

OZNER 浩澤

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

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



OZNER iFAMILY

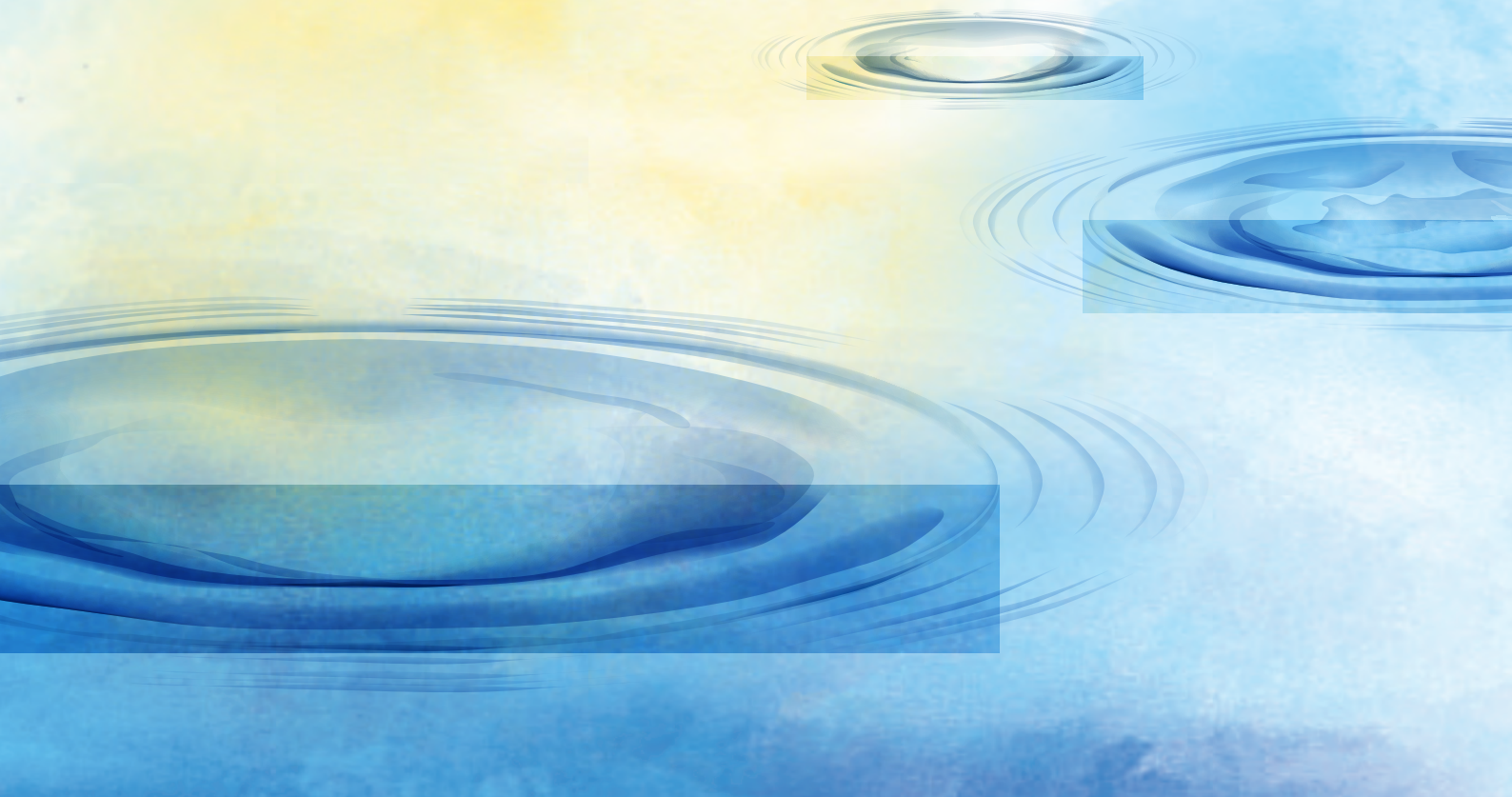
Interim Report 2015

OZNER 浩泽

Purified Water, Purely for Health

OZNER WATER FILTER DRINK FOR HEALTH

Mind at peace. Farewell to the era of tasting



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

JOINT COMPANY SECRETARIES

Mr. Tan Jibin
Ms. Lai Siu Kuen

AUTHORISED REPRESENTATIVES

Mr. Xiao Shu
Mr. Tan Jibin

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

PRINCIPAL BANKERS

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

LEGAL ADVISERS

As to Hong Kong Law:

Simpson Thacher & Bartlett

As to PRC Law:

Shu Jin Law Firm

CORPORATE INFORMATION (CONTINUED)

INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited

REGISTERED OFFICE

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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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Shanghai
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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 million)	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Revenue		
Water purification services	298,222	186,952
Air sanitization services	40,813	45,070
Gross Profit	208,427	157,724
<i>Gross Profit Margin</i>	61.5%	68.0%
Net Profit	31,831	67,067
<i>Net Profit Margin</i>	9.4%	28.9%
Non-IFRS adjusted profit for the Period	76,626	93,212
Non-IFRS adjusted net profit margin	22.6%	40.2%
Basic earnings per share (RMB cents)	1.82	5.16
Non-IFRS adjusted earnings per share (RMB cents)	4.39	7.17

(RMB in million)	As at	As at
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Revenue generating assets	1,139,740	941,668
Total assets	2,597,603	2,450,033
Total liabilities	644,677	554,213

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the interim results of Ozner Water International Holding Limited ("Ozner Water", "Ozner" or the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2015 (the "Period").

For the six months ended 30 June 2015, the Group's turnover and gross profit were RMB339.0 million and RMB208.4 million respectively, representing an increase of 46.1% and 32.1% respectively from the corresponding period of last year. During the Period, the net profit was RMB31.8 million and the net profit margin was 9.4%. Our service network was extended to 515 cities, counties and towns (as at 31 July 2015). The number of distributors increased by 651, reaching 3,083 (as at 31 July 2015).

Since its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in June 2014, the Group achieved significant growth in its various businesses. The Group maintained its first position in the ranking of water purification service providers with the largest market share for corporate end users and end user renewal rate reached over 99.9%. During the first half of 2015, the Group further expanded the resources in high-quality corporate end users and signed contracts with numerous renowned customers, including Walmart China, Shenzhen Municipal Environmental Protection Bureau, Eight Horses Tea, Enjoy Auto and Sha Man Sha Li Beauty Group.

Starting from the fourth quarter of 2014, the Group stepped up investment in the household product market in the aspects of word of mouth and experience marketing. Since the fourth quarter of 2014, the Group commenced to adopt B2C marketing strategy and establish an effective offline channel through official launch of iFamily APP. During the first half of 2015, the operations of the five physical channels of "household users driven by corporate users", "Smart Products", "airport public non-profit water bars", "brand collaboration" and "iFamily experience stores", were officially established across China and achieved expected strategic effects.

In June 2015, the Group announced its new generation of smart product — a smart water filter with filtering function that can be connected to a smart phone APP through Bluetooth to monitor water source and quality. The color of its filter cartridge would change with accumulation of pollutants, giving users a more stunning view and creating a bigger effect in market education and customer cultivation. Also, the filters cartridge replacement will bring revenue for the Group. In the second half of 2015, the Group will further enhance the promotion of Smart Tap Gold Water Filter, swiftly capture the market of "household kitchen tap" in China, strengthen our brand reputation and realize the sustainable revenue and the final transition to use of water purifiers.

Besides, the Group incorporated a wholly-owned subsidiary, namely Small Dragon (Shanghai) Lease & Finance Co. Ltd. ("Small Dragon"), in Shanghai Free Trade Zone, in August 2015. Small Dragon is principally engaged in finance leasing business and commercial factoring business and has received the licenses from the Management Committee of China (Shanghai) Pilot Free Trade Zone to operate such businesses. The establishment of Small Dragon is not only beneficial for the Group to enter into the financial sector but also help resolve the liquidity problem of the water purifying business both at the upstream and downstream, including distributors and suppliers, enabling them to expand their water purifying businesses rapidly and this can lay a solid foundation for rapid development of the Group's business.

During the Period, Ozner was honored to rank 7th in the 2015 Forbes Potential Listed Chinese Enterprises. This represented a fundamental recognition of the past business performance and development potential of Ozner and it is also the first time for an enterprise of water purifier industry to add to the above list.

CHAIRMAN'S STATEMENT (CONTINUED)

On 16 February 2015, Glaucus Research published a report to recommend sell-off of Ozner (the "Short-seller Report"). Due to the lack of comprehensive understanding of the Chinese business environment, development of water purifier industry and the business model and corporate structure of Ozner, the Short-seller Report's allegations against the financial position and operation of Ozner were far from the truth. The Company made detailed response to each of the allegations so as to restore the market confidence. To further boost the market confidence, the Company conducted share repurchase actively and the controlling shareholder of the Company has also increased its shareholding by purchasing shares on the market. Various marketing activities and management of the Company were not affected by the fluctuation of its share price. The management and all staff are confident of the development of the Group.

Looking forward to the second half of 2015, the Group will continue to implement B2C marketing strategies of word of mouth plus experience. The Group will also further enhance its competence in sustainable development in response to the changes in the market environment and customer consumption habits and emphasize on the comprehensive upgrading in the brand strategy, channel strategic layout and service mode.

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

XIAO Shu (肖述)

Chairman and Chief Executive Officer

Hong Kong

25 August 2015



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In April 2015, the State Council officially announced and launched the Action Plan for Water Pollution Prevention (abbreviated as “Ten Control Measures on Water Quality”), consisting of a total of 35 articles, 76 clauses and 236 specific measures, with an aim to improve the water quality in China generally by 2030. Through measurement and projection with the input-output model, the Ministry of Environmental Protection of China predicted that, under the “Ten Control Measures on Water Quality”, the GDP growth in China could be driven by approximately RMB5.7 trillion, which is believed to promote the investment in and development of water market industry significantly.

In China, increasingly high emphasis has been put on drinking water safety. Thus, in particular, the water purifier products market has been growing rapidly due to the impact of issues such as tap water odour in numerous cities, pollution by benzene in tap water of Lanzhou, ammonia and nitrogen pollution in Hanjiang and water pollution in Jingjiang. Currently, the penetration rate of household water purifiers in China is far lower than that of Western developed countries, rendering a huge potential for our business development. Recently, water purification industry is growing at an annual rate of 45% and it will soon evolve as a market of RMB100 billion.

Water is the source of life and drinking water is correlated closely with body health. As the industry leader, the Group will continue to leverage our leading technology and quality products and services to provide the best choice for consumers.

BUSINESS REVIEW

Ozner has been recording steady growth in corporate water purification market and is the largest service provider in terms of market share. Since last year, along with maintaining the advantages in corporate development, the Group has started to increase its investment in household market and took the initiative to launch online sales by the upgrade of marketing strategies and vigorously expanding the relevant markets through smart products and B2C strategic layout.

For the six months ended 30 June 2015, the turnover and gross profit of the Group were RMB339.0 million and RMB208.4 million, respectively, representing an increase of 46.1% and 32.1% respectively from the corresponding period of last year. During the Period, Ozner achieved significant progress in establishment of distribution service network. The service network of Ozner had a coverage of over 500 cities/towns in the PRC with the number of distributors increased by 651 to 3,083 as at 31 July 2015 as compared with 31 December 2014.

For the Period under review, we have comprehensively implemented our Ozner online marketing strategies, and expanded the investment in the infrastructure of channels, human resources and platforms which achieved good results and laid a solid foundation for rapid growth in the future.

Ozner announced its official launch of B2C marketing strategy in late 2014 and established an effective offline introduction channel through official launch of iFamily APP. Centered around enhanced customer experience and word-of-mouth marketing, the marketing strategy aims to increase member registration of Ozner’s iFamily APP and convert online members into offline customers through our five offline marketing tools including “converting employees of corporate users into household users”, “smart products”, “Ozner Water Bars”, “brand collaboration” and “experience stores”.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In the first half of 2015, those offline channels have been officially established across China. The principal achievements include:

- (1) The implementation of “household users driven by corporate users”: With the leading advantage of Ozner in corporate market, we fully explored the immense opportunities from corporate customers to expand the conversion of stakeholders such as clients’ employees and customers, fostering the marketing effect of “converting corporate use into household use and household use inducing corporate use”.
- (2) The research and development and market share of smart products: Currently, we have launched smart cup and the smart tap water filters which received general recognition from the market and steady stream of customers. The replacement of filter cartridges by users of smart water tap filter will generate sustainable income.
- (3) Ozner public non-profit water bars (“Ozner Water Bars”): The accumulated Ozner Water Bars for end-users amounted to 4,942, of which 425 were installed in 26 airports. Meanwhile, we launched more than 3,000 smart device illustration cabinets during the first half of 2015, enabling a more effective promotion of smart products to attract potential customers.
- (4) Brand collaboration: As at 30 June 2015, Ozner has been working with major enterprises in various fields such as Longfor Properties, Colour Life, Wuzhou International and home.com. Ozner has also officially formed strategic partnership with Macroflag, a leading outsourced provider of integrating bank credit card marketing services. In the future, Ozner will further promote brand partnership program to foster new marketing landscape.
- (5) Experience stores: Following the launch of the first water purification family experience store, the experience store will play a more important role in building of brand image, customer experience display and customer loyalty.

As a leading enterprise in the water purification service industry pursuing the concept of “Environmental protection technology grows with men”, Ozner has been committed to promoting manufacturing of products with innovative technology. In April 2015, Ozner globally launched 2 smart installation-free water purifying machines in Beijing, leading the industry to step into an era of smart and convenience products. In June 2015, Ozner launched its smart tap water filters. Apart from the initial filtering function for tap water, the product also provides four core functions, namely tap water TDS monitoring, mobile TDS monitoring, social media interaction and smart reminders. In addition to market education, it serves to attract traffic, lead to ultimate end-user conversion and further reduce costs and bring sustainable revenue to the Group through the subsequent sales of filter cartridges.

With the convenience of “Internet” and the excellent experience of “being smart”, Ozner believes that it can usher in an era of genuinely smart water drinking.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FUTURE PROSPECTS

Looking forward into the second half of the year, in order to better meet the new demand for water purification market in the internet era, Ozner will start the comprehensive strategic upgrade in three aspects, namely brand, channel and service.

In terms of “Brand +” planning, Ozner will launch the public distribution of one million “smart tap water filters” to raise the brand awareness, capture the entry point of smart water into daily life, identify the target group of household product sales and provide better products and services by effectively using the database platform of water quality monitoring of one million households.

In terms of “Channel +” planning, Ozner will launch the operation plan of smart device illustration cabinets. Smart device illustration cabinets will be set up in supermarkets, shopping malls, dining places and outlets in various cities to display and promote smart products. The operation of smart device illustration cabinets will allow consumers to better experience offline activities and enhance sales. On the other hand, the offline QR code scanning will attract more fans to enter the iFamily platform to provide database support for subsequent development of sales to the fans.

In terms of “Service +” planning, based on the original smart caring services of “24x365” round the clock, Ozner will launch “service extension in numerous counties and towns” to expand the service network to third and fourth-tier cities in China. The distribution of millions of smart public non-profit water taps and the operation of smart device illustration cabinets will optimise the database platform of iFamily and ensure the service upgrade, bringing excellent products and service experience to users of Ozner smart water life circle.

For the six months ended 30 June 2015, the Group has invested in upfront expenditures, including advertising expenses, fixed assets investments and increase of the headcount, in connection to development of the new business such as B2C and launch of smart cup and smart water tap filters. Moving forward, the Group hopes that the new business can contribute more revenue to reduce the impact of upfront expenditures in second half of 2015.

FINANCIAL REVIEW

Revenue

Our total revenue increased by 46.1% from RMB232.0 million for the six months ended 30 June 2014 to RMB339.0 million for the six months ended 30 June 2015, primarily attributable to the increase in revenue from our water purification services.

Revenue from water purification services increased by 59.5% from RMB187.0 million for the six months ended 30 June 2014 to RMB298.2 million for the six months ended 30 June 2015, primarily due to the increase in the accumulated number of water purifying machines installed from approximately 539,000 units as at 30 June 2014 to approximately 781,000 units as at 30 June 2015. For the six months ended 30 June 2015, the Group sold and leased 124,000 units of new water purifying machines, including sales of 17,000 units of smart and installation-free water purifying machines, which is a new product.

Revenue generated from air sanitization services decreased by 9.4% from RMB45.1 million for the six months ended 30 June 2014 to RMB40.8 million for the six months ended 30 June 2015. The decrease was primarily due to the decrease in number of the new contracts signed. The number of projects in progress decreased from 18 projects for the six months ended 30 June 2014 to 14 projects for the six months ended 30 June 2015.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit Margin

Our gross profit margin decreased from 68.0% for the six months ended 30 June 2014 to 61.5% for the six months ended 30 June 2015, primarily attributable to the decrease in gross profit margin in both water purification and air sanitization business.

Our gross profit margin in water purification business was 76.4% and 66.9% for the six months ended 30 June 2014 and 2015, respectively. The decrease in gross profit margin is a result of sales of new models of water purifying machines, the gross profit margin of which is lower than that of leasing of water purifying machines. Due to no sales of new models of water purifying machines for the six months ended 30 June 2014, the percentage of revenue from water purifying machines of leasing services to total revenue of water purification business decreased significantly for the six months ended 30 June 2015, even though the gross profit margin of water purifying machines of leasing service only decreased from 75.7% for the six months ended 30 June 2014 to 72.1% for the six months ended 30 June 2015.

Gross profit margin of air sanitization business decreased from 33.1% for the six months ended 30 June 2014 to 21.7% for the six months ended 30 June 2015, due to the decrease in gross profit margin of new projects.

Other Income and Gains

Our other income and gains increased by 79.6% from RMB7.5 million for the six months ended 30 June 2014 to RMB13.4 million for the six months ended 30 June 2015, primarily attributing to government subsidies and interest income increased by RMB3.9 million and RMB5.5 million, respectively, for the six months ended 30 June 2015 as compared with the corresponding period in last year, which were off-set by the decrease in exchange gain by RMB3.5 million.

Selling and Distribution Expenses

For the six months ended 30 June 2014 and 2015, our selling and distribution expenses were RMB33.4 million and RMB91.7 million respectively, representing 14.4% and 27.0% of the revenue of the respective periods, which was an increase of 174.9% or RMB58.3 million from the six months ended 30 June 2014 to 30 June 2015. Such increase was primarily due to enhancement in the management and investment in operating regions for penetrating the market and implementation of B2C strategies, and promotion of our products and brand building in relation to our brand "Ozner Water". For the six months ended 30 June 2015, (i) the salaries and staff benefits increased by RMB30.8 million as headcounts were increased; (ii) the expenditures for marketing and promotion activities, including advertising expenses and amortisation in relation to smart device illustrative cabinets and Ozner Water Bars, increased by RMB8.6 million; and (iii) share option expense increased by RMB11.3 million, as compared with the corresponding period in last year.

Administrative Expenses

For the six months ended 30 June 2014 and 2015, our administrative expenses were RMB43.8 million and RMB71.0 million respectively, representing 18.9% and 21.0% of the revenue of the respective periods. Our administrative expenses increased by 62.3% or RMB27.3 million from the six months ended 30 June 2014 to 30 June 2015, primarily due to (i) salaries and employee benefits increased by RMB8.1 million as headcounts were increased; (ii) expenditures incurred for handling of the unfound allegations amounting to RMB6.0 million; and (iii) share option expenses increased by RMB23.4 million, as compared with the corresponding period in last year. Such increases were offset by decrease in one-off listing expense amounting to RMB21.3 million during the Period. Excluding the listing expense, professional fee in connection with the unfound allegations and share option expense, our administrative expenses represented 8.1% and 11.3% of the revenue of the same periods for the six months ended 30 June 2014 and 2015 respectively.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 November 2012 to October 2015 and will extend further 3 years to October 2018; (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 October 2014 to September 2017; 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% from 2012 to 2020.

Our income tax expense were RMB15.2 million and RMB16.3 million for the six months ended 30 June 2014 and 2015, respectively. The effective tax rates (calculated by dividing income tax expense by profit before tax increased from 18.5% for the six months ended 30 June 2014 to 33.8% for the six months ended 30 June 2015, primarily due to significant increase in share option expenses which is non-deductible expense. Excluding the share option expenses and the listing fee, the effective tax rate for the six months ended 30 June 2014 and 2015 were 14.2% and 18.7%, respectively.

Net Profit and Net Profit Margin

Our net profit decreased by 52.5% from RMB67.1 million for the six months ended 30 June 2014 to RMB31.8 million for the six months ended 30 June 2015. In the same time, our net profit margin decreased from 28.9% for the six months ended 30 June 2014 to 9.4% for the six months ended 30 June 2015. Such decrease was primarily affected by significant increase in share option expense, professional fee in relation to the unfound allegations and increase in salaries and staff benefits expenses and expenditures for the marketing and promotion activities in connection with the implementation of B2C strategies and our new products.

If excluding the adjusted items as stated in the reconciliation as below, our net profit decreased by 17.8% from RMB93.2 million for the six months ended 30 June 2014 to RMB76.6 million for the six months ended 30 June 2015. And our net profit margin decreased from 40.2% for the six months ended 30 June 2014 to 18.7% for the six months ended 30 June 2015.

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profits	31,831	67,067
Adjusted items:		
— Exchange loss from amounts due to Fresh Water Group	—	1,266
— Listing expense	—	21,382
— Share option expense	38,795	3,497
— Expenditures incurred for handling of the unfound allegations	6,000	—
Adjusted net profits	76,626	93,212

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 at 30 June 2015, the Group's bank balances and cash was RMB286.0 million (31 December 2014: RMB293.7 million).

Trade and bills receivables

Trade and bills receivables increased from RMB43.5 million as at 31 December 2014 to RMB62.2 million as at 30 June 2015. The increase was due to increase in receivable from air sanitization business and receivable generated from sales of new models of water purifying machine. Our average trade receivable turnover days were 33 days and 29 days for the year ended 31 December 2014 and six months ended 30 June 2015, respectively.

Inventories

Inventories increased from RMB90.5 million as at 31 December 2014 to RMB152.3 million as at 30 June 2015. Such increase was due to the fact that the production lines in Shangyu will move to the production plant in Shaanxi in near future, in order to avoid any impact on production and daily operation, and the Group produces the water purifying machines in advance. Our average inventories turnover days were 53 days and 86 days for year ended 31 December 2014 and six months ended 30 June 2015, respectively.

Current Ratio and Gearing Ratio

As at 30 June 2015, our current ratio was 1.0 (as at 31 December 2014: 1.5). The decrease was primarily due to increase of 107,000 units of water purifying machines leased and investment in property, plant and equipment during the Period. Such increase reduced the current assets by RMB375.5 million. Our gearing ratio, which was derived by dividing total debt by total equity, was nil as at 31 December 2014 and 30 June 2015, respectively, due to the fact that the Group did not have any loan.

Capital Expenditure

For the six months ended 30 June 2015, the Group's capital expenditure amounted to RMB384.0 million, which was mainly used for the purchases of property, plant, equipment, other tangible assets and water purifying machines. During the Period, the Group added approximately 107,000 new water purifying machines, established approximately 4,942 Ozner Water Bars and approximately 3,000 smart device illustrative cabinets and invested in construction of the second phase of production plant in Shaanxi Province amounting to RMB258.3 million, RMB52.0 million and RMB22.4 million, respectively.

Borrowings and Charges on the Group's Assets

As at 30 June 2015, the Group did not have any bank loan (as at 31 December 2014: Nil).

As at 30 June 2015, the Group pledged bank deposits amounted to RMB39.7 million for issuance of bank acceptance notes (as at 31 December 2014: RMB16.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Contingent Liabilities

As at 30 June 2015, the Group had no material contingent liabilities.

Commitments

As at 30 June 2015, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB30.9 million (as at 31 December 2014: RMB15.8 million).

As at 30 June 2015, the Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to RMB111.5 million (as at 31 December 2014: RMB41.4 million).

As at 30 June 2015, the Group had unpaid annual leasing fee payments which are not yet recognized as rental revenue amounting to RMB176.2 million (as at 31 December 2014: RMB102.7 million).

As at 30 June 2015, the Group had no other capital commitments save as disclosed above.

Exchange Rates Risk

The Group's business is located in the PRC and its operating transactions are conducted in Renminbi. Most of its assets and liabilities (including cash and cash equivalents) 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 currencies. 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 rates among HK\$, US\$ and RMB.

MATERIAL ACQUISITIONS AND FUTURE PLANS FOR MAJOR INVESTMENT

During the six months ended 30 June 2015, the Group had not conducted any material acquisitions or disposals except for the redemption of the investment products. The Group fully redeemed all the investment products with the aggregated principal amounts of RMB300.0 million during the Period, a total interest income of approximately RMB2.1 million have been realised. In addition, the Group currently has no specific plan for acquisition of major assets or other business.

EMPLOYEES AND REMUNERATION POLICY

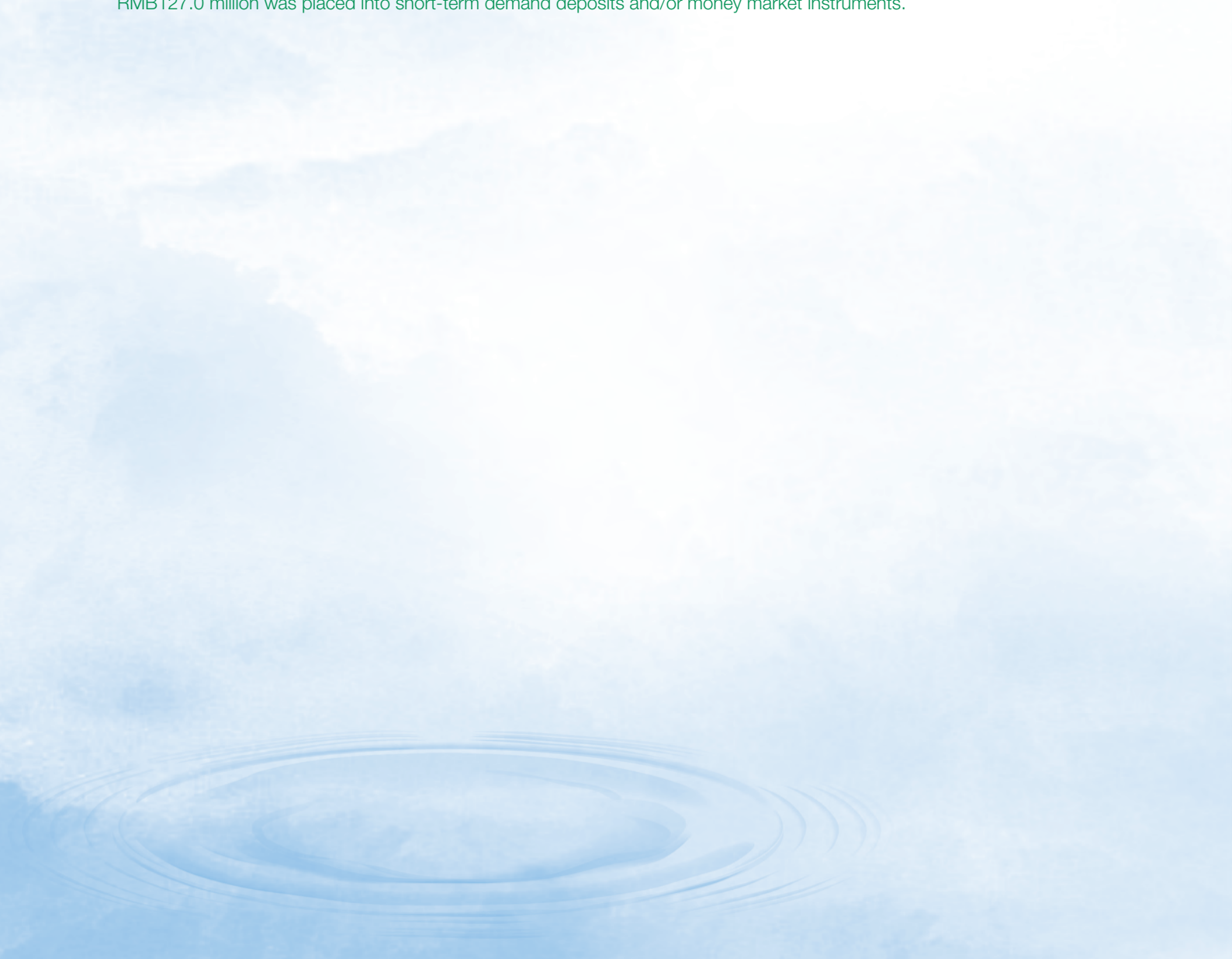
As at 30 June 2014 and 2015, the Group had 1,622 and 2,358 employees, respectively. Total staff costs (including Directors' emoluments and excluding share-based payments) for the six months ended 30 June 2015 were RMB68.5 million, as compared to RMB29.8 million for the six months ended 30 June 2014. 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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. For the six months ended 30 June 2015, no options were granted or agreed to be granted under the above share option schemes to any person. As at 30 June 2015, 160,787,414 share options have been granted and remained outstanding under the Pre-IPO Share Option Scheme to eligible participants. For the six months ended 30 June 2015, the total share option expense was RMB41.4 million (six months ended 30 June 2014: RMB3.5 million).

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

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. As at 30 June 2015, the Company has used the proceeds of RMB861.2 million for manufacturing of water purifying machines, repayment of bank loan, construction of second phase of production plant in Shaanxi, expanding our marketing and promotion activities and general working capital. As at 30 June 2015, the unused balance of the proceeds from the global offering of approximately RMB127.0 million was placed into short-term demand deposits and/or money market instruments.



OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Consistent with the management's commitment to maintaining the well-being of the Group, and protecting its long-term interest, share repurchase exercises were implemented during the six months ended 30 June 2015, 7,258,000 of its ordinary shares were repurchased on the Stock Exchange at an aggregate price of HK\$19,871,861. The Company has repurchased another 8,620,000 ordinary shares on the Stock Exchange in July 2015 at an aggregate price of HK\$18,529,179. Consequent to these share repurchase exercises, the Company has acquired and cancelled approximately 0.9% of the total number of issued shares of the Company immediately prior to such repurchases and cancellations. As the Board considers that the value of the Company's shares is consistently undervalued, it trusts that the action taken will go towards addressing this trend. The Board also believes that given the current financial resources of the Company, the share repurchase will not affect the Company's solid financial position. As at the date of this interim report, all the above repurchased shares were cancelled. Details of shares repurchased during the relevant period are set out as follows:

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid HK\$
		Highest	Lowest	
		HK\$	HK\$	
March 2015	4,477,000	3.03	2.15	12,346,474
April 2015	2,657,000	2.94	2.63	7,185,142
May 2015	124,000	2.75	2.70	340,245
July 2015	8,620,000	2.26	1.89	18,529,179

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would lead to an enhancement of the earnings per share.

Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

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

As of 30 June 2015, the interests and short positions of the directors and chief executive 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 (the "Model Code"), 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 as at 30 June 2015
Mr. Xiao Shu	Founder of a discretionary trust	(a)	446,518,200	25.60%
	Beneficial owner	(b)	53,284,706	3.06%

OTHER INFORMATION (CONTINUED)

Notes:

- (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 (as the settlor) and the discretionary beneficiaries of which include Mr. Xiao and certain of his family members. Accordingly, Mr. Xiao is deemed to be interested in the 341,820,000 Shares, 54,058,200 Shares and 50,640,000 Shares held by each of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively. Subsequent to 30 June 2015, Glorious Shine Holdings Limited acquired an additional 8,668,000 Shares.
- (b) These 53,284,706 Shares include 2,198,000 Shares which Mr. Xiao is interested in as beneficial owner and options granted under the Pre-IPO Share Option Scheme entitling Mr. Xiao to subscribe for 51,086,706 Shares.

Long positions in share options of the Company:

Name of Director	Number of options directly beneficially owned	Approximate percentage of shareholding as at 30 June 2015
Mr. Xiao Shu	51,086,706	2.93%
Mr. ZHU Mingwei	11,160,859	0.64%
Mr. HE Jun	10,662,531	0.61%
Mr. TAN Jibin	8,547,535	0.49%
Mr. XIAO Lilin	7,596,652	0.44%
	89,054,283	5.11%

Save as disclosed above, as of 30 June 2015, none of the directors nor the chief executive of the Company 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.

OTHER INFORMATION (CONTINUED)

SHARE OPTION SCHEME

The Company operates the Pre-IPO Share Option Scheme and the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Pre-Ipo Share Option Scheme

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

Name or category of participant	Number of share options					As at 30 June 2015	Approximate percentage of shareholding as at 30 June 2015
	As at 1 January 2015	Granted during the Period	Exercised during the Period	Lapsed during the Period	Forfeited during the Period		
Director							
Mr. Xiao Shu	51,086,706	—	—	—	—	51,086,706	2.93%
Mr. Zhu Mingwei	11,160,859	—	—	—	—	11,160,859	0.64%
Mr. He Jun	10,662,531	—	—	—	—	10,662,531	0.61%
Mr. Tan Jibin	8,547,535	—	—	—	—	8,547,535	0.49%
Mr. Xiao Lilin	7,596,652	—	—	—	—	7,596,652	0.44%
	89,054,283	—	—	—	—	89,054,283	5.11%
Directors of the Company's subsidiaries							
Mr. Li Honggao	3,200,000	—	—	—	—	3,200,000	0.18%
Mr. CHEN Jie	1,128,547	—	—	—	—	1,128,547	0.06%
Mr. XIAO Jianping	875,464	—	—	—	—	875,464	0.05%
Mr. PAN Jianming	456,065	—	—	—	—	456,065	0.03%
	5,660,076	—	—	—	—	5,660,076	0.32%
Other employees							
In aggregate	66,690,742	—	—	—	(617,687)	66,073,055	3.79%
Total	161,405,101	—	—	—	(617,687)	160,787,414	9.22%

As at 30 June 2015, the maximum number of shares that may be issued under pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme is 160,787,414 shares (31 December 2014: 161,405,101 Shares), representing approximately 9.22% (31 December 2014: 9.22%) of the issued share capital of the Company as at 30 June 2015 and approximately 9.27% as at the date of this report.

OTHER INFORMATION (CONTINUED)

As disclosed in the offering prospectus of the Company, the Company adopted a Pre-IPO Share Option Scheme on 26 May 2014 and granted 168,800,000 share options in aggregate. The exercise price the Pre-IPO Share Option Scheme was HK\$2.295 per share, representing 85% of the final Offer Price per share of HK\$2.70 under the initial public offering of the Company. A consideration of HK\$1.00 was payable by each grantee on acceptance of the grant of share options. 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%

Any vested option which has not lapsed may, unless the board of directors of the Company determines otherwise in its absolute discretion, be exercised at any time.

Share Option Scheme

The 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 granted or 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. As at 30 June 2015, the total number of shares which may be issued on the exercise of options to be granted under the Share Option Scheme is 8,012,586 shares (31 December 2014: 7,394,899 shares), representing approximately 0.46% (31 December 2014: 0.42%) of the issued share capital of the Company as at the date of this report. For the six months ended 30 June 2015, the total share option expense was RMB41.4 million (for the six months ended 30 June 2014: RMB3.5 million).

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.

The exercise price in respect of any option granted under the Share Option Scheme shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the highest of:

- (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;
- (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and
- (iii) the nominal value of the shares.

No share option was granted under Share Option Scheme and Other Schemes in the six months ended 30 June 2015.

OTHER INFORMATION (CONTINUED)

Save as disclosed above, at no time during the Period 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.

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

As of 30 June 2015, the following persons (other than the directors and chief executive of the Company) have the following interests and short positions in the shares or underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Name	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's share capital as of 30 June 2015
Standard Chartered Trust (Singapore) Limited	(a)	Trustee of a trust	446,518,000	25.60%
SCTS Capital Pte. Ltd.	(a)	Nominee for another person	446,518,000	25.60%
Ms. TANG Renmei	(b)	Beneficiary of a discretionary trust	392,460,000	22.50%
Baida Holdings Limited	(c)	Beneficial owner	341,820,000	19.60%
Baida Capital Limited	(c)	Interest in a controlled corporation	341,820,000	19.60%
SAIF Partners IV L.P.	(d)	Beneficial owner	334,857,000	19.20%
SAIF IV GP, L.P.	(d)	Interest in a controlled corporation	334,857,000	19.20%
SAIF IV GP Capital Ltd.	(d)	Interest in a controlled corporation	334,857,000	19.20%
Mr. Andrew Y. YAN	(d)	Interest in a controlled corporation	334,857,000	19.20%
Ares FW Holdings, L.P.	(e)	Beneficial owner	187,166,800	10.73%
ACOF Asia GP, Ltd.	(e)	Interest in a controlled corporation	187,166,800	10.73%
ACOF Asia Management, L.P.	(e)	Interest in a controlled corporation	187,166,800	10.73%
Ares Management (Cayman), Ltd.	(e)	Interest in a controlled corporation	187,166,800	10.73%
Watercube Holdings, L.L.C.	(f)	Beneficial owner	139,006,800	7.97%
GS Direct, L.L.C.	(f)	Interest in a controlled corporation	139,006,800	7.97%
Goldman, Sachs & Co.	(f)	Interest in a controlled corporation	139,006,800	7.97%
The Goldman, Sachs & Co. L.L.C.	(f)	Interest in a controlled corporation	139,006,800	7.97%
The Goldman Sachs Group, Inc.	(f)	Interest in a controlled corporation	140,666,800	8.06%
Mr. Daniel Saul Och	(g)	Interest in a controlled corporation	148,634,000	8.52%
Och-Ziff Capital Management Group L.L.C. ("Och-Ziff Capital")	(g)	Interest in a controlled corporation	148,634,000	8.52%
OZ Management, L.P. ("OZ Management")	(g)	Investment manager	148,634,000	8.52%
Och-Ziff Holding Corporation	(g)	Interest in a controlled corporation	148,634,000	8.52%
Oz Master Fund, Ltd.	(g)	Beneficial owner	96,764,000	5.55%

OTHER INFORMATION (CONTINUED)

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 446,518,000 Shares held by Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively. Subsequent to 30 June 2015, Glorious Shine Holdings Limited acquired an additional 8,668,000 Shares.*
- (b) *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.*
- (c) *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.*
- (d) *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.*
- (e) *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 187,166,800 Shares held by Ares FW Holdings, L.P.*
- (f) *Watercube Holdings, L.L.C. is a limited liability company organized under the laws of Delaware. GS Direct, L.L.C., a limited liability company organized under the laws of Delaware, is the managing member of Watercube Holdings L.L.C. and owns 80.1% of the voting interest in Watercube Holdings L.L.C. Goldman, Sachs & Co., a limited partnership organized under the laws of New York, is the managing member of GS Direct, L.L.C. The Goldman, Sachs & Co. L.L.C., a limited liability company organized under the laws of Delaware, is the general partner of Goldman, Sachs & Co. The Goldman Sachs Group, Inc., a corporation organized under the laws of Delaware, holds (i) 100% voting interests of The Goldman, Sachs & Co. L.L.C.; (ii) 99.8% voting interests of Goldman, Sachs & Co.; and (iii) 100% non-voting interests of GS Direct, L.L.C. The Goldman Sachs Group, Inc. is listed on the New York Stock Exchange. Accordingly, each of GS Direct, L.L.C., Goldman, Sachs & Co., The Goldman, Sachs & Co. L.L.C. and The Goldman Sachs Group, Inc. is deemed to be interested in the 139,006,800 Shares held by Watercube Holdings, L.L.C.*
- (g) *Certain affiliated investment funds of Och-Ziff Capital (collectively, "OZ Funds") hold an aggregate of 148,634,000 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 83.6% 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 30 June 2015, 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.

OTHER INFORMATION (CONTINUED)

CORPORATE GOVERNANCE CODE

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

During the six months ended 30 June 2015, the Company complied with all the principles and the code provisions of the Corporate Governance Code (“Corporate Governance Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) with the exception of code provision A.2.1 of the Corporate Governance Code which are explained in further details below. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance requirements.

Code Provision A.2.1 of the Corporate Governance Code

Mr. Xiao Shu is the Chairman and Chief Executive Officer of the Company. With extensive experience in the water purification service industry, Mr. Xiao is responsible for the overall strategic planning and general management of our Group and is instrumental to our growth and business expansion during the Period. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced and high-calibre individuals. Our Board currently comprises five executive Directors (including Mr. Xiao), three non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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. The Company has made specific enquiry of all Directors and all Directors confirmed that they have complied with the Model Code during the Period.

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. Lau”), Mr. Gu Jiuchuan, Dr. Chan Yuk Sing Gilbert and Mr. Zhou Guanxuan, all being our independent non-executive Directors. Mr. Lau has been appointed as the chairman of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

The Audit Committee has discussed with the management and external auditor the accounting principles and policies adopted by the Group, and has reviewed the Group’s unaudited interim condensed consolidated financial statements for the six months ended 30 June 2015.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated statement set out on pages 23 to 48, which comprise the interim condensed consolidated statement of financial position of Ozner Water International Holding Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2015 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by International Accounting Standards Board.

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
25 August 2015

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June

	Notes	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Revenue	4	339,035	232,022
Cost of revenue		(130,608)	(74,298)
Gross profit		208,427	157,724
Other income and gains	4	13,444	7,484
Selling and distribution expenses		(91,687)	(33,358)
Administrative expenses		(71,031)	(43,759)
Other expenses		(11,049)	(5,118)
Finance costs		—	(664)
Profit before tax	5	48,104	82,309
Income tax expense	6	(16,273)	(15,242)
Profit for the period, attributable to equity holders of the parent		31,831	67,067
Other comprehensive loss			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		(379)	(25)
Total comprehensive income for the period, net of tax, attributable to the equity holders of the parent		31,452	67,042
Earnings per share attributable to ordinary equity holders of the parent:			
Basic (RMB cents)	7	1.82	5.16
Diluted (RMB cents)	7	1.81	5.16

The Board did not declare an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
NON-CURRENT ASSETS			
Revenue generating assets	8	1,139,740	941,668
Property, plant and equipment	9	564,266	473,085
Prepaid land lease payment		75,512	76,284
Intangible assets	10	64,987	67,588
Goodwill		26,037	26,037
Prepayment for acquiring property, plant and equipment		64,096	46,518
Deferred tax assets		18,930	13,442
Other non-current asset		5,322	4,850
TOTAL NON-CURRENT ASSETS		1,958,890	1,649,472
CURRENT ASSETS			
Inventories	11	152,289	90,494
Trade and bills receivables	12	62,231	43,549
Prepayments, deposits and other receivables		98,466	56,748
Financial assets at fair value through profit or loss		—	300,000
Pledged deposits	13	39,692	16,062
Cash and cash equivalents	13	286,035	293,708
TOTAL CURRENT ASSETS		638,713	800,561
CURRENT LIABILITIES			
Trade and bills payables	14	187,034	129,152
Other payables, advances from customers and accruals		249,631	194,261
Deferred revenue		86,419	121,869
Income tax payable		114,716	102,446
TOTAL CURRENT LIABILITIES		637,800	547,728
NET CURRENT ASSETS		913	252,833
TOTAL ASSETS LESS CURRENT LIABILITIES		1,959,803	1,902,305
NON-CURRENT LIABILITY			
Deferred tax liabilities		6,877	6,485
TOTAL NON-CURRENT LIABILITY		6,877	6,485
NET ASSETS		1,952,926	1,895,820
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	15	13,872	13,928
Share premium	15	959,382	974,847
Treasury shares	15	(270)	—
Reserves	15	979,942	907,045
TOTAL EQUITY		1,952,926	1,895,820

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to equity holders of the parent								
	Share capital	Share premium	Treasury shares	Share-based payment reserve	Retained earnings	Merge reserves	Foreign currency translation reserve	Other reserves	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	13,928	974,847	—	46,648	353,371	56,018	(6,235)	457,243	1,895,820
Share-based payments	—	—	—	41,445	—	—	—	—	41,445
Profit for the period	—	—	—	—	31,831	—	—	—	31,831
Other comprehensive income	—	—	—	—	—	—	(379)	—	(379)
Cancellation of share repurchased	(56)	(15,465)	—	—	—	—	—	—	(15,521)
Repurchase of share	—	—	(270)	—	—	—	—	—	(270)
At 30 June 2015 (unaudited)	13,872	959,382	(270)	88,093	385,202	56,018	(6,614)	457,243	1,952,926

For the six months ended 30 June 2014

	Attributable to equity holders of the parent								
	Share Capital	Share premium	Share-based payment reserve	Retained earnings	Merge Reserves	Foreign currency translation reserve	Other reserves	Total equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2014	—	—	—	244,961	56,051	—	32,530	333,542	
Issue of ordinary shares	13,928	974,847	—	—	—	—	—	988,775	
Capitalisation of amount due to									
Fresh Water Group	—	—	—	—	—	—	409,221	409,221	
Share-based payments	—	—	3,497	—	—	—	—	3,497	
Profit for the period	—	—	—	67,067	—	—	—	67,067	
Other comprehensive income	—	—	—	—	—	(25)	—	(25)	
Acquisition of subsidiaries under common control	—	—	—	—	(33)	—	—	(33)	
At 30 June 2014 (unaudited)	13,928	974,847	3,497	312,028	56,018	(25)	441,751	1,802,044	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	Notes	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		48,104	82,309
Adjustments for:			
Depreciation of revenue generating assets		59,839	37,085
Depreciation of property, plant and equipment		17,036	7,635
Amortisation of intangible assets		1,458	1,413
Amortisation of long-term prepayment		1,230	
Share-based payments	16	38,795	3,497
Unrealised exchange loss		8	3,351
Loss on disposal of property, plant and equipment		—	2
Loss on disposal of revenue generating assets		408	47
Finance costs		—	664
Impairment for inventories	11	227	—
Provision/(Reversal of provision) for doubtful collection of account receivables	12	31	(50)
		167,136	135,953
Increase in inventories		(62,022)	(29,012)
(Increase)/decrease in trade and bills receivables		(18,714)	14,649
Increase in prepayments, deposits and other receivables		(41,718)	(141)
Increase in long-term prepayment		(1,138)	—
Increase in trade and bills payables		57,882	36,824
Increase/(decrease) in other payables, advances from customers and accruals		59,864	17,696
Increase in pledged deposits		(23,630)	(7,839)
(Decrease)/increase in deferred revenue		(35,450)	21,993
Cash generated from operations		102,210	190,123
Income tax paid		(9,099)	(4,066)
NET CASH FLOWS FROM OPERATING ACTIVITIES		93,111	186,057

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June

	Notes	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of revenue generating assets		(241,913)	(157,836)
Purchases of items of property, plant and equipment		(139,600)	(93,762)
Purchases of intangible assets		(2,530)	(4,078)
Prepayment of land lease		—	(32,910)
Increase in other non-current asset		(561)	—
Proceeds of sales in a financial asset at fair value through profit or loss		300,000	—
Acquisition of subsidiaries		—	(33)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(84,604)	(288,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		—	(664)
Proceeds from issue of ordinary shares		—	988,775
Repurchase of share capital		(15,792)	—
Repayment of borrowings		—	(109,148)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		(15,792)	878,963
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		293,708	154,341
Effect of foreign exchange rate changes, net		(388)	2,428
CASH AND CASH EQUIVALENTS AT 30 JUNE	13	286,035	933,171
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		325,727	1,008,029
Less: Pledged deposits		39,692	74,858
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	13	286,035	933,171

NOTES TO INTERIM CONDENSED 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 period ended 30 June 2015, 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. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2014.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of the new standards and interpretations effective as of 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and interpretations effective as of 1 January 2015 include:

- | | |
|---------------------------------------|---|
| • Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions |
| • Annual Improvements 2010–2012 Cycle | Amendments to a number of IFRS |
| • Annual Improvements 2011–2013 Cycle | Amendments to a number of IFRS |

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. OPERATING SEGMENT INFORMATION

The following table presents revenue, cost of revenue, profit and certain asset, liability and expenditure information for the Group's operating segments for the six months ended 30 June 2015 and 2014, respectively:

Six months ended 30 June 2015 (unaudited)

	Water purification RMB'000	Air sanitization RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	298,222	40,813	339,035
Segment cost of revenue			
Sales to external customers	98,663	31,945	130,608
Segment results	87,806	8,559	96,365
<i>Reconciliations:</i>			
Share-based payment			(38,795)
Corporate and other unallocated expenses			(9,173)
Exchange loss			(293)
Profit before tax			48,104

Six months ended 30 June 2014 (unaudited)

	Water purification RMB'000	Air sanitization RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	186,952	45,070	232,022
Segment cost of revenue			
Sales to external customers	44,161	30,137	74,298
Segment results	90,771	13,110	103,881
<i>Reconciliations:</i>			
Share-based payment			(3,497)
Corporate and other unallocated expenses			(20,892)
Exchange gain			3,481
Finance costs			(664)
Profit before tax			82,309

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. OPERATING SEGMENT INFORMATION (Continued)

The following table presents assets and liabilities information for the Group's operating segments as at 30 June 2015 and 31 December 2014, respectively:

As at 30 June 2015 (unaudited)

	Water purification RMB'000	Air sanitization RMB'000	Total RMB'000
Segment assets	2,306,399	50,085	2,356,484
<i>Reconciliations:</i>			
Corporate and other unallocated assets			222,189
Tax related assets			18,930
Total assets			2,597,603
Segment liabilities	501,703	20,907	522,610
<i>Reconciliations:</i>			
Corporate and other unallocated liabilities			474
Tax related liabilities			121,593
Total liabilities			644,677

As at 31 December 2014 (audited)

	Water purification RMB'000	Air sanitization RMB'000	Total RMB'000
Segment assets	1,840,557	39,244	1,879,801
<i>Reconciliations:</i>			
Corporate and other unallocated assets			556,790
Tax related assets			13,442
Total assets			2,450,033
Segment liabilities	393,088	18,727	411,815
<i>Reconciliations:</i>			
Corporate and other unallocated liabilities			33,467
Tax related liabilities			108,931
Total liabilities			554,213

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
<i>Water purification services</i>		
Rental income	258,774	181,621
Training services	14,512	5,331
Sales of goods	24,936	—
<i>Air sanitization services</i>		
Rendering of services	40,619	43,981
Sales of goods	194	1,089
	339,035	232,022

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income and gains		
Government grants	6,978	3,059
Interest income	6,331	855
Exchange gain	—	3,481
Others	135	89
	13,444	7,484

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Cost of services provided		30,963	29,413
Cost of inventories sold		27,517	723
Depreciation of revenue generating assets	8	59,839	37,085
Depreciation of property, plant and equipment	9	25,999	12,619
Less: Amount capitalised in revenue generating assets		(8,963)	(4,984)
		17,036	7,635
Amortisation of intangible assets	10	5,477	5,187
Less: Amount capitalised in revenue generating assets		(4,019)	(3,774)
		1,458	1,413
Research and development costs		9,126	4,615
Auditors' remuneration		2,876	2,796
Employee benefit expense (including directors' remuneration):		68,527	29,793
Less: Amount capitalised in revenue generating assets		(13,940)	(7,563)
		54,587	22,230
Operating lease expenses		10,944	4,635
Less: Amount capitalised in revenue generating assets		(5,184)	(1,976)
		5,760	2,659
IPO Expense		—	21,382
Share-based payments	16	38,795	3,497
Warranty provision		10,542	5,384
Foreign exchange differences, net		293	(3,481)
(Reversal of impairment)/Impairment of trade and bills receivables	12	31	(50)
Impairment of inventories	11	227	—
Loss on disposal of items of property, plant and equipment	9	—	2
Loss on disposal of revenue generating assets	8	408	47

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. INCOME TAX

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

All of the Group's subsidiaries that are registered in the PRC and only having operations in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. During the 5th Session of the 10th National People's Congress which was concluded on 16 March 2007, the PRC Enterprise Income Tax Law (the "New Enterprise Income Tax Law") was approved and became effective on 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, is entitled to the preferential tax rate of 15% for three years from November 2012 to October 2015, which will be renewed from the end of term to October 2018.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Shanghai Haoze Comfort Environment and Science Co., Ltd. qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from October 2014 to September 2017.

Pursuant to the policy "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 policy "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 is entitled to an income tax credit of RMB285,000 and RMB520,000 for the six months ended 30 June 2014 and 2015, respectively, relating to the additional deduction of research and development cost.

The breakdown of income tax expense are as follow:

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Current tax	21,369	19,583
Deferred tax	(5,096)	(4,341)
Income tax expense reported in profit or loss	16,273	15,242

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax	48,104	82,309
Tax at the statutory tax rate	12,026	20,577
Lower tax rates for specific provinces or enacted by local authority	(8,115)	(9,573)
Expenses not deductible for tax	270	143
Income not subject to tax	—	(838)
Unrecognized tax losses	12,612	5,218
Additional deduction of research and development cost	(520)	(285)
Tax at the effective income tax rate	16,273	15,242

7. EARNINGS PER SHARE

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. EARNINGS PER SHARE (Continued)

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

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Earnings:		
Profit attributable to ordinary equity holders of the parent — basic and diluted (RMB'000)	31,831	67,067
Shares:		
Weighted average number of ordinary shares for basic EPS (shares)	1,746,815,717	1,300,228,889
Effect of dilution:		
Share options (shares)	14,165,041	543,454
Weighted average number of ordinary shares adjusted for the effect of dilution (shares)	1,760,980,758	1,300,772,343
Basic EPS (RMB cents)	1.82	5.16
Diluted EPS (RMB cents)	1.81	5.16

The Group had potentially dilutive ordinary shares of 14,165,041 in issue during the period (six months ended 30 June 2014: 543,454).

8. REVENUE GENERATING ASSETS

Acquisitions and disposals

During the six months ended 30 June 2015, the Group acquired revenue generating assets with a cost of RMB258,320,000 (year ended 31 December 2014: RMB441,021,000). Depreciation for Revenue generating assets was RMB59,839,000 during the period (year ended 31 December 2014: RMB84,651,000).

Revenue generating assets with a net book value of RMB408,000 were disposed of by the Group during the six months ended 30 June 2015 (year ended 31 December 2014: RMB47,000), resulting in a net loss on disposal of RMB408,000 (year ended 31 December 2014: RMB47,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2015, the Group acquired assets with a cost of RMB94,771,000 (year ended 31 December 2014: RMB272,333,000), excluding property under construction. Depreciation for items of property, plant and equipment was RMB25,999,000 during the period (year ended 31 December 2014: RMB30,927,000).

The construction in process is totaling to RMB32,780,000 as of 30 June 2015 (31 December 2014: RMB10,371,000) mainly representing the new manufacturing plant under construction located in Shaanxi Province.

There is no assets disposed by the Group during the six months ended 30 June 2015 (31 December 2014: RMB283,000, resulting in a net loss on disposal of RMB283,000).

10. INTANGIBLE ASSETS

During the six months ended 30 June 2015, the Group acquired intangible assets with a cost of RMB 2,876,000 (year ended 31 December 2014: RMB7,332,000). Amortisation for intangible assets was RMB5,477,000 during the period (year ended 31 December 2014: RMB8,634,000).

There is no intangible asset disposed by the Group during the six months ended 30 June 2015 (31 December 2014: nil).

11. INVENTORIES

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Raw materials	48,150	24,140
Work in progress	32,280	22,744
Finished goods	72,086	43,610
	152,516	90,494
Less: provision for inventories	(227)	—
	152,289	90,494

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. TRADE AND BILLS RECEIVABLES

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Trade receivables	62,618	40,222
Bills receivables	—	3,683
	62,618	43,905
Impairment	(387)	(356)
Net trade and bills receivables	62,231	43,549

Trade and bills receivables mainly represent direct sales of water purification machines receivables from distributors and receivables for air sanitisation service. The Group usually requires a 50% payment in advance before sending water purification machines from most of the distributors. The Group grants three months credit period to some distributors for the remaining 50% payment. For air sanitisation service receivables, the payment term are stipulated in the relevant contracts. The credit period is generally one month with retention period of 1 year. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are unsecured and non-interest-bearing. The carrying amounts of trade and bills receivables are approximate to their fair value.

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

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Within 90 days	41,427	28,107
Over 90 days and within 180 days	10,935	9,224
Over 180 days and within 1 year	3,960	2,408
Over 1 year and within 2 years	4,560	2,408
Over 2 years and within 3 years	1,349	1,402
	62,231	43,549

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. TRADE AND BILLS RECEIVABLES (Continued)

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

	Six months ended 30 June 2015 RMB'000 (Unaudited)	Year ended 31 December 2014 RMB'000 (Audited)
As at 1 January	356	362
Provision/(reversal of provision) for impairment of trade receivables	31	(6)
As at 30 June/31 December	387	356

Included in the above provision for impairment of trade and bills receivables is a provision for individually and fully impaired trade and bills receivables. The creation and release of provision for impaired trade and bills receivables have been included in other expenses.

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Cash and bank balances	175,727	73,270
Time deposits	150,000	236,500
Total cash and bank balance	325,727	309,770
Less: Pledged as collateral for issuance of bank acceptance notes	39,692	16,062
Cash and cash equivalents	286,035	293,708
Denominated in RMB	297,327	288,060
Denominated in HK\$	27,834	20,943
Denominated in US\$	566	767
Total cash and bank balance	325,727	309,770

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 authorized to conduct foreign exchange business.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables of the Group as at the end of each of the reporting period, based on the invoice date, is as follows:

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Within 90 days	163,167	112,507
Over 90 days and within 180 days	19,123	12,446
Over 180 days and within 1 year	2,264	195
Over 1 year and within 2 years	975	3,097
Over 2 years	1,505	907
	187,034	129,152

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

15. SHARE CAPITAL, SHARE PREMIUM, TREASURE SHARES AND RESERVES

Authorised shares

	As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)
Ordinary shares of HK\$0.01 each	4,000,000,000	4,000,000,000

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. SHARE CAPITAL, SHARE PREMIUM, TREASURE SHARES AND RESERVES (Continued)

Ordinary shares issued and fully paid

	Number of shares	Amount RMB'000
At 1 January 2014	1	—
Issue of share capital to Fresh Water Group on 18 March 2014	1	—
Issue of share capital to Fresh Water Group on 17 June 2014	1,265,999,998	10,076
Issue of share capital in the initial public offering on 17 June 2014	422,000,000	3,350
Issue of share capital for over-allotment on 27 June 2014	63,300,000	502
At 1 January 2015	1,751,300,000	13,928
Repurchased and cancelled	(7,134,000)	(56)
At 30 June 2015 (unaudited)	1,744,166,000	13,872

Treasury shares

	Number of shares	Amount RMB'000
At 1 January 2014 and 2015	—	—
Repurchased	124,000	270
At 30 June 2015 (unaudited)	124,000	270

Share premium

	Group RMB'000
At 1 January 2014	—
Issue of share capital to Fresh Water Group on 18 March 2014	600
Issue of share capital to Fresh Water Group on 17 June 2014	(10,076)
Issue of share capital in the initial public offering on 17 June 2014	855,065
Issue of share capital for over-allotment on 27 June 2014	129,258
At 1 January 2015	974,847
Repurchased and cancelled	(15,465)
At 30 June 2015 (unaudited)	959,382

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. SHARE CAPITAL, SHARE PREMIUM, TREASURE SHARES AND RESERVES (Continued)

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 November 2013 with an authorized 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 transferred such share to Fresh Water Group on 19 November 2013.

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

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

On 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.

During the six months ended 30 June 2015, the Company repurchased a total of 7,258,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate consideration of approximately HK\$19,943,000 (approximately RMB15,791,000). The highest price paid and the lowest price paid was HK\$3.03 and HK\$2.15 respectively. 7,134,000 repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. The remaining of 124,000 repurchased shares were recorded as treasury shares in the cost of repurchasing shares.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. SHARE-BASED PAYMENT

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 is 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. SHARE-BASED PAYMENT (Continued)

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

	As at 30 June 2015 RMB'000 (Unaudited)	As at 30 June 2014 RMB'000 (Unaudited)
Total expense arising from equity-settled share-based payment transactions	41,445	3,497
Less: Amount capitalised in revenue generating assets	2,650	—
	38,795	3,497

There were no cancellations of or modifications to the awards during the six months ended 30 June, 2015.

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 2014	Forfeited during the period	Exercised during the period	Lapsed during the period	Outstanding at 30 June 2015
<i>Directors</i>					
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
<i>Other employees</i>					
In aggregate	72,350,818	(617,687)	—	—	71,733,131
	161,405,101	(617,687)	—	—	160,787,414
Exercisable at the end of the period					64,314,966

The weighted average remaining contractual life for the share options outstanding as at 30 June 2015 was 9 years. The weighted average fair value of the options granted under Pre-IPO Share Option Scheme was HK\$1.07 (RMB0.85).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. SHARE-BASED PAYMENT (Continued)

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 during the six months ended 30 June 2015.

17. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its water purifying machines under operating lease arrangements, with leases negotiated for term of one year.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Within one year	176,243	102,713

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. OPERATING LEASE ARRANGEMENTS (Continued)

(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 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Within one year	14,971	10,374
In the second to fifth years, inclusive	15,889	5,463
	30,860	15,837

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following capital commitments at the end of the reporting period:

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Contracted, but not provided for: Property, plant and equipment	111,521	41,376

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. 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 during the six months ended 30 June 2015 and 2014 respectively:

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
(1) Acquisition of subsidiaries from Fresh Water Group	—	33

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

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
(2) Debt-to-equity swaps of amounts due to Fresh Water Group	—	409,221

On 17 June 2014, Fresh Water Group subscribed one share of Fresh Water HK at a subscription price of RMB409,221,000, which was equal to and settled by the amount due to Fresh Water Group by Fresh Water HK. Fresh Water Group designated Ozner Water Group to take up such one share (note 15).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets – loans and receivables

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Trade and bills receivables	63,429	43,549
Financial assets included in prepayments, deposits and other receivables	24,038	19,635
Pledged deposits	39,692	16,062
Cash and cash equivalents	286,035	293,708
Loans and receivables	413,194	372,954

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

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
A financial asset at fair value through profit or loss	—	300,000

Financial liabilities – financial liabilities at amortised cost

	As at 30 June 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Trade and bills payables	187,034	129,152
Financial liabilities included in other payables, advances from customers and accruals	58,849	55,221
	245,883	184,373

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Fair value hierarchy

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

The fair values of cash and cash equivalents, pledged deposits, a financial asset at fair value through profit or loss, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, and financial liabilities included in other payables, advances from customers and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

21. EVENTS AFTER THE REPORTING PERIOD

No significant event occurs after the reporting period.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements have been approved by the board of directors on 25 August 2015.