OZNER 浩泽

Ozner Water International Holding Limited
浩 澤 淨 水 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2014)

OZNER

iFAMILY

Annual Report 2015

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

JOINT COMPANY SECRETARIES

Mr. Tan Jibin
Ms. Lai Siu Kuen

AUTHORIZED REPRESENTATIVES

Mr. Xiao Shu
Mr. Tan Jibin

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITORS

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER

Guotai Junan Capital Limited

PRINCIPAL BANKERS

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

LEGAL ADVISERS

As to Hong Kong law:

Simpson Thacher & Bartlett

As to PRC law:

Shu Jin Law Firm

INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

No. 60 Guiqiao Road
Pudong New District
Shanghai
PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

STOCK CODE

2014

COMPANY'S WEBSITE

www.ozner.net

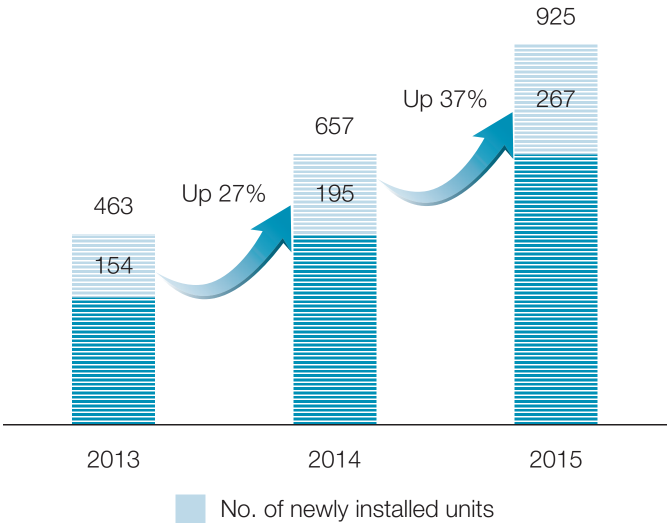
Financial and Operational Highlights

	Year ended 31 December	
(RMB in thousands)	**2015**	2014
Total Revenue	**745,399**	511,711
Water purification services	**679,388**	411,267
Air sanitization services and others	**66,011**	100,444
Gross Profit	**438,945**	334,715
Profit for the year	**28,061**	123,902
Non-IFRS adjusted profit for the year#	**143,072**	190,193
Basic earnings per share (RMB cents)	**1.61**	8.12
Non-IFRS adjusted earnings per share (RMB cents)#	**8.21**	12.47

	As at 31 December	
(RMB in thousands)	**2015**	2014
Revenue generating assets	**1,245,364**	941,668
Total assets	**3,309,395**	2,450,033
Total liabilities	**1,357,626**	554,213

FAST ENLARGING INSTALLATION BASE

('000 units)



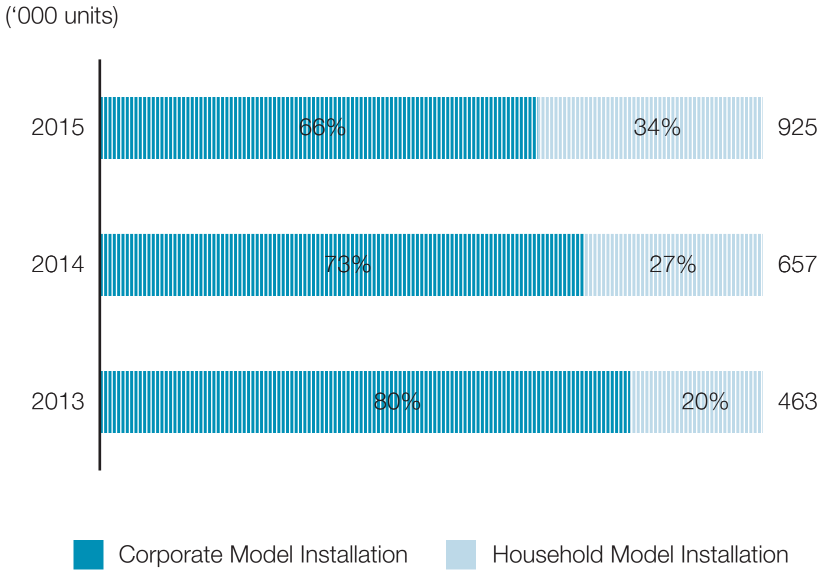
Non-IFRS adjusted profit for the year was derived from the profit for the year excluding exchange gain/loss generated from amounts due to Fresh Water Group, share option expenses and one-off listing expenses.

Financial and Operational Highlights (Continued)

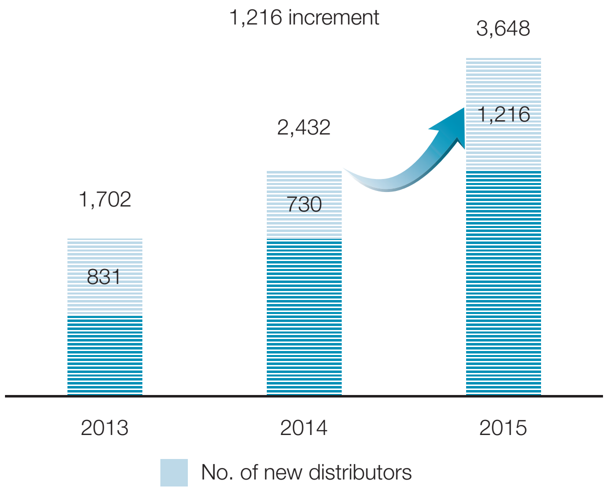
SUSTAINED HIGH RENEWAL RATE

	2013	2014	**2015**
Corporate	97%	97%	**96%**
Household	99%	99%	**98%**

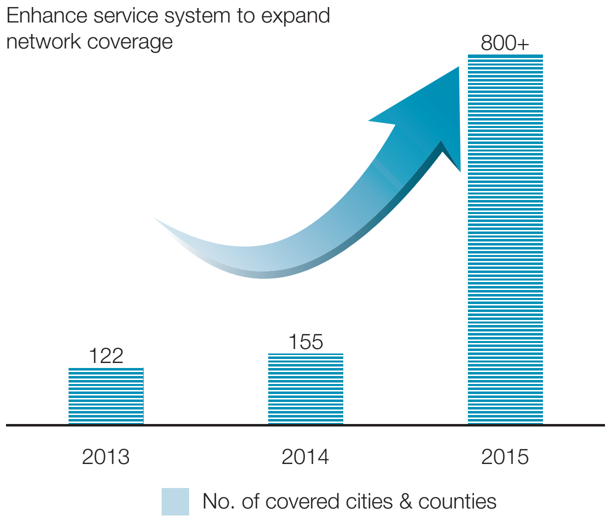
SIGNIFICANT INCREASE IN HOUSEHOLD MODELS' PROPORTION



NUMBER OF DISTRIBUTORS



SERVICE NETWORK COVERAGE



Chairman's Statement and Management Discussion and Analysis

On behalf of the board (the "Board") of directors (the "Directors") of Ozner Water International Holding Limited ("Ozner Water", "Ozner" or the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015.

BUSINESS REVIEW

The year 2015 under "the new norms" was an extraordinary year for Ozner. Facing headwinds of the macroeconomic development and the fluctuation of the capital market, we spared no efforts in developing our business and building our platforms to gain steady progress, laying a stronger foundation for our sustainable growth in the future.

For the year ended 31 December 2015 ("2015" or "the year"), the Group's revenue and gross profits recorded significant increase from the corresponding period of last year. Revenue increased by approximately 45.7% from approximately RMB511.7 million for the year ended 31 December 2014 to approximately RMB745.4 million for the year ended 31 December 2015, the water purification business revenue which takes the lion's share of our business recorded an even more noticeable increase of 65.2%. The Group's gross profits increased by approximately 31.1% from RMB334.7 million for the year ended 31 December 2014 to RMB438.9 million for the year ended 31 December 2015. The growth in revenue and gross profits was mainly attributed to the healthy development of the Group's water purification business.

In 2015, through the expansion of our distributor network and the engagement with new corporate customers such as schools and medium to large chain enterprises, we further consolidate our leadership in the corporate water purifier market. As for the development of household purifiers, we established an online to offline and offline to online interactive platform and operation team during the first half of the year with iFamily APP as the core, and gained access to the vast number of employees of our corporate end users and other resources such as "smart products", "public non-profit water bars", "experience stores" and "brand collaboration" through Internet and social networks such as mobile applications and public WeChat account. The "experience + word-of-mouth" brand building and promotion marketing strategy helped us to rapidly develop a customer base of household purifiers, and the result was encouraging. The buy-out type of household purifiers launched in mid-2015 targeting the consumption habits of some Chinese consumers received an overwhelming response, with approximately 85,000 purifiers sold in just around six months. As of 31 December 2015, the accumulated installation base of Ozner was approximately 925,000 units.

In 2015, the Group's production capacity was further enhanced. Our production base in Qian County, Xianyang City, Shaanxi Province completed the phase II construction and will ramp up to full capacity in the second quarter of 2016. The facility's annual designed production capacity will be approximately 500,000 units.

The Group also further diversified its product mix during the year. Beside launching smart peripherals to realize the strategy of market education and channelization, we also introduced the buy-out type of household water purifiers that were well received by the market. In addition, household air sanitizers were launched in December 2015 to provide users who pursue a high-quality healthy lifestyle with more choices.

During the year, the services system, one of Ozner's sustainability pillars was also further developed. As of 31 December 2015, our self-operated services system covered over 800 cities, counties and townships nationwide to provide Ozner's users with highly efficient and quality installation and post-sales service.

As for the capital markets, the Group retained investors' continuous confidence. During the period of market fluctuation, the chairman of the Company increased his shareholding and the Company repurchased shares to demonstrate to the market their strong faith in the Group's future development. In November 2015, the Group completed its first capital markets financing since its listing and issued convertible bonds of HK$465 million with an annual interest rate of 5%, securing liquidity reserve for our development in times of macroeconomic downturn. Equally important, through the issuance of convertible bonds, we also introduced domestic strategic investor of significance and realized synergies in a wide range of domains from installment base to market extension.

Looking forward into 2016, we are determined to intensively increase our market share in the water purifier market with the following strategies and initiatives, and further engage in the air sanitization market to provide consumers with more choices for quality products and to create greater values for the shareholders of the Company (the "Shareholders").

I. Further improvement of the strategy of Online-Offline interaction, strengthening of software development and continuous development of water purification business

Our marketing strategy officially launched in October 2014 was centered on enhancing customer experience and word-of-mouth marketing. We aimed to promote member registration through five major offline marketing channels, namely, "access to household end users through large corporate end users", "public non-profit water bars", "experience stores", "smart products and iFamily APP" and "brand collaboration". All registered members will be guided to the iFamily APP platform to realize the conversion of online members to offline customers.

Efforts were made in 2015 and we have seen steady progress in the development of iFamily APP platform and its team. We have also gained some experience in attracting new customers to our online platform and in the operations of our online business. The number of members of our online platform exceeded 1.2 million by the end of 2015. In 2016, we will continue to improve our online platform and at the same time, step up efforts in exploring our offline business. Through the setting up of "smart cabinets" and "experience stores", we aim to further improve and maximize our brand building and "experience + word-of-mouth" marketing strategy, to gain higher exposure to the market and to increase member conversion rate.

1. Facilitate steady growth of distributor network, concentrate efforts in developing customers among schools, medium to large chain enterprises and maintain leading position in the corporate market

We have maintained continuous steady growth in the sales of water purifiers. For the year ended 31 December 2015, our number of distributors increased by 1,216 compared to the same period last year, providing a solid foundation for our development in 2016.

In 2016, Ozner will be more precise in market positioning by targeting schools and medium to large chain enterprises which have high demand for purifier installation and are reliable in fulfilling contracts. Such clients are significant for the expansion of our household user market and the exploration of future markets.

2. **Strengthen offline experience marketing by setting up smart cabinets and experience stores**

   As at 31 December 2015, Ozner had 3,648 distributors with end users in their customer base. These channels and customers spread across various industries, including large enterprises, public institutions, restaurants and entertainment facilities, hospitals, schools, financial institutions, etc. We will further utilize these channels, especially at locations such as airports where we have already set up "public non-profit purified water bars", to enable the showcasing of "smart cabinets" which functions include educating the market and attracting online customers.

   During 2015, pilot tests were made in the setting up of nationwide Ozner "experience stores" through renovations of distributors' offices and relocations to stores, etc. Chinese consumers (including decision-makers of corporate customers) often prefer making decision after viewing the physical products, while frequent encounter with physical shops can enhance brand confidence and awareness. The setting up of "experience stores" is the solution to these issues. The fundamental difference between Ozner "experience stores" and other stores is that our stores are capable of diverting customers to our online stores. In addition to in-store offline to online conversion, the provision of smart products efficiently attracts customers to our online stores, helping to promote online sales, and leaving long-lasting effects leading to final conversion.

   In 2016, we will step up our efforts in setting up "smart cabinets" and "experience stores". In addition to our distributor network, we will also speed up the establishment of "store-within-a-store" in cooperation with nationwide chain enterprise customers to ensure efficient and effective launches.

3. **Enhance service quality, expand coverage and provide value-added services**

   Ozner's own service team, which covers the entire country, is our major competitive advantage. In 2016, we will further enhance the efficiency of our service team and expand our coverage. At the same time, through installation and maintenance services, we will carry out marketing of our health products and value-added services such as household disinfection, in order to satisfy users' increasing demand for healthy living, and at the same time improve the efficiency of our service team, reduce costs and boost profitability. We intend to establish a dedicated team with rich management and operation experience to roll out the initiative.

4. **Enlarge customer base and expand business scope through cooperation and equity participation with carefully screened targets**

   The present macroeconomic uncertainty has created potential opportunities for development. Ozner will carefully screen our targets and cooperate with small to medium enterprises in the business of water purification with a sound customer base to participate in our service system. We will help to improve their service system, profitability and develop potential Ozner customer base in order to help them to achieve a smooth transformation. We will also evaluate well managed enterprises with sound customer base and channel advantage under a strict and careful process, and then consider participating in their development through equity participation, in order to create greater value for our Group and our Shareholders.

II. Development of air sanitization business with focus in engaging high quality corporate customers in medical health industries

For the corporate sector, we will concentrate in attracting customers from high quality medical health institutions to further develop the business. Having reputable medical health institutions as our customers is in fact a strong endorsement of our quality, which will help us to attract more household users. In December 2015, Ozner launched our first air sanitizer, filling a void in the Group's air sanitization business. In 2016, we will continue to utilize our existing channels, and target at the changes in market demand to effectively develop the household market for air sanitization products.

FINANCIAL REVIEW

Revenue

Our total revenue increased by 45.7% from RMB511.7 million for the year ended 31 December 2014 to RMB745.4 million for the year ended 31 December 2015, primarily attributable to the increase in revenue from our water purification services.

Revenue from water purification services increased by 65.2% from RMB411.3 million for the year ended 31 December 2014 to RMB679.4 million for the year ended 31 December 2015, primarily due to the increase in the total number of water purification machines installed and sales of water purification machines. For the year ended 31 December 2015, the Group sold and leased approximately 267,000 units of new water purification machines, including sales of approximately 85,000 units of smart and installation-free water purification machines, which is a new product. The total number of water purification machines installed increased from approximately 657,000 units as 31 December 2014 to approximately 925,000 units as at 31 December 2015.

Revenue generated from air sanitization services decreased by 36.7% from RMB100.4 million for the year ended 31 December 2014 to RMB63.6 million for the year ended 31 December 2015. The decrease was primarily due to the decrease in number of projects in progress which was the result of our strategy of more efficient management of account receivables risks associated with clients.

Gross Profit Margin

Our gross profit margin decreased from 65.4% for the year ended 31 December 2014 to 58.9% for the year ended 31 December 2015, primarily attributable to the decrease in gross profit margin in both water purification business and air sanitization business.

Our gross profit margin in water purification business was 74.1% and 62.0% for the year ended 31 December 2014 and 2015, respectively. Such decrease in gross profit margins was due to sales of new models of water purification machines, the gross profit margin of which is lower than that of leasing of water purification machines. The revenue contributed by leasing of water purification machines in total revenue of water purification business decreased from 95.0% for the year ended 31 December 2014 to 78.6% for the year ended 31 December 2015, even though the gross profit margin of water purification machines of leasing service only decreased from 72.9% for the year ended 31 December 2014 to 70.3% for the year ended 31 December 2015.

Gross profit margin of air sanitization business decreased from 29.9% for the year ended 31 December 2014 to 24.7% for the year ended 31 December 2015, primarily attributable to decrease in gross profit margin of new projects.

Other Income and Gains

Our other income and gains decreased by 40.1% from RMB33.9 million for the year ended 31 December 2014 to RMB20.3 million for the year ended 31 December 2015, primarily attributable to (1) the decrease in interest income of RMB2.3 million in relation to decrease in cash position; and (2) the decrease in exchange gain of RMB9.5 million arising from the exchange of the IPO proceeds from Hong Kong Dollar to Renminbi ("RMB") in 2014 while we did not convert any of our cash from foreign currencies to RMB in 2015.

Selling and Distribution Expenses

For the years ended 31 December 2014 and 2015, our selling and distribution expenses were RMB93.1 million and RMB182.5 million respectively, representing 18.2% and 24.5% of the revenue of the same periods, which was increased by 96.0% or RMB89.4 million from the year ended 31 December 2014 to the year ended 31 December 2015. The 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 year ended 31 December 2015, (i) the salaries and staff benefits increased by RMB56.6 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 public non-profit purified bars, increased by RMB25.0 million; and (iii) increase in other expenses of RMB4.6 million in relation to sales of water machines.

Administrative Expenses

For the years ended 31 December 2014 and 2015, our administrative expenses were RMB99.4 million and RMB127.0 million respectively, representing 19.4% and 17.0% of the revenue of the same periods. Our administrative expenses increased by 27.8% or RMB27.6 million from the year ended 31 December 2014 to the year ended 31 December 2015. Such increase is in line with our business expansion and primarily due to (i) salaries and employee benefits increased by RMB11.7 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 RMB8.1 million, as compared with last year.

Fair value losses on derivative component of convertible bonds

Fair value losses on derivative component of convertible bonds represented change in fair value of the derivative component between issue date and end of the reporting period. The fair values of the derivative component are determined based on the valuations performed by AA, an independent firm of professional valuers, using the applicable option pricing model. The derivative component was in relation to the convertible right granted under 5.0% convertible bonds due 2020 (the "Bonds") which has an aggregate principal amount of HK$465.0 million.

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 2015 to 2017; (ii) Shanghai Haoze Comfort Environment & Science Co., Ltd. qualifying as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2014 to 2016; and (iii) Shaanxi Haoze Environmental Technology Development Co., Ltd., being approved by the competent tax authority where it is located to be an enterprise engaging in an encouraged industry enjoys the preferential tax rate of 15% from 2012 to 2020.

Primarily as a result of the preferential tax treatment we received in relation to our water purification services, our income tax expense was RMB37.3 million and RMB24.4 million for the years ended 31 December 2014 and 2015, respectively. The effective tax rate (calculated by dividing income tax expense by profit before tax) for the years ended 31 December 2014 and 2015 was 23.2% and 46.5% respectively. Increase in effective tax rate was primarily due to significant increase in unrecognized tax losses which were caused by share option expenses and fair value losses on convertible right.

Profit for the Year and Net Profit Margin

Profit for the year decreased by 77.4% from RMB123.9 million for the year ended 31 December 2014 to RMB28.1 million for the year ended 31 December 2015. Such decrease was primarily affected by fair value losses on convertible right and share option expense. If excluding such effect, profit for the year decreased by 24.8% from RMB190.2 million for the year ended 31 December 2014 to RMB143.1 million for the year ended 31 December 2015.

Net profit margin decreased from 24.2% for the year ended 31 December 2014 to 3.8% for the year ended 31 December 2015. The factors contributed to the decrease were mentioned above. If excluding such effect, net profit margin decreased from 37.2% for the year ended 31 December 2014 to 19.2% for the year ended 31 December 2015.

The reconciliation between the profit for the year and Non-IFRS adjusted profit for the year is as below:

	Year ended 31 December	
	2015 **RMB'000**	2014 RMB'000
Profit for the year	**28,061**	123,902
Adjusted items:		
— Fair value losses on derivative component of convertible bonds	**53,962**	—
— Exchange loss from an amount due to Fresh Water Group	**—**	1,266
— Listing expense	**—**	21,382
— Share option expense	**55,049**	43,643
— Expenditures incurred for handling of the unfound allegations	**6,000**	—
Non-IFRS adjusted profit for the year	**143,072**	190,193

LIQUIDITY AND FINANCIAL RESOURCES

We financed our operations primarily through cash generated from our operating activities as well as issuance of Bonds. We intend to finance our expansion and business operations with internal resources.

Cash Positions

As of 31 December 2015, the Group's bank balances and cash was RMB380.9 million (31 December 2014: RMB293.7 million), representing an increase of 29.7% as compared to that as of 31 December 2014. Including pledged deposits, the Group had a cash position of RMB518.4 million as of 31 December 2015. For the surplus cash, we intend to deposit the cash into short-term demand deposits and/or money market instruments. As of 31 December 2015, all cash and cash equivalents were denominated mainly in RMB and Hong Kong Dollars.

Trade and Bills Receivables

Trade and bills receivables increased from RMB43.5 million as of 31 December 2014 to RMB71.4 million as of 31 December 2015. The increase was due to receivables generated from sales of new models of water purification machines. Our average trade receivable turnover days were 33 days and 28 days for the years ended 31 December 2014 and 2015, respectively.

Inventories

Inventories increased from RMB90.5 million as at 31 December 2014 to RMB191.5 million as at 31 December 2015. Such increase was due to the business growth and launch of buy-out type of household purifier in mid-2015. The Group has sold approximately 85,000 units of new purifiers amounting to RMB88.5 million. The Group has maintained enough inventories to capture the fast growing business. Our average inventories turnover days were 53 days and 117 days for years ended 31 December 2014 and 2015, respectively.

A Financial Asset at Fair Value through Profit or Loss

On 26 and 27 November and 16 December 2014, the Company used part of its internal resources to subscribe for three unlisted wealth management products issued by a reputable bank in the principal amount of RMB100 million each. The principal was guaranteed upon redemption at the respective maturity dates, which are less than 3 months. The intention of the Group's subscribing for the wealth management products is to maximise the use of its funds with the aim of obtaining satisfactory short-term return. As at 31 December 2014, financial asset at fair value through profit or loss was RMB300.0 million. On 17 February 2015, the Group had fully redeemed wealth management products with principal amounts of RMB300.0 million together with returns.

Current Ratio and Gearing Ratio

The current ratio was 0.9 as of 31 December 2015 as the Group was in net current liabilities position of RMB71.6 million as of 31 December 2015. It was primarily due to an increase in installation of new water purification machines, the Group invested huge internal resources to manufacturing of water purification machines for leasing purpose. As of 31 December 2015, the revenue generating assets increased by RMB303.7 million as compared to that as of 31 December 2014 which were recorded in non-current assets. Our gearing ratio, which was derived by dividing total debt by total equity, was nil and 15.7% as of 31 December 2014 and 2015, respectively. Such change was due to the Company's issue of the Bonds in an aggregate principal amount of HK$465.0 million on 6 November 2015. Our net gearing ratio, which was derived by dividing net debt (total debt minus total cash) by total equity, was negative as of 31 December 2014 and 2015, or we were at net cash position.

Capital Expenditure

For the year ended 31 December 2015, the Group's capital expenditure amounted to RMB831.4 million, which was mainly used for the purchases of property, plant, equipment, other in tangible assets and manufacturing of water purification machines. During the year, the Group installed approximately 182,000 new water purification machines and invested in construction of the new production plant in Shaanxi Province (including land use right) amounting to RMB440.6 million and RMB220 million respectively.

Borrowings and Charges on the Group's Assets

As of 31 December 2015, the Group has the Bonds of RMB315.0 million (31 December 2014: Nil). The Bonds will mature on 6 November 2020 and have an interest rate of 5.0%. The Group did not have any charges on the assets as of 31 December 2015 (31 December 2014: nil).

Contingent Liabilities

As at 31 December 2015, the Group had no material contingent liabilities.

Commitments

As of 31 December 2015, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB23.4 million (as of 31 December 2014: RMB15.8 million).

As of 31 December 2015, the Group had capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to RMB52.4 million (as of 31 December 2014: RMB41.4 million).

As of 31 December 2015, the Group had unpaid annual leasing fee payments which are not yet recognized as rental revenue amounting to RMB56.5 million (as of 31 December 2014: RMB102.7 million).

As of 31 December 2015, the Group had no other capital commitments save as disclosed above.

Exchange Rate Risk

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

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

MATERIAL ACQUISITIONS AND FUTURE PLANS FOR MAJOR INVESTMENT

During the year ended 31 December 2015, the Group has not conducted any material acquisitions or disposals. In addition, the Group currently has no specific plan for acquisition of major assets or other business.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2014 and 2015, the Group had 2,137 and 2,374 employees, respectively. Total staff costs (including Directors' emoluments and share option expenses) for the year ended 31 December 2015 were RMB175.4 million, as compared to RMB115.6 million for the year ended 31 December 2014. Apart from salary payments, other employee benefits including social insurance and housing accumulation funds are in amounts equal to predetermined percentages of the salaries, bonuses and certain allowances of our employees.

The Group has also adopted Pre-IPO Share Option Scheme, Share Option Scheme and Restricted Share Unit Scheme (together referring to the "Schemes"), 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. As of 31 December 2015, a total of 160,787,414 shares options granted under the Pre-IPO Share Option Scheme were outstanding. During the year ended 31 December 2015, no share options or restricted share units were granted or agreed to be granted under the Schemes. For the year ended 31 December 2015, the total expense of the Schemes was RMB58.6 million (year ended 31 December 2014: RMB46.6 million).

USE OF NET PROCEEDS FROM LISTING

The Company was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 June 2014. The net proceeds from the Company's issue of new shares amounted to RMB988.2 million (including the issue of additional shares pursuant to the full exercise of the over-allotment option on 27 June 2014), which are intended to be applied in compliance with the intended use of proceeds set out in the section headed "Future plans and use of proceeds" contained in the offering prospectus.

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

Items	% of use of proceeds	Proceeds from the global offering RMB million	Used up to 31 December 2015 RMB million	Unused balance RMB million
Manufacturing of water machines	54%	533.6	533.6	—
Construction of 2nd phase of production facility in Shaanxi	20%	197.6	197.6	—
Repayment of bank loan	11%	109.1	109.1	—
Sales and marketing fee	5%	49.4	33.1	16.3
General working capital	10%	98.5	98.5	—
Total	100%	988.2	971.9	16.3

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

As at 31 December 2015, the unused balance of the proceeds from the global offering of approximately RMB16.3 million were placed into short-term demand deposits in the bank.

FUTURE PROSPECTS

Looking forward into 2016, we are fully confident and motivated. It will be a critical year for the positioning and building of our brand and channels, and for Ozner to take the lead in the industry, which will lay a sound foundation for our sustainable growth in the future. We will push forward our development strategy to create greater value for our Shareholders as well as the society.

APPRECIATION

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, and they are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from its shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to meet its business objectives for 2016 and realise higher values for its shareholders and other stakeholders.

XIAO Shu (肖述)
Chairman and Chief Executive Officer

Hong Kong
22 March 2016

Corporate Social Responsibility

DONATION TO POVERTY-STRICKEN REGIONS TO IMPROVE DRINKING WATER CONDITION

In April 2015, Ozner Water launched the "Water Purification with Love" project together with hc360.com and Youcheng Foundation to solve the water safety issue prevalent in poverty-stricken regions. We donated water purification equipment to primary and secondary schools in underprivileged regions with poor water quality to improve the drinking water conditions for the local teachers and students. We also co-established Ozner Water charity service stations with local youth leagues to conduct public safety awareness trainings, improve local people's health and help them better react to drinking water pollution incidents, so as to bring attention to campus drinking water safety and solutions to such safety issues.

In 2015, Ozner Water completed its donations to the first batch of 8 schools, which will serve as showcase for the project.

FIRST SEASON OF "THE VOICE OF WATER (CHINA)" CHARITY EVENT CALLING FOR ATTENTION TO PRESERVE THE SOURCE OF YANGTZE RIVER

"The Voice of Water (China)" is a water ecology preservation charity program jointly launched by Ozner and Green River, aiming to speak for the "water" from various different perspectives such as water quality monitoring, water source preservation and water culture to raise public awareness on drinking water safety and water-ecology preservation.

Volunteers of the first season of "The Voice of Water (China)" conducted a number of activities including ecological environment surveys, rare animals protection and waste recycling on Mount Tanggula, the source of Yangtze River at an altitude of 4,500 meters to promote the continued waste reduction at the source of Yangtze River. In the meantime, we launched the "Yangtze River Water Quality Monitoring" program to monitor the water quality in key cities along the Yangtze River such as Chongqing, Wuhan and Shanghai. The documentary "Drink from the Same River" sponsored by Ozner raised concerns in the society on the ecological conditions at the source of Yangtze River.

FIRST RESEARCH REPORT ON DRINKING WATER QUALITY IN KEY CHINESE CITIES WAS PUBLISHED UNDER THE "JINGZE PROGRAM" (淨澤計劃)

In 2015, we further rolled out the "Jingze Program". In April 2015, the "Research Report on Drinking Water Quality in Key Chinese Cities" was published, attracting wide attention from both mainstream media and all sectors of the society.

Experts in the industry said that this report not only provided guidance for the public on drinking water safety, but also provided statistics and recommendations for government policies as well as academic researches, which will directly promote the improvement in drinking water safety and quality in China.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

During the year ended 31 December 2015, the Company has complied with all the applicable code provisions as set out in the CG Code, save and except for the following deviation:

Code provision A.2.1

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

THE BOARD

Responsibilities

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

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

Board Composition

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

Executive Directors

Mr. Xiao Shu *(Chairman and Chief Executive Officer)*[Note 1]
Mr. Zhu Mingwei *(Vice Chairman and Deputy Chief Executive Officer)*
Mr. He Jun
Mr. Tan Jibin
Mr. Xiao Lilin[Note 2]

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

Notes:

(1) Mr. Xiao Shu is the brother of Mr. Xiao Lilin, an executive Director of the Company.

(2) Mr. Xiao Lilin is the brother of Mr. Xiao Shu, the chairman and chief executive officer of the Company.

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

During the year ended 31 December 2015 and up to the date of this annual report, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

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

Induction and Continuous Professional Development

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

Appointment and Re-election of Directors

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

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

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

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

Board Meetings

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

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

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

During the year ended 31 December 2015, four Board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Director	Attended/Eligible to attend
Mr. Xiao Shu	4/4
Mr. Zhu Mingwei	4/4
Mr. He Jun	4/4
Mr. Tan Jibin	4/4
Mr. Xiao Lilin	4/4
Mr. Ng Benjamin Jin-Ping	4/4
Mr. He Sean Xing	4/4
Ms. Wang Haitong	4/4
Mr. Lau Tze Cheung Stanley	4/4
Mr. Gu Jiuchuan	4/4
Dr. Chan Yuk Sing Gilbert	4/4
Mr. Zhou Guanxuan	4/4

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Specific enquiry of all the Directors has been made and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2015.

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

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

The Board, through the Board meetings during the year, had conducted reviews and discussions on various policies and practices of the Company on corporate governance. The Board had requested the management of the Company to regularly provide reports on its practices on corporate governance, compliance with legal and regulatory requirements and code of conduct and had provided guidance and feedback to the management of the Company on related matters. The Board had reviewed and approved this Corporate Governance Report.

Remuneration of Directors

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors. The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of each of the Directors for the year ended 31 December 2015 are set out in note 9 to the consolidated financial statements. Apart from the executive Directors, the Group does not have any other members of senior management.

Directors' Liability Insurance

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

BOARD COMMITTEES

Nomination Committee

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

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

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

During the year ended 31 December 2015, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

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

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

Board Diversity Policy

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

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

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

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

Remuneration Committee

The Remuneration Committee consists of two independent non-executive Directors, being Mr. Zhou Guanxuan (as the chairman) and Mr. Lau Tze Cheung Stanley, and one executive Director, Mr. Zhu Mingwei.

The Remuneration Committee has adopted the model described in code provision B.1.2(c)(ii) of the CG Code in its terms of reference. The primary duties of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure for all Directors and the senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy, reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives, making recommendations to the Board on the remuneration packages of individual executive Directors and senior management of the Company and the remuneration of the non-executive Directors. The Remuneration Committee is also responsible for ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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

During the year ended 31 December 2015, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

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

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

Audit Committee

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

— To monitor the integrity of the Company's financial statements and annual report and accounts, interim report, and to review significant financial reporting judgments contained in them before submission to the Board;

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

— To review the Company's financial controls, internal control and risk management systems;

— To discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish and maintain appropriate and effective risk management and internal control systems, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

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

During the year ended 31 December 2015, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

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

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

During the year, the Audit Committee also reviewed the audited consolidated annual results of the Company and its subsidiaries for the year ended 31 December 2014 and the unaudited interim results of the Company and its subsidiaries for the period ended 30 June 2015 as well as the report prepared by the external auditors relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters. During the year, the Audit Committee also considered the updated terms of reference of the Audit Committee.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2015 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on pages 53 to 54 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

AUDITORS' REMUNERATION

For the year ended 31 December 2015, the total remuneration paid or payable to the Company's auditors, Ernst & Young, for audit and audit related services was RMB5.4 million.

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

Items of auditors' services	Amount (RMB'000)
Audit service	2,316
Review service	1,200
Reporting accountant's services in relation to the clarification announcements of the Company	1,900
Total	5,416

JOINT COMPANY SECRETARIES

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

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

For the year ended 31 December 2015, Mr. Tan and Ms. Lai have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

During the year, the Company held an annual general meeting on 22 May 2015 ("2015 AGM") and below is the attendance of each Director:

Name of Director	Attended/Eligible to attend
Mr. Xiao Shu	1/1
Mr. Zhu Mingwei	0/1
Mr. He Jun	0/1
Mr. Tan Jibin	1/1
Mr. Xiao Lilin	0/1
Mr. Ng Benjamin Jin-Ping	0/1
Mr. He Sean Xing	0/1
Ms. Wang Haitong	0/1
Mr. Lau Tze Cheung Stanley	1/1
Mr. Gu Jiuchuan	0/1
Dr. Chan Yuk Sing Gilbert	0/1
Mr. Zhou Guanxuan	1/1

The chairman of the Board, the chairmen of the Board Committees and the external auditor of the Company were all present at 2015 AGM to answer Shareholders' questions.

SHAREHOLDERS' RIGHTS

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

Convening of Extraordinary General Meeting and Putting Forward Proposals

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

Such requisition shall be made in writing to the Board or the joint company secretaries of the Company and deposited at the Company's principal place of business in Hong Kong at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The Directors shall within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days.

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

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

Enquiries to the Board

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

CONSTITUTIONAL DOCUMENTS

There has not been any change in the Memorandum and Articles of Association of the Company during the year ended 31 December 2015 and up to the date of this annual report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. XIAO Shu (肖述), aged 42, is the Chairman of the Board, an executive Director and our chief executive officer. He is also the president and chief engineer of Shanghai Haoze Water Purification Technology Development Co., Ltd. ("Shanghai Haoze Water Purification Technology"), and the president of Shanghai Ozner Comfort Environment & Service Co., Ltd. ("Shanghai Comfort"). He was appointed as the Director on 19 November 2013 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Xiao has more than 15 years of experience in technology development, sales and marketing and strategic management. Mr. Xiao founded our business when he established Shanghai Comfort, a company which we acquired in 2012, in October 2005 and has remained as the management of Shanghai Comfort since then until he joined Shanghai Haoze Environmental Technology Co., Ltd. in January 2011. Mr. Xiao held his interest in Shanghai Comfort through Shanghai Comfort Products Technology Co., Ltd., a company which was engaging in the sales of air purification products and drinking water machines and which was established by Mr. Xiao as one of the founders in 2003. Mr. Xiao is the inventor of several patented water and air purification technologies owned by the Group. Prior to establishing our business via the establishment of Shanghai Comfort, Mr. Xiao worked at Sinorate Enterprises Limited, a company specializing in the production of electronic goods and components, between April 1993 and April 1999 where he sequentially served as product engineer, quality control manager and director of the production department. Between June 2001 and June 2002, he worked at Shanghai Oasun Environment High Technology Company Limited (上海歐臣環境高科技有限公司) ("Shanghai Oasun"), a company engaging in the business of providing water purification solutions, and was in charge of research and development and production management. Mr. Xiao received a bachelor's degree in agriculture (soilless cultivation) from Northwest A&F University (西北農林科技大學) (Shaanxi, PRC), which is formerly known as Northwest Agricultural Institute (西北農學院), in July 1992. Mr. Xiao is also accredited as an Internal Quality Auditor following the completion of an internal quality auditor course and the passage of the national internal quality auditor examination administered by the National Educational Center for Conformity Assessment in December 2001.

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

Mr. Xiao is a director of Baida Holdings Limited, which has an interest in the shares of the Company which falls to be disclosed under Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong).

Mr. ZHU Mingwei (朱明偉), aged 48, is an executive Director, vice chairman of the Board and deputy chief executive officer. He joined our Group on 1 January 2011 as the senior vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on 10 January 2014. Mr. Zhu is primarily responsible for overseeing the management and strategic development of our Group as well as the technology development and the management of our air purification business. Mr. Zhu has nearly 20 years of experience in technology development and operation management. Prior to joining our Group, Mr. Zhu worked at China Jiangnan Aerospace Industrial Group Company (中國江南航天工業集團公司), a company specializing in the manufacturing of automobile and automobile parts, as an assistant engineer between September 1992 and September 1995 and became an engineer in August 1998. From June 2000 to October 2002, Mr. Zhu served as the design supervisor of Shanghai Oasun. After that, he was the director and engineer of the water filter division of Shanghai Fangxin Plastic Mold Co., Limited (上海方鑫塑膠模具有限公司), a company engaging in the business of manufacturing of plastic molds. Mr. Zhu was the research and development manager, vice general manager and vice president of Shanghai Comfort between October 2005 and December 2010.

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

Mr. HE Jun (何軍), aged 41, is an executive Director. He joined our Group on 1 January 2011 as the vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on 10 January 2014. Mr. He is primarily responsible for the sales and marketing of the water purification business of our Group. Mr. He has over 13 years of experience in sales and marketing in the water purification business. Prior to joining the Group, Mr. He worked at Shanghai Oasun from November 1999 to December 2001 and was primarily responsible for the sales and marketing of its water purification products. After that, Mr. He worked at the business department of Shanghai Fangxin Plastic Mold Co., Limited (上海方鑫塑膠模具有限公司), a company engaging in the business of manufacturing of plastic molds, and was responsible for the development and expansion of its water purification business. Mr. He was the assistant manager, regional director of the Northern China region and vice president of Shanghai Comfort from October 2005 to December 2010, during which he was responsible for overseeing the sales of its water purification products.

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

Mr. TAN Jibin (譚濟濱), aged 34, is an executive Director. He joined our Group on 6 April 2011 as the financial controller and vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on 19 November 2013. Mr. Tan is primarily responsible for overseeing the overall financial and administrative affairs of the Group. Mr. Tan has about 10 years of experience in accounting and finance. Prior to joining the Group, Mr. Tan served as a senior auditor in Deloitte Touche Tohmatsu, an accounting firm, from July 2004 to April 2009 and as an associate finance manager in China Aoyuan Property Group Limited (HKSE: 3883), a Chinese property company listed on the Stock Exchange, from May 2009 to March 2011. He obtained a bachelor's degree in international finance from Guangdong University of Foreign Studies (廣東外語外貿大學) (Guangdong, PRC) in June 2004.

Mr. XIAO Lilin (肖利林), aged 41, is an executive Director. He joined our Group on 1 January 2011 as the general manager of the production department of Shanghai Haoze Water Purification Technology and was appointed as the Director on 10 January 2014. Mr. Xiao is primarily responsible for overseeing the production of our products and the construction of our production sites. He is also the president of Shaanxi Haoze Environmental Technology. Mr. Xiao has over 10 years of experience in production quality and supply chain management. Prior to joining the Group, between April 1996 and September 2002, he worked at Yongsheng Dongguan Group (永勝(東莞)集團), a company engaging in the business of manufacturing electronic appliance and toys, as the supervisor in the production department, and at DongGuan Leshi Electronic Plastic Co., Ltd (東莞樂詩電子塑膠有限公司), a company engaging in the business of the production of electronics products, as the production manager between November 2002 and December 2006. From September 2007 to November 2009, Mr. Xiao served as the deputy general manager of Guangdong DongGuan Hou Street Xitou Longteng Toy Factory (廣東東莞厚街溪頭龍騰玩具廠), a company engaging in the business of manufacturing toys.

Mr. Xiao is the brother of Mr. Xiao Shu, the chairman of the Board, an executive Director and chief executive officer of the Company.

NON-EXECUTIVE DIRECTORS

Mr. NG Benjamin Jin-Ping (吳俊平), aged 54, is a non-executive Director. He was appointed to the Board on 10 January 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. He is currently a general partner of SAIF Advisors Limited, an affiliate of SAIF Partners. Prior to joining SAIF Advisors Limited in June 2006, Mr. Ng worked with Cisco Systems, an information technology support services provider, between March 1998 and May 2006 as a business development manager. Before that, Mr. Ng worked at Netlink Inc., IBM and Metaplex, all of which are engaged in the information technology industry. Mr. Ng obtained a degree of master of business administration from Macquarie University (Sydney, Australia) in April 1995. Mr. Ng has been a Director of Alchip Technologies, Limited (TWO: 3661), a company listed on the Taiwan Stock Exchange and engaging in the business of silicon design and manufacturing services, since April 2007.

Mr. HE Sean Xing (何欣), aged 51, is a non-executive Director. He was appointed to the Board on 10 January 2014 and is primarily responsible for providing strategic advices and guidance on the business development of our Group. He is currently a senior partner of Ares Private Equity Group. Mr. He has extensive knowledge in corporate financing and merger and acquisition transactions. Prior to joining Ares Private Equity Group in March 2010, he worked at The Carlyle Group, a global asset management firm from August 2000 to March 2010, where he was promoted as a managing director of the Asia Growth Group. Before joining The Carlyle Group, Mr. He acted as an associate director of the Asia-pacific investment team of Intel Capital, an investment manager of the greater China region of Nikko Global Asset Management (Hong Kong) Limited and a senior research analyst at DBS Securities Limited, all of which are financial services providers.

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

Mr. He was a non-executive director of Brilliant Circle Holdings International Limited (貴聯控股國際有限公司) (HKSE: 1008), a company listed on the Stock Exchange from April 2011 to July 2015.

Ms. WANG Haitong (王海桐), aged 32, is a non-executive Director. She was appointed to the Board on 10 January 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. She is an executive director of Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd, since January 2014. Before that, Ms. Wang has been an executive director of the principal investment division of Goldman Sachs Asia L.L.C. Ms. Wang has about nine years of experience in investment banking industry and corporate financing. Prior to joining Goldman Sachs, Ms. Wang was a research analyst in the Beijing representative office of Morgan Stanley Dean Witter Asia Limited, a global investment bank, from July 2005 to June 2006, after which she joined the investment banking division of Morgan Stanley Dean Witter Asia Limited's Hong Kong office from August 2006 to August 2007.

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

Ms. Wang is a non-executive director of Shanghai La Chapelle Fashion Co., Ltd. (上海拉夏貝爾服飾股份有限公司) (HKSE: 6116), a company listed on the Stock Exchange, since July 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHOU Guanxuan (周貫煊), aged 57, is an independent non-executive Director. He was appointed to our Board on 26 May 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Zhou has more than 35 years of experience in household appliances manufacturing and operations management. From 1975 to September 1999, Mr. Zhou worked at the Midea Group Co., Ltd (SZE: 000333), a company listed on the Shenzhen Stock Exchange and engaging in the business of manufacturing of household electrical appliances, and assumed office in the technology and production department before he was promoted as the general manager of Midea Redian Group Co., Ltd, an affiliate of Midea Group Co., Ltd. From 2000 to 2007, Mr. Zhou was the president of Foshan Shunde District Beijiao Town Weigao Electronics Industry Company Limited (佛山市順德區北滘鎮偉高電器實業有限公司), a company engaging in the business of research and development, manufacturing and sale of electronic appliances. From 2011 to 2013, he was the director and general manager of Jiangxi Jingdezhen Saide Ceramics Co., Ltd. (江西景德鎮賽德陶瓷有限公司), a company engaging in the business of manufacturing, development and sale of ceramics decoration materials.

Mr. GU Jiuchuan (顧久傳), aged 67, is an independent non-executive Director. He was appointed to our Board on 26 May 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Gu has extensive experience in and knowledge of the water purification industry. Before working at Wuxi Haide Membrane Technology Co., Ltd. (無錫市海德膜技術有限公司), a company engaging in the water purification business, from 1999 to 2010 as technical director, Mr. Gu worked at China Huajing Electronics Group Co., Ltd. (中國華晶電子集團公司), a company specialized in the research and development and manufacturing of semi-conductor equipment. In November 2013, Mr. Gu became the vice chairman of the China Desalination Association (中國水利企業協會脱鹽分會) and in October 2013, Mr. Gu was appointed as the managing member of the technology certification committee of water purification products of the China General Certification Center (北京鑒衡認證中心淨水產品認證技術委員會主任委員). He has been the honorary chairman of AnHui Water Purification Association (安徽省淨水行業協會) and the member of the expert guidance panel of the Fund for Drinking Water Safety and Health established by the China Health Promotion Foundation (中國健康促進基金會飲水安全與健康專項基金) since 2012, an expert member of the advisory panel of the Drinking Water Industry Committee established by the National Development and Reform Commission Public Nutrition and Development Center (國家發改委公眾營養與發展中心飲用水產業委員會) since 2011. He also served as the chief secretary of the Wuxi Water Purification Association (無錫市淨水行業協會) and the secretary of the Purified Water Industry Committee of China Private Economy Research Association (中國民(私)營經濟研究會淨水行業委員會). Mr. Gu has participated in the drafting of various national industry standards concerning water purification systems and has made numerous publications on the topic of water purification. Currently, Mr. Gu is the honorary chief editor of the magazine "中國直飲水" and the special consultant, member of the think tank and editor of the magazine "直飲水時代".

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

Dr. CHAN Yuk Sing Gilbert (陳玉成), aged 57, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. Dr. Chan is an assistant professor in the department of applied biology and chemical technology of the Hong Kong Polytechnic University. His recent research focus is on the application of ozone technology. He is the chairman of the Sino Ozone Association. Over the years, Dr. Chan has made various publications and speeches on the topic of healthy water and ozone.

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

Mr. LAU Tze Cheung Stanley (劉子祥), aged 53, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. He has over 20 years of experience in accounting and finance, management consulting and corporate finance. Mr. Lau served as the chief financial officer and company secretary of Asia Fashion Holdings Limited (亞洲時尚控股有限公司) (SGX: AFH), a company listed on the Singapore Stock Exchange, from January 2008 to August 2012 and the chief financial officer of China Kangda Food Company Limited (中國康大食品有限公司) (HKSE: 834, SGX: CKANG), a company listed on both the Stock Exchange and the Singapore Stock Exchange, from December 2005 to December 2007. Before that, Mr. Lau worked at Messrs. Lo Hung Yan, Certified Public Accountant and provided management consulting, auditing and corporate secretarial services and advice to his clients since April 1993.

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

SENIOR MANAGEMENT

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

JOINT COMPANY SECRETARIES

Mr. TAN Jibin (譚濟濱), aged 34, is one of the joint company secretaries of our Company and was appointed on 10 January 2014. Please refer to his biography under the paragraph headed "Executive Directors" above.

Ms. LAI Siu Kuen (黎少娟), aged 40, is one of the joint company secretaries of our Company and was appointed on 10 January 2014. Ms. Lai is a senior manager of the Listing Services Department of KCS Hong Kong Limited, a company engaging in the business of providing corporate services. She has extensive professional and in-house experience in company secretarial field. Ms. Lai is currently the joint company secretary of several companies listed on the Main Board of the Stock Exchange. She obtained a Bachelor of Arts degree in Accountancy from The Hong Kong Polytechnic University in November 1997. Ms. Lai is a fellow member of the Hong Kong Institute of Chartered Secretaries since October 2012 and the Institute of Chartered Secretaries and Administrators in the United Kingdom since October 2012.

Report of the Directors

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 55 to 121.

The Directors do not recommend the payment of a final dividend to the Shareholders for the year ended 31 December 2015 (2014: Nil).

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 31 December 2015 and a discussion on the Group's future development are set out in the section headed "Chairman's Statement and Management Discussion and Analysis" on pages 6 to 16 of this annual report.

These review and discussion form part of this Report of the Directors.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business, financial condition or results of operation may be affected by a number of risks and uncertainties. The followings are the material risks and uncertainties identified by the Group.

Business risk

The success of our water purification business depends to a large extent on end users' acceptance of our business model of services through the lease of water purification machines. Our business model is relatively new in the industry and different from conventional barreled water delivery services and sales of water purification machines. The Group relies on our third-party distributors to educate potential end users in relation to the benefits of our lease and service business model. To that end, the Group provides periodic training for our distributors, but there is no assurance that the distributors will be effective in their promotion of our business model when they contact potential end users.

Liquidity risk

As of 31 December 2015, the Group recorded net current liabilities of RMB71.6 million, which was primarily attributable to the derivative component of convertible bonds of RMB142.0 million and an increase in installation of new water purification machines when the Group invested huge internal resources to manufacturing of commutation for leasing purpose. There can be no assurance that our business will generate sufficient cash flows from operations in the future to serve our debts.

Exchange rate risk

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

The RMB is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currency. However, the management will closely monitor the Group's exposure to the fluctuation of exchange rates and takes appropriate measures as necessary to minimise any adverse impact that may be caused by such fluctuation.

Financial instruments risk

The major financial instruments risks faced by the Group are interest risk and credit risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks, the financial risk management objectives and policies are set out in note 36 to the consolidated financial statements.

Management of the Group will regularly identify and assess key operational exposures so that appropriate risk response can be taken.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

Details of the use of proceeds from the Listing are set out on page 15 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 122. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND REVENUE GENERATING ASSETS

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Issued Convertible bonds

As disclosed in the Company's announcement dated 23 October 2015, the Company entered into a subscription agreement with Chongqing Zhongxinrongbang Investment Centre (Limited Partnership) on 23 October 2015, pursuant to which the Company agreed to issue and Chongqing Zhongxinrongbang Investment Centre (Limited Partnership) agreed to subscribe for convertible bonds of the Company in the aggregate principal amount of HK$465 million (the "Bonds"). The Bonds were issued on 6 November 2015 (the "Issue Date"). The coupon interest rate is 5% per annum, payable semi-annually in arrears. The holders of the Bonds have the option to convert the Bonds into shares at an initial conversion price of HK$2.25 per share (subject to adjustments) at any time on or after the 41st day after the issue Date up to the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on the 10th day prior to the fifth anniversary of the Issue Date (the "Maturity Date") (both days inclusive). Unless previously converted, or cancelled, each Bond will be redeemed at 100% of the principal amount outstanding on the Maturity Date.

The Directors are of the view that the issue of the Bonds represents a good opportunity for the Company to raise funds to strengthen its financial position as well as to provide further funding to the Group for its development since the issue of the Bonds will provide the Company with immediate funding without resulting in immediate dilution effect on the shareholding of its existing Shareholders.

The Company received net proceeds of approximately HK$463 million from the issue of the Bonds and the net price for each new Share to be issued upon conversion of the Bonds is estimated to be approximately HK$2.24 (subject to adjustments). The Company intends to use the net proceeds for general corporate uses.

The initial conversion price of the Bonds of HK$2.25 per share represents a premium of approximately 36% over the closing price of HK$1.65 per Share as quoted on the Stock Exchange on the date of the subscription agreement.

No Bonds have been converted, redeemed or cancelled during the year ended 31 December 2015.

Share Repurchase

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 year ended 31 December 2015, 18,754,000 ordinary shares of the Company were repurchased on the Stock Exchange at an aggregate price of HK$44.3 million, which does not include any fees associated with the repurchase. 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 annual 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 Highest	Lowest	Aggregate consideration paid
		HK$	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
December 2015	2,876,000	2.10	1.99	5,921,226

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 year ended 31 December 2015.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 17 May 2016 to Friday, 27 May 2016, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 16 May 2016, being the business day before the first day of closure of the register of members of the Company.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2015, the Company's reserves available for distribution to Shareholders amounted to RMB871.1 million.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling RMB323,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 49.3% of the total sales for the year and sales to the largest customer included therein amounted to 14.5%. Purchases from the Group's five largest suppliers accounted for 21.9% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 10.4%.

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Being people-oriented, the Group emphasizes the importance of attracting competent employees through a combination of competitive salary incentives, on-job training and opportunities for development. The Group ensures all staff are reasonable remunerated.

The Group places great emphasis on end user satisfaction in the operation of our business. The end users' loyalty to our products and services is demonstrated by strong renewal rates as approximately over 97.0%. The Group maintains a good relationship with our distributors, clients and end customers.

The Group maintains a good relationship with its suppliers. The procurement department of the Group conducts annual review of our suppliers to ensure the quality of the products supplied to us meet the requirements.

DIRECTORS

The directors of the Company during the year were:

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

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

In accordance with article 110 of the Articles of Association, Mr. Zhu Mingwei, Mr. He Jun, Mr. Ng Benjamin Jin-Ping and Mr. Zhou Guanxuan will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 31 to 35 of the annual report.

PERMITTED INDEMNITY PROVISIONS

The Articles of Association provides that each Director or officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of relevant legal actions against them.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as the related party transactions as disclosed in note 33 to the financial statements, no Director and/or any of his/her connected entity had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisted at the end of the year or at anytime during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2015.

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

At 31 December 2015, the interests and short positions of the Directors and chief executives in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long/short positions in ordinary shares of the Company

Name of director	Long/short positions	Nature of Interest	Note	Number of ordinary Shares	Percentage of the Company's issued share capital as at 31 December 2015
Mr. XIAO Shu	Long position	Founder of discretionary trusts	(a)	470,534,200	27.11%
		Beneficial owner	(b)	53,284,706	3.07%
	Short position	Founder of discretionary trusts	(c)	35,203,004	2.03%

(a) These 470,534,200 Shares are held as to 341,820,000 Shares by Baida Holdings Limited, 62,182,200 Shares by Lion Rise Holdings Limited and 66,532,000 Shares by Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited are wholly-owned by Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited under the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. XIAO Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, Mr. XIAO Shu is deemed to be interested in the 341,820,000 Shares, 62,182,000 Shares and 66,532,000 Shares held by each of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.

(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.

(c) The short position in 35,203,004 Shares was held by Baida Holdings Limited. Baida Holdings Limited is wholly-owned by Baida Capital Limited under the Xiao Family I Trust. The Xiao Family I Trust is a discretionary trust established by Mr. XIAO Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, Mr. XIAO Shu is deemed to have the short position in the 35,203,004 Shares held by Baida Holdings Limited.

Long positions in share options of the Company

Name of Director	Number of options directly beneficially owned	Approximate percentage of shareholding as at 31 December 2015
Mr. XIAO Shu	51,086,706	2.94%
Mr. ZHU Mingwei	11,160,859	0.64%
Mr. HE Jun	10,662,531	0.62%
Mr. TAN Jibin	8,547,535	0.49%
Mr. XIAO Lilin	7,596,652	0.44%
	89,054,283	5.13%

Save as disclosed above, as at 31 December 2015, none of the Directors and chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE INCENTIVE SCHEMES

The Company operates the Pre-IPO Share Option Scheme, the Share Option Scheme and Restricted Share Unit Scheme (collectively, the “Schemes”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Further details of the Schemes are disclosed in note 30 to the financial statements.

PRE-IPO SHARE OPTION SCHEME

On 26 May 2014, the Pre-IPO Share Option Scheme was approved and adopted by the then sole Shareholder. The Pre-IPO Share Option Scheme was valid and effective for a period commencing from the date of its adoption and expiring on the listing date of the Company, after which no further pre-IPO options shall be granted but the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any pre-IPO options granted prior thereto which are at that time or become thereafter capable of exercise under the Pre-IPO Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme. The pre-IPO share options which have been granted but not yet exercised shall continue to be exercisable in accordance with the Pre-IPO Share Option Scheme.

The purpose of the Pre-IPO Share Option Scheme is to incentivize and reward the eligible participants, being employees (whether full time or part-time) or directors of a member of the Group or associated companies of the Company, 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.

The following table discloses movements in the outstanding options granted under the Pre-IPO Share Option Scheme during the year:

Name or category of participant	Number of share options					Approximate percentage of shareholding as at 31 December 2015
	As at 1 January 2015	Exercised during the Year	Lapsed during the Year	Forfeited during the Year	As at 31 December 2015	
Director						
Mr. XIAO Shu	51,086,706	—	—	—	51,086,706	2.94%
Mr. ZHU Mingwei	11,160,859	—	—	—	11,160,859	0.64%
Mr. HE Jun	10,662,531	—	—	—	10,662,531	0.62%
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	5.13%
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	0.07%
Mr. XIAO Jianping	875,464	—	—	—	875,464	0.05%
Mr. PAN Jianming	456,065	—	—	—	456,065	0.03%
	5,660,076	—	—	—	5,660,076	0.33%
Other employees						
In aggregate	66,690,742	—	—	(617,687)	66,073,055	3.81%
Total	161,405,101	—	—	(617,687)	160,787,414	9.27%

As at 31 December 2015, the maximum number of shares that may be issued 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 9.27% (31 December 2014: 9.22%) of the issued share capital of the Company as at 31 December 2015 and approximately 9.30% as at the date of this annual report. For the year ended 31 December 2015, the total share option expense was RMB58.6 million (for the year ended 31 December 2014: RMB46.6 million).

All outstanding options under the Pre-IPO Share Option Scheme were granted on 26 May 2014. No further options were granted after the listing date. The exercise price of 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 2015)	40%
Upon 24 months after the listing date (i.e. 17 June 2016)	70%
Upon 36 months after the listing date (i.e. 17 June 2017)	100%

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

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

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

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

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

Share Option Scheme

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 shares (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 31 December 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 annual report. There were no outstanding share option under the Share Option Scheme at the beginning and at the end of the year ended 31 December 2015.

The Board 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, to incentive and reward them 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. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the listing date (i.e.17 June 2014).

Unless approved by the Shareholders in a general meeting, the total number of Shares issued and to be issued upon the exercise of the options granted to each eligible person of the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the relevant class of securities of our Company in issue.

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised. Such terms and conditions determined by the Board must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option.

The 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, exercised, cancelled and lapsed under the Share Option Scheme for the year ended 31 December 2015.

RESTRICTED SHARE UNIT SCHEME

The purpose of the Restricted Share Unit Scheme (the "RSU Scheme") is to incentivize Directors, senior management and employees of the Company or its subsidiaries for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

Persons eligible to receive Restricted Share Units ("RSUs") under the RSU Scheme include existing directors (whether executive or non-executive, but excluding independent non-executive Directors), senior management or employees of the Company or any of its subsidiaries. The Board may select any eligible persons to receive RSUs under the RSU Scheme as the Board may determine from time to time on the basis of their contribution to the development and growth of the Group or such other factors as the Board may deem appropriate.

A RSU gives a participant a conditional right when the RSU vests to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of exercise of the RSUs, as determined by the Board in its absolute discretion. The Board may, at its absolute discretion, grant RSUs to any selected person on such terms and conditions, including without limitation vesting criteria and conditions, vesting schedule and/or lock-up period, as the Board thinks fit. Details of the RSUs granted under the RSU Scheme will be provided in the grant letter to be issued by the Company to the selected person.

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held by the trustee of the RSU Scheme for the purpose of the RSU Scheme from time to time. Unless the Board otherwise decides, the total number of all Shares held by the trustee under the RSU Scheme must at all times be less than 10% of the number of issued Shares from time to time. Pursuant to the RSU Scheme, the trustee shall not exercise the voting rights in respect of any Shares held by it under the RSU Scheme.

Unless terminated earlier in accordance with the RSU Scheme rules, the RSU Scheme will be valid and effective for a period of ten (10) years commencing from 7 December 2015.

On 22 March 2016, the Board has resolved to amend the rules of the RSU Scheme by including the distributors as persons eligible to receive RSUs under the RSU Scheme. Such amendments aimed to incentivize the distributors for their contributions and to attract, motivate and retain the distributors to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

No RSU was granted under the RSU Scheme for the year ended 31 December 2015.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Save as disclosed under the sections headed "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Restricted Share Unit Scheme" above, at no time during the year or at the end of the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules to have any right to subscribe for securities of the Company or any of its associated corporations as defined under the SFO or to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Other than the Bonds, the Pre-IPO Share Option Scheme, the Share Option Scheme and the RSU Scheme as disclosed above, no equity-linked agreements were entered into by the Company during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2015, the following persons (other than the Directors and chief executive of the Company) had the following interests and short positions in the share capital or underlying shares of the Company recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long/short positions in ordinary shares of the Company

Name	Long/ Short Positions	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as of 31 December 2015
Standard Chartered Trust (Singapore) Limited	Long position	(a)	Trustee of a trust	470,534,200	27.11%
	Short Position	(b)	Trustee of a trust	35,203,004	2.03%
SCTS Capital Pte. Ltd.	Long position	(a)	Nominee for another person	470,534,200	27.11%
	Short Position	(b)	Nominee for another person	35,203,004	2.03%
Baida Holdings Limited	Long position	(c)	Beneficial owner	341,820,000	19.70%
	Short Position	(b)	Beneficial owner	35,203,004	2.03%
Baida Capital Limited	Long position	(c)	Interest in a controlled corporation	341,820,000	19.70%
	Short Position	(b)	Interest in a controlled corporation	35,203,004	2.03%
SAIF Partners IV L.P.	Long position	(d)	Beneficial owner	334,857,000	19.30%
SAIF IV GP, L.P.	Long position	(d)	Interest in a controlled corporation	334,857,000	19.30%
SAIF IV GP Capital Ltd.	Long position	(d)	Interest in a controlled corporation	334,857,000	19.30%
Mr. Andrew Y. YAN	Long position	(d)	Interest in a controlled corporation	334,857,000	19.30%
Central Huijin Investment Ltd.	Long position	(e)	Interest in a controlled corporation	35,203,004	
			Security interest	181,000,000	
				216,203,004	12.46%
China Construction Bank Corporation	Long position	(e)	Interest in a controlled corporation	35,203,004	
			Security interest	181,000,000	
				216,203,004	12.46%
Mr. XIE Zhikun	Long position	(f)	Interest in a controlled corporation	210,047,666	12.10%

Name	Long/ Short Positions	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as of 31 December 2015
China Innovative Capital Management Co., Ltd	Long position	(f)	Interest in a controlled corporation	210,047,666	12.10%
Beijing Zhonghaijiacheng Capital Management Co., Ltd	Long position	(f)	Interest in a controlled corporation	210,047,666	12.10%
Chongqing Innovative Investment Co., Ltd	Long position	(f)	Interest in a controlled corporation	206,666,666	
			Beneficial owner	3,381,000	
				210,047,666	12.10%
Chongqing Zhongxinrongbang Investment Centre (Limited partnership)	Long position	(f)	Beneficial owner	206,666,666	11.91%
Ares FW Holdings, L.P.	Long position	(g)	Beneficial owner	187,166,800	10.79%
ACOF Asia GP, Ltd.	Long position	(g)	Interest in a controlled corporation	187,166,800	10.79%
ACOF Asia Management, L.P.	Long position	(g)	Interest in a controlled corporation	187,166,800	10.79%
Ares Management (Cayman), Ltd.	Long position	(g)	Interest in a controlled corporation	187,166,800	10.79%
Watercube Holdings, L.L.C.	Long position	(h)	Beneficial owner	139,006,800	8.01%
GS Direct, L.L.C.	Long position	(h)	Interest in a controlled corporation	139,006,800	8.01%
Goldman, Sachs & Co.	Long position	(h)	Interest in a controlled corporation	139,006,800	8.01%
The Goldman, Sachs & Co. L.L.C.	Long position	(h)	Interest in a controlled corporation	139,006,800	8.01%
The Goldman Sachs Group, Inc.	Long position	(h)	Interest in a controlled corporation	140,666,800	8.11%
Mr. Daniel Saul Och	Long position	(i)	Interest in a controlled corporation	148,634,000	8.56%
Och-Ziff Capital Management Group L.L.C. ("Och-Ziff Capital")	Long position	(i)	Interest in a controlled corporation	148,634,000	8.56%
OZ Management, L.P. ("OZ Management")	Long position	(i)	Investment manager	148,634,000	8.56%
Och-Ziff Holding Corporation	Long position	(i)	Interest in a controlled corporation	148,634,000	8.56%
Oz Master Fund, Ltd.	Long position	(i)	Beneficial owner	96,764,000	5.58%

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, 62,182,200 Shares and 66,532,000 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 470,534,200 Shares held by Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.

(b) The short position in 35,203,004 Shares was held by Baida Holdings Limited. Baida Holdings Limited is wholly-owned by Baida Capital Limited under the Xiao Family I Trust. The Xiao Family I Trust is a discretionary trust established by Mr. XIAO Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, Mr. XIAO Shu is deemed to have the short position the 35,203,004 Shares held by Baida Holdings Limited.

(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) These 216,203,004 Shares represents the total of a security interest over 181,000,000 Shares where CCBI International Overseas Limited has a security interest and a long position in 35,203,004 Shares in which CCBI International Overseas Limited is interested. CCBI International Overseas Limited is a wholly-owned subsidiary of CCB International (Holdings) Limited which is in turn wholly-owned by CCB Financial Holdings Limited. CCB Financial Holdings Limited is a wholly-owned subsidiary of CCB International Group Holdings Limited which is in turn wholly-owned by China Construction Bank Corporation. China Construction Bank Corporation is owned as to 57.31% by Central Huijin Investment Ltd. Accordingly, each of Central Huijin Investment Ltd. and China Construction Bank Corporation is deemed to be interested in the total number of 216,203,004 Shares in which CCBI International Overseas Limited has an interest.

(f) These 210,047,666 Shares consist of 206,666,666 Shares in which Chongqing Zhongxinrongbang Investment Centre (Limited Partnership) is interested and 3,381,000 Shares in which Chongqing Innovative Investment Co., Ltd. is interested. Chongqing Innovative Investment Co., Ltd., being the general partner of Chongqing Zhongxinrongbang Investment Centre (Limited Partnership), is owned as to 95% by China Innovative Capital Management Co., Ltd. which is in turn owned as to 99.98% by Beijing Zhonghaijiacheng Capital Management Co., Ltd., a company owned as to 99% by Mr. XIE Zhikun.

(g) 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. .

(h) 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. .

(i) 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 31 December 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.

CONNECTED TRANSACTIONS

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

As at the date of this annual report, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

EVENTS AFTER THE REPORTING PERIOD

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2015, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ENVIRONMENTAL PROTECTION

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

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

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 20 to 30 of this annual report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee was established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on 26 May 2014. The Audit Committee consists of four members, namely Mr. LAU Tze Cheung Stanley, Mr. GU Jiuchuan, Dr. CHAN Yuk Sing Gilbert and Mr. ZHOU Guanxuan, all being independent non-executive Directors. Mr. LAU Tze Cheung Stanley has been appointed as the chairman of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

The Audit Committee had reviewed together with the management and external auditors of the Company the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended 31 December 2015.

AUDITORS

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

ON BEHALF OF THE BOARD

XIAO Shu (肖述)
Chairman and Chief Executive Officer

Hong Kong
22 March 2016

Independent Auditors' Report

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

We have audited the consolidated financial statements of Ozner Water International Holding Limited (the "Company") and its subsidiaries set out on pages 55 to 121, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
22 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Revenue	6	**745,399**	511,711
Cost of revenue		**(306,454)**	(176,996)
Gross profit		**438,945**	334,715
Other income and gains	6	**20,309**	33,896
Selling and distribution expenses		**(182,465)**	(93,098)
Administrative expenses		**(127,009)**	(99,369)
Other expenses		**(38,497)**	(14,181)
Fair value losses on derivative component of convertible bonds		**(53,962)**	—
Finance costs	8	**(4,875)**	(716)
Profit before tax	7	**52,446**	161,247
Income tax expense	11	**(24,385)**	(37,345)
Profit for the year, attributable to owners of the parent		**28,061**	123,902
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**4,675**	(6,235)
Total comprehensive income for the year, net of tax, attributable to owners of the parent		**32,736**	117,667
Earnings per share attributable to ordinary equity holders of the parent:	12		
Basic (RMB cents)		**1.61**	8.12
Diluted (RMB cents)		**1.61**	8.12

The Board does not recommend the payment of any final dividend for the year ended 31 December 2015 (2014: nil).

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Revenue generating assets	13	1,245,364	941,668
Property, plant and equipment	14	804,341	473,085
Prepaid land lease payments — non-current portion	15	73,196	76,284
Intangible assets	16	63,871	67,588
Goodwill	17	26,037	26,037
Prepayment for acquiring property, plant and equipment	22	91,110	46,518
Deferred tax assets	18	26,530	13,442
Other non-current asset		5,300	4,850
TOTAL NON-CURRENT ASSETS		2,335,749	1,649,472
CURRENT ASSETS			
Inventories	19	191,537	90,494
Prepaid land lease payment — current portion	15	1,544	—
Trade and bills receivables	20	71,396	43,549
Prepayments, deposits and other receivables	22	190,762	56,748
Pledged deposits	23	137,485	16,062
Financial assets at fair value through profit or loss	24	—	300,000
Cash and cash equivalents	23	380,922	293,708
TOTAL CURRENT ASSETS		973,646	800,561
CURRENT LIABILITIES			
Trade and bills payables	25	155,659	129,152
Other payables, advances from customers and accruals	26	445,449	194,261
Deferred revenue	27	171,290	121,869
Derivative component of convertible bonds	28	142,006	—
Income tax payable		130,826	102,446
TOTAL CURRENT LIABILITIES		1,045,230	547,728
NET CURRENT (LIABILITIES)/ASSETS		(71,584)	252,833
TOTAL ASSETS LESS CURRENT LIABILITIES		2,264,165	1,902,305
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	28	305,914	—
Deferred tax liabilities	18	6,482	6,485
TOTAL NON-CURRENT LIABILITIES		312,396	6,485
NET ASSETS		1,951,769	1,895,820
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	29	13,802	13,928
Share premium	29	944,507	974,847
Treasury shares		(4,968)	—
Reserves	29	998,428	907,045
TOTAL EQUITY		1,951,769	1,895,820

Xiao Shu
Director

Zhu Mingwei
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the parent								
	Share capital RMB'000 (note 29)	**Share premium RMB'000 (note 29)**	**Treasury shares RMB'000**	**Share-based payment reserve RMB'000 (note 29)**	**Retained earnings RMB'000**	**Merger reserves RMB'000 (note 29)**	**Foreign currency translation reserve RMB'000 (note 29)**	**Other reserves RMB'000 (note 29)**	**Total equity RMB'000**
At 1 January 2015	13,928	974,847	—	46,648	353,371	56,018	(6,235)	457,243	1,895,820
Profit for the year	—	—	—	—	28,061	—	—	—	28,061
Other comprehensive income for the year: translation from functional currency to presentation currency	—	—	—	—	—	—	4,675	—	4,675
Total comprehensive income for the year	—	—	—	—	28,061	—	4,675	—	32,736
Share-based payments (note 30)	—	—	—	58,647	—	—	—	—	58,647
Transfer from retained earnings	—	—	—	—	(14,855)	—	—	14,855	—
Cancellation of repurchased shares (note 29)	(126)	(30,340)	—	—	—	—	—	—	(30,466)
Repurchase of share capital (note 29)	—	—	(4,968)	—	—	—	—	—	(4,968)
At 31 December 2015	13,802	944,507	(4,968)	105,295*	366,577*	56,018*	(1,560)*	472,098*	1,951,769

For the year ended 31 December 2014

	Attributable to owners of the parent							
	Share capital RMB'000 (note 29)	Share premium RMB'000 (note 29)	Share-based payment reserve RMB'000 (note 29)	Retained earnings RMB'000	Merger reserves RMB'000 (note 29)	Foreign currency translation reserve RMB'000 (note 29)	Other reserves RMB'000 (note 29)	Total equity RMB'000
At 1 January 2014	—	—	—	244,961	56,051	—	32,530	333,542
Profit for the year	—	—	—	123,902	—	—	—	123,902
Other comprehensive income for the year translation from functional currency to presentation currency	—	—	—	—	—	(6,235)	—	(6,235)
Total comprehensive income for the year	—	—	—	123,902	—	(6,235)	—	117,667
Share-based payments (note 30)	—	—	46,648	—	—	—	—	46,648
Acquisition of subsidiaries	—	—	—	—	(33)	—	—	(33)
Issuance of ordinary shares (note 29)	13,928	974,847	—	—	—	—	—	988,775
Capitalisation of an amount due to Fresh Water Group	—	—	—	—	—	—	409,221	409,221
Transfer from retained earnings	—	—	—	(15,492)	—	—	15,492	—
At 31 December 2014	13,928	974,847	46,648*	353,371*	56,018*	(6,235)*	457,243*	1,895,820

* *These reserve amounts comprise the consolidated reserves of RMB998,428,000 (2014: RMB907,045,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		52,446	161,247
Adjustments for:			
Depreciation of revenue generating assets	13	136,286	84,651
Depreciation of property, plant and equipment	7	36,009	18,598
Amortisation of intangible assets	7	3,345	2,869
Amortisation of long-term prepayment		2,850	—
Share-based payments	30	55,049	43,643
Unrealised exchange (gain)/loss		(12,847)	3,446
Loss on disposal of items of property, plant and equipment	14	102	283
Loss on disposal of revenue generating assets	13	615	47
Fair value losses on derivative component of convertible bonds	28	53,962	—
Provision for inventories	7	5,064	—
Finance costs	8	4,875	716
Impairment of trade and bills receivables	20	2,388	(6)
		340,144	315,494
Increase in inventories		(106,107)	(53,603)
(Increase)/decrease in trade and bills receivables		(30,235)	7,086
Increase in prepayments, deposits and other receivables		(134,014)	(13,066)
Increase in other non-current asset		(3,300)	(2,875)
Increase in trade and bills payables		26,507	71,339
Increase in other payables, advances from customers and accruals		90,894	55,436
Increase in pledged deposits		(36,361)	(16,062)
Increase in deferred revenue		49,421	25,337
Cash generated from operations		196,949	389,086
Income tax paid		(9,096)	(5,467)
Net cash flows from operating activities		187,853	383,619

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of revenue generating assets		**(411,635)**	(419,791)
Purchases of items of property, plant and equipment		**(266,036)**	(273,693)
Purchases of intangible assets		**(3,984)**	(9,230)
Prepayment of land lease		**–**	(66,190)
Increase in other non-current asset		**–**	(1,975)
Decrease/(increase) in financial assets at fair value through profit or loss		**300,000**	(300,000)
Increase in pledged deposits		**(85,062)**	–
Acquisition of subsidiaries		**–**	(33)
Net cash flows used in investing activities		**(466,717)**	(1,070,912)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**–**	(8,058)
Proceeds from issuance of ordinary shares		**–**	988,775
Repurchase of share capital		**(35,434)**	–
Decrease in pledged deposits		**–**	67,019
Repayment of borrowings		**–**	(214,896)
Capital element of finance lease rental payments		**(5,090)**	(20)
Proceeds from issuance of convertible bonds		**379,601**	–
Net cash flows from financing activities		**339,077**	832,840
NET INCREASE IN CASH AND CASH EQUIVALENTS		**60,213**	145,527
Cash and cash equivalents at beginning of year		**293,708**	154,341
Effect of foreign exchange rate changes, net		**27,001**	(6,160)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**380,922**	293,708
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**518,407**	309,770
Less: Pledged deposits		**(137,485)**	(16,062)
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	23	**380,922**	293,708

1. CORPORATE AND GROUP INFORMATION

Ozner Water International Holding Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 15 November 2013. The registered office of the Company is situated at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Company is an investment holding company. During the year ended 31 December 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 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.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

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

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name of company	Notes	Place and date of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Shaanxi Haoze Environmental Technology Development Co., Ltd. ("Shaanxi Haoze Environmental Technology")	1	Mainland China 7 March 2012	RMB70,853,900	–	100%	Water purifying services
Shaanxi Haoze Air Purification Technology Co., Ltd. ("Shaanxi Haoze Air Purification Technology")	2	Mainland China 22 August 2012	RMB3,000,000	–	100%	Air sanitisation products
Shanghai Haoze Comfort Environment and Science Co., Ltd. ("Shanghai Comfort")	1	Mainland China 23 September 2005	RMB54,815,300	–	100%	Development and manufacture of water purification and air sanitisation products
Shanghai Comfort Environmental Works Co., Ltd. ("Shanghai Comfort Environmental Works")	2	Mainland China 7 December 2007	RMB5,100,000	–	100%	Air sanitisation construction services
Shanghai Comfort Water Purification Co., Ltd. ("Shanghai Comfort Water Purification")	2	Mainland China 7 December 2007	RMB100,000	–	100%	Development and manufacture of water purification and air sanitisation products
Shanghai Hongjia Air Purification Equipment Co., Ltd. ("Shanghai Hongjia Air Purification")	2	Mainland China 20 December 2007	RMB500,000	–	100%	Sale of air sanitisation products
Hong Kong Ozner Water International Limited ("HK Ozner")		Hong Kong 13 August 2014	HK$10,000	–	100%	Investment holding
Haoze (Shanghai) Environment and Science Co., Ltd. ("Haoze")	1	Mainland China 14 October 2014	RMB300,000	–	100%	Development and sale of air and water purification machines
Small Dragon (Shanghai) Lease & Finance Co., Ltd. ("Lease & Finance")	1	Mainland China 2 June 2015	RMB100,000,000	–	100%	Finance leasing/ leasing/factoring

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Note 1: Registered as wholly-foreign-owned entities under the PRC law.
Note 2: Registered as limited liability companies under the PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss and derivative financial instruments, which have been measured at fair value. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

For the year ended 31 December 2015, the net profit of the Group was RMB28,061,000 and the net current liabilities was RMB71,584,000. The net current liabilities included advance from customer and deferred revenue balance of RMB72,836,000 and RMB171,290,000, respectively. After taking out the effect of these items which do not have a cash flow impact, the net current assets of the Group was RMB172,542,000. Accordingly, the directors of the Company consider that it is appropriate to prepare these financial statements on a going concern basis.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this result in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 BASIS OF CONSOLIDATION (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in OCI is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
- *Annual Improvements to IFRSs 2010–2012 Cycle*
- *Annual Improvements to IFRSs 2011–2013 Cycle*

These revised standards do not have significant impact on the Group.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the reporting period. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
IFRS 16	*Leases*[4]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 7	*Disclosure Initiative*[2]
Amendments to IAS12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[1]

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2017
[3] Effective for annual periods beginning on or after 1 January 2018
[4] Effective for annual periods beginning on or after 1 January 2019
[5] Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
[6] No mandatory effective date

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

In September 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In September 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

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

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

In January 2016, the IASB issued IFRS 16 which requires lessees to recognise assets and liabilities for most leases. Under the new standard, a lease is a contract, or part of a contract, that conveys the right to use an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset if, throughout the period of use, the customer has the right to obtain substantially all of the economic benefits from the use of the identified asset and direct the use of the identified asset. Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the identified asset for the lease term. Subsequently, lessees accrete the lease liability to reflect interest and reduce the liability to reflect lease payments made. The related right-of-use asset is depreciated in accordance with the depreciation requirements of IAS 16 *Property, Plant and Equipment*. For lessors, there is little change to the existing accounting in IAS 17 *Leases*. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

In January 2016 the IASB published Amendments to IAS 7. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are not expected to have any significant impact on the financial statements or performance of the Group upon adoption on 1 January 2017.

In January 2016 the IASB published Amendments to IAS12 *Recognition of Deferred Tax Assets for Unrealised Losses* clarify the following:

i. Unrealised losses on debt instruments measured at fair value and measured at cost for tax purpose give rise to deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

ii. The carrying amount of an asset does not limit the estimation of probable future taxable profits.

iii. Estimates for future taxable profits exclude tax deduction resulting from the reversal of deducible temporary difference.

iv. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation for tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are not expected to have any significant impact on the financial statements or performance of the Group upon adoption on 1 January 2017.

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current versus non-current classification

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

- expected to be realised or intended to be sold or consumed in its normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is classified as current when:

- it is expected to be settled in its normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

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

Fair value measurement

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

Impairment of non-financial assets

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

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment, revenue generating assets and depreciation

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

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

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

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

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

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

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

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

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

Patents and trademarks

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

Research and development costs

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

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Software

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

Leases

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

Group as a lessee

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

Group as a lessor

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

Prepaid land lease payments

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Financial assets

Initial recognition and measurement

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Subsequent measurement

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

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

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

Derecognition of financial assets

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

- The rights to receive cash flows from the asset have expired; or

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets

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

- *Financial assets carried at amortised cost*

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

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

  The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

  If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables and accruals and convertible bonds.

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

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

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

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

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

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

- *Convertible bonds*

  The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

  (In the first year of issuance date, the convertible bonds contain only liability and derivative components) If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. On issuance of convertible bonds, the fair value of the liability component is determined for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

  Commencing from the second year of issuance date, the convertible bonds contain only liability and equity components. By the end of the first anniversary of issuance date, fair value of the conversion option is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement (Continued)

- *Loans and borrowings*

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

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

Derecognition

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

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

Offsetting of financial instruments

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

Inventories

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

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

General

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

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

Warranty provisions

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Taxes

Current income tax

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes (Continued)

Deferred tax

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

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

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

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

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

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

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

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

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes (Continued)

Sales tax

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

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

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

Government grants

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

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

Revenue recognition

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

Rental income

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

Rendering of services

Revenue from the rendering of services is recognised when services are provided.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

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

Borrowing costs

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

Foreign currencies

The functional currency of the Company is Hong Kong dollar ("HK$") and the functional currency of its major operating subsidiaries is RMB which is the currency of the primary economic environment in which those entities operate. The Group's consolidated financial statements are presented in RMB. In the opinion of the directors, as the Group's operations are mainly in Mainland China, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

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

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

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Transactions and balances (Continued)

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

Group companies

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

Share-based payments

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

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

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

4.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

4.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

Operating lease commitments — Group as lessor

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

Estimations and assumptions

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

Impairment of non-financial assets

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

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

4.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimations and assumptions (Continued)

Impairment of non-financial assets (Continued)

The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill recognised by the Group. The carrying amounts of goodwill, revenue generating assets, property, plant and equipment and intangible assets were disclosed in notes 17, 13, 14 and 16, respectively to the financial statements.

Estimated useful life of water purification machines

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2015 was RMB1,702,000 (2014: nil). The amount of unrecognised tax losses at 31 December 2015 was RMB19,782,000 (2014: RMB35,265,000). Further details are contained in note 18 to the financial statements.

Impairment of trade receivables

The provision policy for impairment of trade receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. The carrying amount of trade receivables was RMB71,396,000 (2014: RMB43,549,000).

Estimation of fair value of derivative component of convertible bonds

Derivative component of convertible bonds have been valued based on a valuation technique of binomial model that incorporates various market inputs including risk-free rate, volatility, liquidity discount and risky discount rate, and hence they are subject to uncertainty The fair value of derivative component of convertible bonds at 31 December 2015 was RMB 142,006,000. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 35 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

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

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

(c) the "others" segment comprises, principally, the Group's factoring business.

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

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

Segment liabilities exclude income tax payable, deferred tax liabilities, convertible bonds and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

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

Revenue of approximately 17%, 13% and 11%, and 15%, 14%, 11% was derived from sales by the water purification segment to three customers for each of the years ended 31 December 2014 and 2015, respectively.

5. OPERATING SEGMENT INFORMATION (Continued)

Operating segments

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

Year ended 31 December 2015	Water purification RMB'000	Air sanitisation RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	679,388	63,626	2,385	745,399
Segment cost of revenue				
Sales to external customers	258,444	47,882	128	306,454
Segment results	181,679	13,431	690	195,800
Reconciliations:				
Share-based payments				(55,049)
Fair value losses on derivative component of convertible bonds				(53,962)
Corporate and other unallocated expenses				(21,716)
Exchange loss				(7,752)
Finance costs				(4,875)
Profit before tax				52,446
Segment assets	2,732,774	47,037	58,150	2,837,961
Reconciliations:				
Corporate and other unallocated assets				471,434
Total assets				3,309,395
Segment liabilities	752,976	16,077	816	769,869
Reconciliations:				
Convertible bonds				447,920
Corporate and other unallocated liabilities				139,837
Total liabilities				1,357,626
Other segment information				
Depreciation and amortisation	168,558	7,082	–	175,640
Impairment losses recognised in profit or loss	3,532	3,920	–	7,452
Capital expenditure*	831,113	298	–	831,411

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

5. OPERATING SEGMENT INFORMATION (Continued)

Operating segments

Year ended 31 December 2014	Water purification RMB'000	Air sanitisation RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	411,267	100,444	511,711
Segment cost of revenue			
Sales to external customers	106,580	70,416	176,996
Segment results	191,088	26,207	217,295
Reconciliations:			
Share-based payments			(43,643)
Corporate and other unallocated expenses			(21,203)
Exchange gain			9,514
Finance costs			(716)
Profit before tax			161,247
Segment assets	1,475,230	38,253	1,513,483
Reconciliations:			
Corporate and other unallocated assets			936,550
Total assets			2,450,033
Segment liabilities	393,088	24,989	418,077
Reconciliations:			
Corporate and other unallocated liabilities			136,136
Total liabilities			554,213
Other segment information			
Depreciation and amortisation	103,170	2,949	106,119
Capital expenditure*	796,510	1,366	797,876

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

6. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the rental income of water purification machines, air sanitisation service income, training service income and sales of industrial/household water purification and air sanitisation products.

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

	2015 RMB'000	2014 RMB'000
Revenue		
Water purification services:		
Rental income	534,179	390,801
Training services	31,870	19,453
Sales of goods	113,339	1,013
Air sanitisation services:		
Construction services	60,482	93,101
Sales of goods	194	1,973
Others	2,950	5,370
Others	2,385	—
	745,399	511,711
Other income and gains		
Government grants	11,799	13,954
Interest income	8,044	10,373
Exchange gain	—	9,514
Others	466	55
	20,309	33,896

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

7. PROFIT BEFORE TAX

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

	Notes	2015 RMB'000	2014 RMB'000
Cost of services provided		46,909	67,221
Cost of inventories sold		100,158	3,822
Depreciation of revenue generating assets	13	136,286	84,651
Depreciation of property, plant and equipment	14	53,690	30,927
Less: Amount capitalised in revenue generating assets		(17,681)	(12,329)
		36,009	18,598
Amortisation of intangible assets	16	9,484	8,634
Less: Amount capitalised in revenue generating assets		(6,139)	(5,765)
		3,345	2,869
Amortisation of prepaid land lease payments	15	1,544	906
Less: Amount capitalised in revenue generating assets		(1,544)	(906)
		—	—
Research and development costs		20,598	13,307
Auditors' remuneration		5,416	2,285
IPO expense		—	21,382
Employee benefit expense (including directors' remuneration (note 9)):			
Total wages and salaries		105,046	58,376
Less: Amount capitalised in revenue generating assets		(19,439)	(13,355)
		85,607	45,021
Total pension scheme contributions		17,187	10,563
Less: Amount capitalised in revenue generating assets		(6,989)	(4,121)
		10,198	6,442
Operating lease expenses		21,943	10,756
Less: Amount capitalised in revenue generating assets		(9,907)	(4,419)
		12,036	6,337
Share-based payments	30	55,049	43,643
Warranty provision		22,616	16,211
Foreign exchange differences, net		7,752	(9,514)
Fair value losses on derivative component of convertible bonds	28	53,962	—
Impairment/(reversal of impairment) of trade and bills receivables	20	2,388	(6)
Write-down of investments to net realisable value	19	5,064	
Expenditures incurred for handling of unfound allegations		6,000	—
Loss on disposal of items of property, plant and equipment	14	102	283
Loss on disposal of revenue generating assets	13	615	47

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 RMB'000	2014 RMB'000
Interest on bank loan (including convertible bonds)	4,875	8,058
Less: Interest capitalised	—	(7,342)
	4,875	716

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 RMB'000	2014 RMB'000
Fees	652	384
Salaries, allowances and benefits in kind	5,676	6,369
Pension scheme contributions	19	23
Share-based payments	35,174	27,770
	41,521	34,546

In 2014, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

2015

Name of directors	Fees RMB'000	Salaries, allowances RMB'000	Pension scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu *	–	1,544	–	20,178	21,722
Mr. Zhu Mingwei	–	1,226	4	4,408	5,638
Mr. He Jun	–	1,039	4	4,211	5,254
Mr. Tan Jibin	–	1,059	4	3,376	4,439
Mr. Xiao Lilin	–	808	7	3,001	3,816
	–	5,676	19	35,174	40,869
Non-executive directors:					
Mr. Ng Benjamin Jin-Ping	–	–	–	–	–
Mr. He Sean Xing	–	–	–	–	–
Ms. Wang Haitong	–	–	–	–	–
Independent non-executive directors					
Mr. Zhou Guanxuan	163	–	–	–	163
Mr. Gu Jiuchuan	163	–	–	–	163
Mr. Chan Yuk Sing Gilbert	163	–	–	–	163
Mr. Lau Tze Cheung Stanley	163	–	–	–	163
	652	–	–	–	652
	652	5,676	19	35,174	41,521

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

2014

Name of directors	Fees RMB'000	Salaries, allowances RMB'000	Pension scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu *	—	1,461	—	15,931	17,392
Mr. Zhu Mingwei	—	1,304	5	3,480	4,789
Mr. He Jun	—	1,212	5	3,325	4,542
Mr. Tan Jibin	—	1,269	5	2,665	3,939
Mr. Xiao Lilin	—	1,123	8	2,369	3,500
	—	6,369	23	27,770	34,162
Non-executive directors:					
Mr. Ng Benjamin Jin-Ping	—	—	—	—	—
Mr. He Sean Xing	—	—	—	—	—
Ms. Wang Haitong	—	—	—	—	—
Independent non-executive directors					
Mr. Zhou Guanxuan	96	—	—	—	96
Mr. Gu Jiuchuan	96	—	—	—	96
Mr. Chan Yuk Sing Gilbert	96	—	—	—	96
Mr. Lau Tze Cheung Stanley	96	—	—	—	96
	384	—	—	—	384
	384	6,369	23	27,770	34,546

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

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five executive directors (2014: five executive directors), details of whose remuneration are set out in note 9 above.

11. INCOME TAX

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

All of the Group's subsidiaries registered in the PRC and operating only in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Except for those further explained below, PRC enterprises income tax has been provided at the rate of 25% (2014: 25%) on the taxable income.

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, qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2015 to 2017.

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

Pursuant to the document "Shan Fa Gai Wai Zi (2013) No. 618" issued by the Development and Reform Commission of Shaanxi Province on 2 May 2013, one of the Group's subsidiaries, Shaanxi Haoze Environmental Technology, is entitled to the preferential tax rate of 15% from 2012 to 2020.

Pursuant to the document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB1,247,000 for the year ended 31 December 2015 (2014: RMB728,000), relating to the additional deduction of research and development costs.

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

	2015 RMB'000	2014 RMB'000
Current tax	37,476	43,745
Deferred tax (note 18)	(13,091)	(6,400)
Income tax expense reported in profit or loss	24,385	37,345

Reconciliation of the tax expense and the accounting profit multiplied by the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled for 2014 and 2015:

	2015 RMB'000	2014 RMB'000
Profit before tax	52,446	161,247
Tax at the statutory tax rate	13,112	40,312
Lower tax rates for specific provinces or enacted by local authority	(17,326)	(15,483)
Tax exempted by local authority	17,552	(3,042)
Expenses not deductible for tax	14,514	11,145
Unrecognised tax losses	1,125	5,141
Additional deduction of research and development costs	(1,247)	(728)
Tax losses utilised from previous periods	(3,345)	—
Tax at the effective income tax rate	24,385	37,345

12. EARNINGS PER SHARE ("EPS")

The basic EPS amount is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year.

The diluted EPS amount is calculated by dividing the profit attributable to owners of the parent, adjusted to reflect the interest on the convertible bonds and fair value losses on derivative component of convertible bonds, where applicable (see below), by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic EPS amounts presented for the years ended 31 December 2014 and 2015 in respect of a dilution as the impact of the stock options outstanding had an anti-dilutive effect on the basic EPS amounts presented.

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

	2015 RMB'000	2014 RMB'000
Earnings:		
Profit attributable to owners of the parent, used in the basic EPS calculation:	28,061	123,902
Interest on convertible bonds (note 8)	4,875	—
Add: Fair value loss on derivative component of the convertible bonds	53,962	—
Profit attributable to ordinary equity holders of the parent, before the effect of convertible bonds	86,898	123,902
Shares:		
Weighted average number of ordinary shares for basic EPS	1,743,094,292	1,525,764,444
Effect of dilution—weighted average number of ordinary shares:		
Convertible bonds	31,000,000	—
	1,774,094,292	1,525,764,444
Basic EPS (RMB cents)	1.61	8.12
Diluted EPS (RMB cents)*	1.61	8.12

* *Because the diluted EPS amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic EPS for the year and were ignored in the calculation of diluted EPS.*

13. REVENUE GENERATING ASSETS

	Revenue generating assets RMB'000
At 1 January 2014:	
Cost	671,732
Accumulated depreciation	(86,387)
Net carrying amount	585,345
At 1 January 2014, net of accumulated depreciation	585,345
Additions	441,021
Disposals	(47)
Depreciation provided during the year	(84,651)
At 31 December 2014, net of accumulated depreciation	941,668
At 31 December 2014:	
Cost	1,112,693
Accumulated depreciation	(171,025)
Net carrying amount	941,668
At 1 January 2015, net of accumulated depreciation	941,668
Additions	440,597
Disposals	(615)
Depreciation provided during the year	(136,286)
At 31 December 2015, net of accumulated depreciation	1,245,364
At 31 December 2015:	
Cost	1,552,451
Accumulated depreciation	(307,087)
Net carrying amount	1,245,364

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2014:						
Cost	17,238	60,474	79,855	6,755	95,958	260,280
Accumulated depreciation	(4,473)	(5,198)	(18,014)	(633)	—	(28,318)
Net carrying amount	12,765	55,276	61,841	6,122	95,958	231,962
At 1 January 2014, net of accumulated depreciation	12,765	55,276	61,841	6,122	95,958	231,962
Additions	4,218	216,017	37,174	791	14,133	272,333
Depreciation provided during the year	(3,245)	(11,891)	(14,373)	(1,418)	—	(30,927)
Transferred from construction in progress	—	97,394	2,326	—	(99,720)	—
Disposals	—	—	(3)	(280)	—	(283)
At 31 December 2014, net of accumulated depreciation	13,738	356,796	86,965	5,215	10,371	473,085
At 31 December 2014:						
Cost	21,456	373,885	119,352	7,266	10,371	532,330
Accumulated depreciation	(7,718)	(17,089)	(32,387)	(2,051)	—	(59,245)
Net carrying amount	13,738	356,796	86,965	5,215	10,371	473,085
At 1 January 2015, net of accumulated depreciation	**13,738**	**356,796**	**86,965**	**5,215**	**10,371**	**473,085**
Additions	**23,789**	**15,112**	**5,811**	**7,631**	**332,705**	**385,048**
Depreciation provided during the year	**(6,990)**	**(27,920)**	**(17,476)**	**(1,304)**	**—**	**(53,690)**
Transferred from construction in progress	**—**	**111,502**	**—**	**—**	**(111,502)**	**—**
Disposals	**—**	**(93)**	**(9)**	**—**	**—**	**(102)**
At 31 December 2015, net of accumulated depreciation	**30,537**	**455,397**	**75,291**	**11,542**	**231,574**	**804,341**
At 31 December 2015:						
Cost	**45,245**	**500,406**	**125,154**	**14,897**	**231,574**	**917,276**
Accumulated depreciation	**(14,708)**	**(45,009)**	**(49,863)**	**(3,355)**	**—**	**(112,935)**
Net carrying amount	**30,537**	**455,397**	**75,291**	**11,542**	**231,574**	**804,341**

The carrying value of motor vehicles held under finance leases at 31 December 2015 was RMB8,769,000 (2014: RMB2,699,000). Additions during the year include motor vehicles of RMB6,304,000 (2014: RMB37,000) under finance leases.

15. PREPAID LAND LEASE PAYMENTS

	2015	2014
	RMB'000	RMB'000
Carrying amount at 1 January	**76,284**	—
Addition	**—**	77,190
Amortised during the year	**(1,544)**	(906)
Carrying amount at 31 December	**74,740**	76,284
Current portion	**(1,544)**	—
Non-current portion	**73,196**	76,284

16. INTANGIBLE ASSETS

	Patents and trademarks	**Software**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2014:			
Cost	44,050	34,065	78,115
Accumulated amortisation	(6,338)	(2,887)	(9,225)
Net carrying amount	37,712	31,178	68,890
At 1 January 2014, net of accumulated amortisation	37,712	31,178	68,890
Addition	42	7,290	7,332
Amortisation provided during the year	(5,076)	(3,558)	(8,634)
At 31 December 2014, net of accumulated amortisation	32,678	34,910	67,588
At 31 December 2014:			
Cost	44,092	41,355	85,447
Accumulated amortisation	(11,414)	(6,445)	(17,859)
Net carrying amount	32,678	34,910	67,588
At 1 January 2015, net of accumulated amortisation	**32,678**	**34,910**	**67,588**
Addition	**2**	**5,765**	**5,767**
Amortisation provided during the year	**(5,070)**	**(4,414)**	**(9,484)**
At 31 December 2015, net of accumulated amortisation	**27,610**	**36,261**	**63,871**
At 31 December 2015:			
Cost	**44,094**	**47,120**	**91,214**
Accumulated amortisation	**(16,484)**	**(10,859)**	**(27,343)**
Net carrying amount	**27,610**	**36,261**	**63,871**

17. GOODWILL

	RMB'000
At 31 December 2014:	
Cost	26,037
Accumulated impairment	—
Net carrying amount	26,037
Cost at 1 January 2015, net of accumulated impairment	26,037
Impairment during the year	—
Cost and net carrying amount at 31 December 2015	26,037
At 31 December 2015:	
Cost	26,037
Accumulated impairment	—
Net carrying amount	26,037

Goodwill of the Group includes RMB545,000 arising from the acquisition of Shanghai Haoze Environmental Technology in 2010 and RMB25,492,000 arising from the acquisition of Park Wealth in 2012. No impairment was recognised for the years ended 31 December 2015 and 2014.

Goodwill is allocated to the water purification services CGU for impairment testing.

The Group performed its annual impairment test in December 2015 and 2014. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing the indicators of impairment. No indicators of impairment were noted during 2015 and 2014.

In 2015, the recoverable amount of the water purification services CGU was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% (2014: 16%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3% (2014: 3%) which was less than the long term average growth rate of water purification industry. Management determined budgeted growth rates based on past performance and its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business.

Assumptions were used in the value in use calculation of the water purification services CGU for 31 December 2015 and 31 December 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

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

18. DEFERRED TAX ASSETS/LIABILITIES

Deferred tax relates to the following:

Deferred tax assets:

	Elimination of unrealised profits RMB'000	Accruals RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2014	1,243	2,484	3,414	7,141
Income tax credited/(charged) to profit or loss during the year (note 11)	716	8,999	(3,414)	6,301
At 31 December 2014 and 1 January 2015	1,959	11,483	—	13,442
Income tax credited to profit or loss during the year (note 11)	718	10,668	1,702	13,088
At 31 December 2015	2,677	22,151	1,702	26,530

Deferred tax liabilities:

	Accrued government grant RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2014	300	6,284	6,584
Deferred tax charged/(credited) to profit or loss during the year (note 11)	418	(517)	(99)
At 31 December 2014 and 1 January 2015	718	5,767	6,485
Deferred tax charged/(credited) to profit or loss during the year (note 11)	473	(476)	(3)
At 31 December 2015	1,191	5,291	6,482

The Group has tax losses arising in Hong Kong of RMB31,947,000 (2014: RMB25,130,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes at a rate of 10% on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

18. DEFERRED TAX ASSETS/LIABILITIES (Continued)

At the end of each reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB422,412,000 and RMB570,418,000 as at 31 December 2014 and 2015, respectively.

19. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**53,509**	24,141
Work in progress	**39,678**	22,744
Finished goods	**103,414**	43,609
Write-down of inventories to net realisable value	**(5,064)**	—
	191,537	90,494

20. TRADE AND BILLS RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	**63,093**	17,753
Amount due from contract customers	**9,897**	22,469
Bills receivable	**1,150**	3,683
	74,140	43,905
Impairment	**(2,744)**	(356)
Net trade and bills receivables	**71,396**	43,549

Trade and bills receivables mainly represent water purification product sales receivables from distributors and receivables for air sanitisation services. The Group usually requires a payment in advance before installation of water purification machines from most of the distributors. The Group only grants credit periods to some distributors with long-term relationship and good credit history. The credit period is generally three months. For sales of goods, the Group grants less than 90 days credit term to the customers. For air sanitisation service receivables, the payment terms are stipulated in the relevant contracts. The credit period is generally one month with a retention period of one year. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are unsecured and non-interest-bearing.

20. TRADE AND BILLS RECEIVABLES (Continued)

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

	2015 RMB'000	2014 RMB'000
Within 90 days	15,871	5,638
Over 90 days and within 180 days	32,185	9,224
Over 180 days and within 1 year	9,687	2,408
Over 1 year and within 2 years	3,756	2,408
Over 2 years and within 3 years	—	1,402
	61,499	21,080

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

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	37,283	12,782
Past due but not impaired		
Within 90 days past due	7,003	5,741
90 to 180 days past due	11,033	616
180 days to 1 year past due	5,657	1,813
1 to 2 years past due	523	—
Over 2 years past due	—	128
	61,499	21,080

The balances of the trade and bills receivables of RMB24,216,000 and RMB8,298,000 as at 31 December 2015 and 2014, respectively, were past due. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20. TRADE AND BILLS RECEIVABLES (Continued)

As at 31 December 2015, trade receivables of an initial value of RMB2,744,000 (2014: RMB356,000) were impaired and fully provided for. The movements in the provision for impairment of receivables are as follows:

	Individually impaired RMB'000
At 1 January 2014	362
Charged for the year	—
Reversed	(6)
At 31 December 2014	356
Charged for the year	2,388
Reversed	—
At 31 December 2015	2,744

Transferred financial assets that are not derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB1,000,000 (2014: nil) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB1,000,000 (2014: nil) as at 31 December 2015.

21. CONSTRUCTION CONTRACTS

	2015 **RMB'000**	2014 RMB'000
Gross amount due from contract customers	**9,897**	22,469
Contract costs incurred plus recognised profits less recognised losses to date	**60,482**	93,101
Less: Progress billings	**(50,585)**	(70,632)
	9,897	22,469

At 31 December 2015, retentions held by customers for contract works included in trade receivables amounted to approximately RMB4,812,000 (2014: RMB6,969,000).

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Other receivables	81,044	17,890
Deposits	4,741	1,744
Prepayments	196,087	83,632
	281,872	103,266
Less: Non-current portion	(91,110)	(46,518)
	190,762	56,748

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

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

Prepayments included the Mainland China Value Added Tax ("VAT") receivable amounting to RMB19,545,000 and RMB48,976,000 as at 31 December 2014 and 2015, respectively. Input VAT on purchases can be deducted from output VAT payable. The VAT receivable is deductible input VAT which has not been claimed to the tax bureau.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	453,406	73,270
Time deposits	65,001	236,500
Total cash and bank balances	518,407	309,770
Less: Pledged as collateral for issuance of bank acceptance notes	137,485	16,062
Cash and cash equivalents	380,922	293,708
Denominated in RMB	292,768	288,060
Denominated in HK$	225,062	20,943
Denominated in US$	577	767
Total cash and bank balances	518,407	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 authorised to conduct foreign exchange business.

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

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 RMB'000	2014 RMB'000
Non-quoted investments	–	300,000

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

25. TRADE AND BILLS PAYABLES

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

	2015 RMB'000	2014 RMB'000
Within 90 days	126,876	112,507
Over 90 days and within 180 days	16,844	12,446
Over 180 days and within 1 year	9,957	195
Over 1 year and within 2 years	153	3,097
Over 2 year and within 3 years	1,124	907
Over 3 years	705	–
	155,659	129,152

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

26. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Other payables	359,331	132,583
Advances from customers	72,836	53,521
Accruals	11,902	7,991
Finance lease payable	1,380	166
	445,449	194,261

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

The Group leases motor vehicles for its rental service business. These leases are classified as finance leases and have remaining lease terms within one year.

27. DEFERRED REVENUE

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

28. CONVERTIBLE BONDS

On 6 November 2015, the Company issued HK$ dominated HK$ settled 5% coupon convertible bonds due in 2020 in the principal amount of HK$465,000,000 (equivalent to RMB380,742,000) (the "Convertible Bonds").

Pursuant to the bond subscription agreement, the Convertible Bonds are:

(a) convertible at the option of the bond holders into fully-paid ordinary shares of the Company at any time from 17 December 2015 to 28 October, 2020 at an conversion price of HK$2.25 per share (subject to adjustments); and

(b) redeemable at the option of the bond holders upon the occurrence of any of the events of default as stipulated in the agreement.

The Convertible Bonds bear interest at the rate of 5% per annum payable semi-annually in arrears on 15 May and 15 November in each year. The Convertible Bonds will mature on 6 November 2020. The Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding; and (2) the interest accrued.

Pursuant to the subscription agreement, the conversion price in effect shall be adjusted downward if it is greater than the average market price on the first anniversary of 6 November 2015 ("Price Adjustment").

The proceeds from the issuance of the Convertible Bonds on 6 November 2015 of HK$465,000,000 have been split into liability and derivative components in the first year of issuance date. On issuance of the Convertible Bonds, the fair value of the derivative component is determined using an option pricing model and this amount is carried as a derivative component of the liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issue date and any subsequent changes in fair value of the derivative component as at the end of the reporting period are recognised in profit or loss. Starting from the second year of issuance date, upon the expiration of the Price Adjustment, the fair value of the derivative component as at 6 November 2016 will be assigned as an equity component.

There was no movement in the number of the Convertible Bonds during the year.

The fair values of the derivative component are determined based on the valuations performed by American Appraisal & Consulting Limited, an independent firm of professional valuers, using the applicable option pricing model.

28. CONVERTIBLE BONDS (Continued)

The movements of the liability component and the derivative component of the Convertible Bonds are as follows:

	Liability component of Convertible Bonds paid	Derivative component of Convertible Bonds	Total
	RMB'000	RMB'000	RMB'000
At 6 November 2015	294,158	85,443	379,601
Interest expense	4,875	—	4,875
Fair value adjustment	—	53,962	53,962
Currency translation differences	6,881	2,601	9,482
At 31 December 2015	305,914	142,006	447,920

29. SHARE CAPITAL, SHARE PREMIUM AND RESERVES

Ordinary shares issued and fully paid	Number of shares in issue	Share capital
		RMB'000
At 1 January 2014	1	—
Issuance of share capital to Fresh Water Group on 18 March 2014	1	—
Issuance of share capital to Fresh Water Group on 17 June 2014	1,265,999,998	10,076
Issuance of share capital in the initial public offering on 17 June 2014	422,000,000	3,350
Issuance of share capital for over-allotment on 27 June 2014	63,300,000	502
At 31 December 2014	1,751,300,000	13,928
Shares cancellation	(15,878,000)	(126)
At 31 December 2015	1,735,422,000	13,802

Share premium

	RMB'000
At 1 January 2014	—
Issuance of share capital to Fresh Water Group on 18 March 2014	600
Issuance of share capital to Fresh Water Group on 17 June 2014	(10,076)
Issuance of share capital in the initial public offering on 17 June 2014	855,065
Issuance of share capital for over-allotment on 27 June 2014	129,258
At 1 January 2015 and 31 December 2014	974,847
Shares cancellation	(30,340)
At 31 December 2015	944,507

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

29. SHARE CAPITAL, SHARE PREMIUM AND RESERVES (Continued)

Share premium (Continued)

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

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

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

On 17 June 2014, authorised share capital of the Company was increased from HK$380,000 to HK$40,000,000 by the creation of 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 (the "Offer Price").

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 RMB988,175,000) after deduction of related issuance costs.

The Company purchased 18,754,000 of its shares on the Hong Kong Stock Exchange at a total consideration of HK$44,483,472 (approximately RMB35,434,256), which was paid wholly out of share premium. The purchased shares of 15,878,000 were cancelled during the year and the total amount paid for the purchase of the shares of HK$38,539,079 (approximately RMB30,466,596) has been charged to share capital and share premium of the Company.

29. SHARE CAPITAL, SHARE PREMIUM AND RESERVES (Continued)

Reserves

(a) Share-based payment reserve

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

(b) Merger reserve

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 13 March 2014. The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation.

(c) Foreign currency translation reserve

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

(d) Other reserves

Other reserves represent the statutory reserve fund which comprise:

(i) Reserve fund

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

(ii) Statutory surplus reserve

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

30. SHARE-BASED PAYMENTS

Pre-IPO Share Option Scheme

The 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 the Pre-IPO Share Option Scheme on 26 May 2014. The exercise price of the options granted under the Pre-IPO Share Option Scheme was 85% of the Offer Price of HK$2.70 (i.e., HK$2.295). Exercise of the options granted under the Pre-IPO Share Option Scheme was conditional until the successful listing of the Company on 17 June 2014. The options granted under the Pre-IPO Share Option Scheme shall vest in accordance with the following schedules:

Vesting period	Exercise period	Maximum cumulative percentage of options vested
Upon 12 months after the listing date	6/16/2015–6/17/2024	40%
Upon 24 months after the listing date	6/16/2016–6/17/2024	70%
Upon 36 months after the listing date	6/16/2017–6/17/2024	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' stocks 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 are not necessarily indicative of exercise patterns that may occur.

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

	2015 RMB'000	2014 RMB'000
Total expense arising from equity-settled share-based payment transactions	**58,647**	46,648
Less: Amount capitalised in revenue generating assets	**(3,598)**	(3,005)
	55,049	43,643

There were no cancellations of or modifications to the awards in 2015.

30. SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Option Scheme (Continued)

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

	Outstanding at 1 January 2015	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 2015
Directors						
Mr. Xiao Shu	51,086,706	—	—	—	—	51,086,706
Mr. Zhu Mingwei	11,160,859	—	—	—	—	11,160,859
Mr. He Jun	10,662,531	—	—	—	—	10,662,531
Mr. Tan Jibin	8,547,535	—	—	—	—	8,547,535
Mr. Xiao Lilin	7,596,652	—	—	—	—	7,596,652
Other employees						
In aggregate	72,350,818	—	(617,687)	—	—	71,733,131
	161,405,101	—	(617,687)	—	—	160,787,414
Exercisable at the end of the year	—	—	—	—	—	63,591,506

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

The weighted average remaining contractual life of the share options outstanding as at 31 December 2015 was 8.5 years. The weighted average fair value of the options granted under the Pre-IPO Share Option Scheme was HK$1.07 (RMB0.85).

30. SHARE-BASED PAYMENTS (Continued)

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 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 of the 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 the Share Option Scheme to (i) employees (whether full time or part-time) or a director of a member of the 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 the Share Option Scheme as at 31 December 2015.

Restricted Share Unit Scheme

The restricted share unit scheme was approved and adopted on 7 December 2015. The maximum number of restricted share units that may be granted under this restricted share unit scheme in aggregate (excluding restricted share units that have lapsed or been cancelled in accordance with the restricted share unit scheme) shall be such number of shares of the Company held by the trustee of the restricted share unit scheme for the purpose of this restricted share unit scheme from time to time.

The board of directors may, at its absolute discretion, grant restricted share unit under the restricted share unit scheme to: directors, senior management and employees of the Company or its subsidiaries for their contribution to the Group. This restricted share unit scheme shall be valid and effective for a period of ten years, commencing from the 7 December 2015.

No restricted share unit was granted under the restricted share unit scheme as at 31 December 2015.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	2015 RMB'000	2014 RMB'000
Within one year	56,492	102,713

(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:

	2015 RMB'000	2014 RMB'000
Within one year	12,928	10,374
In the second to fifth years, inclusive	10,430	5,463
	23,358	15,837

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the reporting date:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	52,426	41,376

33. 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 these financial statements, the Group had the following material transactions with related parties:

		2015 RMB'000	2014 RMB'000
(1)	Debt-to-equity swaps of amounts due to a related party — Fresh Water Group	–	409,221
(2)	Acquisition of subsidiaries from a related party — Fresh Water Group	–	33

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

On 17 June 2014, Fresh Water Group subscribed for one share of HK Fresh Water at a subscription price of RMB409,221,000, which was equal to and settled by the amount due to Fresh Water Group by HK Fresh Water. Fresh Water Group designated Ozner Water Group to take up such one share (note 29).

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of Listing Rules.

(c) Compensation of key management personnel of the Group

	2015 RMB'000	2014 RMB'000
Short term employee benefits	**6,328**	6,753
Pension scheme contributions	**19**	23
Share-based payments	**35,174**	27,770
Total compensation paid to key management personnel	**41,521**	34,546

The amounts disclosed above are the amounts recognised as an expense during the reporting period related to key management personnel.

34. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets — loans and receivables

	2015 RMB'000	2014 RMB'000
Trade and bills receivables	71,396	43,549
Financial assets included in deposits and other receivables	85,785	19,634
Pledged deposits	137,485	16,062
Cash and cash equivalents	380,922	293,708
	675,588	372,953

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

Financial assets — financial assets at fair value through profit or loss

	2015 RMB'000	2014 RMB'000
Financial assets at fair value through profit or loss	–	300,000

Financial liabilities — financial liabilities at amortised cost

	2015 RMB'000	2014 RMB'000
Trade and bills payables	155,659	129,152
Financial liabilities included in other payable and accruals	240,440	55,221
Liability component of convertible bonds	305,914	—
	702,013	184,373

Financial liabilities — Financial liabilities at fair value through profit or loss

	2015 RMB'000	2014 RMB'000
Derivative component of convertible bonds	142,006	—

35. FAIR VALUE MEASUREMENT

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

	Carrying amounts		Fair values	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**–**	300,000	**–**	300,000
Financial liabilities				
Derivative component of convertible bonds	**142,006**	–	**142,006**	–
Liability component of convertible bonds	**305,914**	–	**304,853**	–
	447,920	–	**446,859**	–

Management has assessed that the fair values of trade and bills receivables, financial assets included in deposits and other receivables, pledged deposit, cash and cash equivalent, trade and bills payables and financial liabilities included in other payables and accruals of the Group approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of financial assets at fair value through profit or loss has been estimated using Monte Carlo simulation involving the lowest level input including the gold spot price and its volatility, USD risk-free rate and its volatility of USD/CNY exchange rate. The fair value of the derivative component of the convertible bonds has been estimated using a valuation technique of binomial model that incorporates various market unobservable or observable inputs including risk-free rate, volatility, liquidity discount and risky discount rate.

The directors believe that the estimated fair value resulting from the valuation technique, which are recorded in the statement of financial position, and the related changes in fair value, which are recorded in profit or loss, are reasonable, and that they were the most appropriate value at the end of the reporting period.

The fair value of the liability component of the convertible bonds is calculated by Binomial Tree Model which assumes multiple scenarios discounting at credit discount rate. It is categorised under level 3 within the fair value hierarchy.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

35. FAIR VALUE MEASUREMENT (Continued)

Financial instruments measured at fair value

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2015 :

	Valuation technique	Significant unobservable input	Ratio	Sensitivity of fair value to the input
Derivative component of convertible bonds	Binomial model	Risk-free rate	1.05%	1% increase in risk-free rate would result in decrease in fair value by RMB3,389
		Volatility	58.5%	10% increase in volatility would result in increase in fair value by RMB19,566
		Liquidity discount	27.0%	5% increase in liquidity discount would result in decrease in fair value by RMB11,581
		Risky discount rate	2.7%	1% increase in risky discount rate would result in decrease in fair value by RMB6,634

Fair value hierarchy

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

	Fair value measurement as at 31 December 2015 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Derivative component of convertible bonds	**—**	**—**	**142,006**	**142,006**
	—	**—**	**142,006**	**142,006**

	Fair value measurement as at 31 December 2014 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Financial assets at fair value through profit or loss	—	300,000	—	300,000
	—	300,000	—	300,000

35. FAIR VALUE MEASUREMENT (Continued)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. (2014: nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Derivative component of convertible bonds RMB'000
Carrying amount at 1 January 2015	—
Additions	85,443
Net loss from a fair value adjustment recognised in profit or loss	53,962
Currency translation differences	2,601
Carrying amount at 31 December 2015	142,006

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an asset or a liability will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's cash and cash equivalents denominated in Hong Kong dollars ("HK$"), the convertible bonds denominated in HK$ and the foreign entities within the Group with the functional currency of HK$.

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

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

	Increase/ (decrease) in HK$ rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
			RMB'000
2014			
If HK$ weakens against RMB	–5%	1,047	(21,219)
If HK$ strengthens against RMB	+5%	(1,047)	21,219
2015			
If HK$ weakens against RMB	**–5%**	**(11,024)**	**(48,921)**
If HK$ strengthens against RMB	**+5%**	**11,024**	**48,921**

* *Excluding retained earnings*

Credit risk

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

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

31 December 2015

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	19,479	467,492	486,971
Trade and bills payables	—	155,659	—	155,659
Financial liabilities included in other payables and accruals	240,440	—	—	240,440
	240,440	175,138	467,492	883,070

31 December 2014

	On demand RMB'000	Less than 1 year RMB'000	Total RMB'000
Trade and bills payables	—	129,152	129,152
Financial liabilities included in other payables and accruals	55,221	—	55,221
	55,221	129,152	184,373

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio at a reasonable level. Net debt includes trade and bills payables and other payables and accruals, less cash and cash equivalents. Adjusted capital includes liability component of convertible bonds and equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2015 RMB'000	2014 RMB'000
Trade and bills payables	**155,659**	129,152
Other payables and accruals	**372,613**	140,740
Less: Cash and cash equivalents	**(380,922)**	(293,708)
Net debt	**147,350**	(23,816)
Liability component of convertible bonds	**305,914**	—
Equity attributable to owners of the parent	**1,951,944**	1,895,820
Adjusted capital	**2,257,858**	1,895,820
Adjusted capital and net debt	**2,405,208**	1,872,004
Gearing ratio	**6%**	0%

37. EVENTS AFTER THE REPORTING PERIOD

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

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Due from subsidiaries	1,136,453	—
Investments in subsidiaries	105,896	47,248
TOTAL NON-CURRENT ASSETS	1,242,349	47,248
CURRENT ASSETS		
Due from subsidiaries	—	546,226
Due from related party	34	34
Financial assets at fair value through profit or loss	—	300,000
Cash and cash equivalents	272,246	159,496
TOTAL CURRENT ASSETS	272,280	1,005,756
CURRENT LIABILITIES		
Other payables	1,515	2,181
Derivative component of convertible bonds	142,006	—
Due to subsidiaries	24,796	24,796
TOTAL CURRENT LIABILITIES	168,317	26,977
NET CURRENT ASSETS	103,963	978,779
TOTAL ASSETS LESS CURRENT LIABILITIES	1,346,312	1,026,027
NON-CURRENT LIABILITIES		
Liability component of convertible bonds	305,914	—
NET ASSETS	1,040,398	1,026,027
EQUITY		
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		
Share capital	13,802	13,928
Share premium (note)	944,507	974,847
Treasury shares (note)	(4,968)	—
Reserves(note)	87,057	37,252
TOTAL EQUITY	1,040,398	1,026,027

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium	Treasury shares	Retained earnings	Foreign currency translation reserve	Share-based payment reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	—	—	—	—	—	—
Profit for the year	—	—	(3,161)	—	—	(3,1,61)
Other comprehensive income	—	—	—	(6,235)	—	(6,235)
Share-based payments	—	—	—	—	46,648	46,648
Issuance of ordinary shares	974,847	—	—	—	—	974,847
At 1 January 2015	974,847	—	(3,161)	(6,235)	46,648	1,012,099
Profit for the year	—	—	(70,207)	—	—	(70,207)
Other comprehensive income	—	—	—	61,365	—	61,365
Share-based payments	—	—	—	—	58,647	58,647
Cancellation of repurchased shares	(30,340)	—	—	—	—	(30,340)
Repurchase of shares	—	(4,968)	—	—	—	(4,968)
At 31 December 2015	944,507	(4,968)	(73,368)	55,130	105,295	1,026,596

The share-based payment reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 30 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options expire or be forfeited.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2016.

Financial Summary

	Year ended 31 December				
	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Revenue					
Water purification services	**679,388**	411,267	313,960	197,793	57,379
Air sanitization services	**63,626**	100,444	88,374	92,603	44,913
Other	**2,385**	—	—	—	—
	745,399	511,711	402,334	290,396	102,292
Gross Profit	**438,945**	334,715	272,792	187,392	57,993
Gross Profit Margin	**58.9%**	65.4%	67.8%	64.5%	56.7%
Profit for the year	**28,061**	123.902	152,912	101,691	22,951
Net Profit Margin	**3.8%**	24.2%	38.0%	35.0%	22.4%

	As at 31 December				
	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Revenue generating assets	**1,245,364**	941,668	585,345	384,127	148,051
Total assets	**3,309,395**	2,450,033	1,309,705	862,518	460,185
Total liabilities	**1,357,626**	554,213	976,163	681,888	437,266
Total equities	**1,951,769**	1,895,820	334,542	180,630	22,919

Note:

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