

OZNER 浩澤

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)

2014 INTERIM REPORT



Purified Water, Purely for Health

OZNER 浩泽

Purified Water, Purely for Health

OZNER Water Purifier Drink for health

Mind at peace. Farewell to the era of tasting



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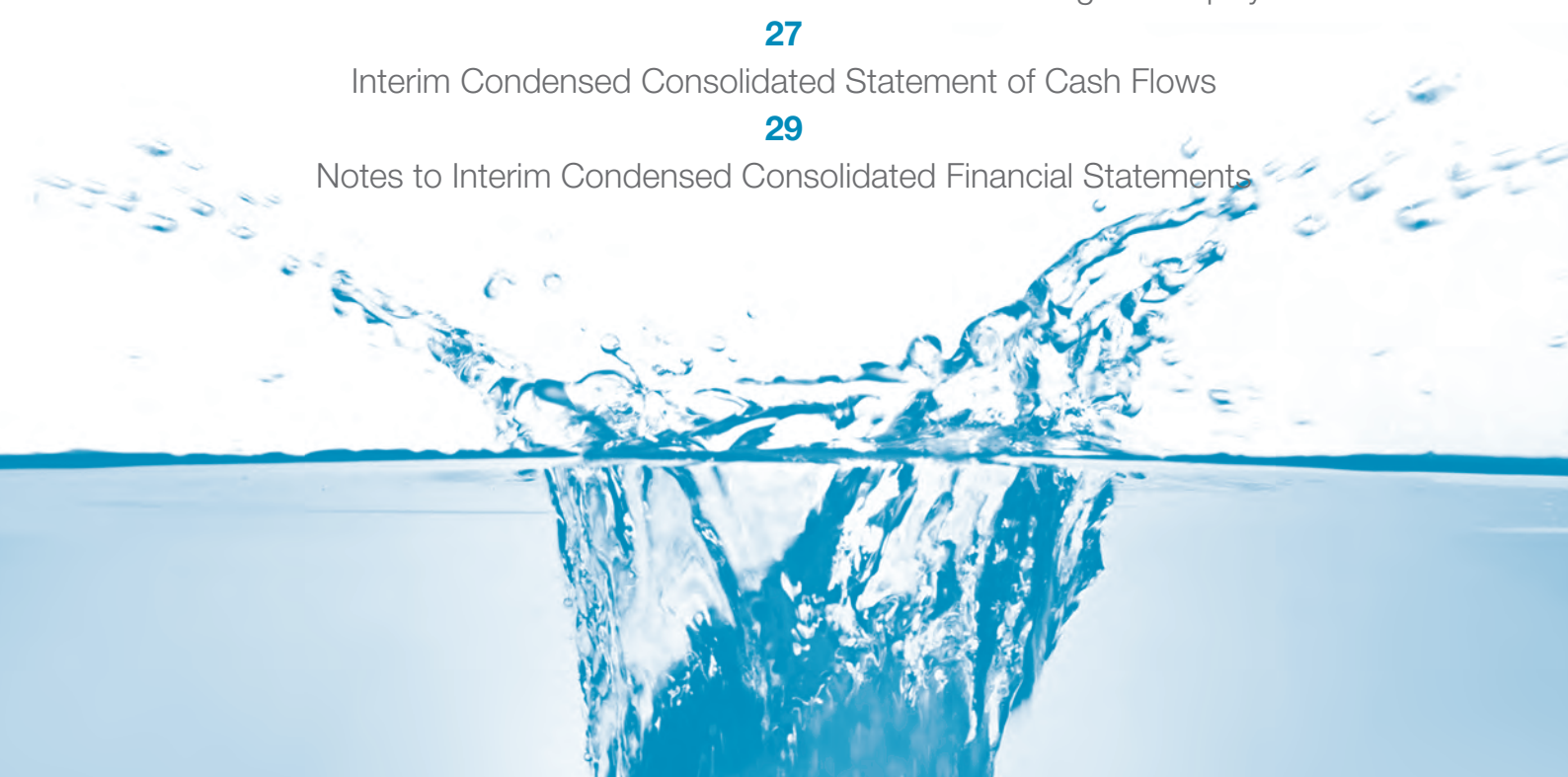
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Corporate Information

DIRECTORS

Executive Directors

Mr. Xiao Shu (*Chairman and Chief Executive Officer*)
Mr. Zhu Mingwei
(*Vice Chairman and Deputy Chief Executive Officer*)
Mr. He Jun
Mr. Tan Jibin
Mr. Xiao Lilin

Non-Executive Directors

Mr. Ng Benjamin Jin-Ping
Mr. He Sean Xing
Ms. Wang Haitong

Independent Non-Executive Directors

Mr. Lau Tze Cheung Stanley
Mr. Gu Jiuchuan
Dr. Chan Yuk Sing Gilbert
Mr. Zhou Guanxuan

JOINT COMPANY SECRETARIES

Mr. Tan Jibin
Ms. Lai Siu Kuen

AUTHORISED REPRESENTATIVES

Mr. Xiao Shu
Mr. Tan Jibin

AUDIT COMMITTEE

Mr. Lau Tze Cheung Stanley (*Chairman*)
Mr. Gu Jiuchuan
Dr. Chan Yuk Sing Gilbert
Mr. Zhou Guanxuan

REMUNERATION COMMITTEE

Mr. Zhou Guanxuan (*Chairman*)
Mr. Zhu Mingwei
Mr. Lau Tze Cheung Stanley

NOMINATION COMMITTEE

Mr. Xiao Shu (*Chairman*)
Mr. Gu Jiuchuan
Dr. Chan Yuk Sing Gilbert

AUDITOR

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank (China) Limited
China CITIC Bank Corporation Limited
Shanghai Pudong Development Bank Co., Ltd.

LEGAL ADVISERS

As to Hong Kong Law:

Simpson Thacher & Bartlett

As to PRC Law:

Shu Jin Law Firm

Corporate Information (Continued)

INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited

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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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Shanghai
PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman
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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

STOCK CODE

2014

COMPANY'S WEBSITE

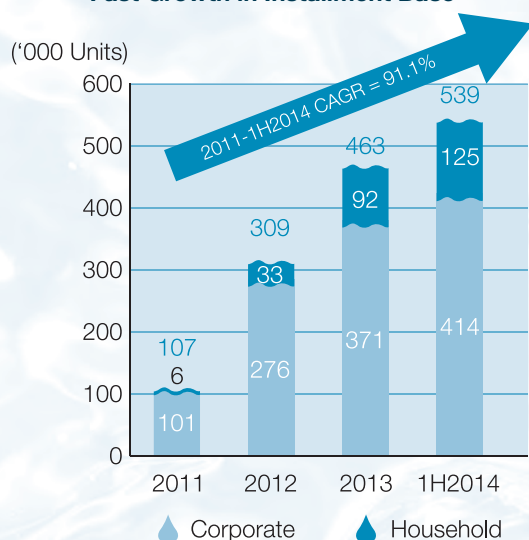
www.ozner.net

Financial and Operational Highlights

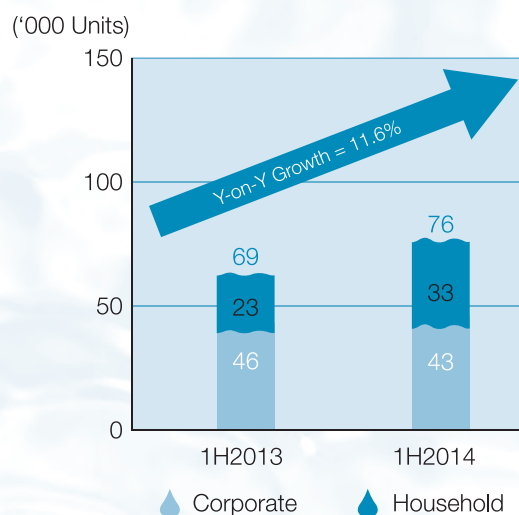
(RMB In million)	Six months ended June 30,		
	2014 (unaudited)	2013 (unaudited)	% change
Revenue	232.0	179.0	29.6%
Water purification services	187.0	148.8	25.6%
Air sanitization services	45.1	30.2	49.1%
Gross Profit	157.7	120.9	30.4%
<i>Gross Profit Margin</i>	68.0%	67.5%	
Net Profit	67.1	73.7	(9.0)%
<i>Net Profit Margin</i>	28.9%	41.2%	
Basic earnings per share (RMB cents)	5.16	5.82	(11.3)%

(RMB In million)	As of		
	June 30, 2014 (unaudited)	December 31, 2013 (audited)	% change
Revenue generating assets	714.8	585.3	22.1%
Total assets	2,375.4	1,309.7	81.4%
Total liabilities	573.3	976.2	(41.3)%

Fast Growth in Installment Base



Fast Growth in New Installation



High Renewal Rates¹

Machine Model	2012	2013	1H2014
Corporate	98.6%	97.2%	97.1%
Household	99.5%	99.4%	99.3%

¹ Renewal rate represents the percentage of our water purifying machines that remained installed and in service at the same end user's premises after one-year service period.

Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the interim results of Ozner Water International Holding Limited ("Ozner Water" or the "Company") and its subsidiaries (collectively, "we" or the "Group") for the six months ended June 30, 2014.

In June 2014, the initial public offering of the Group (the "IPO") was warmly received by the market, attracting many high-quality institutional investors and the public attention. The positive reception has been exciting and encouraging and will certainly propel us to even greater success going forward. For the six months ended June 30, 2014, the Group recorded a turnover of RMB232.0 million and a gross margin of RMB157.7 million, representing an increase of 29.6% and 30.4%, respectively, over the corresponding period of last year.

As the first water purification enterprise entering into the overseas markets in the PRC, Ozner Water consistently takes the "Just For Safe Water" as its enterprise mission, and is committed to offer a safe, fresh and healthy water purification service. Ozner Water experienced rapid development over the past few years, which was mainly attributed to the following competitive advantages: (1) its market size of over RMB100 billion, leaving Ozner Water the room for rapid development; (2) other than the traditional equipment-selling mode in the water purification business, Ozner Water adopted a revolutionary business mode, which provides water purification service while charging annual service fee, providing a unique advantage; (3) the Company owns a third party distribution network, which is extendable and well managed; (4) we own a safe water purification technology, APO⁺, which is a state-of-art technology in the water purification industry, resolving the secondary pollution problem of the direct water dispensers and increasing the recovery rate of clean water from 25% to over 95%, which is a breakthrough in the current industry; (5) after years of operation, we have set up over 140 operation centers for storage, logistics and technical service, which are directly invested and managed in the developed cities, and there are near 1,000 Ozner's after-sale staffs residing in those operation centers to provide services to our end-users directly.

Today, the water pollution problem in the PRC is becoming increasingly serious; there are several thousands public events of water pollution emergencies each year; and the public is increasingly aware of the food safety issue. Therefore, there is a strong and vigorous growth momentum in related industries. Like refrigerators and televisions, water purifiers will enter into more and more ordinary households, and is becoming one of the necessities of life with an unstoppable trend. Nevertheless, in the barreled water sector, which occupies over 50% market share in the water purification market, with the labor cost continuously increasing, the cost pressure will be transferred to the consumers as the barreled waters are being distributed by a large number of manpower every day. On the contrary, Ozner Water's direct water mode removes the tedious and inefficient circulation links, and provides consumers with the higher quality and cost-effective drinking water at lowest cost.

Ozner Water recorded the user renewal rate of 97% for the six months ended June 30, 2014, which came from the customers' trust to our brand and service. The Group manage the after-sale team directly to manage the inventories, logistic, storage, installation and after-sale services. We insist to manage a series of safe water purification steps, from research and development to raw materials and terminal water quality control, through technology and management. Ozner Water originates the "cloud water purification technology", which is a technology for us to remote manage water-purifiers from the remote terminals. This technology reminds customers and the after-sale staff the issues of running out of life of purifier's filter and purifier failure directly by the screen of the purifiers and the mobile phones of the after-sale staff, which allows the smart service to be provided to the customers with safety and immediate service. Second, the customer service center in the headquarter is dependent on the CRM system to maintain customer relationship and convey customers' need at the first time for scheduling resource.

Chairman's Statement (Continued)

Ozner Water is also positioning social media such as Wechat to benefit from the word of mouth, and fully leveraging the strength of the on-site service system and distributors' ground channel by forwarding the "coupons for points" mode. Ozner Water is establishing on-site experience centers with the aim to strengthen the "Experience Marketing" and leverage the first mover advantage of Ozner's e-commercial platform and after-sale service center, forming an O2O mode which can be conveniently duplicated.

We are full of confidence for the Group's future. We will insist to take the water purification technology as the core, focusing on the improvement of service, research and development and brand. The Company starts from provincial cities, to earn more coverage in the 3rd and 4th tier cities in order to continuously expand the range of service network and the channel of distribution. Moreover, we will extend promotional activities and brand publicity to make the development of the Company more known to the public and investors, increasing the brand awareness of the Company. We are also planning to enhance the research and development activities to increase the production efficiency. As the leading enterprise in the water purification sector, Ozner Water will proactively exploit Hong Kong and overseas markets to seize development opportunities lies in the water purification sector, for the purpose of strengthening the leading position in the drinking water market and expanding market share.

Everyday, we provide millions of end users with safe, fresh and healthy drinking water. We are proud to be engaged in such a meaningful cause, which is also a driving force for our unremitting effort. I would like to take this opportunity to thank the Board, every management members and all of our staffs for their great efforts. We will continue to work hard to deliver returns to our shareholders.

XIAO Shu (肖述)

Chairman and Chief Executive Officer

Hong Kong

August 26, 2014

Management Discussion and Analysis

MARKET REVIEW

Today, the PRC is facing a serious water pollution problem, and the demand for safe drinking water is increasingly strong. According to the China Environmental Protection Administration, by 2014, there are one third of the main river basins, 40% of main lakes and 60% of underground water in the PRC being seriously polluted, the water from which are not suitable for daily drinking. In addition, according to the Ministry Of Water Resources, 90% of water plants in the PRC are still adopting the treating technology of 90's, which is especially insufficient to deal with the current serious water pollution.

In the mean time, as the urbanization in the PRC developing and the living standard rising, the demand for safe food-related product is growing. According to a market research report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the market size for water purifiers is expected to grow from RMB69.55 billion in 2013 to RMB125.1 billion in 2017, representing an average compound growth rate of 20–30%.

Water purifiers industry is still in its early development stage, therefore the structure is very disperse; the top 10 manufacturers of water purifiers only account for 10% of market share; with the rapid growth of the industry, Ozner, as the leading enterprise in the industry, can leverage the trust for the Ozner brand and its leading technical strength to seize more market share.

BUSINESS REVIEW

For the six months ended June 30, 2014, the Group's revenue and gross profits recorded a significant increase from the corresponding period of last year. Revenue increased by approximately 29.6% from RMB179.0 million for the six months ended June 30, 2013 to RMB232.0 million for the six months ended June 30, 2014, which was mainly attributed to the significant growth of the water purification business of the Group. For the six months ended June 30, 2013 and 2014, revenue from water purification business were approximately RMB148.8 million and RMB187.0 million, respectively, accounting for approximately 83.1% and 80.6% of revenue for the period, respectively. For the six months ended June 30, 2013 and 2014, revenue from air sanitization business were approximately RMB30.2 million and RMB45.1 million, respectively. Gross profit of the Group increased by 30.4% from approximately RMB120.9 million for the six months ended June 30, 2013 to approximately RMB157.7 million for the six months ended June 30, 2014.

For the six months ended June 30, 2014, through effective advertisement and brand promotion activities, the total number of water purifying machines installed by corporate and household users of the Group significantly increased to 539,000 units (December 31, 2013 : 463,000 units), and the number of distributors also increased to 1,960 as of June 30, 2014 compared to 1,702 as of December 31, 2013.

For the six months ended June 30, 2014, the Group entered into cooperation agreements with corporate clients including iKang Healthcare Group, Inc., Uniqlo, Vipshop, Jiangsu Taizhou Middle School, Suning, Xi An Chang-an University, Beijing Homelink real estate trading etc., we are in the process of installing water purification machines for these companies and their employees in phases.

In March 2014, the Group launched its new product, "cloud" water purification machine, which remotely manages the water purification machine through cloud technology by the smart internet of things, the management by which includes water quality control, assets positioning, fee charging, maintenance or repair and so on. Users can download the special mobile phone app to conduct self-management for the water purifiers; in addition, prospective users can apply personalized value-added service to the Company directly by the cell phone network.

Management Discussion and Analysis (Continued)

The year of 2014 is a “new era” for the Group, during which the Group started the nationwide “Jingze Program (淨澤計劃)”, which conducted an investigate and survey of the quality of drinking water in the PRC, in terms of quality of drinking water in urban areas and water quality of sources, as well as water pollution, environmental protection and water pollution control, aiming to increase the knowledge of drinking water environment by the public, promote the legislation of water pollution, and initiate drinking safety.

In April 2014, the Group was named as “Standing Vice Chairman Unit of China Quality Inspection Agency Water Purification Equipment Professional Committee (中國質量檢驗協會淨水設備專業委員會常務副理事長單位)”, which is another award following 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下的淨水行業標準頒佈小組的副主席)” in the industry, manifesting the resolution of the PRC to further regulate and promote the healthy development and the affirmation to Ozner.

In August 2014, the 1st phase of our Shaanxi production facility, which locates in Xianyang, Shaanxi Province, started commercial production, with an annual capacity of 200,000 units. The facility includes a standardized production area, a logistics and warehousing center, an e-commerce area for the research and development, and a servicing area for employees. That industrial park boasts convenient transportation and perfect matching. Currently, the east and the west industrial bases of Ozner have a nationwide cover, with an aggregated annual capacity of 370,000 units. Meanwhile, the construction of 2nd phase of industrial park has also started in August of the same year, which is expected to be completed and launched for operation by the third quarter of 2015.

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

Geographic Breakdown of Rental Revenue

	Six months ended June 30,			
	2014 RMB'000	%	2013 RMB'000	%
East China ⁽¹⁾	59,825	32.9%	46,042	31.2%
North China ⁽²⁾	42,496	23.4%	36,782	24.9%
South China ⁽³⁾	58,224	32.1%	49,236	33.3%
Others	21,076	11.6%	15,743	10.6%
Total	181,621	100.0%	147,803	100.0%

(1) East China includes Shanghai, Anhui Province, Fujian Province, Jiangsu Province, Shandong Province and Zhejiang Province.

(2) North China includes Beijing, Tianjin, Hebei Province, Shaanxi Province and Inner Mongolia Autonomous Region.

(3) South China includes Guangdong Province, Guangxi Province and Hainan Province.

Management Discussion and Analysis (Continued)

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 periods indicated:

Contract Sales and Rental Revenue Recognition

	Six months ended June 30, 2014	
	Corporate model RMB'000	Household model RMB'000
Contract sales of the fiscal period	146,711	55,565
Rental income to be recognized in the coming periods	(103,343)	(40,657)
Rental income recognized in the fiscal period	43,368	14,908
Rental income from previous fiscal period	90,319	33,026
Rental income in the fiscal period	133,687	47,934
Total rental income in the fiscal period	181,621	
Total rental income to be recognized in the coming periods	177,693	

As of June 30, 2014, the accumulated number of corporate model and household model installed were approximately 414,000 water purifying machines and 125,000 water purifying machines respectively. The table below sets forth the number of new corporate model and household mode water purifying machines installed at end users' premises for the periods indicated.

	Number of new water purifying machines installed (approximately)		
	Corporate Model	Household Model	Total
2014			
Old model	26,000	19,000	45,000
2nd Generation	17,000	15,000	32,000
	43,000	34,000	77,000
2013	46,000	23,000	69,000

Management Discussion and Analysis (Continued)

Breakdown of Revenue Recognized for EPC Contracts

The table below sets forth breakdown of the revenue recognized for our EPC Contracts:

	Six months ended June 30, 2014
	RMB'000
Contracts entered into in the fiscal period	48,850
Revenue to be recognized in the coming periods	(41,556)
Revenue recognized from contracts entered into in the fiscal period	7,294
Revenue recognized from contracts entered into in previous fiscal period	34,175
Total revenue recognized in the fiscal period	41,469
Total revenue to be recognized in the coming periods	57,450

FUTURE PROSPECTS

Looking forward, we will insist to take the water purification business as the core operation, focusing on service, research and development and brand improvement. First, the strength of sale and marketing will be enhanced by: (1) improving overall brand awareness through both traditional and emerging channels such as launching outdoor and internet advertisements; (2) conducting promotional activities with new media platforms such as WeChat, QQ and Twitter, aiming to cover the household users by the office users and to achieve public praise between household users; and (3) exploiting Hong Kong and overseas market.

To the less extent, our service network will be expanded by: (1) continuing to enlarge the service channel, to horizontally cover more cities and to expand the businesses beyond the 2nd tier cities to the fast-growing 3rd-4th tier cities; and (2) vertically increasing the penetration rate in the existing 1st-2nd tier cities through improving our efficiency of servicing and satisfaction. Finally, we will keep investing in the research and development by: (1) increasing the research and development of strategic products and technologies to prepare for the future development; and (2) conducting improving research and development in order to improve the existing efficiency of servicing and products, such as the development of Ozner cloud technology, which ensures the seamless connection among the back-office screens, end-users' mobile phones and the screens of the terminal water-purifying machines, conducts the remote operation, maintenance and water quality control of the terminal water purifying machines, and helps to realize a more healthy drinking practice.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW

Revenue

Our total revenue increased by 29.6% from RMB179.0 million in the six months ended June 30, 2013 to RMB232.0 million in the six months ended June 30, 2014, primarily attributable to the increase in revenue from our water purification services.

Revenue from water purification services increased by 25.6% from RMB148.8 million in the six months ended June 30, 2013 to RMB187.0 million in the six months ended June 30, 2014, primarily due to the increase in the total number of water purifying machines installed from approximately 377,000 as of June 30, 2013 to approximately 539,000 as of June 30, 2014.

Revenue generated from air sanitization services increased by 49.1% from RMB30.2 million in the six months ended June 30, 2013 to RMB45.1 million in the six months ended June 30, 2014. The increases was primarily due to the increase in new contracts signed and the progress in projects under construction, especially for medical and healthcare industry. The number of projects in progress increased from 12 projects in the six months ended June 30, 2013 to 18 projects in the six months ended June 30, 2014.

Gross Profit Margin

Our gross profit margin increased from 67.5% in the six months ended June 30, 2013 to 68.0% in the six months ended June 30, 2014, primarily attributable to the increase in gross profit margin in both water purification business and air sanitization business.

Our gross profit margin in water purification business was 75.4% and 76.4% in the six months ended June 30, 2013 and 2014, respectively. Our gross profit margins increased slightly from six months ended June 30, 2013 to six months ended June 30, 2014 due to the increase in the training service income from RMB1.0 million for the six months ended June 30, 2013 to RMB5.3 million for the six months ended June 30, 2014 as a result of the increase in number of distributors.

Gross profit margin of air sanitization business increased from 28.7% in the six months ended June 30, 2013 to 33.1% in the six months ended June 30, 2014. Due to the contribution of fast growing medical/healthcare segment which accounts 70% of our air sanitization business, which had a higher gross profit margin.

Other Income and Gains

Our other income and gains decreased by 22.4% from RMB9.6 million in the six months ended June 30, 2013 to RMB7.5 million in the six months ended June 30, 2014, primarily attributing to the non-recurring exchange loss generated from amounts due to Fresh Water Group Limited ("Fresh Water Group") in connection with change in exchange rate of RMB. There was an exchange gain amounting to RMB8.2 million and exchange loss amounting to RMB1.3 million for the six months ended June 30, 2013 and 2014 respectively as result of the currency translation of amount due to Fresh Water Group from U.S. Dollar to RMB as the exchange rate was fluctuated during the periods. The amount due to the Fresh Water Group have been capitalized as share capital of the Company upon the listing of the Company in June 2014 and as a result the Group will not recognize such gain or loss going forward.

Management Discussion and Analysis (Continued)

Selling and Distribution Expenses

In the six months ended June 30, 2013 and 2014, our selling and distribution expenses were RMB27.3 million and RMB33.4 million respectively, representing 15.3% and 14.4% of the revenue of the same periods, which was increased by 22.1% or RMB6.0 million from the six months ended June 30, 2013 to June 30, 2014. The increase was primarily due to the promotion of the second generation water purifying machine in March 2014 and the increase in costs of selling, marketing and service representatives resulted from the growth in sales activities. The advertising and marketing expenses were RMB8.8 and RMB9.5 million for the six months ended June 30, 2013 and 2014, respectively.

Administrative Expenses

In the six months ended June 30, 2013 and 2014, our administrative expenses were RMB13.9 million and RMB43.8 million respectively, representing 7.8% and 18.9% of the revenue of the same periods. Our administrative expenses increased by 214.1% or RMB29.8 million from the six months ended June 30, 2013 to June 30, 2014, primarily due to an one-off listing expense amounting to RMB21.4 million and share option expenses amounting to RMB3.5 million in the six months ended June 30, 2014 as no such expense was incurred in the six months ended June 30, 2013. Excluding the listing expense and share option expense, our administrative expenses represented 7.8% and 8.1% of the revenue of the same periods for the six months ended June 30, 2013 and 2014 respectively.

Income Tax Expense

Pursuant to relevant laws, rules and regulations in the PRC and with approval from the competent tax authorities, our water purification business enjoys certain preferential tax treatments, including (i) Shanghai Haoze Water Purification Technology Development Co., Ltd. qualifying 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 Ozner of Comfort Environment & Science Co., Ltd. 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 Development Co., Ltd., being approved by the competent tax authority where it is located to be an enterprise engaging in an encouraged industry enjoys the preferential tax rate of 15% in 2013 and 2014.

Primarily as a result of the preferential tax treatment we received in relation to our water purification services, our income tax expense were RMB12.5 million and RMB15.2 million in the six months ended June 30, 2013 and 2014, respectively. The effective tax rates (calculated by dividing income tax expense by profit before tax in the six months ended June 30, 2013) was at 14.5%. The effective tax rate in the six months June 30, 2014 was 18.5%, primarily due to significant increase in non-deductible expense including one-off listing expenses and share option expense.

Net Profit and Net Profit Margin

Our net profit decreased by 9.0% from RMB73.7 million in the six months ended June 30, 2013 to RMB67.1 million in the six months ended June 30, 2014. Such decrease was primarily affected by exchange gain/loss recognized in connection with amounts due to Fresh Water Group, one-off listing expense and share option expense. If excluding such effect, our net profit increased by 42.3% from RMB65.5 million in the six months ended June 30, 2013 to RMB93.2 million in the six months ended June 30, 2014.

Our net profit margin decreased from 41.2% in the six months ended June 30, 2013 to 28.9% in the six months ended June 30, 2014. Such decrease had mentioned as above. If excluding such effect, our net profit margin increased from 36.6% in the six months ended June 30, 2013 to 40.2% in the six months ended June 30, 2014.

Management Discussion and Analysis (Continued)

The reconciliation between the net profits and adjusted net profits is as below.

	Six months ended June 30,	
	2014 RMB'000	2013 RMB'000
Net profits	67,067	73,733
Adjusted items:		
— exchange loss/(gains) from amounts due to Fresh Water Group	1,266	(8,244)
— Listing expense	21,382	—
— Share option expense	3,497	—
Adjusted net profits	93,212	65,489

Interim Dividend

The Board did not declare any interim dividend for the six months ended June 30, 2014 (Six months ended June 30, 2013: nil).

LIQUIDITY AND FINANCIAL RESOURCES

We financed our operations primarily through cash generated from our operating activities as well as the net proceeds we received from the global offering completed in June 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Cash Positions

As of June 30, 2014, the Group's bank balances and cash was RMB933.2 million (December 31, 2013: RMB154.3 million), which included net cash inflow from the global offering (i.e. proceeds from the global offering deducted by all listing related fees) of RMB951.6 million upon the listing of the Company in the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on June 17, 2014 (the "Listing Date").

Trade and bills receivables

Trade and bills receivables decreased significantly from RMB50.6 million as of December 31, 2013 to RMB36.0 million as of June 30, 2014. The decrease was due to improvements of collectability of our trade receivables for air sanitization business as our management closely monitored the settlement of receivables. Our average trade receivable turnover days were 40 days and 34 days in the year ended December 31, 2013 and six months ended June 30, 2014, respectively.

Due to a Related Party

Due to a related party was nil and RMB408.0 million as of June 30, 2014 and December 31, 2013 respectively. The amount due to the Fresh Water Group of RMB408.0 million as of December 31, 2013 have been capitalized as share capital of the Company upon the listing of the Company in June 2014.

Management Discussion and Analysis (Continued)

Current Ratio and Gearing Ratio

As of December 31, 2013 and June 30, 2014, our current ratio was 0.4 and 2.0, respectively. The increase was primarily due to the net proceeds from the global offering (after deducting the underwriting commission and estimated expenses payable by the Group in relation to the listing of the Company after the exercise of the over-allotment option) of RMB988.2 million and repayment of bank loans of approximately RMB109.1 million during the period. Our gearing ratio, which was derived by dividing total debt by total equity, was 63.8% and 5.9% as of December 31, 2013 and June 30, 2014, respectively. The significant decrease in gearing ratio as at June 30, 2014 was primarily due to the reasons stated above.

Capital Expenditure

In the six months ended June 30, 2014, the Group's capital expenditure amounted to RMB329.5 million, which was mainly used for the purchases of property, plant, equipment, other tangible assets and water purifying machines. During the period, the Group added approximately 77,000 new water purifying machines and invested in construction of the new production plant in Shaanxi Province (including land use right) amounting to RMB166.6 million and RMB101.5 million respectively.

Borrowings and Charges on the Group's Assets

As of June 30, 2014, the Group's interest-bearing bank loan was RMB105.7 million (December 31, 2013: RMB212.7 million) which will be repayable within 1 year. Such borrowings are all denominated in HK\$, and bear an interest at floating rate of HIBOR +4% per annum. The bank loan was secured by pledged deposits, land use rights and properties of the Group which had an aggregate carrying value of RMB134.4 million as of June 30, 2014 (December 31, 2013 : RMB98.3 million). As at the date of this report, the Group do not have any bank loan and any charges on the assets as the loan was settled by using our internal resources in July 2014.

Contingent Liabilities

As at June 30, 2014, the Group had no material contingent liabilities.

Commitments

As of June 30, 2014, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB11.6 million (as of December 31, 2013: RMB9.3 million).

As of June 30, 2014, the Group had capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to RMB54.8 million (as of December 31, 2013 : RMB64.6 million).

As of June 30, 2014, the Group had unpaid annual leasing fee payments which are not yet recognized as rental revenue amounting to RMB56.1 million (as of December 31, 2013: RMB60.5 million).

As of June 30, 2014, the Group had no other capital commitments save as disclosed above.

Management Discussion and Analysis (Continued)

Exchange Rate Risk

The Group's business is located in the PRC and its operating transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to professional parties and administrative expenses in Hong Kong office that are denominated in Hong Kong dollars.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK\$, US\$ and RMB.

MATERIAL ACQUISITIONS AND FUTURE PLANS FOR MAJOR INVESTMENT

During the period from the Listing Date to June 30, 2014, the Group has not conducted any material acquisitions or disposals. In addition, the Group currently has no specific plan for acquisition of major assets or other business.

EMPLOYEES AND REMUNERATION POLICY

As of June 30, 2013 and 2014, the Group had 1,267 and 1,622 employees respectively. Total staff costs (including Directors' emoluments) in the six months ended June 30, 2014 were RMB33.3 million, as comparable to RMB25.1 million in the six months ended June 30, 2013. Beside salary payments, other employee benefits include social insurance and housing accumulation funds, in amounts equal to predetermined percentages of the salaries, bonuses and certain allowances of our employees.

The Group has also adopted Pre-IPO Share Option Scheme and Share Option Scheme, for the purpose of incentivizing and rewarding the eligible participants for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Group. In the six months ended June 30, 2013, no options were granted or agreed to be granted under the above share option schemes to any person. Conversely, as of June 30, 2014, accumulated 168,800,000 shares options have been granted under the Pre-IPO Share Option Scheme to eligible participants. In the six months ended June 30, 2014, the share option expense was RMB3.5 million (six months ended June 30, 2013: Nil).

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Stock Exchange on June 17, 2014. The net proceeds from the Company's issue of new shares amounted to RMB988.2 million (including the issue of additional shares pursuant to the full exercise of the over-allotment option on June 27, 2014), which are intended to be applied in compliance with the intended use of proceeds set out in the section headed "Future Plans and Use of Proceeds" contained in the offering prospectus. As of June 30, 2014, the Company have used the proceeds of RMB109.1 million for the repayment of bank loan.

Other Information

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company is empowered by the applicable Companies Law of the Cayman Islands and the articles of association of the Company to repurchase 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 imposed from time to time by the Stock Exchange. There was no purchase, sale, redemption or writing-off by the Company or any of its subsidiaries of the Company's listed shares during the period from the Listing Date to June 30, 2014.

SHARE OPTION SCHEMES

On May 26, 2014, the Company adopted the Pre-IPO Share Option Scheme and the Share Option Scheme (collectively the "Schemes") for the purpose of incentivizing and rewarding the eligible participants for their contribution to the Group. Eligible participants of the Schemes include, without limitation, employees, directors and shareholders of the Group. Up to June 30, 2014, options entitling the holders thereof to subscribe for an aggregate of 168,800,000 shares were granted under the Pre-IPO Share Option Scheme, but no share option has been exercised or cancelled.

Name	Date of grant	Exercise price HK\$	As at the Listing Date	Exercised during the period	Lapsed during the period	As at June 30, 2014
Director						
Mr. Xiao Shu	May 26, 2014	2.295	51,086,706	—	—	51,086,706
Mr. Zhu Ming Wei	May 26, 2014	2.295	11,160,859	—	—	11,160,859
Mr. He Jun	May 26, 2014	2.295	10,662,531	—	—	10,662,531
Mr. Tan Ji Bin	May 26, 2014	2.295	8,547,535	—	—	8,547,535
Mr. Xiao Li Lin	May 26, 2014	2.295	7,596,652	—	—	7,596,652
Director of the Company's subsidiaries						
LI Honggao	May 26, 2014	2.295	3,200,000	—	—	3,200,000
CHEN Jie	May 26, 2014	2.295	1,128,547	—	—	1,128,547
XIAO Jianping	May 26, 2014	2.295	875,464	—	—	875,464
PAN Jianming	May 26, 2014	2.295	456,065	—	—	456,065
XIN Junwei	May 26, 2014	2.295	63,009	—	—	63,009
Other						
Other employees	May 26, 2014	2.295	74,022,632	—	(173,204)	73,849,428
Total			168,800,000	—	(173,204)	168,626,796

Notes:

- (1) Based on the IPO price per share on the Listing Date, the fair value of each share to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme is HK\$2.70.
- (2) The options granted under the Pre-IPO Share Option Scheme shall vest in accordance with the following schedule:
 - Upon 12 months after the Listing Date, a cumulative of 40% of the options shall be vested.
 - Upon 24 months after the Listing Date, a cumulative of 70% of the options shall be vested.
 - Upon 36 months after the Listing Date, all of the options shall be vested.

Other Information (Continued)

- (3) 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 which shall be determined by the Board and shall not exceed ten years from the offer date of the option.

As at June 30, 2014, no option had been granted by the Company pursuant to the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the 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 were required, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interest in the shares and underlying shares of the Company

Director	Long/short position	Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Mr. Xiao Shu	Long position	Founder of a discretionary trust	446,518,200 ⁽¹⁾	25.50%
		Beneficial owner	51,086,706 ⁽²⁾	2.91%
			497,604,906	28.41%
Mr. Zhu Ming Wei	Long position	Beneficial owner	11,160,859 ⁽²⁾	0.64%
Mr. He Jun	Long position	Beneficial owner	10,662,531 ⁽²⁾	0.61%
Mr. Tan Ji Bin	Long position	Beneficial owner	8,547,535 ⁽²⁾	0.49%
Mr. Xiao Li Lin	Long position	Beneficial owner	7,596,652 ⁽²⁾	0.43%

Notes:

- (1) 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.

- (2) These Shares represent the Shares to be issued upon exercise of options granted under the Pre-IPO Share Option Scheme.

Save as disclosed above, none of the Director and chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as of June 30, 2014.

Other Information (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

As at June 30, 2014, so far as the Directors or chief executive of the Company were aware, the person(s) or institution(s) (other than Directors or chief executive of the Company) who had interests or short positions in any shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number of shares	Approximate percentage of interest in the Company as at June 30, 2014
Standard Chartered Trust (Singapore) Limited	Trustee of a trust ⁽²⁾	446,518,200	25.50%
	Trustee of a trust ⁽⁶⁾	111,661,200	6.37%
		558,179,400	31.87%
SCTS Capital Pte. Ltd	Nominee for another person ⁽²⁾	446,518,200	25.50%
	Nominee for another person ⁽⁶⁾	111,661,200	6.37%
		558,179,400	31.87%
Ms. Tang Ren Mei ⁽³⁾	Beneficiary of a discretionary trust	392,460,000	22.41%
Baida Holdings Limited ⁽⁴⁾	Beneficial owner	341,820,000	19.52%
Baida Capital Limited ⁽⁴⁾	Interest in a controlled corporation	341,820,000	19.52%
SAIF Partners IV L .P. ⁽⁵⁾	Beneficial owner	334,857,000	19.12%
SAIF IV GP, L .P. ⁽⁵⁾	Interest in a controlled corporation	334,857,000	19.12%
SAIF IV GP Capital Ltd. ⁽⁵⁾	Interest in a controlled corporation	334,857,000	19.12%
Mr. Andrew Y. Yan ⁽⁵⁾	Interest in a controlled corporation	334,857,000	19.12%
Ares FW Holdings, L .P. ⁽⁶⁾	Beneficial owner	233,956,800	13.36%
ACOF Asia GP, Ltd. ⁽⁶⁾	Interest in a controlled corporation	233,956,800	13.36%
ACOF Asia Management, L.P. ⁽⁶⁾	Interest in a controlled corporation	233,956,800	13.36%

Other Information (Continued)

Name of shareholder	Nature of interest	Number of shares	Approximate percentage of interest in the Company as at June 30, 2014
Ares Management (Cayman), Ltd. ⁽⁶⁾	Interest in a controlled corporation	233,956,800	13.36%
Watercube Holdings, L .L.C. ⁽⁷⁾	Beneficial owner	139,006,800	7.94%
GS Direct, L .L .C. ⁽⁷⁾	Interest in a controlled corporation	139,006,800	7.94%
Goldman, Sachs & Co. ⁽⁷⁾	Interest in a controlled corporation	139,006,800	7.94%
The Goldman, Sachs & Co. L .L .C. ⁽⁷⁾	Interest in a controlled corporation	139,006,800	7.94%
The Goldman Sachs Group, Inc. ⁽⁷⁾	Interest in a controlled corporation	139,006,800	7.94%
Mr. Wang Xiao Gang ⁽⁸⁾	Founder of a discretionary trust	111,661,200	6.37%
Ms. Zhang Jing ⁽⁹⁾	Interest of spouse and beneficiary of a discretionary trust	111,661,200	6.37%
Mr. Daniel Saul Och ⁽¹⁰⁾	Interest in a controlled corporation	114,869,000	6.56%
Och-Ziff Capital Management Group LLC ("Och-Ziff Capita") ⁽¹⁰⁾	Interest in a controlled corporation	114,869,000	6.56%
OZ Management, L .P. ("OZ Management") ⁽¹⁰⁾	Investment manager	114,869,000	6.56%
Och-Ziff Holding Corporation ⁽¹⁰⁾	Interest in a controlled corporation	114,869,000	6.56%
Credit Suisse Group AG	Interest in a controlled corporation	117,130,000	6.69%

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. is 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.

Other Information (Continued)

- (4) *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.*
- (5) *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. Accordingly, each of SAIF IV GP, L.P., SAIF IV GP Capital Ltd. and Mr. Andrew Y. Yan is deemed to be interested in the 334,857,000 Shares held by SAIF Partners IV L.P.*
- (6) *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. Accordingly, each of ACOF Asia GP Ltd., ACOF Asia Management, L.P. and Ares Management (Cayman), Ltd. is deemed to be interested in the 233,956,800 Shares held by Ares FW Holdings, L.P..*
- (7) *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. Accordingly, each of GS Direct, L.L.C., Goldman, Sachs & Co., The Goldman, Sachs & Co. L.L.C. and The Goldman Sachs Group, Inc. is deemed to be interested in the 139,006,800 Shares held by Watercube Holdings, L.L.C..*
- (8) *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. is deemed to be interested in the aggregate number of 111,661,200 Shares held by Baoye International Limited and Giant Century International Limited, respectively.*
- (9) *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.*
- (10) *Certain affiliated investment funds of Och-Ziff Capital Management Group LLC (collectively, "OZ Funds") hold an aggregate of 114,869,000 Shares. 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. Each of OZ Management, Och-Ziff Holding, Och-Ziff Capital and Mr Daniel Saul Och is deemed to be interested in the shares of the Company held by OZ Funds under the SFO.*

Save as disclosed above as of June 30, 2014, the Directors or chief executives of the Company were not aware of any person or institution (other than the Directors and chief executives of the Company) who had an interest or short positions in the shares or underlying shares of the Company as recorded in the register to be kept by the Company under section 336 of the SFO.

Other Information (Continued)

CORPORATE GOVERNANCE CODE

The Company is committed to maintain high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The Company has always recognized the importance of transparency and accountability to shareholders. It is the belief of the Board that shareholders can maximize their benefits from good corporate governance.

Throughout the period commencing from the Listing Date to June 30, 2014, the Company complied with all the principles and the code provisions of the Corporate Governance Code (“Corporate Governance Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) with the exception of code provision A.2.1 of the Corporate Governance Code which are explained in further details below. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. Xiao Shu is the Chairman and Chief Executive Officer of the Company. 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 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. The Company has made specific enquiry of all Directors whether the Directors have complied with the required standard set out in the Model Code regarding directors’ securities transactions (“Model Code”) during the period from the Listing Date to June 30, 2014 and all Directors confirmed that they have complied with the Model Code.

AUDIT COMMITTEE

The Audit Committee was established 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 on May 26, 2014. The Audit Committee consists of four members, namely Mr. Lau Tze Cheung Stanley, Mr. Gu Jiuchuan, Dr. Chan Yuk Sing Gilbert and Mr. Zhou Guanxuan, 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.

The Audit Committee has discussed with the management and external auditor the accounting principles and policies adopted by the Group, and has reviewed the Group’s unaudited interim condensed consolidated financial statements in the six months ended June 30, 2014.

Report on Review of Interim Condensed Consolidated Financial Statements



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**The Board of Directors of
Ozner Water International Holding Limited**
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated statement of financial position of Ozner Water International Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) as of June 30, 2014 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
August 26, 2014

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	For the six months ended June 30,	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Revenue	4	232,022	179,047
Cost of revenue		(74,298)	(58,117)
Gross profit		157,724	120,930
Other income and gains	4	7,484	9,649
Selling and distribution expenses		(33,358)	(27,320)
Administrative expenses		(43,759)	(13,931)
Other expenses		(5,118)	(3,100)
Finance costs		(664)	—
Profit before tax	5	82,309	86,228
Income tax expense	6	(15,242)	(12,495)
Profit for the period, attributable to equity holders of the parent		67,067	73,733
Other comprehensive income			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		(25)	—
Total comprehensive income for the period, net of tax, attributable to the equity holders of the parent		67,042	73,733
Earnings per share attributable to ordinary equity holders of the parent:			
Basic (RMB cents)	7	5.16	5.82
Diluted (RMB cents)	7	5.16	5.82

Interim Condensed Consolidated Statement of Financial Position

	Notes	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Revenue generating assets	8	714,806	585,345
Property, plant and equipment	9	341,740	231,962
Land use rights	10	38,521	—
Intangible assets	11	65,352	68,890
Goodwill		26,037	26,037
Prepayment for acquiring property, plant and equipment		23,507	32,007
Deferred tax assets		11,640	7,141
TOTAL NON-CURRENT ASSETS		1,221,603	951,382
CURRENT ASSETS			
Inventories	12	65,903	36,891
Trade and bills receivables	13	36,030	50,629
Prepayments, deposits and other receivables		43,824	49,443
Pledged deposits	14	74,858	67,019
Cash and cash equivalents	14	933,171	154,341
TOTAL CURRENT ASSETS		1,153,786	358,323
CURRENT LIABILITIES			
Interest-bearing bank loans	15	105,655	212,716
Trade and bills payables	16	94,637	57,813
Other payables, advances from customers and accruals		168,102	130,396
Due to a related party	21	—	407,955
Deferred revenue		118,525	96,532
Income tax payable		79,684	64,167
TOTAL CURRENT LIABILITIES		566,603	969,579
NET CURRENT ASSETS/(LIABILITIES)		587,183	(611,256)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,808,786	340,126

Interim Condensed Consolidated Statement of Financial Position (Continued)

	Notes	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
NON-CURRENT LIABILITY			
Deferred tax liabilities		6,742	6,584
TOTAL NON-CURRENT LIABILITY		6,742	6,584
NET ASSETS		1,802,044	333,542
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	17	13,928	—
Share premium	17	1,384,068	—
Reserves	17	404,048	333,542
TOTAL EQUITY		1,802,044	333,542

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2014

	Attributable to equity holders of the parent							Total equity RMB'000
	Share Capital RMB'000	Share premium RMB'000	Share- based payment reserve RMB'000	Retained earnings RMB'000	Merge Reserves RMB'000	Foreign currency translation reserve RMB'000	Other reserves RMB'000	
At January 1, 2014	—	—	—	244,961	56,051	—	32,530	333,542
Issuance of ordinary shares	13,928	1,384,068	—	—	—	—	—	1,397,996
Share-based payments	—	—	3,497	—	—	—	—	3,497
Profit for the period	—	—	—	67,067	—	—	—	67,067
Other comprehensive income	—	—	—	—	—	(25)	—	(25)
Acquisition of subsidiaries under common control	—	—	—	—	(33)	—	—	(33)
At June 30, 2014 (unaudited)	13,928	1,384,068	3,497	312,028	56,018	(25)	32,530	1,802,044

For the six months ended June 30, 2013

	Attributable to equity holders of the parent					Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Retained earnings RMB'000	Merge Reserves RMB'000	Other reserves RMB'000	
At January 1, 2013	—	—	113,042	56,051	11,537	180,630
Total comprehensive income for the period	—	—	73,733	—	—	73,733
At June 30, 2013 (unaudited)	—	—	186,775	56,051	11,537	254,363

Interim Condensed Consolidated Statement of Cash Flows

	Notes	For the six months ended June 30,	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		82,309	86,228
Adjustments for:			
Depreciation of revenue generating assets		37,085	24,225
Depreciation of property, plant and equipment		7,635	4,457
Amortisation of intangible assets		1,413	579
Share-based payments	18	3,497	—
Unrealised exchange loss/(gain)		3,351	(8,640)
Loss on disposal of property, plant and equipment		2	—
Loss on disposal of revenue generating assets		47	—
Finance costs		664	—
(Reversal of provision)/provision for doubtful collection of account receivables	13	(50)	362
		135,953	107,211
(Increase)/decrease in inventories		(29,012)	4,360
Decrease/(increase) in trade and bills receivables		14,649	(12,396)
Increase in prepayments, deposits and other receivables		(141)	(7,198)
Increase in trade and bills payables		36,824	16,258
(Decrease)/increase in other payables, advances from customers and accruals		(892)	15,387
Increase/(decrease) in deferred revenue		21,993	(22,475)
Cash generated from operations		179,374	101,147
Income tax paid		(4,066)	(2,957)
NET CASH FLOWS FROM OPERATING ACTIVITIES		175,308	98,190

Interim Condensed Consolidated Statement of Cash Flows (Continued)

	Notes	For the six months ended June 30,	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of revenue generating assets		(157,869)	(111,523)
Purchases of items of property, plant and equipment		(93,762)	(42,766)
Purchases of intangible assets		(4,078)	(23,742)
Purchase of land use rights		(32,910)	—
Increase in pledged deposits		(7,839)	—
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(296,458)	(178,031)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(664)	—
Proceeds from issuance of ordinary shares		1,007,364	—
Repayment of borrowings		(109,148)	—
NET CASH FLOWS FROM FINANCING ACTIVITIES		897,552	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at January 1		154,341	169,198
Effect of foreign exchange rate changes, net		2,428	(126)
CASH AND CASH EQUIVALENTS AT 30 JUNE	14	933,171	89,231
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,008,029	89,231
Less: Pledged deposits		74,858	—
Cash and cash equivalents as stated in the statements of financial position and statements of cash flows	14	933,171	89,231

Notes to Interim Condensed Consolidated Financial Statements

1. CORPORATE INFORMATION

Ozner Water International Holding Limited (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. The Company’s subsidiaries were involved in the following principal activities in the People’s Republic of China (the “PRC”):

- Water purification services
- Air sanitization services

On March 13, 2014, Ozner Water Group Limited (“Ozner Water Group”), a limited liability company incorporated under the laws of the British Virgin Islands (“BVI”) on November 21, 2013 and a wholly-owned subsidiary of the Company, acquired the entire issued share capital of Hong Kong Fresh Water International Group Limited (“Fresh Water HK”) and Park Wealth International Limited (“Park Wealth”) at the consideration of HK\$35,000 and US\$1,000, respectively, from the then ultimate holding company of the Company, Fresh Water Group Limited (“Fresh Water Group”).

On March 18, 2014, the Company allotted and issued one share to Fresh Water Group at a subscription price of RMB600,000 and Ozner Water Group allotted and issued one share to the Company at a subscription price of RMB600,000.

On June 17, 2014, the authorized share capital of the Company was increased from HK\$380,000 to HK\$40,000,000 by the creation of an additional 3,962,000,000 shares, and 1,265,999,998 shares were allotted and issued, credited as fully paid, to Fresh Water Group, which immediately transferred all the shares of the Company to its then shareholders. On the same day, the Company completed its initial public offering of 422,000,000 shares at the price of HK\$2.70 per share.

On June 27, 2014, the Company issued additional 63,300,000 shares at the price of HK\$2.70 per share as a result of the full exercise of over-allotment option by the underwriters.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2014 have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended December 31, 2013.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual combined financial statements for the year ended December 31, 2013, except for the adoption of the new standards and interpretations effective as of January 1, 2014.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

New standards, interpretations and amendments adopted by the Group (Continued)

The Group has applied for the first time, International Financial Reporting Standards ("IFRS") 2 *Share-based Payment*, for the share options granted under Pre-IPO Share Option Scheme.

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employee render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised, together with a corresponding increase in share-based payment reserve in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

New standards and interpretations effective as of January 1, 2014 include:

- Investment Entities — Amendments to IFRS 10, IFRS 12 and IAS 27
- Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
- Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39
- Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36
- Levies — IFRIC 21

These new standards and interpretation have no impact on the Group.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

3. OPERATING SEGMENT INFORMATION

The following table presents revenue, profit and certain expenditure information for the Group's operating segments for the six months ended June 30, 2014 and 2013, respectively:

Six months ended June 30, 2014 (unaudited)

	Water purification RMB'000	Air sanitization RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	186,952	45,070	232,022
Segment cost of revenue			
Sales to external customers	44,161	30,137	74,298
Segment results	90,771	13,110	103,881
<i>Reconciliations:</i>			
Corporate and other unallocated expenses			(24,389)
Exchange gain			3,481
Finance costs			(664)
Profit before tax			82,309

Six months ended June 30, 2013 (unaudited)

	Water purification RMB'000	Air sanitization RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	148,829	30,218	179,047
Segment cost of revenue			
Sales to external customers	36,560	21,557	58,117
Segment results	76,364	7,508	83,872
<i>Reconciliations:</i>			
Corporate and other unallocated expenses			(5,578)
Exchange gain			7,934
Profit before tax			86,228

Notes to Interim Condensed Consolidated Financial Statements (Continued)

3. OPERATING SEGMENT INFORMATION (Continued)

The following table presents assets and liabilities information for the Group's operating segments as at June 30, 2014 and December 31, 2013, respectively:

As at June 30, 2014 (unaudited)

	Water purification RMB'000	Air sanitization RMB'000	Total RMB'000
Segment assets	1,205,871	41,386	1,247,257
<i>Reconciliations:</i>			
Corporate and other unallocated assets			1,128,132
Total assets			2,375,389
Segment liabilities	366,199	33,428	399,627
<i>Reconciliations:</i>			
Corporate and other unallocated liabilities			173,718
Total liabilities			573,345

As at December 31, 2013 (audited)

	Water purification RMB'000	Air sanitization RMB'000	Total RMB'000
Segment assets	957,703	57,140	1,014,843
<i>Reconciliations:</i>			
Corporate and other unallocated assets			294,862
Total assets			1,309,705
Segment liabilities	230,979	14,095	245,074
<i>Reconciliations:</i>			
Corporate and other unallocated liabilities			731,089
Total liabilities			976,163

Notes to Interim Condensed Consolidated Financial Statements (Continued)

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, includes (i) the rental income of water purifying machines, (ii) service fees of air sanitization construction contracts, (iii) training service income and (iv) sales of corporate/household water purification/air sanitization products. The breakdown of revenue is as follows:

	Six months ended June 30,	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Revenue		
<i>Water purification</i>		
Rental income	181,621	147,803
Training services	5,331	1,026
Sales of goods	—	46
<i>Air sanitization</i>		
Rendering of services	43,981	27,722
Sales of goods	1,089	2,450
	232,022	179,047

	Six months ended June 30,	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Other income and gains		
Government grants	3,059	715
Interest income	855	716
Exchange gain	3,481	7,934
Others	89	284
	7,484	9,649

Notes to Interim Condensed Consolidated Financial Statements (Continued)

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended June 30,	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Cost of services provided	29,413	19,371
Cost of inventories sold	723	2,186
Depreciation of revenue generating assets	37,085	24,225
Depreciation of property, plant and equipment	12,619	6,935
Less: Amount capitalised in revenue generating assets	(4,984)	(2,478)
	7,635	4,457
Amortisation of intangible assets	5,187	2,459
Less: Amount capitalised in revenue generating assets	(3,774)	(1,880)
	1,413	579
Research and development costs	4,615	3,110
Auditors' remuneration	2,796	874
Employee benefit expense (including directors' remuneration):	33,290	25,137
Less: Amount capitalised in revenue generating assets	(7,563)	(8,965)
	25,727	16,172
Operating lease expenses	4,635	3,958
Less: Amount capitalised in revenue generating assets	(1,976)	(1,299)
	2,659	2,659
Warranty provision	5,384	4,035
Foreign exchange differences, net	(3,481)	(7,934)
(Reversal of impairment)/Impairment of trade and bills receivables	(50)	362
Loss on disposal of items of property, plant and equipment	2	—
Loss on disposal of revenue generating assets	47	—

Notes to Interim Condensed Consolidated Financial Statements (Continued)

6. 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 period.

All of the Group's subsidiaries that are 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 on 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 Water Purification Technology Development Co., Ltd. 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 the policy "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 Environmental Technology Development Co., Ltd. is entitled to the preferential tax rate of 15% from 2012 to 2020.

Pursuant to the policy "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 RMB80,000 and RMB285,000 for the six months ended June 30, 2013 and 2014, respectively, relating to the additional deduction of research and development cost.

The breakdown of income tax expense are as follow:

	Six months ended June 30,	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Current tax	19,583	16,067
Deferred tax	(4,341)	(3,572)
	15,242	12,495

Notes to Interim Condensed Consolidated Financial Statements (Continued)

6. INCOME TAX (Continued)

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:

	Six months ended June 30,	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Profit before tax	82,309	86,228
Tax at the statutory tax rate	20,577	21,557
Lower tax rates for specific provinces or enacted by local authority	(9,573)	(8,199)
Expenses not deductible for tax	143	311
Income not subject to tax	(838)	(2,217)
Unrecognized tax losses	5,218	1,122
Additional deduction of research and development cost	(285)	(79)
Tax charge at the Group's effective rate	15,242	12,495

7. EARNINGS PER SHARE

Basic earnings per share ("EPS") amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

7. EARNINGS PER SHARE (Continued)

The following reflects the profit and share data used in the basic and diluted EPS computations:

	Six months ended June 30,	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Earnings:		
Profit attributable to ordinary equity holders of the parent — basic and diluted (RMB'000)	67,067	73,733
Shares:		
Weighted average number of ordinary shares for basic EPS (shares)	1,300,228,889	1,266,000,000
Effect of dilution:		
Share options (shares)	543,454	—
Weighted average number of ordinary shares adjusted for the effect of dilution (shares)	1,300,772,343	1,266,000,000
Basic EPS (RMB cents)	5.16	5.82
Diluted EPS (RMB cents)	5.16	5.82

The 1,266,000,000 shares issued to Fresh Water Group before initial public offering (the "Capitalization") were issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding before the Capitalization is adjusted for the proportionate change in the number of ordinary shares outstanding as if the Capitalization had occurred at the beginning of the earliest period presented.

8. REVENUE GENERATING ASSETS

Acquisitions and disposals

During the six months ended June 30, 2014, the Group added revenue generating assets with a cost of RMB166,592,000 (the six months ended June 30, 2013: RMB115,882,000).

Revenue generating assets with a net book value of RMB47,000 were disposed of by the Group during the six months ended June 30, 2014 (December 31, 2013: RMB77,000), resulting in a net loss on disposal of RMB47,000 (December 31, 2013: RMB77,000).

Notes to Interim Condensed Consolidated Financial Statements (Continued)

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended June 30, 2014, the Group added assets with a cost of RMB59,839,000 (the six months ended June 30, 2013: RMB31,757,000), excluding property under construction.

The construction in process is totaling to RMB158,518,000 as of June 30, 2014 (December 31, 2013: RMB95,958,000), mainly representing the new manufacturing plant under construction located in Shaanxi Province.

Assets with a net book value of RMB2,000 were disposed of by the Group during the six months ended June 30, 2014 (December 31, 2013: RMB12,000), resulting in a net loss on disposal of RMB2,000 (December 31, 2013: RMB12,000).

10. LAND USE RIGHTS

Land use rights represent amounts paid for the right to use land in the PRC and are recorded at purchase cost less accumulated amortization. Amortization is provided on a straight-line basis over the lives of the land use rights agreements, which have terms of tenure and weighted-average amortization period of 50 years. During the six months ended June 30, 2014, the Company acquired land use rights with a cost of RMB38,910,000 and recognized amortization of RMB389,000.

11. INTANGIBLE ASSETS

	Patents and trademark RMB'000	Software RMB'000	Total RMB'000
At December 31, 2013 and January 1, 2014:			
Cost	44,051	34,064	78,115
Accumulated amortisation	(6,338)	(2,887)	(9,225)
Net carrying amount	37,713	31,177	68,890
At January 1, 2014, net of accumulated amortisation	37,713	31,177	68,890
Addition	—	1,649	1,649
Amortisation provided during the period	(2,533)	(2,654)	(5,187)
At June 30, 2014, net of accumulated amortisation	35,180	30,172	65,352
At June 30, 2014 (unaudited)			
Cost	44,051	35,713	79,764
Accumulated amortisation	(8,871)	(5,541)	(14,412)
Net carrying amount	35,180	30,172	65,352

Notes to Interim Condensed Consolidated Financial Statements (Continued)

12. INVENTORIES

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Raw materials	23,710	12,172
Work in progress	6,553	5,192
Finished goods	35,640	19,527
	65,903	36,891

13. TRADE AND BILLS RECEIVABLES

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Trade receivables	34,771	50,891
Bills receivables	1,571	100
	36,342	50,991
Impairment	(312)	(362)
Net trade and bills receivables	36,030	50,629

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 are approximate to their fair value.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

13. TRADE AND BILLS RECEIVABLES (Continued)

An aging analysis of the trade and bills receivables as at the end of each of the reporting periods, based on the revenue recognition date and net of provisions, is as follows:

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Within 90 days	25,509	39,815
Over 90 days and within 180 days	8,035	3,947
Over 180 days and within 1 year	964	824
Over 1 year and within 2 years	1,425	5,608
Over 2 years and within 3 years	97	435
	36,030	50,629

The movements in provision for impairment of trade and bills receivables are as follows:

	Six months ended June 30,	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
As at January 1,	362	—
Provision/(reversal of provision) for impairment	(50)	362
As at June 30,	312	362

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 creation and release of provision for impaired trade and bills receivables have been included in administrative expenses.

The balance of the trade and bills receivables of RMB97,000 and RMB435,000 as at June 30, 2014 and December 31, 2013, respectively, were 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.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Cash and bank balances	1,008,029	199,148
Time deposits	—	22,212
	1,008,029	221,360
Less: Pledged as security for bank loan	61,500	61,500
Pledged as collateral for issuance of bank acceptance notes	13,358	5,519
Cash and cash equivalents	933,171	154,341
Denominated in RMB	751,761	214,262
Denominated in HK\$	255,520	6,527
Denominated in US\$	748	571
	1,008,029	221,360

15. INTEREST-BEARING BANK LOAN

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Current		
Bank loan — secured	105,655	212,716

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 at June 30, 2014 and December 31, 2013. The Group's bank loan is also secured by mortgages over the Group's property, plant and equipment and land use rights which had an aggregate carrying value of approximately RMB72,897,000 and RMB36,767,000 as at June 30, 2014 and December 31, 2013, respectively. The Group's bank loan is also guaranteed by Park Wealth, Ozner Water Group and the Company as at June 30, 2014.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

16. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables of the Group as at the end of each of the reporting period is as follows:

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Within 90 days	63,247	43,722
Over 90 days and within 180 days	23,701	5,617
Over 180 days and within 1 year	5,455	7,062
Over 1 year and within 2 years	1,203	1,102
Over 2 year and within 3 years	1,031	310
	94,637	57,813

The trade and bills payables are unsecured, non-interest-bearing and normally repayable within one to two months or on demand.

17. ISSUED CAPITAL, SHARE PREMIUM AND RESERVES

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.

On November 15, 2013, the Company allotted and issued one share to Walkers Nominees Limited at par value, which transferred such share to Fresh Water Group on November 19, 2013.

On March 18, 2014, the Company allotted and issue one share to Fresh Water Group at a subscription price of RMB600,000.

On June 17, 2014, Fresh Water Group subscribed one share of Fresh Water HK at a subscription price of RMB409,221,000, which was equal to and settled by the amount due to Fresh Water Group by Fresh Water HK. Fresh Water Group designated Ozner Water Group to take up such one share. As a result, the Group recognized share premium of RMB409,221,000.

On June 17, 2014, authorized share capital of the Company was increased from HK\$380,000 to HK\$40,000,000 by the creation of an additional 3,962,000,000 shares, and 1,265,999,998 shares were allotted and issued, credited as fully paid, to Fresh Water Group, who immediately transferred all the shares of the Company to certain other investors.

On June 17, 2014, the Company issued 422,000,000 shares in its initial public offering at the price of HK\$2.70 per share.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

17. ISSUED CAPITAL, SHARE PREMIUM AND RESERVES (Continued)

On June 27, 2014, the Company issued additional 63,300,000 shares at the price of HK\$2.70 per share as a result of exercise of over-allotment option by the underwriters.

Total proceeds from the initial public offering (including the over-allotment) were HK\$1,310,310,000 (approximately RMB1,040,142,000), and net proceeds were HK\$1,244,847,000 (approximately RMB988,176,000) after deduction of related issuance costs.

18. SHARE-BASED PAYMENT

Pre-IPO Share Option Scheme

Pre-IPO Share Option Scheme was approved and adopted on May 26, 2014 and expired on the listing date (i.e. June 17, 2014). 168,800,000 share options of the Company were approved to be granted to employees or directors of a member of the Group under Pre-IPO Share Option Scheme on May 26, 2014. The exercise price of the options granted under the Pre-IPO Share Option Scheme was 85% of the Offer Price of HK\$2.70 (i.e. HK\$2.295). Exercise of the options granted under Pre-IPO Share Option Scheme is conditional until the successful listing of the Company on June 17, 2014. The options granted under the Pre-IPO Share Option Scheme shall vest in accordance with the following schedule:

Vesting period	Maximum cumulative percentage of options vested
Upon 12 months after the listing date	40%
Upon 24 months after the listing date	70%
Upon 36 months after the listing date	100%

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The contractual term of each option granted is ten years. There are no cash settlement alternatives.

The fair value of options granted during the six months ended June 30, 2014 was estimated on the date of grant using the following assumptions:

Share price	HK\$2.70
Risk free rate of interest	1.96%
Dividend Yield	—
Life of option	10 years
Volatility	35.29%
Exercise multiple	2 for key management and 1.5 for other employees
Forfeiture rate	5% for key management and 15% for other employees

The weighted average fair value of the options granted under Pre-IPO Share Option Scheme was HK\$1.07 (RMB0.85). For the six months ended June 30, 2014, the Group has recognised RMB3,497,000 of share-based payment expense in the statement of profit or loss (June 30, 2013: nil).

Notes to Interim Condensed Consolidated Financial Statements (Continued)

18. SHARE-BASED PAYMENT (Continued)

Share Option Scheme

Share Option Scheme was approved and adopted on May 26, 2014 with implementation conditional on the listing of the Company. 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 the Company must not in aggregate exceed 168,800,000 (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The board of directors may grant options under Share Option Scheme to (i) employees (whether full time or part-time) or a director of a member of our Group or associated companies of the Company; and (ii) a distributor or a full-time employee of any distributor of the Group or associated companies the Company. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date.

No share option was granted under Share Option Scheme in the six months ended June 30, 2014.

19. 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:

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Within one year	56,053	60,506

(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.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

19. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee (Continued)

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 June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Within one year	9,391	7,078
In the second to fifth years, inclusive	2,245	2,191
	11,636	9,269

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19 above, the Group had the following capital commitments at the end of the reporting period:

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Contracted, but not provided for: Property, plant and equipment	54,809	64,576

21. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	Relationship with the Group
Fresh Water Group	Ultimate holding company before June 17, 2014*
Mr. Xiao Shu	Chairman, chief executive officer, executive director and one of the ultimate shareholders

* On June 17, 2014, Fresh Water Group Limited transferred all 1,266,000,000 shares of the Company to certain other investors.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

21. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(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 six months ended June 30, 2014 and 2013 respectively:

	Six months ended June 30,	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
(1) Acquisition of subsidiaries from Fresh Water Group	33	—

On March 13, 2014, Ozner Water Group 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.

	Six months ended June 30,	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
(2) Settlement of amounts due to Fresh Water Group	409,221	—

On June 17, 2014, Fresh Water Group subscribed one share of Fresh Water HK at a subscription price of RMB409,221,000, which was equal to and settled by the amount due to Fresh Water Group by Fresh Water HK. Fresh Water Group designated Ozner Water Group to take up such one share (Note 17).

(c) Outstanding balances with related parties

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
	Due to a related party – Fresh Water Group	—

Balances with the related parties were unsecured and non-interest-bearing and had no fixed repayment term.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

22. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments, as at the end of each of the reporting periods are as follows:

Financial assets – loans and receivables

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Trade and bills receivables	36,030	50,629
Financial assets included in prepayments, deposits and other receivables	13,619	6,630
Pledged deposits	74,858	67,019
Cash and cash equivalents	933,171	154,341
	1,057,678	278,619

Financial liabilities – financial liabilities at amortised cost

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Interest-bearing bank loans	105,655	212,716
Trade and bills payables	94,637	57,813
Financial liabilities included in other payables, advances from customers and accruals	84,824	48,783
Due to a related party	–	407,955
	285,116	727,267

Fair value hierarchy

The following methods and assumptions were used to estimate the fair values of the financial assets and liabilities:

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, amount due to a related party and interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

Notes to Interim Condensed Consolidated Financial Statements (Continued)

23. EVENTS AFTER THE REPORTING PERIOD

No significant event after the reporting period.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements have been approved by the board of directors on August 26, 2014.