Rental income generated by the Park Wealth Machines was RMB25.3 million* in the year ended December 31, 2013, representing 6.6% of the total revenue of the Group in the same year. Profit before tax contributed from the Park Wealth Machines was RMB12.4 million* in the year ended December 31, 2013, representing 6.7% of the total profit before taxation of the Group in the same year.

3. Alleged material undisclosed related party transactions

The Report alleged that the Company violated relevant listing rules because the sub-contract arrangement (the "**Haoyang Sub-Contract Arrangement**") in November 2010 between Shanghai Haoyang Environmental Technology Co., Ltd. ("**Shanghai Haoyang**") and Shanghai Haoze Water

Purification is a "material undisclosed related party transaction". The Company notes that the Haoyang Sub-Contract Arrangement was not a related party transaction under IFRS and was not required to be disclosed in the Prospectus as a connected transaction.

As disclosed on pages 106 to 107 of the Prospectus, the Haoyang Sub-Contract Arrangement was entered into in November 2010 and was terminated in September 2012 as a result of the termination of the contract management arrangement between Shanghai Comfort and Shanghai Haoyang. There has been no transaction between Shanghai Haoyang and the Group since the termination of the Haoyang Sub-Contract Arrangement in September 2012. For the years ended December 31, 2011 and 2012, the sub-contract fee paid by the Group to Shanghai Haoyang was HK$12.5 million* and HK$2.2 million*, respectively.

According to the information produced in the Report, the shareholders of Shanghai Haoyang are Mr. Xiao Jianping and Mr. Liu Zhibao. Mr. Xiao Jianping is unrelated to Mr. Xiao Shu, the chairman of the Company, and both Mr. Xiao Jianping and Mr. Liu Zhibao were independent third parties at the time the Haoyang Sub-Contract Arrangement was executed in November 2010. Subsequent to the execution of the Haoyang Sub-Contract Arrangement, the Group appointed Mr. Xiao Jianping a director of Shanghai Haorun Environmental Works Co. Ltd. ("**Shanghai Haorun Environmental**"), one of the Company's subsidiaries, for the purposes of preventing Mr. Xiao Jianping from carrying on any competing business with the Group and providing technology advice for the Shanghai Haorun Environmental's air sanitization business in December 2010. The Company disclosed Mr. Xiao Jianping's status as a director of Shanghai Haorun Environmental on page IV-38 of the Prospectus. As Mr. Xiao Jianping became a director of the Company's subsidiary in December 2010, the Company recognizes that the statement in the Prospectus referring to the independent third party status of Shanghai Haoyang was not entirely accurate. However, the Company believes that this inadvertent inaccuracy is immaterial, as all material terms of such arrangement have been accurately disclosed in the Prospectus, and there is no impact from this inaccuracy on the financial results of the Group as disclosed in the Prospectus. In addition, Mr. Xiao Jianping's appointment as a director of a subsidiary of the Company subsequent to the execution of the Haoyang Sub-Contract Arrangement did not alter the fact that it was not a connected transaction (the formal term for describing transactions between connected person(s) and a listed issuer under the Listing Rules) when it was executed in November 2010. Moreover, as the Haoyang Sub-Contract Arrangement was terminated before the date of the Prospectus, it is not required to be disclosed in the Prospectus as a connected transaction. Furthermore, based on International Accounting Standard 24, Related Party Disclosures, for the Group's combined financial statements, Shanghai Haoyang would be a related party of the Group if Mr. Xiao Jianping were a member of the key management personnel of the Group. However, Mr. Xiao Jianping does not play a key managerial role in or have significant decision power over the Group's overall business and have not attended any of the meetings of the board of directors of the Company or any of the management meetings at the Group level. As such, the Haoyang Sub-Contract Arrangement is not considered a related party transaction under IFRS.

The Company further confirms that contrary to the Report, Mr. Xiao Jianping is not a shareholder of the Company as of the date of this announcement. As disclosed on page IV-38 of the Prospectus, Mr. Xiao Jianping was granted pre-IPO options by the Company for 875,464 Shares, representing approximately 0.05% of shareholding interests in the Company immediately following the completion of the Group's global offering and none of such options is vested or exercised as of the date of this announcement.

To further enhance the existing internal controls over the identification and reporting of connected transaction, the Company has recently (i) appointed a senior management personnel to be responsible for reviewing and reporting all connected transactions to the board for review and approval; and (ii) implemented additional corporate governance measures to identify connected parties under listing rules or related parties under IFRS and their related transactions. The existing and additional measures include, but are not limited to, the following:

- The directors and/or senior managements of the Company and its subsidiaries are required to disclose annually their interests in other companies, such as shareholdings and directorship;
- A related parties or connected person list is kept by financial departments, sales departments and financial departments for their records;
- The connected transactions and related parties transaction entered into by all departments shall be monitored by the finance department;
- Based on the information provided, the company secretary will advise whether or not the reported transaction will be exempted from all or any of the compliance requirements under the Listing Rules and/or IFRS;
- All connected transaction shall be approved by independent shareholders, reviewed by independent non-executive directors and subject to reporting and announcement requirements; and
- The directors and/or senior managements of the Company and its subsidiaries are required to confirm any connected or related parties transaction entered during the year.

The Company therefore refutes the allegation in the Report and confirms that all material information and the salient terms of the Haoyang Sub-Contract Arrangement are disclosed in the Prospectus.

4. False allegations related to PRC government tax records

The Report stated that Shangyu Haorun was not listed as a top tax paying business in Shangyu city, based on which the Report alleged that the Group overstated its taxes paid and net income. The Company refutes the allegation and believes the statement about Shangyu Haorun's tax payment to the local authority is deliberately misleading, as Shangyu Haorun is in charge of machine assembly and is not a principal revenue generating entity of the Group. As such, it should not be used as a proxy for analyzing the Group's revenue generation capacity and tax payment obligations.

a. ***Aggregate income tax paid and invoicing practices***

The Report further alleged that there is a discrepancy between the total income tax paid and the net income of the Group as disclosed in the Prospectus during the years ended December 31, 2011, 2012 and 2013 (the "**Track Record Period**"). The Company notes that the purported discrepancy was primarily attributable to the difference in rental income recognized under IFRS and under statutory financial statements for SAIC reporting purposes due to timing of invoices issuance, which was disclosed in the Prospectus and further discussed in response No. 1b above. In addition, there was minimal timing difference between COS and expenses recognized under IFRS and COS and expenses under statutory financial statements reported for SAIC filing purposes, as COS of water purification business consists primarily of depreciation cost of revenue generating assets and similar depreciation policies are adopted under SAIC filings and IFRS. Due to the fast growth in the Group's business and the increasing numbers of water purifying machine installed each year, the differences in profit before tax between IFRS and SAIC filings continued to accumulate during the Track Record Period.

The table below sets forth reconciliation of profit before tax between IFRS and SAIC filings.

Combined profit before tax	*Note*	**Year ended December 31,** **2011**	**2012**	**2013**
			RMB'000	
Under IFRS as page 203 of the Prospectus		28,884	124,033	183,579
Reconciliation Item				
Gross profit adjustment	*1*	(37,656)*	(125,778)*	(148,079)*
Under/(over)-accrual of other taxes and surcharges	*2*	4,180*	4,491*	(2,334)*
Under-accrual of payroll expenses	*3*	2,303*	2,835*	1,113*
Under-accrual of other expenses	*4*	2,593*	3,822*	6,904*
Under-accrual of repair expenses	*5*	883*	3,464*	11,606*
Over-accrual of loan interest expenses	*6*	—	—	(2,436)*
Provision for IPO expenses		—	—	11,218*
Adjustment for capitalization of expenditures in respect of revenue generating assets	*7*	—	—	(12,004)*
		(27,697)	(111,166)	(134,012)

Combined profit before tax	Note	Year ended December 31, 2011	2012	2013
		RMB'000		
Profit before tax per management accounts		**1,187***	**12,867***	**49,567***
Hong Kong Fresh Water International Group Limited ("**HKFW**")	*8*	(4,774)*	1,971*	(6,715)*
Park Wealth	*9*	—	(9,467)*	—
Other adjustments	*10*	(4,146)*	(292)*	—
Profit before tax per SAIC/per statutory financial statements		**(7,733)#**	**5,079#**	**42,852#**

Notes:

1 The amounts represent the net effect of conversion adjustments associated with revenue and cost of revenue between IFRS and management accounts. These adjustments are aggregated for presentation purpose, the breakdown of the adjustments is as follows:

	note	For the years ended December 31, 2011	2012	2013
		RMB'000		
Rental income from water purification business	*1.1*	(28,314)*	(104,733)*	(153,121)*
Gross profit from air sanitization services	*1.2*	(10,603)*	(28,574)*	(26,172)*
Other revenue	*1.3*	(3,114)*	(1,276)*	(8,380)*
Intra-group transactions		4,102*	6,058*	47,327*
Other adjustments		273*	2,747*	(7,733)*
		(37,656)*	**(125,778)***	**(148,079)***

Notes:

1.1 Adjustment represents the difference between rental income under IFRS and statutory financial statements (as shown in response No. 1b) in connection with the water purification services.

1.2 Adjustment represents the effect of air sanitization services revenue and cost of sales accounted for under the percentage-of-completion method.

1.3 Other revenue represents training services earned.

2 The difference is to recognize the under-accrual of other tax expenses other than corporate income tax in connection with revenue adjustments.

3 The difference is to recognize the under-accrual of payroll expenses and the social welfare.

4 The difference is to adjust the under-accrual of depreciation cost of PP&E, revenue generating assets and other miscellaneous expenses on an accrual basis.

5 The difference is to recognize the under-accrual of repair expenses.

6 The difference is to adjust the over-accrual of interest expenses.

7 The difference is to capitalize the expenditures directly attributable to the manufacturing of revenue generating assets.

8 HKFW is not subject to SAIC filing, and its profit/(loss) before tax amounted to approximately RMB4.8 million, RMB(2.0) million and RMB6.7 million in 2011, 2012 and 2013, respectively.

9 Amount represents loss before tax generated for period prior to the acquisition of Park Wealth in 2012.

10 The amount represents the aggregated effect of conversation adjustments between management accounts and statutory financial statements.

As showed in the table above, profit before tax under management accounts was approximately RMB1.2 million*, RMB12.9 million* and RMB49.6 million* in 2011, 2012 and 2013, respectively, as compared to approximately RMB28.9 million, RMB124.0 million and RMB183.6 million under IFRS in the same years, as disclosed on page I-30 of the Prospectus. Such differences were primarily attributable to conversion adjustments associated with the difference in rental income accounted between IFRS and management accounts. For more detail on the difference between rental income accounted for under IFRS and statutory financial statements, please refer to response No. 1b above.

In addition, the table below sets forth the movement of income tax payable of the Group during the Track Record Period:

		Year ended December 31,		
		2011	**2012**	**2013**
	Note		*RMB'000*	
Profit before tax per management accounts	*1*	1,187*	12,867*	49,567*
Income tax expense per statutory financial statements	*1*	—	2,873#	7,523#
As page I-30 of the Prospectus				
Profit before tax under IFRS		28,884	124,033	183,579
Current tax under IFRS	*2*	10,132	23,266	32,888
Deferred tax under IFRS	*3*	(4,200)	(924)	(2,221)
Income tax expense under IFRS		**5,932**	**22,342**	**30,667**
Income tax payable as of January 1 of the fiscal year		**19***	**10,151***	**34,209***
Provision (current tax as per page I-30 of the Prospectus)		10,132	23,266	32,888
Acquisition of Park Wealth	*4*	—	816*	—
Tax payments (as per page I-6 of the Prospectus)		—	(24)	(2,930)
Income tax payable as of December 31 (as page 217 of the Prospectus)		**10,151**	**34,209**	**64,167**

Notes:

1 The Group has completed the regulatory filing for 2011, 2012 and 2013. The statutory financial statements are consistent with their regulatory filings for both 2011 and 2012. Since no statutory SAIC filings are required for 2013, the 2013 figures are derived from the statutory financial statements.

2 Current tax under IFRS is calculated by using the profit before tax under IFRS as computation basis and reference to the applicable tax rate and tax ruling.

3 Deferred tax under IFRS represented the deferred tax effects of temporary differences arising from that between the carrying amount and the tax bases of assets and liabilities (i.e. elimination of unrealized profit, accruals and losses available for offsetting against future taxable profit).

4 The acquisition of Park Wealth resulted an increase in income tax payable.

Income tax is levied based on the profit before income tax stated in the statutory financial statements and the applicable tax rate. As of 31 December 31 2013, the total income tax payable pursuant to the Group's statutory financial statements was RMB7.5 million# for which the Group paid RMB5.5 million^ in 2014. The remaining amount is expected to be settled in 2015.

The invoice arrangement with principal distributors is a part of the commercial arrangements negotiated and agreed upon between the Group and the principal distributors. The principal distributors accepts this practice as the Group's lease and service model grants several advantages to such distributors, including allowing distributors to join the distribution network and operate with relatively low initial capital investment. As the Group's business increased in size and geographic reach during the Track Record Period, the Group's bargaining power with distributors increased accordingly, and the Group was able to make this a common practice with distributors.

As disclosed on page 145 of the Prospectus, the Group requires the majority of its principal distributors to make prepayment against which annual leasing fees are offset. The full amount of the annual leasing fee is generally offset against a principal distributor's prepayment upon installation of a water purifying machine or renewal of services. Rental income of water purification service is recognized on a straight line basis over the one-year lease term and the portion of received payment not yet recognized as revenue is recognized as deferred revenue. The Group believes the prepayment is an important measure of distributor and credit risk management and its revenue recognition policy is appropriate pursuant to IFRS.

As disclosed on page 227 of the Prospectus, the Group was advised by its PRC legal adviser that it did not have any non-compliance with regard to its tax obligations during the Track Record Period.

b. ***VAT payments***

The Report alleged that taxes paid by Shangyu Haorun did not correspond to the purported scale of the Group's water purification service business operation, as it assumed that Shangyu Haorun was the only subsidiary responsible for value-added tax ("**VAT**") for completed goods. The Company notes that the Report's assumption on VAT payments is erroneous.

First, the Company notes that Shangyu Haorun was not the sole entity responsible for VAT associated with raw materials and components procured by other group subsidiaries as discussed in response No. 1a above. The Report did not consider the impact of business tax ("**BT**") and VAT that were applicable to other group subsidiaries which were related to the water purification service business. Second, the Report also fail to consider the effect of the variability caused by the mix of different tax schemes applicable at different time periods and other offsetting factors that affected the Group's ultimate tax obligations as related to the water purification service business.

The table below sets forth the BT and VAT tax paid by the Group's subsidiaries that related to the water purification service business and the related turnover amount:

		Year ended December 31,		
		2011	**2012**	**2013**
	Note		*RMB'000*	
AT payments				
Shanghai Haoze Water Purification		—	—	486*
Shanghai Haoze Environmental		31*	2,425*	3,268*
Shangyu Haorun		384*	2,248*	2,273*
Shaanxi Haoze		N/A	—	1,307*
BT payments		2,098*	3,378*	1,168
Total tax payments (a)		2,513@	8,051@	8,502@
Turnover (rental income) (b)		24,972#	90,736#	152,373#
Blended tax rate (a)/(b)	*1*	10.1%	8.9%	5.6%

Note:

1. The blended tax rate is calculated by dividing total tax payments by turnover (i.e. rental income).

According to the applicable tax regulations, both BT and VAT are levied based on the turnover of an individual entity at the applicable tax rate. BT and VAT are generally levied at 5% and 17%, respectively, with certain exceptions. Shanghai Haoze Water Purification was levied BT until the adoption of VAT reform effective in August 2012 according to Shanghai Municipal Bureau of Local Taxation Public Announcement 2011 No. 5 (上海市地方稅務局公告2011年第5號) issued by Shanghai Municipal Office, SAT (上海市國家稅務局) on December 19, 2011. Shanghai Haoze Environmental and Shangyu Haorun were levied VAT during the Track Record Period. Shaanxi Haoze was levied BT until the adoption of the VAT holiday effective in August 2013 according to Shaanxi Province Office, SAT Public Announcement 2013 No.4 (陝西省國家稅務局公告2013年第4號) issued by Shaanxi Province Office, SAT (陝西省國家稅務局) on June 28, 2013, and the VAT rate of 3% was levied for reported turnover of goods (i.e. rental income) generated from water purifying machines manufactured prior to August 2013 while the VAT rate of 17% was levied for reported turnover of goods generated from water purifying machines manufactured after August 2013.

Output VAT associated with turnover is deductible against input VAT, which primarily included purchases of materials and services involved in value-adding process and qualified capital expenditures. Input VAT provided by parties who are designated as general taxpayers (一般納稅人), as such term is defined by the relevant tax bureau, is deductible against output VAT, except for certain favorable output VAT, such as the 3% VAT holiday enjoyed by Shaanxi Haoze, where input VAT deduction does not apply. VAT invoices provided by parties who are designated as small-scale taxpayers (小規模納稅人), as such term is defined by the relevant tax bureau, is non-deductible against output VAT, as such VAT is levied at a reduced rate, generally at 3%. Purchases of materials, services and qualified capital assets by the subsidiaries of the Group were sourced from both general taxpayers and small-scale taxpayers during the Track Record Period. BT is non-deductible. BT and VAT are payable on a quarterly and monthly basis, respectively. Input VAT is deductible against output VAT on a monthly basis for the purpose of computing the net VAT payable for the period.

For the year ended December 31, 2011:

BT was paid by Shanghai Haoze Water Purification in 2011. The VAT paid by Shangyu Haorun and Shanghai Haoze Environmental in 2011 was partially offset by input VAT generated by the respective entities. Shangyu Haorun purchased raw materials and components during the initial period (about two months) of operations and after such initial period Shanghai Haoze Environment took over the procurement function. As a result, the VAT paid by Shangyu Haorun in 2011 is insignificant. Purchases of qualified capital assets eligible for VAT deduction were insignificant in 2011. The consequential blended tax rate based on the tax payments made in 2011 is 10.1%.

For the year ended December 31, 2012:

BT was paid by Shanghai Haoze Water Purification until July 2012 and by Shaanxi Haoze since March 2012 upon its establishment. Shanghai Haoze Water Purification was subject to VAT starting from August 2012 but did not pay any VAT in 2012 because its input VAT exceeds the output VAT. The input VAT is attributable to the VAT levied on the purchased inventory for which the underlying costs exceeded the related turnover (i.e., rental income) generated from leasing of the inventory (i.e., revenue generating assets). The VAT paid by Shanghai Haoze Environmental in 2012 was partially offset by input VAT. The increase in the VAT paid by Shanghai Haoze Environment from 2011 to 2012 was due to large amount of raw materials and components purchases in 2011 to prepare for the initial year of production, which resulted in minimal VAT payment in 2011. As the procurement function was shifted from Shanghai Haoze Environment to Shaanxi Haoze in 2012, Shanghai Haoze Environment's VAT payment in 2012 increased from 2011 as it scaled down the volume of procurement in 2012, which led to a decrease in input VAT. The increased VAT payment by Shangyu Haorun in 2012 was due to the reduced benefit generated from the relatively insignificant deductible input VAT as compared to 2011. Purchases of qualified capital assets eligible for VAT deduction were insignificant in 2012. The consequential blended tax rate based on the tax payments made in 2012 is 8.9%, as a result of the partial migration from BT scheme to VAT scheme among the subsidiaries. In particular, due to the timing of the VAT migration, a portion of rental income was subject to VAT, as oppose to BT only in 2011, for which VAT is deductible and BT is non-deductible, the 2012 blended tax rate was benefited from the deductibility of VAT.

For the year ended December 31, 2013:

BT was paid by Shaanxi Haoze until July 2013. The VAT paid by Shaanxi Haoze in 2013 was predominately levied at 3% on reported turnover of goods generated from water purifying machines manufactured prior to August 2013, and the output VAT levied at 17% on reported turnover of goods generated from water purifying machines manufactured after August 2013 was substantially deducted by input VAT. The VAT paid by Shangyu Haorun in 2013 is consistent with 2012. The VAT paid by Shanghai Haoze Environmental in 2013 was partially offset by input VAT. The VAT paid by Shanghai Haoze Water Purification in 2013 was partially offset by input VAT. The consequential blended tax rate based on the tax payments made in 2013 is 5.6%, as a result of full migration to VAT scheme, among the subsidiaries, and the benefits derived from the VAT holiday enjoyed by Shaanxi Haoze.

The Company notes the description in relation to migration from BT to VAT regime above is derived from the applicable portion of relevant tax policies, and the relevant historical activities the Group took in relation to such applicable policies. The Company was advised by its PRC legal adviser that the Group was in compliance with relevant PRC laws and regulations on BT and VAT during the Track Record Period, including the Group's migration from BT to VAT regime.

5. Misleading market share statement

a. *Consumer Brand Ranking*

The Report stated that various brand surveys did not include the Company's brand, Ozner, as a top brand for water purifiers in China, in an attempt to cast doubt on the Prospectus disclosure that the Group was a leading water purification service provider pursuant to a report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. ("**Frost & Sullivan**").

The Company believes that such statement and surveys are arbitrary and intentionally misleading and therefore not an appropriate measure for assessing the Group's market position for the following reasons:

- *unquantified ranking criteria:* the ranking criteria of the sample surveys are largely brand awareness or perception by undefined customer group, which is not subject to quantification or verification;
- *unclear data source and ambiguous ranking methodology:* the methodologies employed to generate the rankings are largely based on customer surveys, and the scope and sampling criteria of such surveys were not clearly defined or disclosed; and

- *uncertified research publishers:* the surveys presented by the Report were found based on internet searches and the sources are either informational websites with no industry research certification or qualifications, or commercial websites that sell certain brands of water purifiers included in the ranking.

The Company reviewed the source of each of the sample surveys mentioned in the Report, namely, www.chyxx.com, www.10brand.cn, www.chinapp.com and www.pchouse.com.cn, and none of such sources disclosed the ranking methodology of its respective ranking results. In addition, the Company performed addition internet searches for similar online rankings, and found five different rankings with different results on www.chinapp.com alone, none of which provided ranking methodology either. As such, the Company believes it is potentially misleading to present a handful rankings pulled from internet without any further analysis and quantitative comparison.

In comparison, as disclosed on page 83 of the Prospectus, the Company's market ranking was based on the Frost & Sullivan report which has the following features:

- *clearly defined ranking parameter:* the market share of the Company in the Frost and Sullivan report is based on retail sales value in 2012, which is a numerical value that is definitive and verifiable;

- *reliable data source and ranking methodology:* in producing its report, Frost & Sullivan conducted trade interviews as well as desktop research using a combination of data published by government authorities, industry research entities and market players. Frost & Sullivan considered the data sources 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 trade interviews is for reference only and not as a basis for results; and

- *reputable and professional industry research consultant:* Frost & Sullivan is a global consulting company with four offices in China and direct access to the most knowledgeable experts and market participants in the water purifier industry.

More importantly, the Company believes that the sample surveys presented in the Report were deliberately misleading and were not comparable to the Group's business because:

- the Group operates under a lease and service business model which is unique and intrinsically different from the sales-of-product business model engaged by the market participants listed in such sample surveys;

- the Group was the market leader in the commercial segment of the water purification industry in China in 2012 in terms of retail sales value, and during the Track Record Period the majority of the Group's end users of water purification services were corporations, which are usually not included in any consumer-centric surveys; and

- as disclosed in the Frost & Sullivan report, the water purifier market is currently highly fragmented and there is no clear dominant market participant.

b. ***Taobao and Tmall sales***

The Report stated that the Group only sold a limited number of water purifying machines on Taobao and Tmall over a prior 30-day period. The Company believes the reference to Taobao and Tmall sales is deliberately misleading and not a relevant metric.

As disclosed on page 152 of the Prospectus, the Group generated substantially all its revenue of water purification business from leasing fees, and only generated less than 2.0% of revenue of water purification business in 2011, 2012 and 2013 from sales of water purifying machines through retail or online channels for the purpose of brand promotion. The Company further notes that due to its unique business model, the Company does not expect to significantly increase sales through retail or online channels in the near future.

6. Unfounded speculation on accounting treatment on useful life of water purifying machines

The Report speculated that a 10-year useful life for water purifying machines is unreasonable and results in inflated financial results. The Company considers the estimated useful life of water purifying machines of 10 years to be reasonable based on appraisal results generated by an independent appraiser and past experience.

As disclosed on page 201 of the Prospectus, the Company engaged an independent certified professional appraiser, Wuxi Rellab Testing Services Co., Ltd. ("**Rellab**"), an accredited laboratory by China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會), to estimate the useful life of the water purifying machines for rental services. Rellab 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. The estimation of a 10-year useful life is supported by, among other things, the following factors:

- the Group implemented various features in its water purifying machines tailor-designed for rental services, such as core components with physical durability and surface material with enhanced resistance to wear and tear. Rellab examined the core components and the frame of the water purifying machines and determined their useful lives to be 12 years;

- the reverse osmosis and ozone technology achieve superior water purification results and Rellab believed there was no sign that the core technology implemented in the water purifying machines would become obsolete in the near future; and

- the lifecycles of household appliances generally correlate to the physical useful life and hence such appliances are less likely to be replaced due to style or fashion choices.

The Company further notes that of the approximately 55,000 water purifying machines manufactured by Shanghai Comfort and installed at end users' premises as of December 31, 2008, approximately 51,000, or approximately 92% of such machines, remained installed at end users' premises as of January 31, 2015, after more than six years of use and remain in satisfactory condition. The substantial majority of the remaining 8% of water purifying machines were lost and written off due to corporate end users' change of office locations or discontinuance of business operations. Of the approximately 63,000 water purifying machines the Group acquired from CGL in September 2012, the depreciation of such machines is calculated on a straight-line basis to write off the costs of the machine to its residual value over its remaining useful life. The Group inspected the machines and inquired the relevant distributors after the acquisition, to ensure that such machines were operating in good condition. After considering the conditions of the machines and the Group's depreciation policy as described above, the remaining useful life of such machines was determined to be 10 years less the number of years that they have been in use, which was in the range of 4 years to 6 years.

The depreciation policy and the 10-year estimated useful life of water purifying machines are disclosed in the Accountants' Report on pages I-13 and I-14 of the Prospectus.

CONCLUSION

We welcome the supervision from shareholders, investors, and regulators over the Company's business operations and financial results. At the same time, we will not tolerate what seems to be an outright malicious attack on the Company for personal gains which harms the Company's reputation and business prospects. In the event that any substantial loss is incurred to the Company and/or its shareholders and investors, the Company reserves the right to safeguard such interests by legal means or any other means as necessary.

To this end, we will continue to strengthen the Company's corporate governance and endeavor to increase the transparency of the Company. The independent non-executive director and the Audit Committee of the Board of Directors of the Company has reviewed and approved this Announcement. We are full of confidence for the Group's future. We will continue to leverage our core water purification technology, and focus on improving service, research and development and brand, in order to strengthen the leading position in the water purification market and expanding market share.

We have discussed with Ernst & Young on the allegations in the Report and the contents of this announcement. Ernst & Young confirms that it has not withdrawn their audit opinions in the accountants' report included in the Prospectus as they relate to the Group's combined financial statements for the years ended December 31, 2011, 2012 and 2013.

The Company published the annual results for the year ended December 31, 2014 on the same date of this Announcement. Ernst & Young has completed the audit of the Group's consolidated financial statements for the year ended December 31, 2014. The financial information in the annual results announcement has been agreed by the Group's external auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year ended December 31, 2014. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by Ernst & Young on the annual results announcement

RESUMPTION OF TRADING

At the request of the Company, trading in the Company's shares (stock code: 02014) was suspended with effect from 2:30 p.m. on February 16, 2015, pending the release of this announcement. The Company has applied to the Stock Exchange for resumption of trading in its shares on the Stock Exchange with effect from 9:00 a.m. on March 26, 2015.

Shareholders and potential investors are reminded to exercise extreme caution when dealing in the securities of the Company and to rely solely on the information published by the Company in the Prospectus or in the form of an announcement. The Company reserves its right to take legal action for damages or other relief against the entity and/or associated individual(s) that published the Report.

By order of the Board
Ozner Water International Holding Limited
Xiao Shu
Chairman and Chief Executive Officer

Hong Kong, March 25, 2015

As at the date of this announcement, the executive directors of the Company are Xiao Shu, Zhu Mingwei, He Jun, Xiao Lilin and Tan Jibin; the non-executive directors of the Company are Ng Benjamin Jin-Ping, He Sean Xing and Wang Haitong; and the independent non-executive directors of the Company are Lau Tze Cheung Stanley, Gu Jiuchuan, Chan Yuk Sing Gilbert and Zhou Guanxuan.

For the purpose of this announcement, the Company has engaged Ernst & Young to perform agreed-upon procedures regarding certain financial information included in this announcement:

* compared the amounts with those included in the Group's accounting records, including those schedules prepared by the management of the Group for IFRS conversion and consolidation purposes, and found them to be in agreement;

\# compared the amounts with those included in the SAIC filing or statutory financial statements provided by the Company and found them to be in agreement;

^ compared the income tax payment records provided by the company and tax certificates issued by the relevant tax bureaus and found them to be in agreement; and

@ reviewed tax payment records provided by the company and tax certificates issued by the relevant tax bureaus on sample basis as selected by Ernst & Young, which consist of approximately 81%, 92% and 98% of the total tax payments in 2011, 2012, and 2013, respectively.