

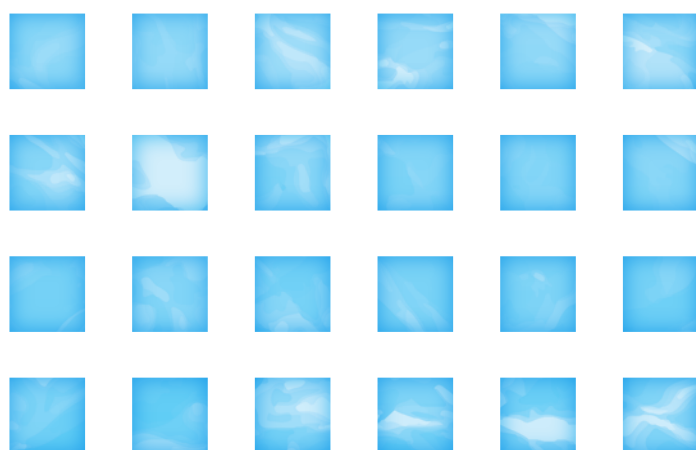
# OZNER 浩澤

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

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



# OZNER



**2016  
INTERIM REPORT**



# OZNER

DRINK FOR HEALTH



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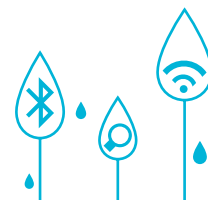
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## DIRECTORS

### Executive Directors

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

### Non-Executive Directors

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

### Independent Non-Executive Directors

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

## JOINT COMPANY SECRETARIES

Mr. Tan Jibin  
Ms. Lai Siu Kuen

## AUTHORISED REPRESENTATIVES

Mr. Xiao Shu  
Mr. Tan Jibin

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## AUDITOR

Ernst & Young  
*Certified Public Accountants*

## PRINCIPAL BANKERS

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

## LEGAL ADVISERS

### As to Hong Kong Law:

Simpson Thacher & Bartlett

### As to PRC Law:

Shu Jin Law Firm



## CORPORATE INFORMATION (CONTINUED)

### INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited  
Hong Kong Zhixin Financial News Agency 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

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

### STOCK CODE

2014

### COMPANY'S WEBSITE

[www.ozner.net](http://www.ozner.net)



# FINANCIAL AND OPERATIONAL HIGHLIGHTS

(RMB in thousand)	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
<b>Revenue</b>		
Water purification services	382,215	298,222
Air sanitization services	37,370	40,813
Financing Services	3,223	—
<b>Gross Profit</b>	<b>252,953</b>	208,427
<i>Gross Profit Margin</i>	<b>59.8%</b>	61.5%
<b>Net Profit</b>	<b>161,512</b>	31,831
<i>Net Profit Margin</i>	<b>38.2%</b>	9.4%
<b>Non-IFRS adjusted profit for the Period</b>	<b>86,101</b>	76,626
<b>Non-IFRS adjusted net profit margin</b>	<b>20.4%</b>	22.6%
<b>Basic earnings per share (RMB cents)</b>	<b>9.36</b>	1.82
<b>Non-IFRS adjusted earnings per share (RMB cents)</b>	<b>4.43</b>	4.39

(RMB in thousand)	As at	As at
	30 June 2016 (Unaudited)	31 December 2015 (Audited)
<b>Revenue generating assets</b>	<b>1,403,883</b>	1,245,364
<b>Total assets</b>	<b>3,259,029</b>	3,309,395
<b>Total liabilities</b>	<b>1,149,776</b>	1,357,626



# CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS



## INDUSTRY REVIEW

The domestic water purification industry is in a positive territory with rapid growth, mature industry development and gradually expanding market capacity over years.

2016 is a very special year for the water purification industry, during which the “Water Efficiency Threshold and Water Efficiency Rating of Reverse Osmosis Water Purifier” (《反滲透淨水機水效限定值及水效等級》), the first national mandatory industrial standard, was submitted for approval; “The Action and Implementation Plan for Water Efficiency Leaders” (《水效領跑者行動實施方案》), which was jointly studied and formulated by various ministries and commissions, including the State Development and Reform Commission (SDRC) and the Ministry of Water Resources (MWR), was formally introduced; and the water purification industry drew special attention under the supply-side structural reform of the “13th Five-Year Plan”. Under the new standards and new policies, it is believed that China’s water purification industry will promote transformation and upgrading in 2016, thereby creating a new ecology for the entire industry. The development of industry-leading enterprises will be benefited by increasingly stringent industry regulations and higher entry barriers.

The development of air sanitization industry also attracted much attention and the industry’s first standard for green products is expected to be released in the second half of the year. During the annual sessions of the National People’s Congress (NPC) and the Chinese People’s Political Consultative Conference (CPPCC) in March 2016, the State Ministry of Environmental Protection formally announced the formation of an Air, Water and Soil Pollution Control Department (大氣、水、土壤污染防治司) to better guide and increase the efforts in environmental protection and to achieve victory in the “Three Battles” of air, water and soil pollution control in view of the pollution problems such as the persistent and widespread haze in China. Such good news will pave the way for the domestic air sanitization industry to bloom and blossom.

## BUSINESS REVIEW

In the face of the rapidly changing and highly challenging economic environment, Ozner Water International Holding Limited (the “Company” or “Ozner”) and its subsidiaries (collectively, the “Group”) have taken a proactive stance towards reform and strived to maintain a business model with development potential. In addition, the Group spared no effort in upgrading services and management standards, and providing safe, healthy and speedy water purification services to clients.

For the six months ended 30 June 2016 (the “Period”), the Group’s turnover and gross profit were approximately RMB422.8 million and RMB253.0 million, respectively, representing an increase of approximately 24.7% and 21.4% respectively as compared with the corresponding period of last year, primarily due to increase in sales and installation of water purification machines and increase in number of new distributors. During the Period, Ozner has achieved considerable progress in building the distribution and service network, which has covered more than a thousand cities/towns in China with the number of high-value distributors increased from 3,648 to 4,268 (as at 30 June 2016) as compared with 31 December 2015.



Ozner has been maintaining a leading position in China's corporate water purifier market for years. In the first half of 2016, we continued to actively expand our distributor network and acquire corporate customers such as schools and medium to large chain enterprises. During the Period, the accumulated installation increased from approximately 925,000 units as at 31 December 2015 to approximately 1,085,000 units as at 30 June 2016.

Meanwhile, the Group has put more efforts into the household market and introduced household water purifiers to enrich product mix, so as to satisfy demands from different customer bases. We vigorously expanded the household market by coordinating with our "iFamily APP" platform and gaining access to the vast number of employees of our corporate end users through mobile applications and public WeChat account as well as drawing on other resources such as "smart products", "public non-profit water bars", "experience stores" and "brand collaboration". For the six months ended 30 June 2016, the Group recorded an encouraging increase in household market.

For the air sanitization business, the Group has engaged in air sanitization business of projects such as operation rooms and ICU (intensive care unit) in major medical institutions, and aerospace for over ten years, accumulating a wealth of experience and technology. The Group also introduced two types of medical class household vertical air purifier and desktop smart air purifier in December 2015 and June 2016, respectively, to further expand the air sanitization business and to facilitate the diversification of our business.

Looking forward into the second half of the year, we are fully confident and motivated. We will continue to engage in brand and channel building, which will lay a sound foundation for Ozner's future development. We will push forward the following strategies to further expand our business and create more value for shareholders of the Company (the "Shareholders"):

## **1. Consolidating our leadership in the field of corporate water purification and increasing penetration in the household market**

The Group will be committed to consolidating its leadership in the field of corporate water purifiers market and continuing to leverage on the synergy between "iFamily APP" online platform and offline "experience stores" to increase penetration in the household market. To achieve this goal, the Group will adopt the following strategies:

### **(1) Continuous and stable growth of the distributor network with focus on the development of medium to large corporate customers**

Distributor network has always been a crucial channel for brand and sales development. As at 30 June 2016, the number of the high-quality distributors has reached 4,268. During the Period, the Group actively acquired corporate customers of medium to large chain enterprises, utility institutions and schools, including the following segments of the Group or head office, namely China Mobile Limited (stock code: 941), China Unicom (Hong Kong) Limited (stock code: 762), China Telecom Corporation Limited (stock code: 728), BMW Brilliance Automotive Ltd. (華晨寶馬汽車有限公司), China Resources Vanguard Company Limited and Ruanying Biaisi (Dalian) Company Limited (軟銀芭愛思(大連)有限公司) under SoftBank Corporation of Japan, etc. We will continue to focus on developing medium to large corporate customers in the future.





## (2) Jointly establishing “online + offline” micro-Ozner operation system with distributors for future development

Ozner has maintained leading position in the corporate market and accumulated a large number of potential customers in household market. With the strong appeal of Ozner’s “experience stores” and its increasingly mature membership platform for online users brought by the B2C strategy featuring “five major channels” launched by the Group since 2015, each “experience store” will be a meeting point of Ozner’s online and offline initiatives. These stores will, on one hand, be the physical portals of our Internet marketing campaigns and on the other hand, the outlets where millions of Ozner’s online members can experience and consume Ozner’s products.

The Group has started the joint establishment of offline experience channels with distributors, and completed the first pilot operation of experience stores and franchised stores in 2015, while achieving a good brand effect and sales result. It is expected that around 500 experience stores will be established nationwide in 2016.

## 2. Internet + smart water purification service platform – “HoYo Services Home (浩優服務家)”

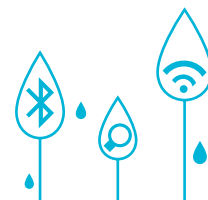
In recent years, the booming development of water purification industry has resulted in sprawling industry development and intensifying competition. The end users were unable to receive standardized post-sales service due to the lack of standardization in the water purification industry during the early development stage, the closure of large number of small and medium enterprises under the uncertain macroeconomic environment and the “one-off sales” model of traditional water purifier manufacturers which “focuses on sales and overlooks service”. It even generated considerable “orphan water purifiers” which received no follow-up service and were unable to regularly replace the filters, thus seriously harming the hygiene and safety level of drinking water.

“HoYo Services Home (浩優服務家)” is the first third-party service platform in the water purification industry which promotes environmental lifestyle services. With national “warehousing, logistics and information technology” coverage as its core, the new platform relies on a self-established warehousing, logistics and post-sales system and aims at integrating and standardizing post-sales services in the industry, and creating a popular brand image of water purification services. Currently, users can place their orders through the newly launched “HoYo Services Home (浩優服務家)” mobile terminal APP, which adopts a model similar to DiDi and Uber, while the post-service staff will receive the orders through the mobile APP. After receiving the services, the users can rate and comment on our service. The satisfactory volume of orders placed through the APP and the users’ evaluation mechanism have largely motivated the post-service staff and enhanced their efficiency and satisfaction.

As at 30 June 2016, “HoYo Services Home (浩優服務家)” has successfully attracted numerous well-known water purifiers and third-party appliances post-sales service platforms to join.

## 3. Increasing the marketing efforts in air sanitization products

For the corporate market, we will continue to focus on engaging high-quality corporate customers in medical healthcare industries due to their larger scale, stable cash flow, strong performance capability and huge profit margin. For the household market, the Group introduced two types of household air purifiers in 2015 and 2016, respectively. We will utilize our existing channels and target at the changes in market demand to effectively develop the household market for air sanitization products.



## 4. Carefully exploring suitable targets for merger and acquisition against the market downturn

Despite the market demand in China's household appliances industry being affected by the uncertainties in the domestic macroeconomic development, we believe that adversity always begets opportunity and the market downturn would indeed create potential opportunities for development. Ozner will carefully look for business targets, including domestic medium to small enterprises of environmental appliances industry with rapid growth, of which water purifier will be given the first priority. We will further expand our business and enlarge customer base by way of collaboration and investment to increase earnings and deliver more returns to the Shareholders.

## FUTURE PROSPECTS

Looking forward into the second half of 2016, China's water purification industry will move into a new ecology where transformation and upgrading will be driven by new industry standards and environmental protection policies. Ozner has attained a certain level of recognition and brand awareness in the domestic water purification market. In the future, Ozner will continue to insist in regarding water purification technology as its core and focusing on upgrading its service, research and development and brand.

For the water purification business, the Group will endeavor to maintain its leadership in the corporate market while striving to develop the market of household customers. For the air sanitization business, corporate customers in medical healthcare industries will still be its main targets and the household market shares will be further expanded.

Meanwhile, the Group will identify business targets in a prudent manner and develop business by way of merger and acquisition or collaboration, with particular focus on rapidly growing domestic medium to small enterprises of environmental appliances industry and especially targeting water purifier business.

In general, we are fully confident about the prospects of domestic water purifier and air purifier markets. We believe that we will benefit from the national environmental protection policies and the rising health awareness of the public on a path towards stable growth.

## FINANCIAL REVIEW

### Revenue

Our total revenue increased by approximately 24.7% from approximately RMB339.0 million for the six months ended 30 June 2015 to approximately RMB422.8 million for the six months ended 30 June 2016, primarily attributable to the increase in revenue from water purification services.

Revenue from water purification services increased by 28.2% from RMB298.2 million for the six months ended 30 June 2015 to RMB382.2 million for the six months ended 30 June 2016, primarily due to the increase in the accumulated number of water purification machines installed from approximately 925,000 units as at 31 December 2015 to approximately 1,085,000 units as at 30 June 2016 and increase in the number of new distributors. As at 30 June 2016, the Group sold and leased a total of approximately 160,000 units of new water purification machines. Such new machines were mainly household models, which were contributed by the effort of the Group in the household markets through mobile applications platform and public WeChat account as well as drawing on other resources such as "smart products", "public non-profit water bars", "experience stores" and "brand collaboration".



Revenue generated from air sanitization and other services decreased by 8.4% from RMB40.8 million for the six months ended 30 June 2015 to RMB37.4 million for the six months ended 30 June 2016. The decrease was primarily due to the decrease in number of the ongoing projects. Currently, the Group only focuses on corporate customers in medical healthcare industries and household customers market.

## Gross Profit Margin

Our gross profit margin decreased from 61.5% for the six months ended 30 June 2015 to 59.8% for the six months ended 30 June 2016, 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 66.9% and 63.2% for the six months ended 30 June 2015 and 2016, respectively. The decrease in gross profit margin was a result of sales of water purification machines and increase of proportion of income from renewal of the water purification machines, the gross profit margin of which were lower than that of the new leasing of water purification machines. The gross profit margin of water purification machines of leasing service decreased from 72.1% for the six months ended 30 June 2015 to 65.9% for the six months ended 30 June 2016.

Gross profit margin of the air sanitization business for the six months ended 30 June 2015 and 2016 were 21.7% and 22.3%, respectively, which maintained stable.

## Other Income and Gains

Our other income and gains decreased by 32.4% from RMB13.4 million for the six months ended 30 June 2015 to RMB9.1 million for the six months ended 30 June 2016, primarily attributable to the decrease in interest income by RMB5.3 million for the six months ended 30 June 2016 as compared with the corresponding period in last year, which was offset by the increase in government grants by RMB1.0 million.

## Selling and Distribution Expenses

For the six months ended 30 June 2015 and 2016, our selling and distribution expenses were RMB91.7 million and RMB84.4 million respectively, representing 27.0% and 20.0% of the revenue of the respective periods, which was a decrease of 8.0% or RMB7.3 million from the six months ended 30 June 2015 to the six months ended 30 June 2016. Such decrease was primarily due to better cost control and decrease in share option expenses. For the six months ended 30 June 2016, the share option expenses decreased by RMB6.7 million as compared with the corresponding period in last year.

## Administrative Expenses

For the six months ended 30 June 2015 and 2016, our administrative expenses were RMB71.0 million and RMB54.4 million respectively, representing 21.0% and 12.9% of the revenue of the respective periods. Our administrative expenses decreased by 23.4% or RMB16.6 million from the six months ended 30 June 2015 to the six months ended 30 June 2016, primarily due to the decrease in share option expenses by RMB16.0 million as compared with the corresponding period in last year. In addition, the Group further controlled the administrative expenses while the business was expanding rapidly.

## Fair Value Gains on Derivative Component of Convertible Bonds

Fair value gains on derivative component of convertible bonds represented change in fair value of the derivative component between the beginning and the end of the Period. 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. The derivative component was in relation to the convertible right granted under 5.0% convertible bonds due in 2020 (the "Bonds") which has an aggregate principal amount of HK\$465.0 million and was issued in November 2015.



## Finance Costs

Finance costs mainly represented the finance expenses in relation to the Bonds which effective interest rate is 10.9%. For the six months ended 30 June 2016, the Group incurred finance expenses in relation to the Bonds amounting to approximately RMB16.8 million as no such expenses was incurred for the six months ended 30 June 2015.

## Income Tax Expense

Pursuant to relevant laws, rules and regulations in the PRC and with approval from the competent tax authorities, our water purification machine business enjoys certain preferential tax treatments, including (i) Shanghai Haoze Water Purification Technology Development Co., Ltd., qualifying as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from November 2012 to October 2015 and will extend for a further 3 years to October 2018; (ii) Shanghai Ozner Comfort Environment & Science Co., Ltd., qualifying as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from October 2014 to September 2017; and (iii) Shaanxi Haoze Environmental Technology Development Co., Ltd., being approved by the competent tax authority where it is located to be an enterprise engaging in an encouraged industry, enjoys the preferential tax rate of 15% from 2012 to 2020.

Our income tax expenses were RMB16.3 million and RMB21.8 million for the six months ended 30 June 2015 and 2016, respectively. The effective tax rates (calculated by dividing income tax expenses by profit before tax) decreased from 33.8% for the six months ended 30 June 2015 to 11.9% for the six months ended 30 June 2016, primarily due to significant increase in fair value gains on derivative component of convertible bonds which were non-taxable, and such increase was offset by the share option expenses which were non-deductible expenses. Excluding the share option expenses and the fair value gains on derivative component of the Bonds, the effective tax rate for the six months ended 30 June 2015 and 2016 were 18.7% and 20.2%, respectively.

## Profit for the Period and Net Profit Margin

Profit for the Period significantly increased by approximately 4 times from RMB31.8 million for the six months ended 30 June 2015 to RMB161.5 million for the six months ended 30 June 2016. At the same time, our net profit margin significantly increased from 9.4% for the six months ended 30 June 2015 to 38.2% for the six months ended 30 June 2016. Such increase was primarily contributed by fair value gains on derivative component of Bonds for the six months ended 30 June 2016 where there were no such gains for the six months ended 30 June 2015.

If excluding the adjusted items as stated in the reconciliation as below, profit for the Period increased by 12.4% from RMB76.6 million for the six months ended 30 June 2015 to RMB86.1 million for the six months ended 30 June 2016, and net period margin decreased from approximately 22.6% for the six months ended 30 June 2015 to approximately 20.4% for the six months ended 30 June 2016, which was primarily due to sales of water purification machines with a lower gross profit margin.



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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Profit for the Period	<b>161,512</b>	31,831
Adjusted items:		
— Fair value gains on derivative component of the Bonds	<b>(91,084)</b>	—
— Share option expenses	<b>15,673</b>	38,795
— Expenditures incurred for handing of the unfound allegations	<b>—</b>	6,000
Adjusted profit for the Period	<b>86,101</b>	76,626

## LIQUIDITY AND FINANCIAL RESOURCES

We financed our operations primarily through cash generated from our operating activities as well as financing from financial institutions and the capital market. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

### Cash Positions

As at 30 June 2016, the Group's bank balances and cash was RMB209.8 million (31 December 2015: RMB380.9 million). As at 30 June 2016, all cash and cash equivalents were denominated mainly in Renminbi and Hong Kong Dollars.

### Trade and bills receivables

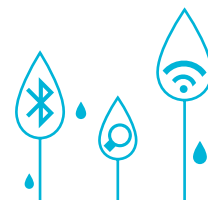
Trade and bills receivables increased from RMB71.4 million as at 31 December 2015 to RMB76.6 million as at 30 June 2016. Such increase was due to increase in receivables generated from sales of water purification machines. Our average trade receivable turnover days were 28 days and 32 days for the year ended 31 December 2015 and for the six months ended 30 June 2016, respectively.

### Inventories

Inventories decreased from RMB191.5 million as at 31 December 2015 to RMB177.7 million as at 30 June 2016. Such decrease was due to better inventory control of the Group. Our average inventories turnover days were 117 days and 135 days for year ended 31 December 2015 and for the six months ended 30 June 2016, respectively.

### Current Ratio and Gearing Ratio

As at 30 June 2016, our current ratio was 1.0 (as at 31 December 2015: 0.9). The net current liabilities position of the Group improved from approximately RMB71.6 million as at 31 December 2015 to approximately RMB18.4 million as at 30 June 2016. Our gearing ratio, which was derived by dividing total debt by total equity, was 15.7% and 20.1% as at 31 December 2015 and 30 June 2016, respectively. The increase in gearing ratio as of 30 June 2016 was primarily due to financing lease arrangement.



## Capital Expenditure

For the six months ended 30 June 2016, the Group's capital expenditure amounted to approximately RMB254.0 million, which was mainly used for the purchases of property, plant and equipment, other tangible assets and water purification machines. During the Period, the Group added approximately 112,987 new water purification machines, established approximately 76 Ozner Water Bars, approximately 723 smart device illustrative cabinets and approximately 71 experience stores, and invested in construction of the second phase of production plant in Shaanxi Province amounting to RMB10.1 million, RMB23.6 million and RMB9.3 million, respectively.

## Borrowings and Charges on the Group's Assets

As at 30 June 2016, the Group had interest-bearing loans and borrowings, other borrowings and liability component of convertible bonds of approximately RMB30.0 million (31 December 2015: Nil), approximately RMB74.3 million (31 December 2015: Nil) and approximately RMB319.1 million (31 December 2015: RMB305.9 million), respectively. The Bonds will mature on 6 November 2020 and the interest rate is 5.0% per annum. The interest-bearing loans and borrowing will be repayable within 1 year and the fixed interest rate is 4.5% per annum. Amongst the other borrowings, approximately RMB30.3 million (31 December 2015: Nil) will be repayable within 1 year, and approximately RMB44.0 million (31 December 2015: Nil) will be repayable between 1 and 2 years and the fixed interest rate is 9.0% per annum.

The interest-bearing loans and borrowings and other borrowings were denominated in Renminbi, while the Bonds were denominated in Hong Kong dollars.

On 27 May 2016, the Group entered into a finance lease agreement (the "Finance Lease Agreement") for the sale and leaseback of 100,000 water purification machines of the Group for a principal amount of RMB75.0 million and interest payment at a fixed interest rate of 9.0% per annum. The principal and interest shall be settled in cash in nine instalments on a quarterly basis. The carrying amounts of the 100,000 water purification machines subject to the sale and leaseback arrangements under the Finance Lease Agreement, in substance treated as secured assets, as at 30 June 2016 were approximately RMB156.3 million.

On 14 June 2016, the Company entered into a comprehensive facility agreement with China CITIC Bank Corporation Limited, Shanghai Branch, and was granted a credit line in the aggregate principal amount of RMB100 million for one year.

As at 30 June 2016, the Group pledged bank deposits amounting to RMB62.6 million for issuance of bank acceptance notes (as at 31 December 2015: RMB137.5 million).

Saved as disclosed above, the Group did not have any charges on the assets as of 30 June 2016 (31 December 2015: Nil).

## Contingent Liabilities

As at 30 June 2016, the Group had no material contingent liabilities.





## Commitments

As at 30 June 2016, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB18.3 million (as at 31 December 2015: RMB23.4 million).

As at 30 June 2016, the Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to RMB93.5 million (as at 31 December 2015: RMB52.4 million).

As at 30 June 2016, the Group had unpaid annual leasing fee payments which are not yet recognized as rental revenue amounting to RMB152.3 million (as at 31 December 2015: RMB56.5 million).

As at 30 June 2016, the Group had no other capital commitments save as disclosed above.

## Exchange Rates Risk

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

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

## MATERIAL ACQUISITIONS AND FUTURE PLANS FOR MAJOR INVESTMENT

During the six months ended 30 June 2016, the Group had 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 at 30 June 2015 and 2016, the Group had 2,358 and 1,863 employees, respectively. Total staff costs (including Directors' emoluments and excluding share-based payments) for the six months ended 30 June 2016 were RMB61.9 million, as compared to RMB68.5 million for the six months ended 30 June 2015. Besides salary payments, other employee benefits include social insurance and housing provident funds, with the 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 (collectively known as 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 at 30 June 2016, a total of 158,732,907 share options granted under the Pre-IPO Share Option Scheme were outstanding. During the six months ended 30 June 2016, no share options or restricted share units were granted or agreed to be granted under the Schemes. For the six months ended 30 June 2016, the total expense of the Schemes was RMB16.7 million (six months ended 30 June 2015: RMB41.4 million).



On 13 July 2016, four employees of the Group were granted restricted share units in respect of an aggregate of 482,095 ordinary shares with par value of HK\$0.01 each of the Company under the Restricted Share Unit Scheme.

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

The Company was listed on the Stock Exchange on 17 June 2014. The net proceeds from the Company's issue of new shares amounted to RMB988.2 million (including the issue of additional shares pursuant to the full exercise of the over-allotment options 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 prospectus of the Company dated 5 June 2014. As at 30 June 2016, the Company has used the proceeds of RMB2.8 million for expanding our marketing and promotion activities. As at 30 June 2016, the unused balance of the proceeds from the global offering of approximately RMB13.5 million was placed into short-term demand deposits.

## INTERIM DIVIDEND

The Board of directors of the Company (the "Board") did not declare any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).



## OTHER INFORMATION

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

#### Issued Convertible Bonds

The Company issued the Bonds in an aggregate principal amount of HK\$465.0 million 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 adjustment) at any time on or after the 41st day after the Issue Date of the Bonds 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.

During the six months ended 30 June 2016, no Bonds have been converted into shares.

#### Repurchase of Shares

Consistent with the management's commitment to maintaining the well-being of the Group, and protecting its long-term interest, a share repurchase exercise was implemented by the Company during the six months ended 30 June 2016. A total of 2,864,000 ordinary shares were repurchased by the Company on the Stock Exchange at an aggregate consideration of HK\$4,957,520 during the Period. Such 2,864,000 ordinary shares repurchased by the Company during the Period together with the 2,876,000 ordinary shares repurchased by the Company in December 2015, totalling 5,740,000 ordinary shares, were cancelled during the Period. As the Board considers that the value of the Company's shares is consistently undervalued, it believes that the above action taken will go towards addressing this trend. The Board also believes that given the current financial resource of the Company, the share repurchase will not have material adverse effect on the Company's solid financial position.

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
January 2016	2,864,000	1.81	1.61	4,957,520

Save for the aforesaid, there was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries during the six months ended 30 June 2016.



## OTHER INFORMATION (CONTINUED)

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

At 30 June 2016, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

#### Long 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 30 June 2016
Mr. XIAO Shu	Long position	Founder of discretionary trusts	(a)	470,534,200	27.20%
		Beneficial owner	(b)	55,284,706	3.20%
	Short position	Founder of discretionary trusts	(c)	46,875,000	2.71%

Notes:

- (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 Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.
- (b) These 55,284,706 Shares include 4,198,000 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 46,875,000 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 46,875,000 Shares held by Baida Holdings Limited.



## OTHER INFORMATION (CONTINUED)

### Long positions in share options of the Company:

Name of Director	Number of options directly beneficially owned	Approximate percentage of shareholding as at 30 June 2016
Mr. XIAO Shu	51,086,706	2.95%
Mr. ZHU Mingwei	11,160,859	0.65%
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	5.15%

Save as disclosed above, as of 30 June 2016, none of the directors nor the chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## 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 20 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.



## OTHER INFORMATION (CONTINUED)

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

Name or category of participant	Number of share options					As at 30 June 2016	Approximate percentage of shareholding as at 30 June 2016
	As at 1 January 2016	Granted during the Period	Exercised during the Period	Lapsed during the Period	Forfeited during the Period		
<b>Director</b>							
Mr. Xiao Shu	51,086,706	—	—	—	—	51,086,706	2.95%
Mr. Zhu Mingwei	11,160,859	—	—	—	—	11,160,859	0.65%
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	5.15%
<b>Directors of the Company's subsidiaries</b>							
Mr. LI Honggao	3,200,000	—	—	—	—	3,200,000	0.19%
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%
<b>Other employees</b>							
In aggregate	66,073,055	—	—	—	(2,054,507)	64,018,548	3.70%
Total	160,787,414	—	—	—	(2,054,507)	158,732,907	9.18%

As at 30 June 2016, the maximum number of shares that may be issued pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme is 158,732,907 shares (31 December 2015: 160,787,414 Shares), representing approximately 9.18% (31 December 2015: 9.27%) of the issued share capital of the Company as at 30 June 2016 and as at the date of this report.





## OTHER INFORMATION (CONTINUED)

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:

<b>Vesting period</b>	<b>Cumulative percentage of options vested</b>
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%

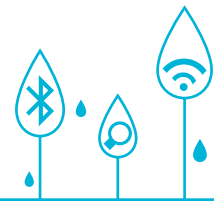
Any vested option which has not lapsed may, unless the Board determines otherwise in its absolute discretion, be exercised at any time.

### Share Option Scheme

The Share Option Scheme was approved and adopted on 26 May 2014 with implementation conditional on the listing of the Company. At the annual general meeting of the Company held on 27 May 2016, the Shareholders approved the refreshment of the scheme mandate limit for the Share Option Scheme and any other share option schemes of the Company to 10% of the shares in issue as at the date of the annual general meeting (the “Refreshed Scheme Mandate Limit”). As at 30 June 2016, 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 of the Company under the Refreshed Scheme Mandate Limit together with all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme must not in aggregate exceed 331,701,107 shares. Options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. As at 30 June 2016, the total number of shares which may be issued on the exercise of options to be granted under the Share Option Scheme is 172,968,200 shares (31 December 2015: 8,012,586 shares), representing approximately 10% (31 December 2015: 0.46% as at the date of the annual report of the Company dated 22 March 2016) of the issued share capital of the Company as at the date of this interim report. There were no outstanding share option under the Share Option Scheme at the beginning and at the end of the six months ended 30 June 2016.

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.



## OTHER INFORMATION (CONTINUED)

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 six months ended 30 June 2016.

## 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.



## OTHER INFORMATION (CONTINUED)

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.

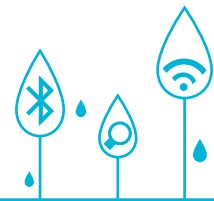
No RSU was granted under the RSU Scheme for the six months ended 30 June 2016.

### **RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES**

Save as disclosed under the section headed "Share Incentive Schemes" above, at no time during the Period or at the end of the Period 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 Period.



## OTHER INFORMATION (CONTINUED)

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

As of 30 June 2016, the following persons (other than the directors and chief executive of the Company) have the following interests and short positions in the shares or underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Name	Long/Short Positions	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as of 30 June 2016
Standard Chartered Trust (Singapore) Limited	Long position	(a)	Trustee of a trust	470,534,200	27.20%
	Short Position	(b)	Trustee of a trust	46,875,000	2.71%
SCTS Capital Pte. Ltd.	Long position	(a)	Nominee for another person	470,534,200	27.20%
	Short Position	(b)	Nominee for another person	46,875,000	2.71%
Baida Holdings Limited	Long position	(c)	Beneficial owner	341,820,000	19.76%
	Short Position	(b)	Beneficial owner	46,875,000	2.71%
Baida Capital Limited	Long position	(c)	Interest in a controlled corporation	341,820,000	19.76%
	Short Position	(b)	Interest in a controlled corporation	46,875,000	2.71%
SAIF Partners IV L.P.	Long position	(d)	Beneficial owner	334,857,000	19.36%
SAIF IV GP, L.P.	Long position	(d)	Interest in a controlled corporation	334,857,000	19.36%
SAIF IV GP Capital Ltd.	Long position	(d)	Interest in a controlled corporation	334,857,000	19.36%
Mr. Andrew Y. YAN	Long position	(d)	Interest in a controlled corporation	334,857,000	19.36%
Central Huijin Investment Ltd.	Long position	(e)	Interest in a controlled corporation	46,875,000	
	Long position	(e)	Security interest	239,300,000	
				<u>286,175,000</u>	16.54%
China Construction Bank Corporation	Long position	(e)	Interest in a controlled corporation	46,875,000	
	Long position	(e)	Security interest	239,300,000	
				<u>286,175,000</u>	16.54%



## OTHER INFORMATION (CONTINUED)

Name	Long/Short Positions	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as of 30 June 2016
Mr. XIE Zhikun	Long position	(f)	Interest in a controlled corporation	210,047,666	12.14%
China Innovative Capital Management Co., Ltd	Long position	(f)	Interest in a controlled corporation	210,047,666	12.14%
Beijing Zhonghaijiacheng Capital Management Co., Ltd	Long position	(f)	Interest in a controlled corporation	210,047,666	12.14%
Chongqing Innovative Investment Co., Ltd	Long position	(f)	Interest in a controlled corporation	206,666,666	
	Long position	(f)	Beneficial owner	3,381,000	
				<u>210,047,666</u>	12.14%
Chongqing Zhongxinrongbang Investment Centre (Limited partnership)	Long position	(f)	Beneficial owner	206,666,666	11.95%
Ares FW Holdings, L.P.	Long position	(g)	Beneficial owner	187,166,800	10.82%
ACOF Asia GP, Ltd.	Long position	(g)	Interest in a controlled corporation	187,166,800	10.82%
ACOF Asia Management, L.P.	Long position	(g)	Interest in a controlled corporation	187,166,800	10.82%
Ares Management (Cayman), Ltd.	Long position	(g)	Interest in a controlled corporation	187,166,800	10.82%
Watercube Holdings, L.L.C.	Long position	(h)	Beneficial owner	139,006,800	8.04%
GS Direct, L.L.C.	Long position	(h)	Interest in a controlled corporation	139,006,800	8.04%
Goldman, Sachs & Co.	Long position	(h)	Interest in a controlled corporation	139,006,800	8.04%
The Goldman, Sachs & Co. L.L.C.	Long position	(h)	Interest in a controlled corporation	139,006,800	8.04%
The Goldman Sachs Group, Inc.	Long position	(h)&(i)	Interest in a controlled corporation	140,666,800	8.13%
Mr. Daniel Saul Och	Long position	(j)	Interest in a controlled corporation	148,634,000	8.59%
Och-Ziff Capital Management Group L.L.C. ("Och-Ziff Capital")	Long position	(j)	Interest in a controlled corporation	148,634,000	8.59%
OZ Management, L.P. ("OZ Management")	Long position	(j)	Investment manager	148,634,000	8.59%
Och-Ziff Holding Corporation ("Och-Ziff Holding")	Long position	(j)	Interest in a controlled corporation	148,634,000	8.59%
OZ Master Fund, Ltd.	Long position	(j)	Beneficial owner	96,764,000	5.59%



## OTHER INFORMATION (CONTINUED)

### Notes:

- (a) Standard Chartered Trust (Singapore) Limited, the trustee of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, holds the entire issued share capital of Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited through SCTS Capital Pte. Ltd. (as nominee for Standard Chartered Trust (Singapore) Limited). Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited in turn hold the entire issued share capital of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited hold 341,820,000 Shares, 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. By virtue of the SFO, 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 46,875,000 Shares was held by Baida Holdings Limited. Baida Holdings Limited is wholly-owned subsidiary of Baida Capital Limited. Standard Chartered Trust (Singapore) Limited, the trustee of the Xiao Family I Trust, holds the entire issued share capital of Baida Capital Limited through SCTS Capital Pte. Ltd. (as nominee for Standard Chartered Trust (Singapore) Limited). 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. By virtue of the SFO, each of Mr. XIAO Shu, Standard Chartered Trust (Singapore) Limited, SCTS Capital Pte. Ltd and Baida Capital Limited is deemed to have the short position of 46,875,000 Shares held by Baida Holdings Limited.
- (c) The entire issued share capital of Baida Holdings Limited is held by Baida Capital Limited. By virtue of the SFO, 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. By virtue of the SFO, 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 286,175,000 Shares represents the total of (i) a security interest of 239,300,000 Shares owned by CCB International Overseas Limited and (ii) 46,875,000 Shares in which CCB 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. By virtue of the SFO, each of Central Huijin Investment Ltd. and China Construction Bank Corporation is deemed to be interested in the total number of 286,175,000 Shares.
- (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 Zhonghaijicheng Capital Management Co., Ltd., a company owned as to 99% by Mr. XIE Zhikun. By virtue of the SFO, each of Mr. XIE Zhikun, China Innovative Capital Management Co., Ltd and Beijing Zhonghaijicheng Capital Management Co., Ltd. is deemed to be interested in the aggregate number of 210,047,666 Shares in which Chongqing Zhongxinrongbang Investment Centre (Limited Partnership) and Chongqing Innovative Investment Co., Ltd. are interested.
- (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. By virtue of the SFO, 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 organised under the laws of Delaware. GS Direct, L.L.C., a limited liability company organised 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 organised 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 organised under the laws of Delaware, is the general partner of Goldman, Sachs & Co.. The Goldman Sachs Group, Inc., a corporation incorporated 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. By virtue of the SFO, 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. .





## OTHER INFORMATION (CONTINUED)

- (i) Goldman Sachs International is a wholly-owned subsidiary of Goldman Sachs Group UK Limited, which is in turn owned as to 97.21% by Goldman Sachs (UK) L.L.C.. Goldman Sachs (UK) L.L.C. is a wholly-owned subsidiary of The Goldman Sachs Group, Inc.. By virtue of the SFO, The Goldman Sachs Group, Inc. is deemed to be interested in the 1,660,000 Shares held by Goldman Sachs International.
- (j) Certain affiliated investment funds of Och-Ziff Capital (collectively, "OZ Funds") hold an aggregate of 148,634,000 Shares (which include the 96,764,000 Shares directly held by OZ Master Fund, Ltd.). 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 controls approximately 83.6% of the voting power at general meetings of Och-Ziff Capital. By virtue of the SFO, 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.

Save as disclosed above, as at 30 June 2016, 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 position in shares, 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.

### CORPORATE GOVERNANCE CODE

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

During the six months ended 30 June 2016, the Company complied with all the principles and the code provisions of the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules with the exception of code provision A.2.1 of the Corporate Governance Code which is explained in further details below. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance requirements.

#### Code Provision A.2.1 of the Corporate Governance Code

Mr. Xiao Shu is the Chairman and Chief Executive Officer of the Company. With extensive experience in the water purification service industry, Mr. Xiao is responsible for the overall strategic planning and general management of the Group and is instrumental to our growth and business expansion during the Period. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the 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.



## OTHER INFORMATION (CONTINUED)

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the Model Code during the Period.

### AUDIT COMMITTEE

The Audit Committee was established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on 26 May 2014. The Audit Committee consists of four members, namely Mr. Lau Tze Cheung Stanley ("Mr. Lau"), Mr. Gu Jiuchuan, Dr. Chan Yuk Sing Gilbert and Mr. Zhou Guanxuan, all being our independent non-executive Directors. Mr. Lau has been appointed as the chairman of the Audit Committee. Mr. Lau is also 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 risk management and internal control systems of the Group, oversee the audit process and perform other duties and responsibilities as assigned by the Board.

The Audit Committee has discussed with the management and external auditor the accounting principles and policies adopted by the Group, and reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016.

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



**Ernst & Young**  
22/F CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong  
Tel: +852 2846 9888  
Fax: +852 2868 4432  
www.ey.com

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

## INTRODUCTION

We have reviewed the accompanying interim condensed consolidated statement set out on pages 28 to 60, which comprise the interim condensed consolidated statement of financial position of Ozner Water International Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) as of 30 June 2016 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by International Accounting Standards Board.

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

## SCOPE OF REVIEW

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

## CONCLUSION

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

**Ernst & Young**  
Certified Public Accountants  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong  
18 August 2016

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



For the six months ended 30 June

	Notes	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>Revenue</b>	4	422,808	339,035
Cost of revenue		(169,855)	(130,608)
<b>Gross profit</b>		252,953	208,427
Other income and gains	4	9,089	13,444
Selling and distribution expenses		(84,395)	(91,687)
Administrative expenses		(54,420)	(71,031)
Other expenses		(13,417)	(11,049)
Fair value gains on derivative component of convertible bonds		91,084	—
<b>Operating profit</b>		200,894	48,104
Finance costs		(17,612)	—
<b>Profit before tax</b>	5	183,282	48,104
Income tax expense	6	(21,770)	(16,273)
<b>Profit for the period, attributable to owners of the parent</b>		161,512	31,831
<b>Other comprehensive loss</b>			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>			
Translation from functional currency to presentation currency		(5,648)	(379)
<b>Total comprehensive income for the year, net of tax, attributable to owners of the parent</b>		155,864	31,452
<b>Earnings per share attributable to ordinary equity holders of the parent:</b>			
Basic (RMB cents)	7	9.36	1.82
Diluted (RMB cents)	7	4.43	1.81

The Board did not declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

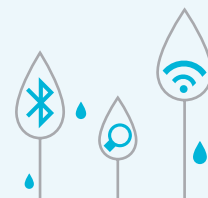
For the six months ended June



	Notes	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Revenue generating assets	8	1,403,883	1,245,364
Property, plant and equipment	9	784,414	804,341
Prepaid land lease payments – non-current portion		72,425	73,196
Intangible assets	10	61,291	63,871
Goodwill		26,037	26,037
Prepayment for acquiring property, plant and equipment		104,272	91,110
Deferred tax assets		42,711	26,530
Other non-current asset		3,117	5,300
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,498,150</b>	<b>2,335,749</b>
<b>CURRENT ASSETS</b>			
Inventories	11	177,678	191,537
Prepaid land lease payments – current portion		1,544	1,544
Trade and bills receivables	12	76,599	71,396
Prepayments, deposits and other receivables		231,855	190,762
Pledged deposits	14	62,620	137,485
Amount due from a shareholder	23	756	—
Cash and cash equivalents	14	209,827	380,922
<b>TOTAL CURRENT ASSETS</b>		<b>760,879</b>	<b>973,646</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	145,779	155,659
Other payables, advances from customers and accruals		264,210	445,449
Deferred revenue		108,985	171,290
Derivative component of convertible bonds	18	52,878	142,006
Interest-bearing loans and borrowings	16	30,000	—
Other borrowings	17	30,365	—
Income tax payable		147,053	130,826
<b>TOTAL CURRENT LIABILITIES</b>		<b>779,270</b>	<b>1,045,230</b>
<b>NET CURRENT LIABILITIES</b>		<b>(18,391)</b>	<b>(71,584)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,479,759</b>	<b>2,264,165</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

For the six months ended June



	Notes	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Liability component of convertible bonds	18	319,104	305,914
Other borrowings	17	43,975	—
Deferred tax liabilities		7,427	6,482
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>370,506</b>	312,396
<b>NET ASSETS</b>		<b>2,109,253</b>	1,951,769
<b>EQUITY</b>			
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>			
Share capital	19	13,757	13,802
Share premium	19	935,408	944,507
Treasury shares	19	(10,895)	(4,968)
Reserves		1,170,983	998,428
<b>TOTAL EQUITY</b>		<b>2,109,253</b>	1,951,769



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



## For the six months ended 30 June 2016

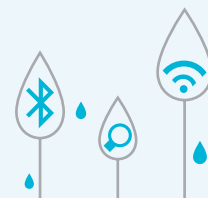
	Attributable to owners of the parent								
	Share capital	Share premium	Treasury shares	Share-based payment reserve	Retained earnings	Merger reserves	Foreign currency translation reserve	Other reserves	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	13,802	944,507	(4,968)	105,295	366,577	56,018	(1,560)	472,098	1,951,769
Profit for the period	—	—	—	—	161,512	—	—	—	161,512
Other comprehensive loss for the year: translation from functional currency to presentation currency	—	—	—	—	—	—	(5,648)	—	(5,648)
Share-based payments	—	—	—	16,691	—	—	—	—	16,691
Cancellation of repurchased shares	(45)	(9,099)	—	—	—	—	—	—	(9,144)
Repurchase of share capital	—	—	(5,927)	—	—	—	—	—	(5,927)
At 30 June 2016 (unaudited)	13,757	935,408	(10,895)	121,986	528,089	56,018	(7,208)	472,098	2,109,253

## For the six months ended 30 June 2015

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

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June



	Notes	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		183,282	48,104
Adjustments for:			
Depreciation of revenue generating assets	8	78,618	59,839
Depreciation of property, plant and equipment		22,677	17,036
Amortisation of intangible assets		2,026	1,458
Amortisation of long-term prepayment		2,183	1,230
Share-based payments	20	15,673	38,795
Unrealised exchange (gain)/loss		(900)	8
Loss on disposal of items of property, plant and equipment	9	111	—
Loss on disposal of revenue generating assets	8	411	408
Fair value gains on derivative component of convertible bonds	18	(91,084)	—
(Reversal)/write down of inventories to net realisable value		(40)	227
Finance costs		17,612	—
(Reversal of)/impairment loss for trade receivables	12	(224)	31
		230,345	167,136
Decrease/(increase) in inventories		13,899	(62,022)
Increase in trade and bills receivables		(4,979)	(18,714)
Increase in prepayments, deposits and other receivables		(41,093)	(41,718)
Increase in long-term prepayment		—	(1,138)
Increase in due from a shareholder		(756)	—
Decrease/(increase) in pledged deposits		13,209	(23,630)
(Decrease)/increase in trade and bills payables		(9,880)	57,882
(Decrease)/increase in other payables, advances from customers and accruals		(10,566)	59,864
Decrease in deferred revenue		(62,305)	(35,450)
<b>Cash generated from operations</b>		127,874	102,210
Income tax paid		(20,778)	(9,099)
<b>Net cash flows from operating activities</b>		107,096	93,111

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June



	Notes	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of revenue generating assets		(186,555)	(241,913)
Purchases of items of property, plant and equipment		(232,614)	(139,600)
Purchases of intangible assets		(2,645)	(2,530)
Increase in other non-current asset		—	(561)
Decrease in financial assets at fair value through profit or loss		—	300,000
Decrease in pledged deposits		61,656	—
<b>Net cash flows used in investing activities</b>		<b>(360,158)</b>	<b>(84,604)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		103,500	—
Interest paid		(10,006)	—
Repurchase of share capital		(4,176)	(15,792)
Repurchase of share capital for RSU Scheme		(10,895)	—
<b>Net cash flows from financing activities</b>		<b>78,423</b>	<b>(15,792)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		380,922	293,708
Effect of foreign exchange rate changes, net		3,544	(388)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>209,827</b>	<b>286,035</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		272,447	325,727
Less: Pledged deposits		62,620	39,692
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	14	209,827	286,035

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS



## 1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 15 November 2013. The registered office of the Company is situated at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Company is an investment holding company. During the six months ended 30 June 2016, the Company's subsidiaries were involved in the following principal activities in the People's Republic of China (the "PRC"):

- Water purification services
- Air sanitization services
- Financing 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.

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

### Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2015.

For the six months ended 30 June 2016, the profit for the period of the Group was RMB161,512,000 and the net current liabilities was RMB18,391,000. The net current liabilities included advance from customer and deferred revenue balance of RMB32,344,000 and RMB108,985,000, 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 RMB122,938,000. Accordingly, the Directors consider that it is appropriate to prepare these financial statements on a going concern basis.



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

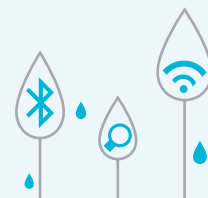
### New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and interpretations effective as of 1 January 2016 include:

- |   |  |
|---|--|
| • Annual Improvements 2012–2014 Cycle       | Amendments to a number of IFRS                                       |
| • IFRS 14                                   | Regulatory Deferral Accounts   |
| • Amendments to IFRS 11                     | Accounting for Acquisitions of Interests                             |
| • Amendments to IAS 16 and IAS 38           | Clarification of Acceptable Methods of Depreciation and Amortisation |
| • Amendments to IAS 27 (2011)               | Equity Method in Separate Financial Statements                       |
| • Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception            |
| • Amendments to IAS 1                       | Disclosure Initiative  |

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



## 3. OPERATING SEGMENT INFORMATION

The following table presents revenue, cost of revenue, profit and certain asset, liability and expenditure information for the Group's operating segments for the six months ended 30 June 2016 and 2015, respectively:

Six months ended 30 June 2016 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Financing services RMB'000	Total RMB'000
<b>Segment revenue</b>				
Sales to external customers	382,215	37,370	3,223	422,808
<b>Segment cost of revenue</b>				
Sales to external customers	140,703	29,033	119	169,855
<b>Segment results</b>	124,023	7,915	1,922	133,860
<i>Reconciliations:</i>				
Share-based payments				(15,673)
Fair value gain on derivative component of convertible bonds				91,084
Corporate and other unallocated expenses				(7,432)
Exchange loss				(945)
Finance costs				(17,612)
Profit before tax				183,282

Six months ended 30 June 2015 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Total RMB'000
<b>Segment revenue</b>			
Sales to external customers	298,222	40,813	339,035
<b>Segment cost of revenue</b>			
Sales to external customers	98,663	31,945	130,608
<b>Segment results</b>	87,806	8,559	96,365
<i>Reconciliations:</i>			
Share-based payment			(38,795)
Corporate and other unallocated expenses			(9,173)
Exchange loss			(293)
Profit before tax			48,104

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)



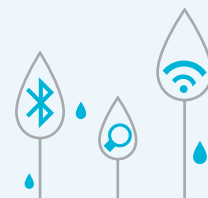
## 3. OPERATING SEGMENT INFORMATION (Continued)

The following table presents assets and liabilities information for the Group's operating segments as at 30 June 2016 and 31 December 2015, respectively:

As at 30 June 2016 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Financing services RMB'000	Total RMB'000
<b>Segment assets</b>	2,794,452	46,236	91,011	2,931,699
<i>Reconciliations:</i>				
Corporate and other unallocated assets				284,619
Tax related assets				42,711
Total assets				3,259,029
<b>Segment liabilities</b>	602,775	19,754	322	622,851
<i>Reconciliations:</i>				
Convertible bonds				371,982
Corporate and other unallocated liabilities				463
Tax related liabilities				154,480
Total liabilities				1,149,776

As at 31 December 2015 (audited)	Water purification services RMB'000	Air sanitization services RMB'000	Financing services RMB'000	Total RMB'000
<b>Segment assets</b>	2,732,774	47,037	58,150	2,837,961
<i>Reconciliations:</i>				
Corporate and other unallocated assets				444,904
Tax related assets				26,530
Total assets				3,309,395
<b>Segment liabilities</b>	752,976	16,077	462	769,515
<i>Reconciliations:</i>				
Convertible bonds				447,920
Corporate and other unallocated liabilities				2,883
Tax related liabilities				137,308
Total liabilities				1,357,626





## 4. REVENUE, OTHER INCOME AND GAINS

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

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

	<b>Six months ended 30 June</b>	
	<b>2016</b> <b>RMB'000</b> <b>(Unaudited)</b>	2015 RMB'000 (Unaudited)
<b>Revenue</b>		
<i>Water purification services:</i>		
Rental income	266,869	258,774
Training services	50,247	14,512
Sales of goods	65,099	24,936
<i>Air sanitization services:</i>		
Rendering of services	32,606	40,619
Sales of goods	3,581	194
Others	1,183	—
Financing services	3,223	—
	<b>422,808</b>	339,035
<b>Other income and gains</b>		
Government grants	7,980	6,978
Interest income	1,079	6,331
Others	30	135
	<b>9,089</b>	13,444

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

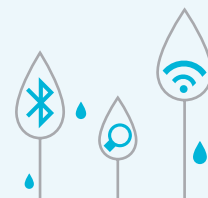
# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)



## 5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Cost of services provided		25,542	30,963
Cost of inventories sold		52,281	27,517
Depreciation of revenue generating assets	8	78,618	59,839
Depreciation of property, plant and equipment	9	33,829	25,999
Less: Amount capitalised in revenue generating assets		(11,152)	(8,963)
		22,677	17,036
Amortisation of intangible assets	10	5,045	5,477
Less: Amount capitalised in revenue generating assets		(3,019)	(4,019)
		2,026	1,458
Amortisation of prepaid land lease payments		771	771
Less: Amount capitalised in revenue generating assets		(771)	(771)
		—	—
Research and development costs		10,653	9,126
Auditors' remuneration		1,033	2,876
Employee benefit expense (including directors' remuneration):			
Total wages and salaries		61,917	68,527
Less: Amount capitalised in revenue generating assets		(9,392)	(13,940)
		52,525	54,587
Total pension scheme contributions		4,878	7,441
Less: Amount capitalised in revenue generating assets		(1,249)	(769)
		3,629	6,672
Operating lease expenses		10,651	10,944
Less: Amount capitalised in revenue generating assets		(5,387)	(5,184)
		5,264	5,760
Share-based payments	20	15,673	38,795
Warranty provision		13,947	10,542
Foreign exchange differences, net		945	293
Fair value gains on derivative component of convertible bonds	18	(91,084)	—
(Reversal of)/impairment loss for trade receivables	12	(224)	31
(Reversal)/write down of inventories to net realisable value		(40)	227
Loss on disposal of items of property, plant and equipment	9	111	—
Loss on disposal of revenue generating assets	8	411	408



## 6. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI. No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the 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 enterprise income tax has been provided at the rate of 25% (2015: 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 Ozner Comfort Environment & Science Co., Ltd., qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2014 to 2016.

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

Pursuant to the document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB520,000 and RMB706,000 for the six months ended 30 June 2015 and 2016, respectively, relating to the additional deduction of research and development costs.

The breakdown of income tax expense are as follows:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Current tax	<b>37,006</b>	21,369
Deferred tax	<b>(15,236)</b>	(5,096)
Income tax expense reported in profit or loss	<b>21,770</b>	16,273



## 6. INCOME TAX (Continued)

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

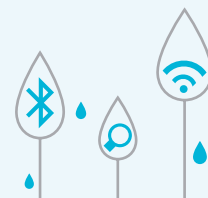
	<b>Six months ended 30 June</b>	
	<b>2016</b> <b>RMB'000</b> <b>(Unaudited)</b>	2015 RMB'000 (Unaudited)
Profit before tax	<b>183,282</b>	48,104
Tax at the statutory tax rate	<b>45,821</b>	12,026
Lower tax rates for specific provinces or enacted by local authority	<b>(12,543)</b>	(8,115)
Tax exempted by local authority	<b>(17,556)</b>	28
Expenses not deductible for tax	<b>4,348</b>	10,019
Unrecognised tax losses	<b>2,338</b>	2,835
Additional deduction of research and development costs	<b>(706)</b>	(520)
Tax losses utilised from previous periods	<b>68</b>	—
Tax at the effective income tax rate	<b>21,770</b>	16,273

## 7. EARNINGS PER SHARE (“EPS”)

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

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 gains on derivative component of convertible bonds, where applicable (see below), by the weighted average number of ordinary shares in issue during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic EPS amounts presented for the period ended 30 June 2016 in respect of a dilution as the impact of the stock options outstanding had an anti-dilutive effect on the basic EPS amounts presented. While for the period ended 30 June 2015 in respect of a dilution as the impact of the stock options outstanding had a dilutive effect on the basic EPS amounts presented (see below).



## 7. EARNINGS PER SHARE (“EPS”) (Continued)

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

	<b>Six months ended 30 June</b>	
	<b>2016</b> <b>RMB'000</b> <b>(Unaudited)</b>	2015 RMB'000 (Unaudited)
<b>Earnings:</b>		
Profit attributable to owners of the parent, used in the basic and diluted EPS calculation:	<b>161,512</b>	31,831
Interest on convertible bonds	<b>16,786</b>	—
Less: Fair value gains on derivative component of convertible bonds	<b>(91,084)</b>	—
Profit attributable to owners of the parent, before the effect of convertible bonds	<b>87,214</b>	31,831
<b>Shares:</b>		
Weighted average number of ordinary shares for basic EPS	<b>1,725,878,867</b>	1,746,815,717
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	<b>241,218,338</b>	—
Share options	<b>—</b>	14,165,041
	<b>1,967,097,205</b>	1,760,980,758
Basic EPS (RMB cents)	<b>9.36</b>	1.82
Diluted EPS (RMB cents)*	<b>4.43</b>	1.81

\* The Group had potentially dilutive ordinary shares of 241,218,338 in issue during the period (six months ended 30 June 2015: 14,165,041).

## 8. REVENUE GENERATING ASSETS

### Acquisitions and disposals

During the six months ended 30 June 2016, the Group acquired revenue generating assets with a cost of RMB202,516,000 (year ended 31 December 2015: RMB440,597,000). Depreciation for revenue generating assets was RMB78,618,000 during the period (year ended 31 December 2015: RMB136,286,000).

Revenue generating assets with a net book value of RMB411,000 were disposed of by the Group during the six months ended 30 June 2016 (year ended 31 December 2015: RMB615,000), resulting in a net loss on disposal of RMB411,000 (year ended 31 December 2015: RMB615,000).

As at 30 June 2016, certain of the Group's revenue generating assets with net carrying amount of approximately RMB156,349,000 were pledged to secure other borrowing in relation to the sales and leaseback arrangement.



## 9. PROPERTY, PLANT AND EQUIPMENT

### Acquisitions and disposals

During the six months ended 30 June 2016, the Group acquired assets with a cost of RMB14,783,000 (year ended 31 December 2015: RMB385,048,000), excluding property under construction. Depreciation for items of property, plant and equipment was RMB33,829,000 during the period (year ended 31 December 2015: RMB53,690,000).

The construction in process is totaling to RMB15,663,000 as of 30 June 2016 (31 December 2015: RMB231,574,000) mainly representing the new experience stores under construction.

There is assets of RMB111,000 disposed by the Group during the six months ended 30 June 2016 (31 December 2015: RMB102,000), resulting in a net loss on disposal of RMB111,000 (year ended 31 December 2015: RMB102,000).

## 10. INTANGIBLE ASSETS

During the six months ended 30 June 2016, the Group acquired intangible assets with a cost of RMB2,465,000 (year ended 31 December 2015: RMB5,767,000). Amortisation for intangible assets was RMB5,045,000 during the period (year ended 31 December 2015: RMB9,484,000).

There is no intangible asset disposed by the Group during the six months ended 30 June 2016 (31 December 2015: nil).

## 11. INVENTORIES

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Raw materials	47,619	53,509
Work in progress	35,508	39,678
Finished goods	99,575	103,414
	<b>182,702</b>	196,601
Write-down of inventories to net realisable value	<b>(5,024)</b>	(5,064)
	<b>177,678</b>	191,537



## 12. TRADE AND BILLS RECEIVABLES

	Note	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Trade receivables		66,055	63,093
Amount due from contract customers	13	11,959	9,897
Bills receivable		1,105	1,150
		79,119	74,140
Impairment		(2,520)	(2,744)
Net trade and bills receivables		76,599	71,396

Trade and bills receivables mainly represent water purification product sales receivables from distributors and receivables for air sanitization 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 sanitization 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.

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

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Within 90 days	47,369	15,871
Over 90 days and within 180 days	15,104	32,185
Over 180 days and within 1 year	2,167	9,687
Over 1 year and within 2 years	—	3,756
	64,640	61,499





## 12. TRADE AND BILLS RECEIVABLES (Continued)

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

	<b>Six months ended 30 June 2016 RMB'000 (Unaudited)</b>	Year ended 31 December 2015 RMB'000 (Audited)
As at 1 January	2,744	356
(Reversal of)/impairment loss for trade receivables	(224)	2,388
As at 30 June/31 December	<b>2,520</b>	2,744

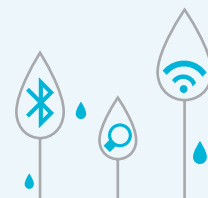
Included in the above impairment loss for trade and bills receivables is a provision for individually and fully impaired trade and bills receivables. The impairment loss/reversal of impairment loss for impaired trade and bills receivables have been included in other expenses.

### Transferred financial assets that are not derecognised in their entirety

At 30 June 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB805,000 (2015: RMB1,000,000) 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 period to which the suppliers have recourse was RMB805,000 (2015: RMB1,000,000) as at 30 June 2016.

## 13. CONSTRUCTION CONTRACTS

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Gross amount due from contract customers	<b>11,959</b>	9,897
Contract costs incurred plus recognised profits less recognised losses to date	<b>46,804</b>	60,482
Less: Progress billings	<b>(34,845)</b>	(50,585)
	<b>11,959</b>	9,897



## 14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Cash and bank balances	272,447	453,406
Time deposits	—	65,001
Total cash and bank balances	272,447	518,407
Less: Pledged as collateral for issuance of bank acceptance notes	62,620	137,485
Cash and cash equivalents	209,827	380,922
Denominated in RMB	226,958	292,768
Denominated in HK\$	44,897	225,062
Denominated in US\$	592	577
Total cash and bank balances	272,447	518,407

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.



## 15. 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:

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Within 90 days	97,951	126,876
Over 90 days and within 180 days	24,552	16,844
Over 180 days and within 1 year	11,354	9,957
Over 1 year and within 2 years	10,057	153
Over 2 years and within 3 years	507	1,124
Over 3 years	1,358	705
	<b>145,779</b>	155,659

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

## 16. INTEREST-BEARING BANK LOAN

	30 June 2016			31 December 2015		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
Current						
Bank loans — secured	4.5	2017	30,000	—	—	—
			<b>30,000</b>			—

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Analyzed into		
Bank loan		
Within one year	<b>30,000</b>	—

The Group's loan facilities amounting to RMB100,000,000, of which RMB30,000,000 had been utilized as at the end of the reporting period, are guaranteed by the Company's subsidiary, Shaanxi Haoze Environmental Technology Development Co., Ltd.



## 17. OTHER BORROWINGS

Other borrowings as at 30 June 2016 represents the borrowings under a financing arrangements entered into by the Group with a third-party leasing company, in the form of a sale and leaseback transaction which results in a finance lease and bear a repurchase option. The subjects sold and leased back under the financing arrangements are the water purifying machines owned by the Group. As the repurchase prices are set at RMB100 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods of two years and the Group is certain that it will exercise the repurchase option, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralised borrowings at amortised cost using the effective interest method.

At 30 June 2016, the Group's other borrowings were payable as follows:

	<b>Minimum lease payments As at 30 June 2016 RMB'000 (Unaudited)</b>	Present value of minimum lease payments As at 30 June 2016 RMB'000 (Unaudited)
Amounts payable:		
Within one year	36,566	30,365
In the second year	46,225	43,975
Total minimum finance lease payments	<b>82,791</b>	74,340
Future finance charges	<b>(8,451)</b>	
Total net finance lease payables	<b>74,340</b>	
Portion classified as current liabilities	<b>(30,365)</b>	
Non-current portion	<b>43,975</b>	

For the year ended 30 June 2016, the net profit of the Group was RMB161,512,000 and the net current liabilities was RMB18,391,000. The net current liabilities included advance from customer and deferred revenue balance of RMB32,344,000 and RMB108,985,000, 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 RMB122,938,000. Accordingly, the directors of the Company consider that it is appropriate to prepare these financial statements on a going concern basis.



## 18. 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.

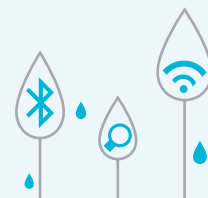
The Convertible Bonds bear interest at the rate of 5% per annum payable semi-annually in arrears on 15 May and 15 November in each year. The Convertible Bonds will mature on 6 November 2020. The Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount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



## 18. 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 RMB'000	Derivative component of Convertible Bonds RMB'000	Total 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 (Audited)	305,914	142,006	447,920

	Liability component of Convertible Bonds RMB'000	Derivative component of Convertible Bonds RMB'000	Total RMB'000
At 31 December 2015	305,914	142,006	447,920
Interest expense	16,786	—	16,786
Interest paid	(9,935)	—	(9,935)
Fair value adjustment	—	(91,084)	(91,084)
Currency translation differences	6,339	1,956	8,295
At 30 June 2016 (Unaudited)	319,104	52,878	371,982



## 19. SHARE CAPITAL, SHARE PREMIUM AND TREASURE SHARES

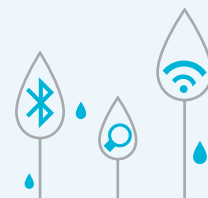
Ordinary shares issued and fully paid	Number of shares in issue	Share capital RMB'000
At 1 January 2015	1,751,300,000	13,928
Shares cancellation	(15,878,000)	(126)
At 31 December 2015	1,735,422,000	13,802
Shares cancellation	(5,740,000)	(45)
At 30 June 2016 (Unaudited)	1,729,682,000	13,757

Share premium	RMB'000
At 1 January 2015 and 31 December 2014	974,847
Shares cancellation	(30,340)
At 1 January 2016 and 31 December 2015	944,507
Shares cancellation	(9,099)
At 30 June 2016 (Unaudited)	935,408

During the six months ended 30 June 2016, the Company purchased a total of 13,052,000 (2015: 18,754,000) ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately RMB15,072,000 (2015: RMB35,434,256) on the Hong Kong Stock Exchange at a total consideration of, which was paid wholly out of share premium. The purchased shares of 5,740,000 (2015: 15,878,000) were cancelled during the period and the total amount paid for the purchase of the shares of RMB9,144,000 (2015: RMB30,466,596) has been charged to share capital and share premium of the Company.

As at 30 June 2016, treasure shares of RMB10,895,000 (2015: RMB4,968,000) consisted of remaining repurchased ordinary shares of 10,188,000 (2015: 2,876,000) which is purchased for restricted share unit scheme without grant at the end of reporting period.





## 20. 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.



## 20. SHARE-BASED PAYMENTS (Continued)

### Pre-IPO Share Option Scheme (Continued)

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

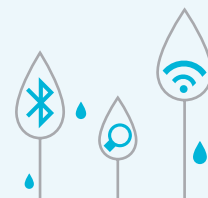
	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 30 June 2015 RMB'000 (Unaudited)
Total expense arising from equity-settled share-based payment transactions	<b>16,691</b>	41,445
Less: Amount capitalised in revenue generating assets	<b>(1,018)</b>	(2,650)
	<b>15,673</b>	38,795

There were no cancellations of or modifications to the awards during the six months ended 30 June 2016.

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

	<b>Outstanding at 1 January and 31 December 2015</b>	<b>Granted during the year</b>	<b>Forfeited during the year</b>	<b>Exercised during the year</b>	<b>Expired during the year</b>	<b>Outstanding at 30 June 2016</b>
<i>Directors</i>						
Mr. Xiao Shu	51,086,706	—	—	—	—	51,086,706
Mr. Zhu Mingwei	11,160,859	—	—	—	—	11,160,859
Mr. He Jun	10,662,531	—	—	—	—	10,662,531
Mr. Tan Jibin	8,547,535	—	—	—	—	8,547,535
Mr. Xiao Lilin	7,596,652	—	—	—	—	7,596,652
<i>Other employees</i>						
In aggregate	71,733,131	—	(2,054,507)	—	—	69,678,624
	160,787,414	—	(2,054,507)	—	—	158,732,907
Exercisable at the end of the period						111,113,034

The weighted average remaining contractual life of the share options outstanding as at 30 June 2016 was 8 years. The weighted average fair value of the options granted under the Pre-IPO Share Option Scheme was HK\$1.07 (RMB0.85).



## 20. 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. At the annual general meeting of the Company held on 27 May 2016, the Shareholders approved the refreshment of the scheme mandate limit for the Share Option Scheme and any other share option schemes of the Company to 10% of the shares in issue as at the date of the annual general meeting (the "Refreshed Scheme Mandate Limit"). 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 of the Company under the Refreshed Scheme Mandate Limit together with all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme must not in aggregate exceed 331,701,107 shares. Options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of calculating the Refreshed 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 Share Option Scheme during the six months ended 18 August 2016.

### Restricted Share Unit Scheme

The restricted share unit scheme was approved and adopted on 7 December 2015.

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 during the six months ended 30 June 2016.



## 21. 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:

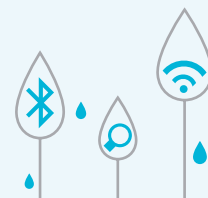
	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Within one year	<b>152,259</b>	56,492

### (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:

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Within one year	<b>13,494</b>	12,928
In the second to fifth years, inclusive	<b>4,822</b>	10,430
	<b>18,316</b>	23,358



## 22. COMMITMENTS

In addition to the operating lease commitments detailed in note 21(b) above, the Group had the following capital commitments at the reporting date:

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Contracted, but not provided for: Property, plant and equipment	<b>93,466</b>	52,426

## 23. 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

	<b>Six months ended 30 June 2016 RMB'000 (Unaudited)</b>	2015 RMB'000 (Unaudited)
Amount due from shareholder	<b>756</b>	—

### (c) Outstanding balance with a related party

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Amount due from shareholder — Mr. Xiao Shu	<b>756</b>	—

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



## 24. FINANCIAL INSTRUMENTS BY CATEGORY

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

### Financial assets – loans and receivables

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Trade and bills receivables	76,599	71,396
Financial assets included in deposits and other receivables	140,035	85,785
Pledged deposits	62,620	137,485
Cash and cash equivalents	209,827	380,922
	<b>489,081</b>	675,588

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 liabilities – financial liabilities at amortised cost

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Trade and bills payables	145,779	155,659
Financial liabilities included in other payable and accruals	231,866	240,440
Interest-bearing loans and borrowings	30,000	—
Other borrowings – current portion	30,365	—
Other borrowings – non-current portion	43,975	—
Liability component of convertible bonds	319,104	305,914
	<b>801,089</b>	702,013



## 24. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

### Financial liabilities – Financial liabilities at fair value through profit or loss

	<b>As at 30 June 2016 RMB'000 (Unaudited)</b>	As at 31 December 2015 RMB'000 (Audited)
Derivative component of convertible bonds	<b>52,878</b>	142,006

## 25. 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:

	<b>Carrying amounts</b>		<b>Fair values</b>	
	<b>As at 30 June 2016 RMB'000</b>	As at 31 December 2015 RMB'000	<b>As at 30 June 2016 RMB'000</b>	As at 31 December 2015 RMB'000
<b>Financial liabilities</b>				
Derivative component of convertible bonds	<b>52,878</b>	142,006	<b>52,878</b>	142,006
	<b>52,878</b>	142,006	<b>52,878</b>	142,006

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.



## 25. FAIR VALUE MEASUREMENT (Continued)

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.

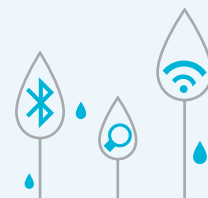
The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance 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.

### 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 30 June 2016:

	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Ratio</b>	<b>Sensitivity of fair value to the input</b>
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 RMB5,644
		Volatility	58.5%	10% increase in volatility would result in increase in fair value by RMB12,713
		Liquidity discount	27.0%	5% increase in liquidity discount would result in decrease in fair value by RMB24,718
		Risky discount rate	2.7%	1% increase in risky discount rate would result in decrease in fair value by RMB3,978





## 25. FAIR VALUE MEASUREMENT (Continued)

### Financial instruments measured at fair value (Continued)

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

## 26. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 28 July 2016, the Group, as the vendor and lessee entered into a sale and leaseback agreement with Jiangnan Financing leasing, as the purchaser and lessor. According to the agreement, the Group will sell and lease back about 68,200 water purifying machines, for a leased term commencing from the effective date of the agreement and expiring on 28 July 2019. The effective date of the agreement is the date when the Group receives the consideration of RMB80 million paid by Jiangnan Financing leasing for the purchase of the water purifying machines. As of the date of issue of these financial statements, the Group has received such consideration. The Group recognized a borrowing of around RMB80 million and account it at amortised cost by using the effective interest method during the lease period ending on 28 July 2019.

On 9 August 2016, the Group, as the vendor and lessee entered into a sale and leaseback agreement with Zhengqi Financing leasing, as the purchaser and lessor. According to the agreement, the Group will sell and lease back about 74,700 water purifying machines, for a leased term commencing from the effective date of the agreement and expiring on 9 August 2019. The effective date of the agreement is the date when the Group receives the consideration of RMB80 million paid by Zhengqi Financing leasing for the purchase of the water purifying machines. As of the date of issue of these financial statements, the Group has received such consideration. The Group recognized a borrowing of around RMB80 million and account it at amortised cost by using the effective interest method during the lease period ending on 9 August 2019.

## 27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 August 2016.