OZNER 浩泽

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2014)

OZNER iFAMILY

Annual Report 2014


OZNER浩泽
只 为 安 全 净 水
极智安全，净享浩泽
400-820-2667
浩泽品牌代言人
APO+
安全净水
24小时净水服务

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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

Authorized 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 Adviser

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

Investor and Media Relations Consultant

Stimulus Investor Relations Limited

Registered Office

190 Elgin Avenue
George Town
Grand Cayman KY1-9005
Cayman Islands

Principal Place of Business in Hong Kong

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1 Matheson Street
Causeway Bay
Hong Kong

Headquarters and Principal Place of Business and Head Office in China

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Pudong New District
Shanghai
PRC

Cayman Islands Principal Share Registrar and Transfer Office

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman
KY1-9005
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

2014

Company's Website

www.ozner.net

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(RMB in thousands)	Year ended 31 December 2014	2013
Total Revenue	**511,711**	402,334
Water purification services	**411,267**	313,960
Air sanitization services	**100,444**	88,374
Gross Profit	**334,715**	272,792
Gross Profit Margin	**65.4%**	67.8%
Profit for the year	**123.902**	152.912
Net Profit Margin	**24.2%**	38.0%
Non-IFRS adjusted profit for the year#	**190,193**	154,003
Non-IFRS adjusted net profit margin#	**37.2%**	38.3%
Basic earnings per share (RMB cents)	**8.12**	12.08
Non-IFRS adjusted earnings per share (RMB cents)#	**12.47**	12.16

(RMB in thousands)	As at 31 December 2014	2013
Revenue generating assets	**941,668**	585,345
Total assets	**2,450,033**	1,309,705
Total liabilities	**554,213**	976,163

Non-IFRS adjusted profit for the year was derived from the profit for the year excluding exchange gain/loss generated from amounts due to Fresh Water Group, share option expenses and one-off listing expenses.

Continuous Significant Growth in 2014

2014 Revenue:
RMB 512M

y-o-y increase **27%**

Non-IFRSs adjusted profit for the year#:
RMB 190M

y-o-y increase **23%**

New Installation Surged

Total installed base
657,000 units

195,000 New Installation

Expanding Distributor Network

Number of distributors:
2,432

Incremental
730

730

Network Coverage
155 Cities

Incremental
30 Cities*

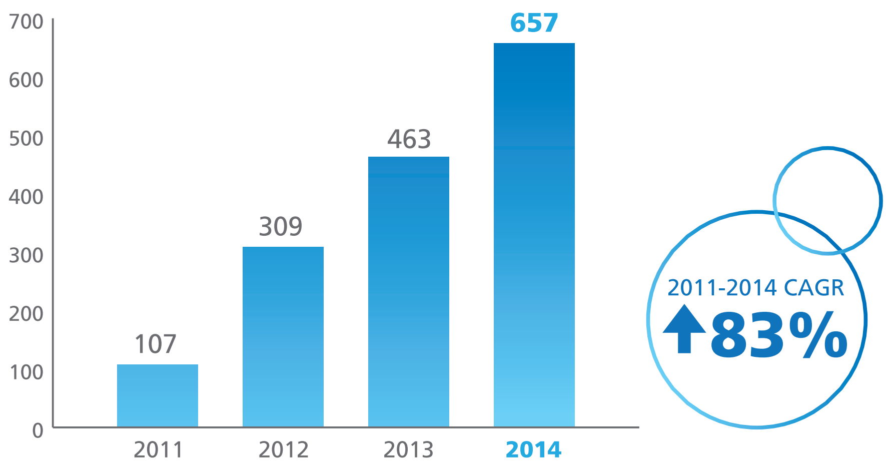
30

* *As of February 2015*

Large Installment Base and High Renewal Rate

Fast Growth in Installment Base

('000 Units)



High Renewal Rates

	2012	2013	2014
Renewal Rate	99%	97%	**97%**

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of Ozner Water International Holding Limited ("Ozner Water", "Ozner" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2014.

In its early years, Ozner focused on the corporate water purification market and such strategy allowed us to circumvent competition with traditional home appliance giants and made us one of the leading water purification service providers with the largest market share for corporate end users. We maintained an end user renewal rate of over 97% by virtue of leading technology and quality service and strive to keep such leading position.

With our unique market position, innovated business model and high product quality and after-sales service, we have achieved significant growth and now, we have a large number of corporate water purifier end users across various sectors and areas, and the penetration into household water purifier market is accelerating. For the year ended 31 December 2014, the Group recorded a turnover and a gross profit of RMB511.7 million and RMB334.7 million respectively, representing an increase of 27.2% and 22.7% from the same period of last year respectively. Our service network extended to 155 cities (as of February 2015) and the number of our distributors increased by 730 to 2,432 (as of 31 December 2014). In 2014, the Company entered into machine installation agreements with major clients such as Shanghai ShuGuang Hospital, Xi'an Children's Hospital, Kunming Steel Group, Guangdong Branch of China Unicom, Walmart Asia, ICBC Inner Mongolia Branch, Beijing Heike stores of S.F. Express, Chinese People's Armed Police Force, etc.

After listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in June 2014 (the "Listing"), the Company started to increase its investment in developing household market. China is a country with a population of 1.3 billion people from around 400 million households. According to a Frost & Sullivan report, the penetration rate of water purifying machine was estimated to be approximately 11.8% in 2012, and is expected to reach 30% in residential communities by 2020. The household water purification market maintained a rapid growth of over 30% annually, driven by the frequent occurrence of environmental pollution accidents, the increase of average income and the rise of health awareness, among others. However, traditional home appliance vendors paid little attention to after-sales services, and failed to provide customers with comprehensive and safe water drinking service experience. On the contrary, the Company offers one-stop water purification service backed by our top after-sales service and proprietary storage and logistic system. This unique business mode of "lease + service" stands out from the traditional business pattern in water purification products in China that focus on sales rather than service. In addition to continuously enhancing our technology and service quality, considering the characteristics of the water purification market, the Company also established the "experience + word-of-mouth" brand building and promotion marketing strategy, setting up off-line experience spots, increasing media exposure and enhancing functions and user loyalty to its online platform. Such measures allowed Ozner to improve public awareness of its "Just For Safe Water" mission and its commitment to offer safe, smart and convenient products and services.

Ozner constantly strives to differentiate and improve its product and service through continuous innovation of both its technology and operation thus achieving solid foundation for future growth.

In April 2014, Ozner Water launched its brand new product, "cloud" water purification machine, which enables real-time monitoring of both purifier's filter status and water quality. It also increases water purification rate of RO membrane from 25%–50% to over 95%. These functions further enhance user experience and establish technical barrier.

In the fourth quarter of 2014, the implementation of the O2O (online to offline and vice versa) marketing strategy featuring five major channels marked a major step for Ozner to embrace the Internet age. We adopt five precise channels to enhance offline experience marketing, including "public non-profit water bars", "experience stores", "Smart Cup and other peripheral device", "converting employees of corporate end users into household end users", and "brand collaboration", so as to pinpoint our target customers and maximize our brand exposure in the most effective manner. Offline users are encouraged to scan QR code on our water purification machines and register to Ozner's online membership system, where the Company launches a series of membership promotion and communications packages in an effort to convert registered members to users of Ozner's water purifier, and to establish Ozner's iFamily Application System platform ("iFamily APP") into a self-media channel to promote the brand and create an access to our value-added products and services system, ultimately improving customer loyalty and enlarging end user base.

In March 2015, the Smart Cup and iFamily APP independently developed by the Company were officially launched. The Smart Cup features such functions as water quality monitoring, health management and social media sharing and interaction. In addition to market education, it serves to attract traffic, create buzz, increase customer loyalty, enhance efficient communications and lead to ultimate consumer conversion. As a key part of Ozner Water's O2O marketing strategy, the Smart Cup won recognition and heated reception upon its initial launch from our distribution channels and end users. Supported by Ozner's efficient distribution channels, the Smart Cup and the iFamily APP function as an effective access point to bridge potential end users, corporate or household, with the Company and lay down solid foundation for viral expansion in the household market.

To further enhance our experience marketing strategy, partnering with our distributors, we set up "public non-profit water bars" at major airports and other public places with most traffic across China, and officially launched our first experience store in Shanghai.

For the year ended 31 December 2014, the Group signed brand cooperation agreements with a number of corporate clients including Colour Life, iKang Healthcare Group, Inc., Longfor Properties, 139.com, China Merchants Bank, Ping An Wanlitong, dianrong.com, yummy77.com, etc. The cooperation program is scheduled to be launched in 2015.

With approximately 479,000 Ozner water purification machines installed in corporates in various industries such as finance, real estate, leisure and entertainment, education, medical service and large-scale enterprises and institutional organizations, the Company is providing services to their employees who constitute a large pool of high quality potential household end users. We have strengthened our efforts in this regard and had in-depth cooperation with major groups such as Lenovo Group, ZTE Group, ICBC, China Telecom and Longcheer Holdings to introduce group-buy campaigns among employees of our corporate end users.

Along with business development, Ozner also attaches great importance to fulfilling its corporate social responsibilities. In August 2014, we donated a batch of Ozner water purifiers to the quakestricken people at Ludian, Yunnan Province and disaster relief institutions to offer clean drinking water to the affected population. We also pioneered in protecting the ecological environment at the origin of the Yangtze River in partnership with the Green River Environmental Protection Association. In order to encourage university students' entrepreneurship, we sponsored and hosted the "Ozner Cup Nanjing University Student Venture Competition (浩澤杯南京青年大學生創業實踐大賽)". In addition, we provided financial aid to university students facing financial difficulties in Qian County, Shaanxi Province. In December 2014, Ozner Water won the "Best Innovation Award of Corporate Citizen of China 2014 (二零一四年中國企業公民最佳公益創新獎)" granted by the 21th Century Corporate Citizen Research Centre. Going forward, we are determined to continue our effort to fulfill our social responsibilities and make further contributions to the society.

On 16 February 2015, Glaucus Research issued a report (the "Report") containing allegations against Ozner and revealing it had taken a short position in Ozner. Those allegations against Ozner's financial position and operations in the Report are unfounded due to Glaucus Research's lack of understanding of the business environment in the PRC, the development of the water purifying industry and the operational model and company structure of Ozner. At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted on 16 February 2015, and a clarification announcement was published on 25 March 2015 with the resumption of trading of shares taking effect on the following day.

Looking forward into 2015, we are fully confident and motivated. It will be a critical year for our enhancement of production capacity, brand and channels, laying down foundation for sustainable growth in the future. During the year, the first phase of our new production plant in Shaanxi Province is expected to reach full capacity and the construction of the second phase is scheduled to be completed. Centering around our "experience + word-of-mouth" marketing strategy, we will strengthen our marketing activities and brand promotion in order to further increase brand awareness. We will continue to promote "Ozner Water experience spots" to cover more crowded areas and develop more smart products to bring more functionalities and to enhance the using rate of our iFamily APP. As an important measure in this respect, the Company is exploring iFamily APP function to "provide Ozner water purifier users with healthy lifestyle value-added products and services". In terms of overseas expansion, the Company will take Hong Kong as its overseas center to expand future market share outside mainland China.

I would like to take this opportunity to thank the Board, every senior management member and all of our staff for their great efforts. We will continue to work hard to deliver more returns to our shareholders and the society.

XIAO Shu （肖述）
Chairman and Chief Executive Officer

Hong Kong
25 March 2015

Industry Review

The PRC continues to face serious water pollution problems, and the demand for safe drinking water is increasingly strong. According to an annual report released by the Ministry of Land and Resources on 22 April 2014, nearly three fifths (59.6%) of monitoring sites show signs of poor or very poor water quality, a fact indicating the seriousness of water pollution in the PRC, and the huge challenge the government is facing to control such serious water pollution.

In 2015, China Environmental Protection Administration will fully implement the Water Pollution Prevention and Control Action Plan which calls for administrative, economic and scientific and technological measures and proposes evaluation standard on water saving, water purification, water quality and amount indicators, so as to protect and recover water ecology. It is estimated that the launch of such action plan will spark more interest in water-related market.

According to a Frost & Sullivan report, China's water purifier market will maintain a compound annual growth rate of 23.1% in the next 6 years. As of 2017, the market size for water purifiers in China is expected to reach RMB125.1 billion. Despite its huge market size, the purifier sector is highly segmented, as the top 10 brands of water purifiers only account for less than 10% of market share. Ozner Water, as an industry leader, is expected to benefit from the robust market growth, and will further increase its market share by virtue of its advanced technology and high product and service quality.

Business Review

For the year ended 31 December 2014, the Group's revenue and gross profits recorded significant increases from the corresponding period of last year. Revenue increased by approximately 27.2% from approximately RMB402.3 million for the year ended 31 December 2013 to approximately RMB511.7 million for the year ended 31 December 2014, which was mainly attributed to the significant growth of the water purification business of the Group. For the years ended 31 December 2013 and 2014, revenue from water purification business were approximately RMB314.0 million and RMB411.3 million, respectively, accounting for approximately 78.0% and 80.4% of total revenue for the year, respectively. For the years ended 31 December 2013 and 2014, revenue from air sanitization business was approximately RMB88.4 million and RMB100.4 million, respectively. Gross profit of the Group increased by 22.7% from approximately RMB272.8 million for the year ended 31 December 2013 to approximately RMB334.7 million for the year ended 31 December 2014.

In 2014, Ozner implemented three major strategies, namely 1) the O2O marketing strategy featuring five major channels; 2) our brand promotion through diversified means; and 3) expansion of production capacity.

1. Word-of-mouth and membership-based O2O marketing strategy featuring five major channels

In October 2014, we officially launched our O2O marketing strategy which is centered around enhanced customer experience and word-of-mouth marketing, and aims to increase member registration through our five offline marketing tools including "converting employees of corporate end users into household end users", "public non-profit water bars", "experience stores", "Smart Cup and iFamily APP", and "brand collaboration". The registered members are guided to the iFamily APP in the effort of converting online members to offline customers.

Offline users are encouraged to scan QR code on our water purification machines and register to Ozner's online membership system, where the Company launches a series of membership promotion and communications packages in an effort to convert registered members to users of Ozner's water purifier, and to establish Ozner's iFamily APP platform into a self-media channel to promote the brand and create an access to our value-added products and services system, ultimately improving customer loyalty and enlarging end user base.


Remote Control
Member Activity
Gift Card Sharing
Water Quality Monitoring
OZNER iFAMILY
Corporate Customer
OZNER
Smart Product
Offline Experience
Brand Collaboration
Experience Store
OZNER

1. Continue to maintain leadership in the corporate market and promote group buying of household products for major corporate clients

The sales of our corporate water purifying machines maintained a continuous and steady growth in 2014. For the year ended 31 December 2014, the number of our distributors increased by 730. With our sound and stable corporate end user base and distributor network, Ozner is striving to position its household product market strategy, a change from traditional sales channel to Internet-based marketing approach which combines offline end user resources with online marketing tactics.

With approximately 479,000 Ozner water purification machines installed in corporates in various industries such as finance, real estate, leisure and entertainment, education, medical service and large-scale enterprises and institutional organizations, the Company is providing services to their employees who constitute a large pool of high quality potential household end users. We have strengthened our efforts in this regard, and had in-depth cooperation with major groups such as Lenovo Group, ZTE Group, ICBC, China Telecom and Longcheer Holdings to encourage group-buy campaigns among employees of our corporate end users .

2. Strengthen offline promotion by installing "public non-profit water bars"

For the year ended 31 December 2014, Ozner has a total of 2,432 distributors that sourced end users spanning across diversified sectors including large state-owned enterprises and public institutions, municipal public facilities, restaurants and entertainment facilities, hospitals, schools, and financial institutions. In October 2014, we officially launched the "public non-profit water bars" programs at such locations which provides quality and free-of-charge direct purified drinking water and serves as promotional setups to attract registration, where drinkers are encouraged to scan QR code to become a new member of the iFamily APP.

As of December 2014, we have set up "Ozner public non-profit water bars", at various airports, such as Shanghai, Ningbo, Qingdao, Dalian, Chongqing and other public premises.

Shanghai Hongqiao Airport

Guangdong Branch of China Telecom

Honda 4S store

Lotus Supermarket

3. To further enhance our brand image, we're planning to open experience stores in major cities in China

In order to extend our O2O marketing strategy, increase our brand recognition and enhance product experience, Ozner launched its first experience store in Shanghai named "Ozner iFamily" on 6 December 2014.

4. Launching of Smart Cup and iFamily APP for online marketing strategy

In November 2014, Ozner launched its first purifier peripheral smart product — Ozner Smart Cup. The Smart Cup, together with the iFamily APP, offers functions such as water quality monitoring, health management, social media sharing and interaction.

Users can download the iFamily APP and link with their Smart Cup to become an Ozner member. Through daily interactions with the products, users receive more product and brand information which potentially help convert them into users of Ozner water purifiers. The social media sharing function allows the users to easily and quickly share their drinking experience and knowledge about Ozner products, that efficiently enhancing the brand's word-of-mouth marketing strategy.

The Smart Cup is another Ozner's innovative marketing practice which is functioned to educate and improve potential customers' awareness of water quality issue and improve loyalty of existing customers. The launch of smart peripherals achieved remarkable marketing results during trial run.

5. Brand collaboration

For the year ended 31 December 2014, the Group signed brand cooperation agreements with a number of corporate clients including Colour Life, iKang Healthcare Group, Inc., Longfor Properties, 139.com, China Merchants Bank, Ping An Wanlitong, dianrong.com, yummy77.com, etc. The cooperation program is scheduled to be launched in 2015.

2. Brand promotion and communication of the concept "safe purified water" through diversified means

In the fourth quarter of 2014, we officially launched Ozner's branding campaign.

In November 2014, the renowned actor Huang Lei signed an endorsement contract with Ozner and became Ozner's brand ambassador. In 2015, Ozner commercials starring Huang Lei would be aired on TV channels including CCTV and Hunan Satellite TV, etc. In the meantime, Ozner achieved naming right of certain high-speed trains running on Beijing-Shanghai, Beijing-Wuhan, Shanghai-Wuhan and Wuhan-Guangzhou lines, among others.

3. Expansion of production capacity

In August 2014, the first phase of the Shaanxi OZNER Environmental Technology Industrial Park, which locates in Xianyang, Shaanxi Province, started commercial production. Currently, our two major production facilities at Shangyu, Zhejiang Province and Xianyang, Shaanxi Province feature a total capacity of approximately 370,000 units per year. The second phase of industrial park is under construction and is expected to be completed and put into production by the fourth quarter of 2015. Full designed capacity of Phases I & II of Shaanxi facilities and Shangyu facilities would be approximately 570,000 units per year.

Future Prospects

Looking forward into 2015, we are fully confident and motivated. It will be a critical year for our enhancement of production capacity, brand and channels, laying down foundation for sustainable growth in the future. During the year, the first phase of our new production plant in Shaanxi Province is expected to reach full capacity and the construction of the second phase is scheduled to be completed. Centering around our "experience + word-of-mouth" marketing strategy, we will strengthen our marketing activities and brand promotion in order to further increase brand awareness. We will continue to promote "Ozner Water experience spots" to cover more crowded areas and develop more smart products to bring more functionalities and to enhance the using rate of our iFamily APP. As an important measure in this respect, the Company is exploring iFamily APP function to "provide Ozner water purifier users with healthy lifestyle value-added products and services". In terms of overseas expansion, the Company will take Hong Kong as its overseas center to expand future market share outside mainland China.

Financial Review

Revenue

Our total revenue increased by 27.2% from approximately RMB402.3 million in the year ended 31 December 2013 to approximately RMB511.7 million in the year ended 31 December 2014, primarily attributable to the increase in revenue from our water purification services.

Revenue from water purification services increased by 31.0% from approximately RMB314.0 million in the year ended 31 December 2013 to approximately RMB411.3 million in the year ended 31 December 2014, primarily due to the increase in the total number of water purifying machines installed from approximately 463,000 as of 31 December 2013 to approximately 657,000 as of 31 December 2014.

Revenue generated from air sanitization services increased by 13.6% from approximately RMB88.4 million in the year ended 31 December 2013 to approximately RMB100.4 million in the year ended 31 December 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 during the year increased from 20 projects in the year ended 31 December 2013 to 24 projects in the year ended 31 December 2014.

Gross Profit Margin

Our gross profit margin decreased from 67.8% in the year ended 31 December 2013 to 65.4% in the year ended 31 December 2014, primarily attributable to the decrease in gross profit margin in water purification business.

Our gross profit margin in water purification business was 78.7% and 74.1% in the year ended 31 December 2013 and 2014, respectively. Our gross profit margins decreased by 4.6% from year ended 31 December 2013 to year ended 31 December 2014 due to the increase in proportion of the revenue contributed from renewed service fee from existing end users, which is at a lower profit margin, in total of revenue for water purification business from 41.6% in the year ended 31 December 2013 to 47.8% in the year ended 31 December 2014.

Gross profit margin of air sanitization business increased from 28.9% in the year ended 31 December 2013 to 29.9% in the year ended 31 December 2014. Due to the contribution of fast growing medical/healthcare segment which accounts 78.6% of our air sanitization business, which had a higher gross profit margin.

Other Income and Gains

Our other income and gains increased by 63.0% from RMB20.8 million in the year ended 31 December 2013 to RMB33.9 million in the year ended 31 December 2014, primarily attributing to (1) increase in government grants of RMB11.0 million in relation to our contribution in local economic; and (2) increase in bank interest income of RMB9.0 million in relation to increase in cash position after the Listing, partially offset by the decrease in exchange gains of RMB5.1 million. Amongst the exchange gain, the Group incurred an exchange gain amounting to RMB14.4 million and exchange loss amounting to RMB1.3 million for the year ended 31 December 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 has 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.

Selling and Distribution Expenses

In the years ended 31 December 2013 and 2014, our selling and distribution expenses were RMB57.0 million and RMB93.1 million respectively, representing 14.2% and 18.2% of the revenue of the same periods, which was increased by 63.4% or RMB36.1 million from the year ended 31 December 2013 to the year ended 31 December 2014. The increase was primarily due to share option expense amounting to RMB12.8 million, increase in number of staff in our regional sales office and staff who operates our hotlines in relation to rental business and the promotion of the second generation water purifying machine and Smart Cup in March 2014 and October 2014. The advertising and marketing expenses were RMB16.6 million and RMB21.1 million for the years ended 31 December 2013 and 2014, respectively.

Administrative Expenses

In the years ended 31 December 2013 and 2014, our administrative expenses were RMB44.6 million and RMB99.4 million respectively, representing 11.1% and 19.4% of the revenue of the same periods. Our administrative expenses increased by 122.6% or RMB54.7 million from the year ended 31 December 2013 to the year ended 31 December 2014, primarily due to share option expenses amounting to RMB30.2 million in the year ended 31 December 2014 as no such expense was incurred in the year ended 31 December 2013 and an one-off listing expenses increased from RMB15.5 million in the year ended 31 December 2013 to RMB21.4 million in the year ended 31 December 2014. Excluding the listing expense and share option expense, our administrative expenses represented 7.3% and 9.3% of the revenue of the same periods for the years ended 31 December 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 2014 to 2016; 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 was RMB30.7 million and RMB37.3 million in the years ended 31 December 2013 and 2014, respectively. The effective tax rate (calculated by dividing income tax expense by profit before tax) in the year ended 31 December 2013 was 16.7%. The effective tax rate in the year ended 31 December 2014 was 23.2%, 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 19.1% from RMB152.9 million in the year ended 31 December 2013 to RMB123.9 million in the year ended 31 December 2014. Such decrease was primarily affected by exchange gain/loss recognized in connection with amounts due to Fresh Water Group, share option expense and one-off listing expense. If excluding such effect, our net profit increased by 23.5% from RMB154.0 million in the year ended 31 December 2013 to RMB190.2 million in the year ended 31 December 2014.

Our net profit margin decreased from 38.0% in the year ended 31 December 2013 to 24.2% in the year ended 31 December 2014. The factors contributed to the decrease was mentioned above. If excluding such effect, our net profit margin decreased slightly from 38.3% in the year ended 31 December 2013 to 37.2% in the year ended 31 December 2014.

The reconciliation between the net profits and Non-IFRS adjusted net profits is as below:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Profit for the year	**123,902**	152,912
Adjusted items:		
— exchange loss/(gains) from amounts due to Fresh Water Group	**1,266**	(14,363)
— Listing expense	**21,382**	15,454
— Share option expense	**43,643**	—
Non-IFRS adjusted profit for the year	**190,193**	154,003

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 31 December 2014, the Group's bank balances and cash was RMB293.7 million as compared to RMB154.3 million as of 31 December 2013, partially attributable to 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 on 17 June 2014 (the "Listing Date"). For the surplus cash, we intend to deposit the cash into short-term demand deposits and/or money market instruments.

A financial asset at fair value through profit or loss

On 26 and 27 November and 16 December 2014, the Company used part of its internal resources to subscribe for three unlisted wealth management products issued by a reputable bank in the principal amount of RMB100 million each. The principal was guaranteed upon redemption at the respective maturity dates, which are less than 3 months. The intention of the Group's subscribing for the wealth management products is to maximise the use of its funds with the aim of obtaining satisfactory short-term return. As at 31 December 2014, financial asset at fair value through profit or loss was RMB300.0 million. As at 27 February 2015, the Group had fully redeemed wealth management products with principal amounts of RMB300.0 million together with returns.

Trade and bills receivables

Trade and bills receivables decreased significantly from RMB50.6 million as of 31 December 2013 to RMB43.5 million as of 31 December 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 33 days in the year ended 31 December 2013 and year ended 31 December 2014, respectively.

Due to a Related Party

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

Current Ratio and Gearing Ratio

As of 31 December 2013 and 31 December 2014, our current ratio was 0.4 and 1.5, 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 RMB212.7 million during the period. Our gearing ratio, which was derived by dividing total debt by total equity, was 63.8% and nil as of 31 December 2013 and 31 December 2014, respectively. The such change as at 31 December 2014 was primarily due to the reasons stated above.

Capital Expenditure

In the year ended 31 December 2014, the Group's capital expenditure amounted to RMB797.9 million, which was mainly used for the purchases of property, plant, equipment, other tangible assets and manufacturing of water purifying machines. During the year, the Group added approximately 195,000 new water purifying machines and invested in construction of the new production plant in Shaanxi Province (including land use right) amounting to RMB441.0 million and RMB196.9 million respectively.

Borrowings and Charges on the Group's Assets

As of 31 December 2014, the Group did not have any bank loan and any charges on the assets as the loan was settled by using our internal resources in July 2014 (31 December 2013: RMB212.7 million).

Contingent Liabilities

As at 31 December 2014, the Group had no material contingent liabilities.

Commitments

As of 31 December 2014, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB15.8 million (as of 31 December 2013: RMB9.3 million).

As of 31 December 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 RMB41.4 million (as of 31 December 2013: RMB64.6 million).

As of 31 December 2014, the Group had unpaid annual leasing fee payments which are not yet recognized as rental revenue amounting to RMB102.7 million (as of 31 December 2013: RMB60.5 million).

As of 31 December 2014, the Group had no other capital commitments save as disclosed above.

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 31 December 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 31 December 2013 and 2014, the Group had 1,458 and 2,137 employees respectively. Total staff costs (including Directors' emoluments and share option expenses) in the year ended 31 December 2014 were RMB115.6 million, as comparable to RMB50.1 million in the year ended 31 December 2013. Remuneration is determined by reference to their performance, skills, qualifications and experiences of the staff concerned and according to the prevailing industry practice. 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 year ended 31 December 2013, no options were granted or agreed to be granted under the above share option schemes to any person. Conversely, as of 31 December 2014, accumulated 168,800,000 shares options have been granted under the Pre-IPO Share Option Scheme to eligible participants. In the year ended 31 December 2014, the total share option expense was RMB46.6 million (year ended 31 December 2013: Nil).

Use of Net Proceeds From Listing

The Company was listed on the Stock Exchange on 17 June 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 27 June 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.

The following table sets forth the status of use of proceeds from the global offering[1]:

Items	**% of use of proceeds**	**Proceeds from the global offering** RMB million	**Used up to 31 December 2014** RMB million	**Unused balance** RMB million
Manufacturing of water machines	54%	533.6	261.9	271.7
Construction of the 2nd phase of production Facility in Shaanxi	20%	197.6	75.3	122.3
Repayment of bank loan	11%	109.1	109.1	—
Sales and marketing fee	5%	49.4	11.6	37.8
General working capital	10%	98.5	29.6	68.9
Total	100%	988.2	487.5	500.7

1 *The figures in the table are approximate figures.*

As at 31 December 2014, the unused balance of the proceeds from the global offering of approximately RMB500.7 million are currently placed into short-term demand deposits and/or money market instruments.

CORPORATE SOCIAL RESPONSIBILITY

Assist the earthquake-stricken area at Ludian by providing safe drinking water

At 4:30 p.m., 3 August 2014, a magnitude 6.5 earthquake hit Ludian County, Zhaotong City, Yunnan Province. Ozner Water immediately initiated its quick response program by dispatching a team of staff to assist the stricken area on site.

The “Jingze Program (淨澤計劃)”

In view of the worsening quality of drinking water in China, in partnership with the media 21st Century Business Herald and assisted by the Institute of Urban and Environmental Studies of Chinese Academy of Social Sciences academically, Ozner Water launched the Jingze Program that aims to perform a comprehensive investigation on the quality of drinking water in 20 major cities in China.

The Jingze Program’s investigation will involve such issues as conditions of sources of urban drinking water, water quality and water pollution at source region, environmental protection and water pollution control measures, guidance to water usage and suggestion on water control in the future. The program will help to build a platform that combines functionalities of research on drinking water environment, advice on water quality control, disclosure of information concerning drinking water and public guidance on water safety. Such platform will provide data and advice that facilitate decision-making process of the government and studies of researchers, and at the same time advise the general public how to obtain safe drinking water, so as to improve safety and quality of drinking water in China.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance.

Save for the deviation disclosed in this annual report, in the opinion of the Directors, the Company has complied with all the code provision as set out in the CG Code during the period since 17 June 2014 and up to 31 December 2014.

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 31 December 2014, the Company complied with all the principles and the code provisions of the CG Code with the exception of code provision A.2.1 of the CG Code which are stated in the section headed "Chairman and Chief Executive Officer" in the Corporate Governance Report. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance.

The Board

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

As at the date of this annual report, the Board comprises twelve members, consisting of five executive Directors, three non-executive Directors and four independent non-executive Directors as set out below.

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

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

Since the Listing Date and up to the date of this annual report, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company also complied Rule 3.10A of the Listing Rules, which relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant status, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Chairman and Chief Executive Officer

As required by code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

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 highcalibre individuals. Our Board currently comprises five executive Directors (including Mr. Xiao), three non-executive Directors and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from their respective date of appointment. Each of the non-executive Directors and the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing from their respective date of appointment.

None of the Directors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

In accordance with the articles of association of the Company (the "Articles of Association"), all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Board Meetings

The Company adopts the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the board meetings and committee meetings will be recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

Since the Listing Date and up to 31 December 2014, three board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Director	Attended/Eligible to attend
Mr. Xiao Shu	3/3
Mr. Zhu Mingwei	3/3
Mr. He Jun	3/3
Mr. Tan Jibin	3/3
Mr. Xiao Lilin	3/3
Mr. Ng Benjamin Jin-Ping	3/3
Mr. He Sean Xing	3/3
Ms. Wang Haitong	3/3
Mr. Lau Tze Cheung Stanley	3/3
Mr. Gu Jiuchuan	3/3
Dr. Chan Yuk Sing Gilbert	3/3
Mr. Zhou Guanxuan	3/3

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Specific enquiry of all the Directors has been made and the Directors have confirmed that they have complied with the Model Code from the Listing Date to 31 December 2014.

Since the Listing Date, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and the corporate governance duties include:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2014 are set out in note 9 to the consolidated financial statements. Apart from the executive Directors, the Group does not have any other members of senior management.

Directors' Liability Insurance

The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

Board Committees

Nomination Committee

The Nomination Committee currently consists of two independent non-executive Directors, being Mr. Gu Jiuchuan and Dr. Chan Yuk Sing Gilbert, and one executive Director, Mr. Xiao Shu, who is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendation to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

The written terms of reference of Nomination Committee are available on the websites of the Stock Exchange and the Company.

Since the Listing Date and up to 31 December 2014, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Xiao Shu *(Chairman)*	1/1
Mr. Gu Jiuchuan	1/1
Dr. Chan Yuk Sing Gilbert	1/1

The Nomination Committee assessed the independence of independent non-executive Directors and considered the re-appointment of the retiring Directors.

Board Diversity Policy

The Board has adopted a board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company.

The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives as stated in the above. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 12 directors. One of them is woman. Four of the directors are independent non-executive directors and independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Zhou Guanxuan, Mr. Zhu Mingwei and Mr. Lau Tze Cheung Stanley, the majority of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations to the Board for approval on the remuneration policy and structure and remuneration packages of the Directors and the senior management, to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management/to make recommendations to the Board on the remuneration packages of individual executive directors and senior management. The Remuneration Committee is also responsible for ensuring that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The written terms of reference of Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Since the Listing Date and up to 31 December 2014, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Zhou Guanxuan *(Chairman)*	1/1
Mr. Zhu Mingwei	1/1
Mr. Lau Tze Cheung Stanley	1/1

The Remuneration Committee made recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, and determine/make recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Audit Committee

The Audit Committee has four members namely, Mr. Lau Tze Cheung Stanley, Mr. Zhou Guanxuan, Mr. Gu Jiuchuan and Dr. Chan Yuk Sing Gilbert, all being the independent non-executive Directors. The main duties of the Audit Committee include the following:

— To review the financial statements and reports before submission to the Board;

— To review and monitor the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard and discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;

— To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issue, and makes recommendations to the Board.

The written terms of reference of Audit Committee are available on the websites of the Stock Exchange and the Company.

Since the Listing Date and up to 31 December 2014, two meetings of the Audit Committee was held and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Lau Tze Cheung Stanley *(Chairman)*	2/2
Mr. Zhou Guanxuan	2/2
Mr. Gu Jiuchuan	2/2
Dr. Chan Yuk Sing Gilbert	2/2

The Audit Committee reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function), risk management systems and processes and the re-appointment of the external auditor. The Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor.

They also reviewed final results of the Company and its subsidiaries for the fiscal year as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2014 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 49–50 of this annual report.

Internal Control

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The Group's internal audit department plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the financial condition and internal control of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis.

The Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the internal control system is effective and adequate.

Auditor's Remuneration

For the year ended 31 December 2014, the total remuneration paid or payable to the Company's auditors, Ernst & Young, for audit and audit related services totally RMB2.3 million.

In addition, Ernst & Young was appointed as the Company's reporting accountant for its initial public offering of shares, in relation to which total fees paid or payable to Ernst & Young during the year ended 31 December 2014 was RMB2.6 million.

An analysis of the remuneration paid or payable to Ernst & Young is set out below:

Items of auditors' services	**Amount** (RMB'000)
Audit services:	
Annual audit service	2,285
Reporting accountant's services in relation to the Listing	2,615
Total	4,900

Joint Company Secretaries

Mr. Tan Jibin, one of our joint company secretaries, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Lai Siu Kuen, senior manager of KCS Hong Kong Limited (a company secretarial service provider), as another joint company secretary to assist Mr. Tan Jibin to discharge his duties as company secretary of the Company. The primary corporate contact person at the Company is Mr. Tan Jibin, one of the joint company secretaries of the Company.

Since the Listing Date and up to 31 December 2014, Mr. Tan and Ms. Lai have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company (the "AGM") provides opportunity for shareholders to communicate directly with the Directors. The Chairman of the Company, the chairmen of the Board Committees of the Company will attend the AGMs to answer shareholders' questions. The external auditor of the Company will also attend the AGMs to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and maintains a website at www.ozner.net, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

Convening of Extraordinary General Meeting and Putting Forward Proposals

In accordance with the Articles of Association, an extraordinary general meeting shall be convened on the requisition of two or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings.

Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The Directors shall within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days.

Shareholders may put forward proposals for consideration at a general meeting in accordance with the Companies law of the Cayman Islands and the Articles of Association.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to Ozner investor relations at Ozner-IR@ozner.net.

Change In Constitutional Documents

A restated Memorandum and Articles of Association of the Company was adopted by the Company on 26 May 2014 and was effective on the Listing Date.

Executive Directors

Mr. XIAO Shu (肖述), aged 41, is the Chairman of the Board, an executive Director and our chief executive officer. He is also the president and chief engineer of Shanghai Haoze Water Purification Technology Development Co., Ltd. ("Shanghai Haoze Water Purification Technology"), and the president of Shanghai Ozner Comfort Environment & Service Co., Ltd. ("Shanghai Comfort"). He was appointed as the Director on 19 November 2013 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Xiao has more than 15 years of experience in technology development, sales and marketing and strategic management. Mr. Xiao founded our business when he established Shanghai Comfort, a company which we acquired in 2012, in October 2005 and has remained as the management of Shanghai Comfort since then until he joined Shanghai Haoze Environmental Technology Co., Ltd. in January 2011. Mr. Xiao held his interest in Shanghai Comfort through Shanghai Comfort Products, a company which was engaging in the sales of air purification products and drinking water machines and which was established by Mr. Xiao as one of the founders in 2003. Mr. Xiao is the inventor of several patented water and air purification technologies owned by the Group. Prior to establishing our business via the establishment of Shanghai Comfort, Mr. Xiao worked at Sinorate Enterprises Limited, a company specializing in the production of electronic goods and components, between April 1993 and April 1999 where he sequentially served as product engineer, quality control manager and director of the production department. Between June 2001 and June 2002, he worked at Shanghai Oasun Environment High Technology Company Limited (上海歐臣環境高科技有限公司) ("Shanghai Oasun"), a company engaging in the business of providing water purification solutions, and was in charge of research and development and production management. Mr. Xiao received a bachelor's degree in agriculture (soilless cultivation) from Northwest A&F University (西北農林科技大學) (Shaanxi, PRC), which is formerly known as Northwest Agricultural Institute (西北農學院), in July 1992. Mr. Xiao is also accredited as an Internal Quality Auditor following the completion of an internal quality auditor course and the passage of the national internal quality auditor examination administered by the National Educational Center for Conformity Assessment in December 2001.

Mr. Xiao is the brother of Mr. Xiao Lilin, an executive Director and the general manager of the production department of Shanghai Haoze Water Purification Technology.

Mr. ZHU Mingwei (朱明偉), aged 47, is an executive Director, our vice chairman of the Board and deputy chief executive officer. He joined our Group on 1 January 2011 as the senior vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on 10 January 2014. Mr. Zhu is primarily responsible for overseeing the management and strategic development of our Group as well as the technology development and the management of our air purification business. Mr. Zhu has nearly 20 years of experience in technology development and operation management. Prior to joining our Group, Mr. Zhu worked at China Jiangnan Aerospace Industrial Group Company (中國江南航天工業集團公司), a company specializing in the manufacturing of automobile and automobile parts, as an assistant engineer between September 1992 and September 1995 and became an engineer in August 1998. From June 2000 to October 2002, Mr. Zhu served as the design supervisor of Shanghai Oasun. After that, he was the director and engineer of the water filter division of Shanghai Fangxin Plastic Mold Co., Limited (上海方鑫塑膠模具有限公司), a company engaging in the business of manufacturing of plastic molds. Mr. Zhu was the research and development manager, vice general manager and vice president of Shanghai Comfort between October 2005 and December 2010.

Mr. Zhu completed a professional course in mold design and manufacturing from the North China Institute of Aerospace Engineering (華北航天工業學校) (Hebei, PRC) in July 1987 and became a qualified engineer in mold design as approved by the China Aerospace Industry Corporation (China National Space Administration) (中國航天工業總公司(國家航天局)) in August 1998. In October 2013, Mr. Zhu was appointed as a member of the technology certification committee of water purification products of the China General Certification Center (北京鑒衡認證中心淨水產品認證技術委員會委員).

Mr. HE Jun (何軍), aged 40, is an executive Director. He joined our Group on 1 January 2011 as the vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on 10 January 2014. Mr. He is primarily responsible for the sales and marketing of the water purification business of our Group. Mr. He has over 12 years of experience in sales and marketing in the water purification business. Prior to joining the Group, Mr. He worked at Shanghai Oasun from November 1999 to December 2001 and was primarily responsible for the sales and marketing of its water purification products. After that, Mr. He worked at the business department of Shanghai Fangxin Plastic Mold Co., Limited (上海方鑫塑膠模具有限公司), a company engaging in the business of manufacturing of plastic molds, and was responsible for the development and expansion of its water purification business. Mr. He was the assistant manager, regional director of the Northern China region and vice president of Shanghai Comfort from October 2005 to December 2010, during which he was responsible for overseeing the sales of its water purification products.

Mr. He obtained a bachelor's degree in environmental engineering from Jilin Institute of Chemical Technology (吉林化工學院) (Jilin, PRC) in July 1999 and completed a training with Shanghai Corporate Management Training Institute (上海企業管理培訓中心) (Shanghai, PRC) and was accredited as a senior quality and environment manager in October 2002.

Mr. TAN Jibin (譚濟濱), aged 33, is an executive Director. He joined our Group on 6 April 2011 as the financial controller and vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on 19 November 2013. Mr. Tan is primarily responsible for overseeing the overall financial and administrative affairs of the Group. Mr. Tan has about 10 years of experience in accounting and finance. Prior to joining the Group, Mr. Tan served as a senior auditor in Deloitte Touche Tohmatsu, an accounting firm, from July 2004 to April 2009 and as an associate finance manager in China Aoyuan Property Group Limited (HKSE: 3883), a Chinese property company listed on the Stock Exchange, from May 2009 to March 2011. He obtained a bachelor's degree in international finance from Guangdong University of Foreign Studies (廣東外語外貿大學) (Guangdong, PRC) in June 2004.

Mr. XIAO Lilin (肖利林), aged 40, is an executive Director. He joined our Group on 1 January 2011 as the general manager of the production department of Shanghai Haoze Water Purification Technology and was appointed as the Director on 10 January 2014. Mr. Xiao is primarily responsible for overseeing the production of our products and the construction of our production sites. He is also the president of Shaanxi Haoze Environmental Technology. Mr. Xiao has over 10 years of experience in production quality and supply chain management. Prior to joining the Group, between April 1996 and September 2002, he worked at Yongsheng Dongguan Group (永勝(東莞)集團), a company engaging in the business of manufacturing electronic appliance and toys, as the supervisor in the production department, and at DongGuan Leshi Electronic Plastic Co., Ltd (東莞樂詩電子塑膠有限公司), a company engaging in the business of the production of electronics products, as the production manager between November 2002 and December 2006. From September 2007 to November 2009, Mr. Xiao served as the deputy general manager of Guangdong DongGuan Hou Street Xitou Longteng Toy Factory (廣東東莞厚街溪頭龍騰玩具廠), a company engaging in the business of manufacturing toys.

Mr. Xiao is the brother of Mr. Xiao Shu, the Chairman of the Board, an executive Director, the president and chief engineer of our Company.

Non-executive Directors

Mr. NG Benjamin Jin-Ping (吳俊平), aged 53, is a non-executive Director. He was appointed to the Board on 10 January 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. He is currently a general partner of SAIF Advisors Limited, an affiliate of SAIF Partners. Prior to joining SAIF Advisors Limited in June 2006, Mr. Ng worked with Cisco Systems, an information technology support services provider, between March 1998 and May 2006 as a business development manager. Before that, Mr. Ng worked at Netlink Inc., IBM and Metaplex, all of which are engaged in the information technology industry. Mr. Ng obtained a degree of master of business administration from Macquarie University (Sydney, Australia) in April 1995. Mr. Ng has been a Director of Alchip Technologies, Limited (TWO: 3661), a company listed on the Taiwan Stock Exchange and engaging in the business of silicon design and manufacturing services, since April 2007. Save as disclosed above, Mr. Ng has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of the prospectus.

Mr. HE Sean Xing (何欣), aged 50, is a non-executive Director. He was appointed to the Board on 10 January 2014 and is primarily responsible for providing strategic advices and guidance on the business development of our Group. He is currently a senior partner of Ares Private Equity Group. Mr. He has extensive knowledge in corporate financing and merger and acquisition transactions. Prior to joining Ares Private Equity Group in March 2010, he worked at The Carlyle Group, a global asset management firm from August 2000 to March 2010, where he was promoted as a managing director of the Asia Growth Group. Before joining The Carlyle Group, Mr. He acted as an associate director of the Asia-pacific investment team of Intel Capital, an investment manager of the greater China region of Nikko Global Asset Management (Hong Kong) Limited and a senior research analyst at DBS Securities Limited, all of which are financial services providers.

Mr. He graduated from Zhejiang University (Zhejiang, PRC) with a bachelor's degree in science and engineering in July 1985, obtained a master's degree in science and engineering from Carleton University (Ottawa, Canada) in February 1991 and a master's degree in business administration from the Schulich School of Business at York University (Toronto, Canada) in June 1995. Mr. He was qualified as a Chartered Financial Analyst (CFA) of The Institute of Chartered Financial Analysts in September 1998.

Mr. He is a non-executive director of Brilliant Circle Holdings International Limited (貴聯控股國際有限公司) (HKSE: 1008), a company listed on the Stock Exchange, since April 2011. Save as disclosed above, Mr. He has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of the prospectus.

Ms. WANG Haitong (王海桐), aged 31, is a non-executive Director. She was appointed to the Board on 10 January 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. She is an executive director of Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd, since January 2014. Before that, Ms. Wang has been an executive director of the principal investment division of Goldman Sachs Asia L.L.C. Ms. Wang has about nine years of experience in investment banking industry and corporate financing. Prior to joining Goldman Sachs, Ms. Wang was a research analyst in the Beijing representative office of Morgan Stanley Dean Witter Asia Limited, a global investment bank, from July 2005 to June 2006, after which she joined the investment banking division of Morgan Stanley Dean Witter Asia Limited's Hong Kong office from August 2006 to August 2007.

Ms. Wang obtained dual-bachelor's degrees in science and finance from Peking University (Beijing, PRC) in July 2005.

Independent Non-executive Directors

Mr. ZHOU Guanxuan (周貫煊), aged 56, is an independent non-executive Director. He was appointed to our Board on 26 May 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Zhou has more than 35 years of experience in household appliances manufacturing and operations management. From 1975 to September 1999, Mr. Zhou worked at the Midea Group Co., Ltd (SZE: 000333), a company listed on the Shenzhen Stock Exchange and engaging in the business of manufacturing of household electrical appliances, and assumed office in the technology and production department before he was promoted as the general manager of Midea Redian Group Co., Ltd, an affiliate of Midea Group Co., Ltd. From 2000 to 2007, Mr. Zhou was the president of Foshan Shunde District Beijiao Town Weigao Electronics Industry Company Limited (佛山市順德區北滘鎮偉高電器實業有限公司), a company engaging in the business of research and development, manufacturing and sale of electronic appliances. From 2011 to 2013, he was the director and general manager of Jiangxi Jingdezhen Saide Ceramics Co., Ltd. (江西景德鎮賽德陶瓷有限公司), a company engaging in the business of manufacturing, development and sale of ceramics decoration materials.

Mr. GU Jiuchuan (顧久傳), aged 66, is an independent non-executive Director. He was appointed to our Board on 26 May 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Gu has extensive experience in and knowledge of the water purification industry. Before working at Wuxi Haide Membrane Technology Co., Ltd. (無錫市海德膜技術有限公司), a company engaging in the water purification business, from 1999 to 2010 as technical director, Mr. Gu worked at China Huajing Electronics Group Co., Ltd. (中國華晶電子集團公司), a company specialized in the research and development and manufacturing of semi-conductor equipment. In November 2013, Mr. Gu became the vice chairman of the China Desalination Association (中國水利企業協會脱鹽分會) and in October 2013, Mr. Gu was appointed as the managing member of the technology certification committee of water purification products of the China General Certification Center (北京鑒衡認證中心淨水產品認證技術委員會主任委員). He has been the honorary chairman of AnHui Water Purification Association (安徽省淨水行業協會) and the member of the expert guidance panel of the Fund for Drinking Water Safety and Health established by the China Health Promotion Foundation (中國健康促進基金會飲水安全與健康專項基金) since 2012, an expert member of the advisory panel of the Drinking Water Industry Committee established by the National Development and Reform Commission Public Nutrition and Development Center (國家發改委公眾營養與發展中心飲用水產業委員會) since 2011. He also served as the chief secretary of the Wuxi Water Purification Association (無錫市淨水行業協會) and the secretary of the Purified Water Industry Committee of China Private Economy Research Association (中國民(私)營經濟研究會淨水行業委員會). Mr. Gu has participated in the drafting of various national industry standards concerning water purification systems and has made numerous publications on the topic of water purification. Currently, Mr. Gu is the honorary chief editor of the magazine "中國直飲水" and the special consultant, member of the think tank and editor of the magazine "直飲水時代".

Mr. Gu obtained a bachelor's degree in physics from Fudan University (Shanghai, PRC) in August 1970 and is qualified as a senior engineer by the Ministry of Information Industry of the PRC (中華人民共和國工業和信息化部) in December 1994 (which is formerly known as the Ministry of Electronic Industry of the PRC (中華人民共和國電子工業部)).

Dr. CHAN Yuk Sing Gilbert (陳玉成), aged 56, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. Dr. Chan is an assistant professor in the department of applied biology and chemical technology of the Hong Kong Polytechnic University. His recent research focus is on the application of ozone technology. He is the chairman of the Sino Ozone Association. Over the years, Dr. Chan has made various publications and speeches on the topic of healthy water and ozone.

Dr. Chan obtained a master's degree and a PhD in Science from University of Durham (Durham, United Kingdom) in July 1990 and December 1994, respectively.

Mr. LAU Tze Cheung Stanley (劉子祥), aged 52, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. He has over 20 years of experience in accounting and finance, management consulting and corporate finance. Mr. Lau served as the chief financial officer and company secretary of Asia Fashion Holdings Limited (亞洲時尚控股有限公司) (SGX: AFH), a company listed on the Singapore Stock Exchange, from January 2008 to August 2012 and the chief financial officer of China Kangda Food Company Limited (中國康大食品有限公司) (HKSE: 834, SGX: CKANG), a company listed on both the Stock Exchange and the Singapore Stock Exchange, from December 2005 to December 2007. Before that, Mr. Lau worked at Messrs. Lo Hung Yan, Certified Public Accountant and provided management consulting, auditing and corporate secretarial services and advice to his clients since April 1993.

Mr. Lau obtained a bachelor's degree in business administration from the Open University of Hong Kong (Hong Kong) in December 1997 and a master's degree in international accounting from City University of Hong Kong (Hong Kong) in November 2006. Mr. Lau has been an associate member of the Hong Kong Institute of Certified Public Accounts since September 2001 (which is formerly known as the Hong Kong Society of Accountants), an associate member of the Association of International Accountants since July 2001, an associate member of the Taxation Institute of Hong Kong since July 2001, an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom since November 1997 and an associate member of the Hong Kong Institute of Company Secretaries since November 1997. Mr. Lau has also been a guest lecturer in various commercial, accounting and corporate finance courses conducted by City University of Hong Kong (from January 2012 to April 2012 and from July 2012 to June 2013), Kaplan Financial (March 2010), the Chinese University of Hong Kong (since January 2008), the Hong Kong Institute of Certified Public Accountants (September 2009) and Syracuse University (March 2005).

Mr. Lau has not been a director of any other company listed in Hong Kong or overseas during the three years preceding the date of the prospectus.

Please refer to the section headed "Appendix IV — Statutory and General Information" in the prospectus for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed in the prospectus, there are no other matters in respect of each of our directors that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other material matters relating to our directors that need to be brought to the attention of our shareholders.

Senior Management

Apart from the executive Directors, our Group does not have any other members of senior management. For details of the biographies of the executive Directors, please see the paragraph headed "Executive Directors" above.

Joint Company Secretaries

Mr. TAN Jibin (譚濟濱), aged 33, is one of the joint company secretaries of our Company and was appointed on 10 January 2014. Please refer to his biography under the paragraph headed "Executive Directors" above.

Ms. LAI Siu Kuen (黎少娟), aged 39, is one of the joint company secretaries of our Company and was appointed on 10 January 2014 and her appointment will become effective upon Listing. Ms. Lai is a senior manager of the Listing Services Department of KCS Hong Kong Limited, a company engaging in the business of providing corporate services. She has extensive professional and in-house experience in company secretarial field. Ms. Lai is currently the joint company secretary of several companies listed on the Main Board of the Stock Exchange, including Jingrui Holdings Limited (Stock code: 1862), a company engaging in the business of property development and Boyaa Interactive International Limited (Stock code: 434), a company engaging in the business of development and operation of online card and board games. She obtained a Bachelor of Arts degree in Accountancy from The Hong Kong Polytechnic University in November 1997. Ms. Lai is a fellow member of the Hong Kong Institute of Chartered Secretaries since October 2012 and the Institute of Chartered Secretaries and Administrators in the United Kingdom since October 2012.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2014.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 51 to 119.

The directors do not recommend the payment of a dividend to the shareholders for the year ended 31 December 2014 (2013: Nil).

Use of Proceeds from the Company's Initial Public Offering

Details of the use of proceeds from the Listing are set out on page 20 to 21 of this annual report.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 120. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Revenue Generating Assets

Details of movements in the property, plant and equipment, and revenue generating assets of the Company and the Group during the year are set out in notes 14 and 13 to the financial statements, respectively.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in note 30 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws/articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Closure of Register of Members

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company (the "Register of Members") will be closed from 20 May 2015 to 22 May 2015, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 19 May 2015, being the business day before the first day of closure of the Register of Members.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2014, the Company's reserves available for distribution to shareholders amounted to RMB971.7 million.

Charitable Contributions

During the year, the Group made charitable contributions totaling RMB995,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 51.0% of the total sales for the year and sales to the largest customer included therein amounted to 12.9%. Purchases from the Group's five largest suppliers accounted for 16.2% of the total purchases for the year.

None of the directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers.

Directors

The directors of the Company during the year were:

Executive chairman:

Mr. XIAO Shu

Executive directors:

Mr. ZHU Mingwei	(appointed on 10 January 2014)
Mr. HE Jun	(appointed on 10 January 2014)
Mr. TAN Jibin	
Mr. XIAO Lilin	(appointed on 10 January 2014)

Non-executive directors:

Mr. NG Benjamin Jin-Ping	(appointed on 10 January 2014)
Mr. HE Sean Xing	(appointed on 10 January 2014)
Ms. WANG Haitong	(appointed on 10 January 2014)
Mr. ZHOU Guanxuan*	(appointed on 26 May 2014)
Mr. GU Jiuchuan*	(appointed on 26 May 2014)
Dr. CHAN Yuk Sing Gilbert*	(appointed on 26 May 2014)
Mr. LAU Tze Cheung Stanley*	(appointed on 26 May 2014)

* *Independent non-executive directors*

The Company has received annual confirmations of independence from Mr. ZHOU Guanxuan, Mr. Gu Jiuchuan, Dr. CHAN Yuk Sing Gilbert and Mr. LAU Tze Cheung Stanley, and as at the date of this annual report still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 33 to 37 of the annual report.

Directors' Service Contracts

Each of the executive directors has entered into a service agreement with the Company for a term of three years commencing from their respective date of appointment. Each of the non-executive directors has signed a letter of appointment with the Company for a term of three years commencing from their respective date of appointment.

None of the directors has entered into a service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2014.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures

At 31 December 2014, the interests and short positions of the directors and chief executives in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept 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, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Nature of Interest	Note	Number of ordinary Shares	Percentage of the Company's share capital
Mr. XIAO Shu	Founder of discretionary trusts	(a)	446,518,200	25.5%

(a) These 446,518,200 Shares are held as to 341,820,000 Shares by Baida Holdings Limited, 54,058,200 Shares by Lion Rise Holdings Limited and 50,640,000 Shares by Glorious Shine Holdings Limited, 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 Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, Mr. XIAO Shu 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.

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Mr. XIAO Shu	51,086,706
Mr. ZHU Mingwei	11,160,859
Mr. HE Jun	10,662,531
Mr. TAN Jibin	8,547,535
Mr. XIAO Lilin	7,596,652
	89,054,283

Save as disclosed above, as at 31 December 2014, none of the directors and chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded 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.

Share option scheme

The Company operates the Pre-IPO Share Option Scheme and the Share Option Scheme (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 31 to the financial statements.

Pre-IPO Share Option Scheme

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options					
Name or category of participant	**At 1 January 2014**	**Granted during the year**	**Exercised during the year**	**Expired during the year**	**Forfeited during the year**	**At 31 December 2014**
Directors						
Mr. XIAO Shu	—	51,086,706	—	—	—	51,086,706
Mr. ZHU Mingwei	—	11,160,859	—	—	—	11,160,859
Mr. HE Jun	—	10,662,531	—	—	—	10,662,531
Mr. TAN Jibin	—	8,547,535	—	—	—	8,547,535
Mr. XIAO Lilin	—	7,596,652	—	—	—	7,596,652
	—	89,054,283	—	—	—	89,054,283
Directors of the Company's subsidiaries						
Mr. LI Honggao	—	3,200,000	—	—	—	3,200,000
Mr. CHEN Jie	—	1,128,547	—	—	—	1,128,547
Mr. XIAO Jianping	—	875,464	—	—	—	875,464
Mr. PAN Jianming	—	456,065	—	—	—	456,065
Mr. XIN Junwei	—	63,009	—	—	(63,009)	—
	—	5,723,085	—	—	(63,009)	5,660,076
Other employees						
In aggregate	—	74,022,632	—	—	(7,331,890)	66,690,742
	—	168,800,000	—	—	(7,394,899)	161,405,101

The share options were granted under the Pre-IPO Share Option Scheme on 26 May 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). The options granted under the Pre-IPO Share Option Scheme shall vest in accordance with the following schedule:

Vesting period	Cumulative percentage of options vested
Upon 12 months after the listing date (i.e. 17 June 2014)	40%
Upon 24 months after the listing date (i.e. 17 June 2014)	70%
Upon 36 months after the listing date (i.e. 17 June 2014)	100%

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options RMB'000
Mr. XIAO Shu	51,086,706	46,766
Mr. ZHU Mingwei	11,160,859	10,217
Mr. HE Jun	10,662,531	9,761
Mr. TAN Jibin	8,547,535	7,824
Mr. XIAO Lilin	7,596,652	6,954
Mr. LI Honggao	3,200,000	2,500
Mr. CHEN Jie	1,128,547	882
Mr. XIAO Jianping	875,464	684
Mr. PAN Jianming	456,065	356
Mr. XIN Junwei	63,009	49
Other employees	74,022,632	57,701
	168,800,000	143,694

The binomial option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were risk-free rate of interest, dividend yield, volatility, exercise multiple and forfeiture rate. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

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 year ended 31 December 2014.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Contract of Significance

Apart from the related party transactions as disclosed in note 34 to the consolidated financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2014, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's share capital
Standard Chartered Trust (Singapore) Limited	(a)	Trustee of a trust	446,518,200	25.50%
Standard Chartered Trust (Singapore) Limited	(b)	Trustee of a trust	111,661,200	6.37%
			558,179,400	31.87%
SCTS Capital Pte. Ltd.	(a)	Nominee for another person	446,518,200	25.50%
SCTS Capital Pte. Ltd.	(b)	Nominee for another person	111,661,200	6.37%
			558,179,400	31.87%
Ms. TANG Renmei	(c)	Beneficiary of a discretionary trust	392,460,000	22.41%
Baida Holdings Limited	(d)	Beneficial owner	341,820,000	19.52%
Baida Capital Limited	(d)	Interest in a controlled corporation	341,820,000	19.52%
SAIF Partners IV L.P.	(e)	Beneficial owner	334,857,000	19.12%
SAIF IV GP, L.P.	(e)	Interest in a controlled corporation	334,857,000	19.12%
SAIF IV GP Capital Ltd.	(e)	Interest in a controlled corporation	334,857,000	19.12%
Mr. Andrew Y. YAN	(e)	Interest in a controlled corporation	334,857,000	19.12%
Ares FW Holdings, L.P.	(f)	Beneficial owner	233,956,800	13.36%
ACOF Asia GP, Ltd.	(f)	Interest in a controlled corporation	233,956,800	13.36%
ACOF Asia Management, L.P.	(f)	Interest in a controlled corporation	233,956,800	13.36%
Ares Management (Cayman), Ltd.	(f)	Interest in a controlled corporation	233,956,800	13.36%
Watercube Holdings, L.L.C.	(g)	Beneficial owner	140,666,800	8.03%
GS Direct, L.L.C.	(g)	Interest in a controlled corporation	140,666,800	8.03%
Goldman, Sachs & Co.	(g)	Interest in a controlled corporation	140,666,800	8.03%
The Goldman, Sachs & Co. L.L.C.	(g)	Interest in a controlled corporation	140,666,800	8.03%
The Goldman Sachs Group, Inc.	(g)	Interest in a controlled corporation	140,666,800	8.03%
Mr. WANG Xiaogang	(b)	Founder of a discretionary trust	111,661,200	6.37%
Ms. ZHANG Jing	(h)	Interest of spouse and beneficiary of a discretionary trust	111,661,200	6.37%
Mr. Daniel Saul Och	(i)	Interest in a controlled corporation	114,869,000	6.56%
Och-Ziff Capital Management Group L.L.C. ("Och-Ziff Capital")	(i)	Interest in a controlled corporation	114,869,000	6.56%
OZ Management, L.P. ("OZ Management")	(i)	Investment manager	114,869,000	6.56%
Och-Ziff Holding Corporation	(i)	Interest in a controlled corporation	114,869,000	6.56%

Notes:

(a) *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 Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, each of Mr. XIAO Shu, 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.*

(b) *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 Xiaogang (as the settlor) and the discretionary beneficiaries of which include Mr. WANG Xiaogang and his spouse. Accordingly, each of Mr. WANG Xiaogang, 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.*

(c) *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 Shu and is one of the beneficiaries of each of the Xiao Family I Trust and the Xiao Family III Trust.*

(d) *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.*

(e) *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.*

(f) *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.*

(g) *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 140,666,800 Shares held by Watercube Holdings, L.L.C.*

(h) *Ms. ZHANG Jing is the wife of Mr. WANG Xiaogang and is deemed to be interested in the Shares which are interested in by Mr. WANG Xiaogang 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.*

(i) *Certain affiliated investment funds of Och-Ziff Capital Management Group L.L.C. (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 at 31 December 2014, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Connected Transactions

During the year, the Company and the Group had not entered into any connected or continuing connected transactions which are required to be disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

Directors' Interests in a Competing Business

During the year ended 31 December 2014, none of the directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

Events after the Reporting Period

There was no subsequent events between the end of reporting period and the date of this annual report that would cause material impact on the Group.

Corporate Governance

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 24 to 32 of this annual report.

Review by 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 26 May 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 had reviewed together with the management and external auditor of the Company the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended 31 December 2014.

Other Major Event

On 16 February 2015, Glaucus Research issued a report containing allegations against Ozner and revealing it had taken a short position in Ozner. Those allegations against Ozner's financial position and operations in the Report are unfounded due to Glaucus Research's lack of understanding of the business environment in the PRC, the development of the water purifying industry and the operational model and company structure of Ozner. At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted on 16 February 2015, and a clarification announcement was published on 25 March 2015 with the resumption of trading of shares taking effect on the following day.

Appreciation

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, and they are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from its shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to meet its business objectives for 2015 and realise higher values for its shareholders and other stakeholders.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting. There have been no other changes of auditors in the past three years.

ON BEHALF OF THE BOARD

XIAO Shu (肖述)
Chairman

Hong Kong
25 March 2015

INDEPENDENT AUDITORS' REPORT

EY 安永

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To the shareholders of
Ozner Water International Holding Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Ozner Water International Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 119, which comprise the consolidated and company statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
25 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenue	6	**511,711**	402,334
Cost of revenue		**(176,996)**	(129,542)
Gross profit		**334,715**	272,792
Other income and gains	6	**33,896**	20,792
Selling and distribution expenses		**(93,098)**	(56,969)
Administrative expenses		**(99,369)**	(44,646)
Other expenses		**(14,181)**	(6,542)
Finance costs	8	**(716)**	(1,848)
Profit before tax	7	**161,247**	183,579
Income tax expense	11	**(37,345)**	(30,667)
Profit for the year, attributable to equity holders of the parent		**123,902**	152,912
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(6,235)**	—
Total comprehensive income for the year, net of tax, attributable to the equity holders of the parent		**117,667**	152,912
Earnings per share attributable to ordinary equity holders of the parent:	12		
Basic (RMB cents)		**8.12**	12.08
Diluted (RMB cents)		**8.12**	12.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Revenue generating assets	13	941,668	585,345
Property, plant and equipment	14	473,085	231,962
Prepaid land lease payments	15	76,284	—
Intangible assets	16	67,588	68,890
Goodwill	18	26,037	26,037
Prepayment for acquiring property, plant and equipment	22	46,518	32,007
Deferred tax assets	19	13,442	7,141
Other non-current assets		4,850	—
TOTAL NON-CURRENT ASSETS		1,649,472	951,382
CURRENT ASSETS			
Inventories	20	90,494	36,891
Trade and bills receivables	21	43,549	50,629
Prepayments, deposits and other receivables	22	56,748	49,443
Financial assets at fair value through profit or loss	24	300,000	—
Pledged deposits	23	16,062	67,019
Cash and cash equivalents	23	293,708	154,341
TOTAL CURRENT ASSETS		800,561	358,323
CURRENT LIABILITIES			
Interest-bearing bank loan	25	—	212,716
Trade and bills payables	26	129,152	57,813
Other payables, advances from customers and accruals	27	194,261	130,396
Due to a related party	35	—	407,955
Deferred revenue	28	121,869	96,532
Income tax payable		102,446	64,167
TOTAL CURRENT LIABILITIES		547,728	969,579
NET CURRENT ASSETS/(LIABILITIES)		252,833	(611,256)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,902,305	340,126

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	**6,485**	6,584
TOTAL NON-CURRENT LIABILITIES		**6,485**	6,584
NET ASSETS		**1,895,820**	333,542
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	30	**13,928**	—
Share premium	30	**974,847**	—
Reserves	30	**907,045**	333,542
TOTAL EQUITY		**1,895,820**	333,542

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the parent							
	Share capital RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Retained earnings RMB'000	Merger reserves RMB'000	Foreign currency translation reserve RMB'000	Other reserves RMB'000	Total equity RMB'000
At 1 January 2014	—	—	—	244,961	56,051	—	32,530	333,542
Issuance of ordinary shares	13,928	974,847	—	—	—	—	—	988,775
Capitalisation of amount due to Fresh Water Group	—	—	—	—	—	—	409,221	409,221
Share-based payments	—	—	46,648	—	—	—	—	46,648
Profit for the period	—	—	—	123,902	—	—	—	123,902
Other comprehensive income	—	—	—	—	—	(6,235)	—	(6,235)
Acquisition of subsidiaries	—	—	—	—	(33)	—	—	(33)
Transfer from retained earnings	—	—	—	(15,492)	—	—	15,492	—
At 31 December 2014	13,928	974,847	46,648	353,371	56,018	(6,235)	457,243	1,895,820

For the year ended 31 December 2013

	Attributable to owners of the parent				
	Share capital RMB'000	Retained earnings RMB'000	Merger reserve RMB'000	Other reserves RMB'000	Total equity RMB'000
At 1 January 2013	—	113,042	56,051	11,537	180,630
Total comprehensive income for the year	—	152,912	—	—	152,912
Transfer from retained earnings	—	(20,993)	—	20,993	—
At 31 December 2013 and 1 January 2014	—	244,961	56,051	32,530	333,542

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**161,247**	183,579
Adjustments for:			
Depreciation of revenue generating assets	13	**84,651**	54,376
Depreciation of property, plant and equipment	7	**18,598**	12,357
Amortisation of intangible assets	7	**2,869**	1,979
Share-based payments	31	**43,643**	—
Unrealised exchange loss/(gain)		**3,446**	(14,363)
Loss on disposal of property, plant and equipment	14	**283**	12
Loss on disposal of revenue generating assets	13	**47**	77
Gain on disposal of subsidiaries		**—**	(669)
Finance costs	8	**716**	1,848
(Reversal of provision)/provision for doubtful collection of account receivables	21	**(6)**	362
		315,494	239,558
(Increase)/decrease in inventories		**(53,603)**	1,909
Decrease/(increase) in trade and bills receivables		**7,086**	(13,352)
(Increase)/decrease in prepayments, deposits and other receivables		**(13,066)**	1,090
Increase in other non-current asset		**(2,875)**	—
Increase in trade and bills payables		**71,339**	20,773
Increase in other payables, advances from customers and accruals		**55,436**	37,937
Increase in pledged deposits		**(16,062)**	—
Increase in deferred revenue		**25,337**	21,450
Cash generated from operations		**389,086**	309,365
Income tax paid		**(5,467)**	(2,930)
Net cash flows from operating activities		**383,619**	306,435

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of revenue generating assets		**(419,791)**	(244,806)
Purchases of items of property, plant and equipment		**(273,713)**	(166,221)
Purchases of intangible assets		**(9,230)**	(36,459)
Prepayment of land lease		**(66,190)**	—
Increase in other non-current asset		**(1,975)**	—
Investment in financial assets at fair value through profit or loss		**(300,000)**	—
Acquisition of subsidiaries		**(33)**	—
Disposal of subsidiaries		**—**	67
Net cash flows used in investing activities		**(1,070,932)**	(447,419)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(8,058)**	(3,663)
Proceeds from issuance of ordinary shares		**988,775**	—
Proceeds from borrowings		**—**	214,532
Decrease/(increase) in pledged deposits		**67,019**	(67,019)
Repayment of borrowings		**(214,896)**	—
Repayment of loans to a related party	34	**—**	(502)
Repayment of loans to a shareholder	34	**—**	(17,026)
Net cash flows from financing activities		**832,840**	126,322
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**145,527**	(14,662)
Cash and cash equivalents at beginning of year		**154,341**	169,198
Effect of foreign exchange rate changes, net		**(6,160)**	(195)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**293,708**	154,341
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**309,770**	221,360
Less: Pledged deposits		**(16,062)**	(67,019)
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	23	**293,708**	154,341

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	17	47,248
Total Non-Current Assets		47,248
CURRENT ASSETS		
Due from subsidiaries	17	546,226
Due from related party		34
A financial asset at fair value through profit or loss	24	300,000
Cash and cash equivalents	23	159,496
Total Current Assets		1,005,756
CURRENT LIABILITIES		
Other payables	27	2,181
Due to subsidiaries	17	24,796
Total Current Liabilities		26,977
NET CURRENT ASSETS		978,779
TOTAL ASSETS LESS CURRENT LIABILITIES		1,026,027
NET ASSETS		1,026,027
EQUITY		
Equity Attributable to Owners of the Parent		
Share capital	30	13,928
Share premium	30	974,847
Reserves	30	37,252
TOTAL EQUITY		1,026,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The Company is a limited liability company incorporated in the Cayman Islands on 15 November 2013. The registered office of the Company is situated at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

The Company is an investment holding company. During the year ended 31 December 2014, the Company's subsidiaries were involved in the following principal activities in the People's Republic of China (the "PRC"):

- Water purification services
- Air sanitisation services

Through a group reorganisation (the "Reorganisation") as set out in the section headed "Our History and Reorganization" in the prospectus dated 5 June 2014 for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies now comprising the Group.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss, which have been measured at fair value. The consolidated financial statements provide comparative information in respect of the previous period. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000), except when otherwise indicated.

2.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.1 Changes in Accounting Policies and Disclosures

New standards, interpretations and amendments adopted by the Group

IFRS 2 Share-based Payment

The Group has applied for the first time, IFRS 2 Share-based Payment, for the share options granted under Pre-IPO Share Option Scheme.

Please refer to Note 4.1 Summary of significant accounting policies for further details.

New standards and interpretations effective as of 1 January 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
- Annual Improvements 2010–2012 Cycle
- Annual Improvements 2011–2013 Cycle[1]

[1] Effective from 1 July 2014

These new standards and interpretation do not have significant impact on the Group.

3.2 New and revised IFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	Financial Instruments[4]
Amendments to IFRS 10 and IAS 28 (Revised)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 10, IFRS 12 and IAS 28 (Revised)	Investment Entities: Applying the Consolidation Exception[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
IFRS 14	Regulatory Deferral Accounts[5]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IAS 1	Disclosure Initiative[2]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[2]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[1]
Amendments to IAS 27 (Revised)	Equity Method in Separate Financial Statements[2]
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[2]

3.2 New and revised IFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted (Continued)

[1] *Effective for annual periods beginning on or after 1 July 2014*
[2] *Effective for annual periods beginning on or after 1 January 2016*
[3] *Effective for annual periods beginning on or after 1 January 2017*
[4] *Effective for annual periods beginning on or after 1 January 2018*
[5] *Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group*

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to IFRS 10 and IAS 28 (Revised) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (Revised) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

3.2 New and revised IFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted (Continued)

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to IFRSs 2010–2012 Cycle issued in December 2013 sets out amendments to a number of IFRSs. Except for those described in note 3.1, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

IFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

4.1 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

4.1 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

4.1 Summary of Significant Accounting Policies (Continued)

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4.1 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

4.1 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (Continued)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

4.1 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment, revenue generating assets and depreciation

Property, plant and equipment and revenue generating assets, other than construction in progress, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of property, plant and equipment and revenue generating assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment and revenue generating assets to its residual value over its estimated useful life. The principal estimated useful lives and residual value of property, plant and equipment and revenue generating assets are as follows:

Category	Useful life	Residual value
Revenue generating assets — water purification machines	10 years	5%
Buildings	30 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	0%
Plant and machinery	5 to 10 years	5%
Furniture and fixtures	3 to 5 years	0-5%
Motor vehicles	5 years	5%

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

4.1 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets of the Group are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Patents and trademarks

The patents have been granted for a period of 10 years by the relevant government agency. Trademarks are granted for a period of 10 years with the option of renewal at the end of this period.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated useful life of 2 to 10 years.

4.1 Summary of Significant Accounting Policies (Continued)

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

4.1 Summary of Significant Accounting Policies (Continued)

Financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

- **Financial assets at fair value through profit or loss**

  Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

- **Loans and receivables**

  This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in other expenses for loans and receivables.

- **Held-to-maturity investments**

  Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as other income and gains in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as other expenses. The Group did not have any held-to-maturity investments during the years ended 31 December 2014 and 2013.

- **Available-for-sale financial assets**

  Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

  After initial recognition, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income and gains or other expenses, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the statement of profit or loss in other income and gains or other expenses. Interest earned whilst holding the available-for-sale financial assets is reported as interest income using the effective interest rate method.

4.1 Summary of Significant Accounting Policies (Continued)

Financial assets (Continued)

Subsequent measurement (Continued)

- Available-for-sale financial assets (Continued)

  The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

  For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

4.1 Summary of Significant Accounting Policies (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

- Financial assets carried at amortised cost

  For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

  The amount of any impairment loss identified measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

  The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

- Available-for-sale financial assets

  For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

  In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity instruments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

  The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

4.1 Summary of Significant Accounting Policies (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

- **Available-for-sale financial assets (Continued)**

  In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

  Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals and an amount due to a related party.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

- **Financial liabilities at fair value through profit or loss**

  Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

  Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

  Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

  Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

4.1 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Subsequent measurement (Continued)

- Loans and borrowings

  This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

  Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business, less any estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

4.1 Summary of Significant Accounting Policies (Continued)

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Warranty provisions

Provisions for warranty-related costs are recognised when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

4.1 Summary of Significant Accounting Policies (Continued)

Taxes (Continued)

Deferred tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will be allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

4.1 Summary of Significant Accounting Policies (Continued)

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made, on the following bases:

Rental income

Rental income arising from operating leases on the revenue generating assets accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

Rendering of services

Revenue from the rendering of services is recognised on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Training service income

Revenue from training service is recognised when the service is rendered and the inflow of economic benefit is probable.

4.1 Summary of Significant Accounting Policies (Continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is determined by surveys of work performed. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Pursuant to the relevant regulations of the PRC government, the companies comprising the Group operating in Mainland China ("PRC Group companies") have participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the PRC Group companies are required to contribute a certain percentage of the salaries of their employees to the Scheme to fund their retirement benefits. The only obligation of the Group with respect to the Scheme is to pay the ongoing contribution under the Scheme. Contributions under the Scheme are charged to the statement of profit or loss in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The Group's consolidated financial statements are presented in RMB. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

4.1 Summary of Significant Accounting Policies (Continued)

Foreign currencies (Continued)

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on the items whose fair value gain or loss are recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RMB at the rates of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

Share-based payments

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 benefit 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 statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefit expense.

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.

4.1 Summary of Significant Accounting Policies (Continued)

Share-based payments (Continued)

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

4.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial leases on its water purification machines. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these machines and has accounted for the contracts as operating leases.

Estimations and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

The Group determines whether goodwill is impaired at least on an annual basis at each reporting date. The Group assesses whether there are any indicators of impairment for all non-financial assets (other than goodwill) at each reporting date. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of these cash flows.

4.2 Significant Accounting Judgements, Estimates and Assumptions (Continued)

Estimations and assumptions (Continued)

Impairment of non-financial assets (Continued)

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill recognised by the Group.

Share-based payments

The Group initially measures the cost of equity-settled transactions with employees using a binomial model to determine the fair value. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

Estimated useful life of water purification machines

The Group engaged an independent appraiser on the estimation of useful life of the revenue generating assets (i.e. water purification machines for rental services). The estimation takes into account factors such as the expected usage of the assets by the Group, the expected physical wear and tear, and the technical obsolescence arising from changes or improvements in production or from changes in the market demand for the products.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment on trade receivables

The provision policy for impairment of trade receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

5. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the water purification segment engages in leasing water purification machines and the provision of relevant services to customers; and in the sale of water purification products; and

(b) the air sanitisation segment engages in the provision of air sanitisation construction services and relevant consulting and training services; and in the sale of air sanitisation products.

Management monitors the operating results of its segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. However, the Group's finance costs and exchange gain or loss, as well as head office and corporate expenses are managed on a Group basis and are not allocated to operating segments.

Segment assets exclude deferred tax assets, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude amounts due to a related party, tax payable and deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

No further geographical segment information is presented as the Group's revenue from external customers is derived solely from its operation in Mainland China and no non-current assets are located outside the Mainland China.

Approximately 17%, 15%, 12% and 17%, 13%, 11% of the revenue was derived from revenue by the water purification segment to three customers for each of the years ended 31 December 2013 and 2014.

5. Operating Segment Information (Continued)

Operating segments

The following tables present revenue, cost of revenue, profit and certain asset, liability and expenditure information for the Group's operating segments:

Year ended 31 December 2014	Water purification RMB'000	Air sanitisation RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	411,267	100,444	511,711
Segment cost of revenue			
Sales to external customers	106,580	70,416	176,996
Segment results	191,088	26,207	217,295
Reconciliations:			
Stock option expense			(43,642)
Corporate and other unallocated expenses			(21,204)
Exchange gain			9,514
Finance costs			(716)
Profit before tax			161,247
Segment assets	1,475,230	38,253	1,513,483
Reconciliations:			
Corporate and other unallocated assets			936,550
Total assets			2,450,033
Segment liabilities	478,764	41,759	520,523
Reconciliations:			
Corporate and other unallocated liabilities			33,690
Total liabilities			554,213
Other segment information			
Depreciation and amortization	103,170	2,949	106,119
Capital expenditure*	796,510	1,366	797,876

* *Capital expenditure consists of additions to revenue generating assets, property, plant and equipment and intangible assets.*

5. Operating Segment Information (Continued)

Operating segments (Continued)

Year ended 31 December 2013	Water purification RMB'000	Air sanitisation RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	313,960	88,374	402,334
Segment cost of revenue			
Sales to external customers	66,746	62,796	129,542
Segment results	167,751	22,472	190,223
Reconciliations:			
Corporate and other unallocated expenses			(19,421)
Exchange gain			14,625
Finance costs			(1,848)
Profit before tax			183,579
Segment assets	957,703	57,139	1,014,842
Reconciliations:			
Corporate and other unallocated assets			294,863
Total assets			1,309,705
Segment liabilities	230,979	14,095	245,074
Reconciliations:			
Corporate and other unallocated liabilities			731,089
Total liabilities			976,163
Other segment information			
Depreciation and amortization	67,460	1,252	68,712
Capital expenditure*	450,188	253	450,441

* *Capital expenditure consists of additions to revenue generating assets, property, plant and equipment and intangible assets.*

6. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the rental income of water purification machines, air sanitisation service income, training service income and sales of corporate/household water purification and air sanitisation products.

The revenue and other income and gains are analysed as follows:

	2014 RMB'000	2013 RMB'000
Revenue		
Water purification services		
Rental income	390,801	305,495
Training services	19,453	8,380
Sales of goods	1,013	85
Air sanitisation services		
Rendering of services	93,101	80,059
Sales of goods	1,973	6,225
Others	5,370	2,090
	511,711	402,334
Other income and gains		
Government grants	13,954	2,977
Interest income	10,373	2,227
Exchange gain	9,514	14,625
Gain on disposal of subsidiaries	—	669
Others	55	294
	33,896	20,792

Government grants of the Group are related to income. There are no unfulfilled conditions or contingencies attached to these grants.

7. Profit Before Tax

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

	Notes	2014 RMB'000	2013 RMB'000
Cost of services provided		**67,221**	56,928
Cost of inventories sold		**3,822**	5,867
Depreciation of revenue generating assets	13	**84,651**	54,376
Depreciation of property, plant and equipment	14	**30,927**	17,463
Less: Amount capitalised in revenue generating assets		**(12,329)**	(5,106)
		18,598	12,357
Amortisation of intangible assets	16	**8,634**	7,739
Less: Amount capitalised in revenue generating assets		**(5,765)**	(5,760)
		2,869	1,979
Research and development costs		**13,307**	5,724
Auditors' remuneration		**2,285**	2,343
IPO expense		**21,382**	11,218
Employee benefit expense (including directors' remuneration *(note 9)*):			
Total wages and salaries		**58,376**	40,077
Less: Amount capitalised in revenue generating assets		**(13,355)**	(14,561)
		45,021	25,516
Total pension scheme contributions		**10,563**	10,008
Less: Amount capitalised in revenue generating assets		**(4,121)**	(2,109)
		6,442	7,899
Operating lease expenses		**10,756**	10,153
Less: Amount capitalised in revenue generating assets		**(4,419)**	(4,864)
		6,337	5,289
Share option expense	31	**43,643**	—
Warranty provision	29	**16,211**	13,316
Foreign exchange differences, net	6	**(9,514)**	(14,625)
(Reversal of impairment)/impairment of trade and bills receivables	21	**(6)**	362
Loss on disposal of items of property, plant and equipment	14	**283**	12
Loss on disposal of revenue generating assets	13	**47**	77
Gain on disposal of subsidiaries		**—**	669

8. Finance Costs

An analysis of finance costs is as follows:

	2014 RMB'000	2013 RMB'000
Interest on bank loan	8,058	3,621
Less: Interest capitalised	(7,342)	(1,773)
	716	1,848

9. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Group	
	2014 RMB'000	2013 RMB'000
Salaries, allowances and benefits in kind	6,753	68
Pension scheme contributions	23	5
Equity-settled share option expense	27,770	—
	34,546	73

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

9. Directors' and Chief Executive's Remuneration (Continued)

The remuneration paid to executive directors, non-executive directors and independent non-executive directors was as follows:

2014

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu *	—	1,461	—	15,931	17,392
Mr. Zhu Mingwei	—	1,304	5	3,480	4,789
Mr. He Jun	—	1,212	5	3,325	4,542
Mr. Tan Jibin	—	1,269	5	2,665	3,939
Mr. Xiao Lilin	—	1,123	8	2,369	3,500
Non-executive directors:					
Mr. Ng Benjamin Jin-Ping	—	—	—	—	—
Mr. He Sean Xing	—	—	—	—	—
Ms. Wang Haitong	—	—	—	—	—
Independence non-executive directors					
Mr. Zhou Guanxuan	—	96	—	—	96
Mr. Gu Jiuchuan	—	96	—	—	96
Mr. Chan Yuk Sing Gilbert	—	96	—	—	96
Mr. Lau Tze Cheung Stanley	—	96	—	—	96
	—	6,753	23	27,770	34,546

2013

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu*	—	36	3	—	39
Mr. Tan Jibin	—	32	2	—	34
	—	68	5	—	73

* *Mr. Xiao Shu is also the chief executive of the Company.*

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

10. Five Highest Paid Employees

The five highest paid employees during the year included five executive directors (2013: two executive directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining nil (2013: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries, allowances and benefits in kind	—	759
Pension scheme contributions	—	53
Equity-settled share option expense	—	—
	—	812

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	2014	2013
Nil to RMB1,000,000	—	3
	—	3

11. Income Tax

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI. No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the year.

All of the Group's subsidiaries registered in the PRC and operating only 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 16 March 2007, the PRC Enterprise Income Tax Law (the "New Enterprise Income Tax Law") was approved and became effective from 1 January 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 was entitled to the preferential tax rate of 15% for three years from 2012 to 2014.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Shanghai Haoze Comfort Environmental and Science Co., Ltd., qualified as a High and New Technology Enterprise was entitled to the preferential tax rate of 15% for three years from 2014 to 2016.

Pursuant to the document "Shan Fa Gai Wai Zi (2013) No. 618" issued by the Development and Reform Commission of Shaanxi Province on 2 May 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 document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB728,000 for the year ended 31 December 2014 (2013: RMB318,000), relating to the additional deduction of research and development cost.

The major components of income tax expense the years ended 31 December 2014 and 2013 are:

	2014 RMB'000	2013 RMB'000
Current tax	**43,745**	32,888
Deferred tax (note 19)	**(6,400)**	(2,221)
Income tax expense reported in profit or loss	**37,345**	30,667

11. Income Tax (Continued)

Reconciliation of the tax expense and the accounting profit multiplied by the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled for 2013 and 2014:

	2014 RMB'000	2013 RMB'000
Profit before tax	**161,247**	183,579
Tax at the statutory tax rate	**40,312**	45,895
Lower tax rates for specific provinces or enacted by local authority	**(17,619)**	(14,714)
Expenses not deductible for tax	**216**	1,093
Income not subject to tax	**—**	(2,677)
Unrecognised tax losses	**15,164**	1,388
Additional deduction of research and development cost	**(728)**	(318)
Tax at the effective income tax rate	**37,345**	30,667

12. Earnings Per Share ("EPS")

Basic EPS amount is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

Diluted EPS amount is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2014 in respect of a dilution as the impact of the stock option outstanding had an anti-dilutive effect on the basic earnings per share amounts presented. (2013 is not subject to diluted EPS calculation since the stock option scheme was approved in 2014).

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

	2014	2013
Earnings:		
Profit attributable to ordinary equity holders of the parent — basic and diluted (RMB'000)	**123,902**	152,912
Shares:		
Weighted average number of ordinary shares for basic EPS (shares)	**1,525,764,444**	1,266,000,000
Basic EPS (RMB cents)	**8.12**	12.08

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

13. Revenue Generating Assets

	Revenue generating assets RMB'000
At 1 January 2013:	
Cost	416,173
Accumulated depreciation	(32,046)
Net carrying amount	384,127
At 1 January 2013, net of accumulated depreciation	384,127
Additions	255,671
Disposals	(77)
Depreciation provided during the year	(54,376)
At 31 December 2013, net of accumulated depreciation	585,345
At 31 December 2013:	
Cost	671,732
Accumulated depreciation	(86,387)
Net carrying amount	585,345
At 1 January 2014, net of accumulated depreciation	585,345
Additions	441,021
Disposals	(47)
Depreciation provided during the year	(84,651)
At 31 December 2014, net of accumulated depreciation	941,668
At 31 December 2014:	
Cost	1,112,693
Accumulated depreciation	(171,025)
Net carrying amount	941,668

14. Property, Plant and Equipment

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2013:						
Cost	14,210	31,695	47,283	535	4,307	98,030
Accumulated depreciation	(1,659)	(1,268)	(7,822)	(160)	—	(10,909)
Net carrying amount	12,551	30,427	39,461	375	4,307	87,121
At 1 January 2013, net of accumulated depreciation	12,551	30,427	39,461	375	4,307	87,121
Additions	3,028	29,073	32,586	6,220	91,651	162,558
Depreciation provided during the year	(2,814)	(3,978)	(10,198)	(473)	—	(17,463)
Disposal of subsidiaries	—	(242)	—	—	—	(242)
Disposals	—	(4)	(8)	—	—	(12)
At 31 December 2013, net of accumulated depreciation	12,765	55,276	61,841	6,122	95,958	231,962
At 31 December 2013:						
Cost	17,238	60,474	79,855	6,755	95,958	260,280
Accumulated depreciation	(4,473)	(5,198)	(18,014)	(633)	—	(28,318)
Net carrying amount	12,765	55,276	61,841	6,122	95,958	231,962
At 1 January 2014, net of accumulated depreciation	**12,765**	**55,276**	**61,841**	**6,122**	**95,958**	**231,962**
Additions	**4,218**	**216,017**	**37,174**	**791**	**14,133**	**272,333**
Transferred from construction in progress	**—**	**97,394**	**2,326**	**—**	**(99,720)**	**—**
Depreciation provided during the year	**(3,245)**	**(11,891)**	**(14,373)**	**(1,418)**	**—**	**(30,927)**
Disposals	**—**	**—**	**(3)**	**(280)**	**—**	**(283)**
At 31 December 2014, net of accumulated depreciation	**13,738**	**356,796**	**86,965**	**5,215**	**10,371**	**473,085**
At 31 December 2014:						
Cost	**21,456**	**373,885**	**119,352**	**7,266**	**10,371**	**532,330**
Accumulated depreciation	**(7,718)**	**(17,089)**	**(32,387)**	**(2,051)**	**—**	**(59,245)**
Net carrying amount	**13,738**	**356,796**	**86,965**	**5,215**	**10,371**	**473,085**

14. Property, Plant and Equipment (Continued)

The Group started the construction of buildings and manufacturing plants in Shaanxi Industrial Zone in 2013. The construction of first phase has been completed in October 2014. The carrying amount of these buildings and plants at 31 December 2014 was RMB198,567,000 (2013: RMB95,958,000). The amount of borrowing costs capitalised during the year ended 31 December 2014 was RMB7,343,000 (2013: RMB1,773,000). The rate used to determine the amount of borrowing costs eligible for capitalisation was 7.3%, which is the effective interest rate of the borrowing.

As 31 December 2013, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB36,767,000 were pledged to secure banking facilities granted to the Group (note 25).

The carrying value of motor vehicles held under finance leases at 31 December 2014 was RMB2,699,000 (2013: RMB3,083,000). Additions during the year include motor vehicles of RMB37,000 (2013: RMB3,271,000) under finance leases.

15. PREPAID LAND LEASE PAYMENTS

Group

	2014 RMB'000
Carrying amount at 1 January	—
Addition	77,190
Recognized during the year	(906)
Carrying amount at 31 December	76,284

The leasehold land is situated in Mainland China and is held under a long term lease.

16. Intangible Assets

	Patents and trademarks RMB'000	Software RMB'000	Total RMB'000
At 1 January 2013:			
Cost	44,051	1,852	45,903
Accumulated amortisation	(1,272)	(214)	(1,486)
Net carrying amount	42,779	1,638	44,417
At 1 January 2013, net of accumulated amortisation	42,779	1,638	44,417
Addition	—	32,212	32,212
Amortisation provided during the year	(5,067)	(2,672)	(7,739)
At 31 December 2013, net of accumulated amortisation	37,712	31,178	68,890
At 31 December 2013:			
Cost	44,050	34,065	78,115
Accumulated amortisation	(6,338)	(2,887)	(9,225)
Net carrying amount	37,712	31,178	68,890
At 1 January 2014, net of accumulated amortisation	**37,712**	**31,178**	**68,890**
Addition	**42**	**7,290**	**7,332**
Amortisation provided during the year	**(5,076)**	**(3,558)**	**(8,634)**
At 31 December 2014, net of accumulated amortisation	**32,678**	**34,910**	**67,588**
At 31 December 2014:			
Cost	**44,092**	**41,355**	**85,447**
Accumulated amortisation	**(11,414)**	**(6,445)**	**(17,859)**
Net carrying amount	**32,678**	**34,910**	**67,588**

17. INVESTMENTS IN SUBSIDIARIES

	Company 2014 RMB'000
Unlisted shares, at cost	600
Capital contribution in respect of employee share-based compensation	46,648
Impairment	—
	47,248

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB546,226,000 and RMB24,796,000, respectively, are unsecured, interest-free and are repayable on demand or within one year.

Particulars of the principal subsidiaries are as follows:

Name of company	Notes	Place and date of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Ozner Water Group Limited ("Ozner Water Group")		BVI/21 November 2013	—		100%	Investment holding
Hong Kong Fresh Water International Group Limited ("HK Fresh Water")		Hong Kong/ 31 August 2010	HK$35,000		100%	Investment holding
Park Wealth International Limited ("Park Wealth")		BVI/23 May 2007	US$50,000		100%	Investment holding
Shanghai Haoze Environmental Technology Co., Ltd. ("Shanghai Haoze Environmental Technology")	1	Mainland China/ 17 November 2010	HK$200,000,000		100%	Sale of water purification/ air sanitisation products
Shanghai Haoze Water Purification Technology Development Co., Ltd. ("Shanghai Haoze Water Purification Technology")	2	Mainland China/ 30 July 2009	RMB5,000,000		100%	Water purifying services
Shangyu Haorun Environmental Protection Technology Co., Ltd. ("Shangyu Haorun Environmental Technology")	2	Mainland China/ 15 December 2009	RMB1,000,000		100%	Manufacturing of water purification/ air sanitisation products
Shanghai Haorun Environmental Works Co., Ltd. ("Shanghai Haorun Environmental Works")	2	Mainland China/ 18 December 2010	RMB1,000,000		100%	Air sanitisation construction services

17. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Notes	Place and date of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
Shaanxi Haoze Environmental Technology Development Co., Ltd. ("Shaanxi Haoze Environmental Technology")	1	Mainland China/ 7 March 2012	RMB70,853,900		100%	Water purifying services
Shaanxi Haoze Air Purification Technology Co., Ltd. ("Shaanxi Haoze Air Purification Technology")	2	Mainland China/ 22 August 2012	RMB3,000,000		100%	Air sanitisation products
Shanghai Haoze Comfort Environment and Science Co., Ltd. ("Shanghai Comfort")	2	Mainland China/ 23 September 2005	RMB54,815,300		100%	Development and manufacturing of water purification and air sanitisation products
Shanghai Comfort Environmental Works Co., Ltd. ("Shanghai Comfort Environmental Works ")	2	Mainland China/ 7 December 2007	RMB5,100,000		100%	Air sanitisation construction services
Shanghai Comfort Water Purification Co., Ltd. ("Shanghai Comfort Water Purification")	2	Mainland China/ 7 December 2007	RMB100,000		100%	Development and manufacturing of water purification and air sanitisation products
Shanghai Hongjia Air Purification Equipment Co., Ltd. ("Shanghai Hongjia Air Purification")	2	Mainland China/ 20 December 2007	RMB500,000		100%	Sale of air sanitisation products
Hong Kong Ozner Water International Limited ("HK Ozner")		Hong Kong/ 13 August 2014	HK$10,000		100%	Investment holding
Haoze (Shanghai) Environment and Science Co., Ltd. ("Haoze")	1	Mainland China/ 14 October 2014	RMB300,000		100%	Development and sales of air and water purification machines

Note 1: Registered as wholly-foreign-owned entities under the PRC law.

Note 2: Registered as limited liability companies under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. Goodwill

Group

	RMB'000
At 31 December 2013:	
Cost	26,037
Accumulated impairment	—
Net carrying amount	26,037
Cost at 1 January 2014, net of accumulated impairment	26,037
Impairment during the year	—
Cost and net carrying amount at 31 December 2014	26,037
At 31 December 2014:	
Cost	26,037
Accumulated impairment	—
Net carrying amount	26,037

The goodwill of the Group include RMB545,000 arising from the acquisition of Shanghai Haoze in 2010 and RMB25,492,000 arising from the acquisition of Park Wealth in 2012. No impairment was recognized for the goodwill.

Goodwill is allocated to the water purification service cash-generating unit ("CGU") for impairment testing.

The Group performed its annual impairment test in December 2014 and 2013. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. No indicators of impairment were noted during 2014 and 2013.

In 2014, the recoverable amount of the water purification services cash-generating unit was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%.

Management determined budgeted growth rate based on past performance and its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business.

18. Goodwill (Continued)

Assumptions were used in the value in use calculation of the water purification service cash-generating units for 31 December 2014 and 31 December 2013. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Management does not foresee any significant change in the key assumptions used in the value-in-use calculation that will cause the recoverable amount of goodwill to be less than its carrying amount.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

19. Deferred Tax Assets/Liabilities

Deferred tax relates to the following:

Deferred tax assets:

	Elimination of unrealised profits RMB'000	**Accruals** RMB'000	**Losses available for offsetting against future taxable profits** RMB'000	**Total** RMB'000
At 1 January 2013	2,166	1,469	1,825	5,460
Income tax (charged)/credited to the statement of profit or loss and other comprehensive income during the year (note 11)	(923)	1,015	1,589	1,681
At 31 December 2013 and 1 January 2014	1,243	2,484	3,414	7,141
Income tax credited / (charged) to the statement of profit or loss and other comprehensive income during the year (note 11)	716	8,999	(3,414)	6,301
At 31 December 2014	1,959	11,483	—	13,442

19. Deferred Tax Assets/Liabilities (Continued)

Deferred tax liabilities:

	Accrued government grant RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2013	270	6,854	7,124
Deferred tax charged/(credited) to the statement of profit or loss and other comprehensive income during the year (note 11)	30	(570)	(540)
At 31 December 2013 and 1 January 2014	300	6,284	6,584
Deferred tax charged/(credited) to the statement of profit or loss and other comprehensive income during the year (note 11)	418	(517)	(99)
At 31 December 2014	718	5,767	6,485

Deferred tax assets have not been recognised in respect of the losses of RMB7,262,000 and RMB63,309,000 as at 31 December 2013 and 2014, respectively, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At the end of each reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB287,236,000 and RMB422,412,000 as at 31 December 2013 and 2014, respectively.

20. Inventories

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Raw materials	**24,140**	12,172
Work in progress	**22,744**	5,193
Finished goods	**43,610**	19,526
	90,494	36,891

21. Trade and Bills Receivables

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade receivables	**40,222**	50,891
Bills receivable	**3,683**	100
	43,905	50,991
Impairment	**(356)**	(362)
Net trade and bills receivables	**43,549**	50,629

Trade and bills receivables mainly represent water purification service rental receivables from distributors and receivables for air sanitisation services. 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 terms are stipulated in the relevant contracts. The credit period is generally one month with retention period of one 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 bill receivable balances. Trade and bills receivables are unsecured and non-interest-bearing.

As at 31 December, the ageing analysis of trade and bills receivables, based on the revenue recognition date and net of provisions, is as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Within 90 days	**28,107**	39,815
Over 90 days and within 180 days	**9,224**	3,947
Over 180 days and within 1 year	**2,408**	824
Over 1 year and within 2 years	**2,408**	5,609
Over 2 years and within 3 years	**1,402**	434
	43,549	50,629

21. Trade and Bills Receivables (Continued)

The ageing analysis of trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	**35,251**	50,195
Past due but not impaired		
< 90 days past due	**5,741**	—
90–180 days past due	**616**	—
180 days–1 year past due	**1,813**	—
1–2 years past due	**—**	—
>2 years past due	**128**	434
	43,549	50,629

The balance of the trade and bills receivables of RMB8,298,000 and RMB434,000 as at 31 December 2014 and 2013, respectively were past due. The Directors 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.

As at 31 December 2014, trade receivables of an initial value of RMB356,000 (2013: RMB362,000) were impaired and fully provided for. The movements in the provision for impairment of receivables are as follows:

	Individually impaired RMB'000
At 1 January 2013	—
Charged for the year	362
At 31 December 2013	362
Reversed for the year	(6)
At 31 December 2014	356

22. Prepayments, Deposits and Other Receivables

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Other receivables	**17,890**	5,306
Deposits	**1,744**	1,324
Prepayments	**83,632**	74,820
	103,266	81,450
Less: Non-current portion	**(46,518)**	(32,007)
	56,748	49,443

The above balances are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of deposits and other receivables approximate to their fair values.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Prepayments included the Mainland China Value Added Tax ("VAT") receivable amounting to RMB19,969,255 and RMB19,545,373 as at 31 December 2013 and 2014, respectively. Input VAT on purchases can be deducted from output VAT payable. The VAT receivable is deductible input VAT which has not been claimed to the tax bureau.

23. Cash and Cash Equivalents and Pledged Deposits

	Group		Company
	2014	2013	**2014**
	RMB'000	RMB'000	**RMB'000**
Cash and bank balances	**73,270**	199,148	**19,496**
Time deposits	**236,500**	22,212	**140,000**
Total cash and bank balances	**309,770**	221,360	**159,496**
Less: Pledged as security for a bank loan	**—**	61,500	**—**
Pledged as collateral for issuance of bank acceptance notes	**16,062**	5,519	**—**
Cash and cash equivalents	**293,708**	154,341	**159,496**
Denominated in RMB	**288,060**	214,262	**142,290**
Denominated in HK$	**20,943**	6,527	**16,666**
Denominated in US$	**767**	571	**540**
Total cash and bank balances	**309,770**	221,360	**159,496**

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between 1 month and 2 months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. The bank balances are deposited with creditworthy banks with no recent history of default.

24. Financial assets at fair value through profit or loss

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Non-quoted investments	**300,000**	—

At 31 December 2014, financial assets at fair value through profit or loss represented non-quoted investments in unlisted wealth management products issued by bank which are either redeemable on demand or with maturities within 12 months. The products are recorded at costs and are measured subsequently with reference to the gold price but the principal was guaranteed upon the redemption. As at 17 February 2015, the Group had redeemed wealth management products with principal amounts of RMB300,000,000 together with returns.

25. Interest-Bearing Bank Loan

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Current		
Bank loan — secured	**—**	212,716

The Group's borrowings were all denominated in HK$. The bank loan bore an interest at floating rate of HIBOR+4% per annum. The Group's bank loan was secured by the pledge of collateral deposit of RMB61,500,000 as of 31 December 2013 as set out in note 23. The Group's bank loan was also secured by mortgages over the Group's property, plant and equipment, which had an aggregate carrying value as at 31 December 2013 of approximately RMB36,767,000 (note 14). The Group's bank loan was also guaranteed by Mr. Xiao Shu, Fresh Water Group and Park Wealth as at 31 December 2013.

The bank loan was fully repaid in 2014.

26. Trade and Bills Payables

An ageing analysis of the trade and bills payables of the Group is as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Within 90 days	**112,507**	43,722
Over 90 days and within 180 days	**12,446**	5,617
Over 180 days and within 1 year	**195**	7,062
Over 1 year and within 2 years	**3,097**	1,102
Over 2 year and within 3 years	**907**	310
	129,152	57,813

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

27. Other Payables, Advances from Customers and Accruals

	Group		Company
	2014	2013	**2014**
	RMB'000	RMB'000	**RMB'000**
Other payables	**137,055**	90,399	**2,181**
Advances from customers	**49,215**	15,510	**—**
Accruals	**7,991**	24,487	**—**
	194,261	130,396	**2,181**

The above balances are unsecured, non-interest-bearing and repayable on demand.

28. Deferred Revenue

Deferred revenue represented the advances received from distributors, being amortised over the lease term of the Group's water purification services, at the end of each reporting date. All of the advances are expected to be recognised as revenue within one year.

29. Provision

	Warranty
	RMB'000
At 1 January 2014	1,220
Additional provision	14,733
Amounts utilised during the year	(16,211)
At 31 December 2014 — current	258

The Group provides repairs and maintenance service to its end users on water purification service free of charge over the lease terms. The amount of the provision is estimated based on the number of water purification machines installed and past experience of the level of repairs and maintenance. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

30. Share Capital, Share Premium and Reserves

Authorised shares

	As at 31 December 2014	2013
Ordinary shares of HK$0.01 each	**4,000,000,000**	38,000,000

Ordinary shares issued and fully paid

	Number of shares	Amount RMB'000
At 1 January 2013	—	—
Issued on 15 November 2013	1	—
At 31 December 2013	1	—
Issuance of share capital to Fresh Water Group on 18 March 2014	1	—
Issuance of share capital to Fresh Water Group on 17 June 2014	1,265,999,998	10,076
Issuance of share capital in the initial public offering on 17 June 2014	422,000,000	3,350
Issuance of share capital for over-allotment on 27 June 2014	63,300,000	502
At 31 December 2014	1,751,300,000	13,928

Share premium

	Group RMB'000	Company RMB'000
At 1 January 2014 and 31 December 2013	—	—
Issuance of share capital to Fresh Water Group on 18 March 2014	600	600
Issuance of share capital to Fresh Water Group on 17 June 2014	(10,076)	(10,076)
Issuance of share capital in the initial public offering on 17 June 2014	855,065	855,065
Issuance of share capital for over-allotment on 27 June 2014	129,258	129,258
At 31 December 2014	974,847	974,847

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 November 2013 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

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

30. Share Capital, Share Premium and Reserves (Continued)

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

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

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

On 27 June 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.

Reserves

(a) Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

(b) Merger reserve

Pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 13 March 2014. The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation.

(c) Foreign currency translation reserve

The exchange differences arising on translation of the financial statements of foreign operations to RMB are recognised in OCI and accumulated to the foreign currency translation reserve.

30. Share Capital, Share Premium and Reserves (Continued)

Reserves (Continued)

(d) Other reserves

Other reserves represent the statutory reserve fund which comprise:

(i) Reserve fund

PRC laws and regulations require wholly-owned foreign enterprises ("WOFE") to provide for the reserve fund by appropriating a part of the net profit (based on the entity's statutory accounts) before dividend distribution. Each subsidiary being WOFE is required to appropriate at least 10% of its net profit after tax to the statutory reserve until the balance of such fund has reached 50% of its registered capital. The statutory reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

(ii) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the registered capital after the capitalisation.

(e) Movement of reserves

	Company			
	Retained profits RMB'000	**Foreign currency translation reserve** RMB'000	**Share-based payment reserve** RMB'000	**Total** RMB'000
At 1 January 2014	—	—	—	—
Profit for the period	(3,161)	—	—	(3,161)
Equity-settled share option	—	—	46,648	46,648
Other comprehensive income	—	(6,235)	—	(6,235)
At 31 December 2014	(3,161)	(6,235)	46,648	37,252

31. Share-Based Payments

Pre-IPO Share Option Scheme

Pre-IPO Share Option Scheme was approved and adopted on 26 May 2014 and expired on the listing date (i.e. 17 June 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 26 May 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 was conditional until the successful listing of the Company on 17 June 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 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 volatility is determined based on the average historical volatility of several comparable companies' stock and reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. The exercise multiple and forfeiture rate are estimated based on studies of historical data and current expectations and is not necessarily indicative of exercise patterns that may occur.

The share option expense recognised for employee services received during the year is shown in the following table:

	2014 RMB'000	2013 RMB'000
Total expense arising from equity-settled share-based payment transactions	**46,648**	—
Less: Amount capitalised in revenue generating assets	**3,005**	—
	43,643	—

There were no cancellations of or modifications to the awards in 2014.

31. Share-Based Payments (Continued)

Pre-IPO Share Option Scheme (Continued)

The following table discloses movements of the Company's share options held by the key management personnel and other employees of the Company:

	Outstanding at 1 January and 31 December 2013	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 2014
Directors						
Mr. Xiao Shu	—	51,086,706	—	—	—	51,086,706
Mr. Zhu Mingwei	—	11,160,859	—	—	—	11,160,859
Mr. He Jun	—	10,662,531	—	—	—	10,662,531
Mr. Tan Jibin	—	8,547,535	—	—	—	8,547,535
Mr. Xiao Lilin	—	7,596,652	—	—	—	7,596,652
Other employees						
In aggregate	—	79,745,717	(7,394,899)	—	—	72,350,818
	—	168,800,000	(7,394,899)	—	—	161,405,101
Exercisable at the end of the year						—

The weighted average remaining contractual life for the share options outstanding as at 31 December 2014 was 9.5 years. The weighted average fair value of the options granted under Pre-IPO Share Option Scheme was HK$1.07 (RMB0.85).

Share Option Scheme

Share Option Scheme was approved and adopted on 26 May 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 of 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 twelve months ended 31 December 2014.

32. 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 reporting date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As of 31 December	
	2014	2013
	RMB'000	RMB'000
Within one year	**102,713**	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.

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 31 December	
	2014	2013
	RMB'000	RMB'000
Within one year	**10,374**	7,078
In the second to fifth years, inclusive	**5,463**	2,191
	15,837	9,269

33. Commitments

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the reporting date:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**41,376**	64,576

34. Related Party Transactions and Balances

(a) Name and relationship

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

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

(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:

		2014	2013
		RMB'000	RMB'000
(1)	Settlement of amounts due to a shareholder — Mr. Xiao Shu	**—**	17,026
(2)	Repayment of amounts due to a related party — Fresh Water Group	**—**	502
(3)	Debt-to-equity swaps of amounts due to a related party — Fresh Water Group	**409,221**	—
(4)	Acquisition of subsidiaries from a related party — Fresh Water Group	**33**	—

On 13 March 2014, Ozner Water Group acquired the entire issued share capital of HK Fresh Water and Park Wealth at the considerations of HK$35,000 and US$1,000, respectively, from the ultimate holding company of the Company, Fresh Water Group.

On 17 June 2014, Fresh Water Group subscribed one share of HK Fresh Water at a subscription price of RMB409,221,000, which was equal to and settled by the amount due to Fresh Water Group by HK Fresh Water. Fresh Water Group designated Ozner Water Group to take up such one share (Note 30).

34. Related Party Transactions and Balances (Continued)

(c) Outstanding balance with a related party

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
(1) Due to a related party — Fresh Water Group	**—**	407,955

Balance with the related party was unsecured, non-interest-bearing and had no fixed repayment terms.

(d) Compensation of key management personnel of the Group

	2014 **RMB'000**	2013 RMB'000
Short term employee benefits	**6,369**	827
Pension scheme contributions	**23**	58
Share-based payment transactions	**28,299**	—
Total compensation paid to key management personnel	**34,691**	885

The amounts disclosed in the table are the amounts recognised as a expense during the reporting period related to key management personnel.

35. Financial Instruments by Category

Financial assets — loans and receivables

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade and bills receivables	**43,549**	50,629
Financial assets included in prepayments, deposits and other receivables	**19,635**	6,630
Pledged deposit	**16,062**	67,019
Cash and cash equivalents	**293,708**	154,341
	372,954	278,619

Loans and receivables are non-derivative financial assets carried at amortised cost which generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

Financial assets – Financial assets at fair value through profit or loss

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
A financial asset at fair value through profit or loss	**300,000**	—

Financial liabilities — financial liabilities at amortised cost

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Interest-bearing bank loan	**—**	212,716
Trade and bills payables	**129,152**	57,813
Financial liabilities included in other payables, advances from customers and accruals	**55,221**	48,783
Due to a related party	**—**	407,955
	184,373	727,267

36. Fair Value Measurement

The following tables illustrate the fair value measurement hierarchy of the Group's assets and liabilities.

Financial instruments measured at fair value

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		Fair values	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets at fair value through profit or loss	**300,000**	—	**300,000**	—

Company

	Carrying amounts		Fair values	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets at fair value through profit or loss	**300,000**	—	**300,000**	—

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group and the Company's financial instruments:

As at 31 December 2014	**Significant observable inputs (Level2)**	
	Group	**Company**
	RMB'000	RMB'000
Financial assets at fair value through profit or loss	**300,000**	**300,000**

Financial instruments for which fair values are disclosed

Management has assessed that the fair values of financial assets and financial liabilities of the Group approximate to their carrying amounts largely due to the short term maturities of these instruments.

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade and other receivables and trade and other payables, which arise directly from its operations.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The board of directors reviews and agrees policies for managing each of these risks, which are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowing set out in note 25. The Group did not use any interest rate swaps to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in Hong Kong dollar interest rate, on the floating rate borrowings affected. With all other variables held constant, the Group's profit before tax and equity is affected through the impact on floating rate borrowings, as follows:

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2013		
HK$ denominated loan	+100	(302)
HK$ denominated loan	–100	302

* *Excluding retained earnings*

As the Group has repaid the interest-bearing bank loan, it was not exposed to interest rate risk as of 31 December 2014.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's cash and cash equivalents denominated in Hong Kong dollar ("HK$")and United States dollar ("US$") (2013: amount due to a related party that is denominated in United States dollar ("US$")) and the foreign entities within the Group with the functional currency of HK$.

The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies.

37. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at each reporting date to a reasonably possible change in the US$ and HK$ exchange rate, respectively, with all other variables held constant, of the Group's profit before tax (cash and cash equivalents denominated in US$ or HK$ (2013: due to the amount due to a related party denominated in US$)) and the Group's equity (due to the foreign entities where the functional currency is HK$).

	Increase/ (decrease) in US$/HK$ rate	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2013			
If US$ weakens against RMB	–5%	23,254	—
If US$ strengthens against RMB	+5%	(23,254)	—
2014			
If US$ weakens against RMB	**–5%**	**(38)**	**—**
If US$ strengthens against RMB	**+5%**	**38**	**—**
If HK$ weakens against RMB	**-5%**	**(1,047)**	**(21,219)**
If HK$ strengthens against RMB	**+5%**	**1,047**	**21,219**

* *Excluding retained earnings*

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables) and from its financing activities, including deposits with banks and financial institutions. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

All the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in Mainland China and Hong Kong, which do not have recent history of default.

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables and financial assets included in prepayments, deposits and other receivables included in the combined statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

37. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

The Group's policy is to monitor regularly the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms.

The maturity profile of the Group's financial liabilities as at each reporting date, based on the contractual undiscounted payments, is as follows:

31 December 2014

	On demand RMB'000	Less than 1 year RMB'000	Total RMB'000
Trade and bills payables	—	129,152	129,152
Other payables and accruals	55,221	—	55,221
	55,221	129,152	184,373

31 December 2013

	On demand RMB'000	Less than 1 year RMB'000	Total RMB'000
Interest-bearing bank loan	—	219,839	219,839
Trade and bills payables	—	57,813	57,813
Other payables and accruals	48,783	—	48,783
Due to a related party	407,955	—	407,955
	456,738	277,652	734,390

38. EVENTS AFTER THE REPORTING PERIOD

There was no subsequent events between the end of reporting period and the date of this annual report that would cause material impact on the Group.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25 March 2015.

FINANCIAL SUMMARY

	Year ended 31 December			
	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
Water purification services	**411,267**	313,960	197,793	57,379
Air sanitization services	**100,444**	88,374	92,603	44,913
	511,711	402,334	290,396	102,292
Gross Profit	**334,715**	272,792	187,392	57,993
Gross Profit Margin	**65.4%**	67.8%	64.5%	56.7%
Profit for the year	**123.902**	152,912	101,691	22,951
Net Profit Margin	**24.2%**	38.0%	35.0%	22.4%

	As at 31 December			
	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue generating assets	**941,668**	585,345	384,127	148,051
Total assets	**2,450,033**	1,309,705	862,518	460,185
Total liabilities	**554,213**	976,163	681,888	437,266
Total equities	**1,895,820**	334,542	180,630	22,919

Notes:

(1) The results and summary of assets and liabilities for the year ended 31 December 2011, 2012 and 2013 which were extracted from the Prospectus dated 5 June 2014 have been prepared on a combined basis to indicate the results of the group as if the Group structure, at time when the Company's shares were listed on the Stock Exchange, had been in existence through those years.