

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)

INTERIM REPORT 2017





OZNER

DRINK FOR HEALTH



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xiao Shu (*Chairman and Chief Executive Officer*)
Mr. Zhou Guanxuan (*Vice Chairman*)
Mr. Tan Jibin
Mr. Li Honggao
Mr. Wang Yonghui

Non-Executive Directors

Mr. Yan Andrew Yan
Mr. He Sean Xing
Ms. Wang Haitong (*Resigned on 22 August 2017*)
Ms. Gui Songlei (*Appointed on 22 August 2017*)

Independent Non-Executive Directors

Dr. Chan Yuk Sing Gilbert
Mr. Lau Tze Cheung Stanley
Dr. Bao Jiming
Mr. Gu Jiuchuan

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*)
Dr. Chan Yuk Sing Gilbert
Dr. Bao Jiming
Mr. Gu Jiuchuan

REMUNERATION COMMITTEE

Dr. Bao Jiming (*Chairman*)
Mr. Zhou Guanxuan
Mr. Lau Tze Cheung Stanley

NOMINATION COMMITTEE

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

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

INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

No. 60 Guiqiao Road
Pudong New District
Shanghai
The People's Republic of China

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
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HONG KONG SHARE REGISTRAR

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Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

2014

COMPANY'S WEBSITE

www.ozner.net

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(RMB in thousand)	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Revenue		
Water purification services	533,114	382,215
Air sanitization services	22,101	37,370
Financing Services	13,138	3,223
Gross Profit	311,712	252,953
<i>Gross Profit Margin</i>	54.8%	59.8%
Net Profit	66,164	161,512
<i>Net Profit Margin</i>	11.6%	38.2%
Non-IFRS adjusted profit for the Period	91,946	86,101
Non-IFRS adjusted net profit margin	16.2%	20.4%
Basic earnings per share (RMB cents)	3.37	9.36
Non-IFRS adjusted earnings per share (RMB cents)	4.61	4.99

(RMB in thousand)	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)
	Revenue generating assets	1,515,804
Total assets	4,524,698	3,688,522
Total liabilities	1,755,614	1,464,876



CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

With consumers' continuously raised expectations towards life quality and gradually improved health awareness, new electric appliances like air purifiers and water purifiers have witnessed a rapid growth in market demand in recent years. The Chinese government also has promulgated relevant standards and policies in succession, enabling a daily sophisticated and regulated development path for the industry.

The year of 2017 marked the transformation and upgrade for water purification industry, which also saw the remarkable development of the industry. According to the measurements of China Market Monitor Co., Ltd., for the first half of 2017, retail sales value of water purification equipment market in China has maintained at high double-digit growth rate compared to the corresponding period of last year. The industry will take the opportunity to promote orderly development with the promulgation and implementation of "The Action and Implementation Plan for Water Efficiency Leaders" (《水效領跑者行動實施方案》) and "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》) in 2016, China Household Electronic Appliances Service & Maintenance Association held a meeting and drafted "Regulations on Qualification Accreditation for On-site Water Purification Service Engineers" (《淨水上門服務工程師資質認證規範》) on World Water Day in March 2017. This indicates that regulations on water purification industry serve not only as manufacturing and functional standards for products, but gradually cover the qualification requirements for servicing personnel, which marks a higher threshold for enterprises to enter water purification market in the future. In the long run, it will be conducive to the healthy development for the water purification industry.

Air purification industry will also become increasingly regulated. On top of "New National Standards for Air Purifier" (《空氣淨化器新國標》), the drafting and formulating of two industry standards, namely, "Strainer Filter Applicable for Air Purifier" (《空氣淨化器用濾網過濾器》) and "Electrostatic Dust Collection Filter Applicable of Air Purifier" (《空氣淨化器用靜電式集塵過濾器》) will draw to a close after recent months' efforts and are expected to be rolled out in 2018. The establishment and improvement of a variety of industry standards, such as smog weathers, consumption upgrade and new national standards will steer China's air purification industry into a healthy development path with a predictable market in the future.

BUSINESS REVIEW

For the six months ended 30 June 2017 (the "Period"), the Group's turnover and gross profit were approximately RMB568.4 million and RMB311.7 million, respectively, representing an increase of approximately 34.4% and 23.2%, 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 4,980 as at 31 December 2016 to 5,760 as at 30 June 2017.

Ozner has been maintaining a leading position in China's commercial water purifier market for years. In the first half of 2017, 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 and actively develop household appliances market. During the Period, the cumulative number of installations increased from approximately 1,265,000 units as at 31 December 2016 to approximately 1,466,000 units as at 30 June 2017.



Chairman's Statement and Management Discussion and Analysis (Continued)

For the first half of the year, Ozner Water has firmly carried out the market strategy of vertical expansion and saturation attack to make multi-aspect upgrade in respect of products, market, channels as well as management. As for product techniques, we have launched intelligent water chip technique in April this year. As for service, we have upgraded big data cloud servicing. As for channels, we have managed to complete stereometric layout. Meanwhile, we have connected the online advantageous resources with offline entries and continued to improve intelligent water ecosphere, which helps Ozner Water to build a more solid foundation for long term developments. With consumption upgrade and the release of various national environmental policies, the entire water purification industry will encounter chances for development, while also facing greater challenges. The successive achievements made by Ozner Water during the past six months were profound. For the six months ended 30 June 2017, Ozner Water has materialized each strategic task in full. It has not only completed strategic mergers and acquisitions of enterprises such as Guangdong Bili Drinking Water Equipment Co., Ltd. (廣東碧麗飲水設備有限公司), which is the leading brand in the provision of drinking water machines to educational institutions and the educational sector in the PRC, and Foshan Lepuda Motor Co., Ltd (佛山市順德區樂普達電機有限公司) which is a leader specialized in micro motor products, but also realized a significant growth in sales performance, all of which proved the forward-looking and appropriateness of the Group's strategic planning.

Looking forward into the second half of the year, we are fully motivated and confident. We will continue to engage in brand and strategies building, which will lay a sounder foundation for Ozner's future development. We will push forward the following user-oriented strategies to gain recurring service income, therefore further expanding our business and creating more value for shareholders of the Company (the "Shareholders"):

For the first half of 2017, the outstanding achievements and breakthroughs made by the Group owed to the scientific strategic planning and team spirit throughout the Group. As early as the beginning of 2017, Ozner Group has conducted brand new strategic deployment. It further specified the user-oriented platform operational strategy that obtains sustainable service income. Under the guidance of platform development strategies, Ozner Group will uphold resources-sharing idea in depth and export resources covering the entire industry chain to each system and partner, such as technique research and development, capital finance and production and manufacturing. Each segment will secure market increments to the greatest extent based on respective conditions via flexible development methods for channels. Meanwhile, leveraging on the flow entries generated from Ozner Services Home, not only can we achieve a virtuous eco-cycle from market, product research and development to service by effectively connecting the user and the service team, but also use it as the core to support each business segment's development, which enables the service to create value continuously. As for ground sale channels and service systems, Ozner Group will focus on promoting the "Partners" operational strategy, which will further raise the market expansion enthusiasm of our partners to share the resources with Ozner for a win-win market. Ozner is going to develop into a strategic operational platform integrating resources, services and management. In the future, Ozner Water will endeavour to become an outstanding enterprise by upholding the principles of "Capital Support", "Technical Support", "Team Support", "Model Support" and "Channel Support" to provide comprehensive platform services for each system and its partners, to speed up the model export as well as consolidating market and resources.

FUTURE PROSPECTS

In the current era of innovation, it is expected that for the second half of 2017, Ozner Water will uphold and carry on a spirit of exploration, innovation, striving fearlessly and unity as one and turn it into a core value of Ozner spirit when we deliver our service in this new era, in a move to continuously promote product innovation and grant more values for our clients and draw a blueprint for intelligent water ecology with each strategic partner. In general, we are full of confidence about the prospect of domestic water purification machines and air purifier market and believe that such market will maintain a steady growth under the policies on improved domestic consumption and raised public awareness of health.

FINANCIAL REVIEW

Revenue

Our total revenue increased by approximately 34.4% from approximately RMB422.8 million for the six months ended 30 June 2016 to approximately RMB568.4 million for the six months ended 30 June 2017, primarily attributable to the increase in revenue from water purification services.

Revenue from water purification services increased by 39.5% from RMB382.2 million for the six months ended 30 June 2016 to RMB533.1 million for the six months ended 30 June 2017, primarily due to the increase in the accumulated number of water purification machines installed from approximately 1,265,000 units as at 31 December 2016 to approximately 1,466,000 units as at 30 June 2017 and increase in the number of new distributors. As at 30 June 2017, the Group sold and leased a total of approximately 201,000 units of new water purification machines. During the Period, we expanded our sales and marketing team and distributors to penetrate the household market.

Revenue generated from air sanitization and financing services decreased by 13.3% from RMB40.6 million for the six months ended 30 June 2016 to RMB35.2 million for the six months ended 30 June 2017. The decrease was primarily due to the focus on water purification services business.

Gross Profit Margin

Our gross profit margin decreased from 59.8% for the six months ended 30 June 2016 to 54.8% for the six months ended 30 June 2017, primarily attributable to the decrease in gross profit margin in water purification business which was offset by increase in gross profit margin in air sanitization and financing business.

Our gross profit margin in water purification business was 63.2% and 55.0% for the six months ended 30 June 2016 and 2017, respectively. The decrease in gross profit margin was a result of sales of water purification machines and increase of proportion of 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 65.9% for the six months ended 30 June 2016 to 57.6% for the six months ended 30 June 2017.

Gross profit margin of the air sanitization and financing business for the six months ended 30 June 2016 and 2017 were 28.2% and 52.5%, respectively. The increase in gross profit was a result of increase in revenue generated from financing services with a higher profit margin.

Other Income and Gains

Our other income and gains increased by 225.3% from RMB9.1 million for the six months ended 30 June 2016 to RMB29.6 million for the six months ended 30 June 2017, primarily attributable to the increase in government grant of RMB11.6 million and increase in interest income of RMB8.7 million in relation to incentive for local economic development, and increase in average bank balance and short-term investments.

Selling and Distribution Expenses

For the six months ended 30 June 2016 and 2017, our selling and distribution expenses were RMB84.4 million and RMB130.2 million respectively, representing 20.0% and 22.9% of the revenue of the respective periods, which was an increase of 54.3% or RMB45.8 million from the six months ended 30 June 2016 to the six months ended 30 June 2017. Such increase was primarily due to increase in salary and welfare expenses amounting to RMB38.2 million and traveling expenses amounting to RMB8.2 million. Such increase was in relation to increase of headcount of sales and marketing department for the promotion and capturing of business growth in household market.

Administrative Expenses

For the six months ended 30 June 2016 and 2017, our administrative expenses were RMB54.4 million and RMB61.8 million respectively, representing 12.9% and 10.9% of the revenue of the respective periods. Our administrative expenses increased by 13.6% or RMB7.4 million from the six months ended 30 June 2016 to the six months ended 30 June 2017, primarily due to the increase in headcount of management team and hiring professional parties for handling of merger and acquisition exercises as there were no such transactions for the six months ended 30 June 2016.

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 2020 (the "Bonds") which has an aggregate principal amount of HK\$465.0 million and was issued in November 2015. The Group recorded the fair value gains on derivative component of convertible bonds of RMB91.1 million for the six months ended 30 June 2016 and no such gains were recorded for the six months ended 30 June 2017, primarily because the derivative component of convertible bonds has been capitalized in the second half of 2016.

Finance Costs

Finance costs mainly represented the finance expenses in relation to the Bonds and loans from sales and leaseback arrangements. Finance costs increased by 131.3% or RMB23.1 million from RMB17.6 million for the six months ended 30 June 2016 to RMB40.7 million for the six months ended 30 June 2017, such increase was primarily due to the increase in financing from sales and leaseback arrangements.

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 has extended 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, which will be renewed after 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 RMB21.8 million and RMB17.8 million for the six months ended 30 June 2016 and 2017, respectively. The effective tax rates (calculated by dividing income tax expenses by profit before tax) increased from 11.9% for the six months ended 30 June 2016 to 21.2% for the six months ended 30 June 2017, 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 for the six months ended 30 June 2016. 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 2016 and 2017 were 20.2% and 19.7%, respectively.

Profit for the Period Attributable to Owner of the Parent and Net Profit Margin

Profit for the Period attributable to owner of the parent decreased by approximately RMB94.4 million from RMB161.5 million for the six months ended 30 June 2016 to RMB67.1 million for the six months ended 30 June 2017. At the same time, our net profit margin decreased from 38.2% for the six months ended 30 June 2016 to 11.6% for the six months ended 30 June 2017. Such decrease was primarily contributed by fair value gains on derivative component of the Bonds for the six months ended 30 June 2016 as no such gain was incurred for the six months ended 30 June 2017.

If excluding the adjusted items as stated in the reconciliation as below, profit for the Period increased by 6.8% from RMB86.1 million for the six months ended 30 June 2016 to RMB91.9 million for the six months ended 30 June 2017, and net profit margin for the period decreased from approximately 20.4% for the six months ended 30 June 2016 to approximately 15.9% for the six months ended 30 June 2017 which was primarily due to sales of water purification machines with a lower gross profit margin.

Chairman's Statement and Management Discussion and Analysis (Continued)

The reconciliation between the profits for the Period attributable to owner of the parent and adjusted net profit is as below:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Profit for the Period attributable to owner of the parent	67,094	161,512
Adjusted items:		
– Fair value gains on derivative component of the Bonds	–	(91,084)
– Exchange difference in relation to capital nature	4,042	–
– Share option expenses	6,401	15,673
– Amortised costs of liability component of convertible bonds ⁽¹⁾	14,409	–
Non-IFRS adjusted profit for the Period attributable to owner of the parent	91,946	86,101

Note:

- (1) The amortised costs of liability component of convertible bonds is the amount at which the convertible bonds were measured at initial recognitions plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

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 2017, the Group's bank balances and cash was RMB794.5 million (31 December 2016: RMB486.9 million). As at 30 June 2017, all cash and cash equivalents were denominated mainly in Renminbi and Hong Kong Dollars.

Trade and Bills Receivables

Trade and bills receivables increased from RMB44.0 million as at 31 December 2016 to RMB105.6 million as at 30 June 2017. Such increment was due to increase in sales of water purification machines. Our average trade receivable turnover days were 23 days and 24 days for the year ended 31 December 2016 and for the six months ended 30 June 2017, respectively.

Inventories

Inventories increased from RMB164.2 million as at 31 December 2016 to RMB186.7 million as at 30 June 2017. Such increase was primarily due to increase in raw materials and work-in-progress to fulfill the demands from customers. Our average inventories turnover days were 131 days and 123 days for the year ended 31 December 2016 and for the six months ended 30 June 2017, respectively.

Current Ratio and Gearing Ratio

As at 30 June 2017, our current ratio was 1.71 (as at 31 December 2016: 1.29). The increase in current ratio as of 30 June 2017 was primarily due to significant increase in cash and cash equivalents in relation to issuance of 316,299,950 new shares at HK\$1.71 per share to Glorious Shine Holdings Limited on 25 January 2017. Our gearing ratio, which was derived by dividing total debt by total equity, was 34.3% and 37.2% as at 31 December 2016 and 30 June 2017, respectively. The increase in gearing ratio as of 30 June 2017 was primarily due to financing lease arrangement.

Capital Expenditure

For the six months ended 30 June 2017, the Group's capital expenditure amounted to approximately RMB149.4 million, which was mainly used for the purchases of property, plant and equipment and water purification machines. During the Period, the Group added new water purification machines amounting to RMB121.2 million, established experience stores with an aggregate value of approximately RMB8.9 million, and purchased equipment in relation to the second phase of production plant in Shaanxi Province amounting to RMB11.0 million.

Borrowings and Charges on the Group's Assets

As at 30 June 2017, the Group had interest-bearing loans and borrowings, other borrowings and liability component of convertible bonds of approximately RMB9.7 million (31 December 2016: RMB49.5 million), approximately RMB680.3 million (31 December 2016: RMB371.8 million) and approximately RMB339.7 million (31 December 2016: RMB342.0 million), respectively. The Bonds will mature on 6 November 2020 and the nominal interest rate is 5.0% per annum. The interest-bearing loans and borrowings will be repayable within 1 year and they all bear the nominal interest rate of 4.6% per annum. Amongst the other borrowings, approximately RMB267.5 million (31 December 2016: RMB146.8 million) will be repayable within 1 year, and approximately RMB412.9 million (31 December 2016: RMB225.0 million) will be repayable between 1 and 2 years and they bear the nominal interest rate of 5.98% per annum.

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

As at 30 June 2017, the Group has entered into several finance lease agreements (the "Finance Lease Agreements") for the sale and leaseback of approximately 744,000 water purification machines and approximately 680 units of certain machinery and ancillary hardware of the Group for a principal amount of RMB680.3 million. The carrying amounts of the 744,000 water purification machines are subject to the sale and leaseback arrangements under the Finance Lease Agreements, in substance treated as secured assets, as at 30 June 2017 were approximately RMB1,009.3 million.

Save as disclosed above, the Group did not have any charges on the assets as of 30 June 2017 (31 December 2016: Nil).



Chairman's Statement and Management Discussion and Analysis (Continued)

Contingent Liabilities

As at 30 June 2017, the Group had no material contingent liabilities.

Commitments

As at 30 June 2017, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB13.2 million (31 December 2016: RMB10.0 million).

As at 30 June 2017, the Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to RMB111.0 million (31 December 2016: RMB84.0 million).

As at 30 June 2017, the Group had unpaid annual leasing fee payments which are not yet recognized as rental revenue amounting to RMB262.6 million (31 December 2016: RMB167.6 million).

As at 30 June 2017, 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 2017, the Group had entered several material acquisitions transactions as follows:

On 22 May 2017, the Group entered into a share purchase agreement with Mr. Wu Zongquan, Ms. Wu Danni and Ms. Zeng Duo, each an independent third party, Guangdong Bili Drinking Water Equipment Co., Ltd. ("Guangdong Bili"), Foshan Kangliyuan Energy Saving Equipment Co., Ltd. and Foshan Shunde Runli Investment Co., Ltd. pursuant to which the Group agreed to purchase and Mr. Wu Zongquan, Ms. Wu Danni and Ms. Zeng Duo agreed to procure Guangdong Bili (after reorganisation) to sell the sale interest representing 51% of the total equity interest in Guangdong Bili, at the consideration of RMB173,910,000 (subject to adjustment). The consideration of RMB173,910,000 for the sale and purchase of the sale interest shall be settled (i) as to RMB130,432,500 in cash; and (ii) as to RMB43,477,500 by the Company allotting and issuing 25,066,535 consideration shares (subject to adjustment) at the issue price of HK\$1.9660 (equivalent to approximately RMB1.7345). For details, please refer to the Company's announcement dated 23 May 2017.



Chairman's Statement and Management Discussion and Analysis (Continued)

On 23 June 2017, the Group entered into a share purchase agreement with Mr. Peng Dongkun (彭東琨) and Ms. Li Lijun (李麗君), each an independent third party, Suichuan Lepu Business Service Centre (Limited Partnership) (the "Partnership Enterprise"), Foshan Lepuda Motor Co., Ltd ("Foshan Lepuda"), Foshan Lepu Trading Co., Ltd and Foshan Shunde Lehong Motor Co., Ltd. pursuant to which the Group agreed to purchase and Mr. Peng and Ms. Li agreed to procure the Partnership Enterprise to sell the sale interest representing 51% of the total equity interest in Foshan Lepuda, at the consideration of RMB160,650,000 (subject to adjustment). The consideration of RMB160,650,000 for the sale and purchase of the sale interest will be settled (i) as to RMB128,520,000 in cash; and (ii) as to RMB32,130,000 by the Company allotting and issuing 20,653,363 consideration shares (subject to adjustment) at the issue price of HK\$1.778 (equivalent to approximately RMB1.556). For details, please refer to the Company's announcement dated 23 June 2017.

On 30 June 2017, the Group entered into a share purchase agreement with Mr. Lim Chang Huat, an independent third party, pursuant to which Mr. Lim has conditionally agreed to sell, and the Group has conditionally agreed to purchase the shares representing approximately 51% of the shareholding interest in NEP Holdings (Malaysia) Berhad, a company incorporated under the laws of Malaysia, at the consideration of RM296,820,000 (equivalent to approximately RMB461.8 million) which will be satisfied by cash. For details, please refer to the Company's announcements dated 9 May, 23 May, 23 June and 3 July 2017.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016 and 2017, the Group had 1,863 and 3,180 employees, respectively. Total staff costs (including Directors' emoluments and excluding share-based payments) for the six months ended 30 June 2017 were RMB88.1 million, as compared to RMB61.9 million for the six months ended 30 June 2016. Besides salary payments, other employee benefits include social insurance and housing accumulation 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 2017, a total of 156,427,596 share options granted under the Pre-IPO Share Option Scheme were outstanding. During the six months ended 30 June 2017, no share options or restricted share units were granted or agreed to be granted under the Schemes. For the six months ended 30 June 2017, the total expense of the Schemes was RMB6.8 million (six months ended 30 June 2016: RMB16.7 million).

On 21 July 2017, restricted share units ("RSUs") representing 11,159,908 ordinary shares with par value of HK\$0.01 each of the Company (the "Shares") were granted to 215 selected persons under the Restricted Share Unit Scheme, of which (i) RSUs representing 2,116,178 Shares were granted to four selected persons who are Directors or a director of the Company's subsidiary; and (ii) RSUs representing 9,043,730 Shares were granted to 211 selected persons who are employees or distributors of the Group. For details, please refer to the Company's announcement dated 21 July 2017.

On 25 August 2017, RSUs representing 2,201,543 Shares were granted to 13 selected persons who are distributors of the Group under the Restricted Share Unit Scheme. For details, please refer to the Company's announcement dated 25 August 2017.

Chairman's Statement and Management Discussion and Analysis (Continued)

USE OF NET PROCEEDS FROM LISTING

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

The following table sets forth the status of use of proceeds from the global offering¹:

Items	% of use of proceeds	Proceeds from the global offering RMB million	Used up to 30 June 2017 RMB million
Manufacturing of water purification machines	54%	533.6	533.6
Construction of second phase of production facility in Shaanxi	20%	197.6	197.6
Repayment of bank loan	11%	109.1	109.1
Sales and marketing	5%	49.4	49.4
Working capital and other general corporate purposes	10%	98.5	98.5
Total	100%	988.2	988.2

¹ The figures in the table are approximate figures.

As at 30 June 2017, the Company has used the full amount of RMB988.2 million of the net proceeds from the global offering in accordance with the section headed "Future plans and use of proceeds" contained in the offering prospectus.

INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

On 13 November 2016, the Company entered into a subscription agreement with Glorious Shine Holdings Limited, a company indirectly held by a discretionary trust established by Mr. Xiao Shu, the chairman and chief executive officer of the Company, for the subscription of 316,299,950 shares at a subscription price of HK\$1.71 per share. The gross proceeds from the subscription amounted to approximately HK\$540.9 million and the net proceeds raised from the subscription was approximately HK\$537.9 million. The subscription was completed on 25 January 2017 and the subscription shares were issued on 25 January 2017.

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 2017.

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

At 30 June 2017, 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/short positions in ordinary shares of the Company:

Name of director	Long/short positions	Nature of interest	Note	Number of ordinary Shares	Percentage of the Company's issued share capital as at 30 June 2017
Mr. XIAO Shu	Long position	Founder of discretionary trusts	(a)	786,834,150	38.46%
		Beneficial owner	(b)	55,284,706	2.70%
	Short position	Founder of discretionary trusts	(c)	46,875,000	2.29%
Mr. Andrew Yan YAN	Long position	Interest in a controlled corporation	(d)	334,857,000	16.37%

Other Information (Continued)

Notes:

- (a) These 786,834,150 Shares are held as to 341,820,000 Shares by Baida Holdings Limited, 62,182,200 Shares by Lion Rise Holdings Limited and 382,831,950 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 382,831,950 Shares held by each of 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 was deemed to have the short position in the 46,875,000 Shares held by Baida Holdings Limited.
- (d) These 334,857,000 Shares are held by SAIF Partners IV L.P. 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 Yan YAN. Accordingly, Mr. Andrew Yan YAN (who has been appointed as a non-executive Director on 28 March 2017) is deemed to be interested in the 334,857,000 Shares held by SAIF Partners IV L.P.

Long positions in share options/restricted share units of the Company:

Name of Director	Number of options/restricted share units beneficially owned	Approximate percentage of shareholding as at 30 June 2017
Mr. XIAO Shu	51,086,706	2.50%
Mr. ZHU Mingwei ⁽¹⁾	11,160,859	0.55%
Mr. HE Jun ⁽¹⁾	10,662,531	0.52%
Mr. TAN Jibin	8,547,535	0.42%
Mr. XIAO Lilin ⁽¹⁾	7,596,652	0.37%
Mr. LI Honggao ⁽²⁾	3,200,000	0.16%
Mr. WANG Yonghui ⁽²⁾	359,772	0.02%
	92,614,055	4.53%⁽³⁾

⁽¹⁾ Mr. ZHU Mingwei, Mr. HE Jun and Mr. XIAO Lilin have resigned as the executive Directors on 28 March 2017.

⁽²⁾ Mr. LI Honggao and Mr. WANG Yonghui have been appointed as the executive Directors on 28 March 2017.

⁽³⁾ Figures shown as total may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.

Save as disclosed above, as of 30 June 2017, 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 21 to the condensed consolidated financial statements.

Pre-IPO Share Option Scheme

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

The purpose of the Pre-IPO Share Option Scheme is to incentivize and reward the eligible participants, being employees (whether full time or part-time) or directors of a member of the Group or associated companies of the Company, for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Group. The options granted under the Pre-IPO Share Option Scheme remain exercisable for ten years from the offer date of the options.

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				Approximate percentage of shareholding as at	
	As at 1 January 2017	Exercised during the Period	Lapsed during the Period	Forfeited during the Period	As at 30 June 2017	30 June 2017
Director						
Mr. XIAO Shu	51,086,706	—	—	—	51,086,706	2.50%
Mr. ZHU Mingwei ⁽¹⁾	11,160,859	—	—	—	11,160,859	0.55%
Mr. HE Jun ⁽¹⁾	10,662,531	—	—	—	10,662,531	0.52%
Mr. TAN Jibin	8,547,535	—	—	—	8,547,535	0.42%
Mr. XIAO Lilin ⁽¹⁾	7,596,652	—	—	—	7,596,652	0.37%
Mr. LI Honggao ⁽¹⁾	3,200,000	—	—	—	3,200,000	0.16%
	92,254,283	—	—	—	92,254,283	4.51%
Directors of the Company's subsidiaries						
Mr. CHEN Jie	1,128,547	—	—	—	1,128,547	0.06%
Mr. XIAO Jianping	875,464	—	—	—	875,464	0.04%
Mr. PAN Jianming	456,065	—	—	—	456,065	0.02%
	2,460,076	—	—	—	2,460,076	0.12%
Other employees						
In aggregate	62,460,080	—	—	(746,843)	61,713,237	3.02%
Total	157,174,439	—	—	(746,843)	156,427,596	7.65%

⁽¹⁾ Mr. ZHU Mingwei, Mr. HE Jun and Mr. XIAO Lilin have resigned as the executive Directors on 28 March 2017; Mr. LI Honggao has been appointed as an executive Director on 28 March 2017.

As at 30 June 2017, the maximum number of shares that may be issued pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme is 156,427,596 shares (31 December 2016: 157,174,439 Shares), representing approximately 7.65% of the issued share capital of the Company as at 30 June 2017 and as at the date of this interim report (31 December 2016: approximately 9.09% of the issued share capital of the Company as at 31 December 2016).

All outstanding options under the Pre-IPO Share Option Scheme were granted on 26 May 2014. No further options were granted after the listing date. The exercise price of the Pre-IPO Share Option Scheme was HK\$2.295 per share, representing 85% of the final Offer Price per share of HK\$2.70 under the initial public offering of the Company. A consideration of HK\$1.00 was payable by each grantee on acceptance of the grant of share options. The options granted under the Pre-IPO Share Option Scheme shall vest in accordance with the following schedule:

Vesting period	Cumulative percentage of options vested
Upon 12 months after the listing date (i.e. 17 June 2015)	40%
Upon 24 months after the listing date (i.e. 17 June 2016)	70%
Upon 36 months after the listing date (i.e. 17 June 2017)	100%

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

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 AGM 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 AGM (the "Refreshed Scheme Mandate Limit"). As at 30 June 2017, 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 329,395,796 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 2017, 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 2016: 172,968,200 shares), representing approximately 8.45% (31 December 2016: approximately 10% of the issued share capital as at the date of the 2016 annual report of the Company) of the issued share capital of the Company as at 30 June 2017 and as at the date of this interim report.

There was no outstanding share option under the Share Option Scheme at the beginning and at the end of the period ended 30 June 2017.

The Board may grant options under Share Option Scheme to (i) employees (whether full time or part-time) or a director of a member of our Group or associated companies of the Company; and (ii) a distributor or a full-time employee of any distributor of the Group or associated companies the Company, to incentive and reward them for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Group. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the listing date (i.e. 17 June 2014).

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

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

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

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

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

No share option was granted under the Share Option Scheme for the six months period ended 30 June 2017.

RESTRICTED SHARE UNIT SCHEME

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

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

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

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

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

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

No RSU was granted, lapsed or cancelled under the RSU Scheme for the six months ended 30 June 2017. RSUs representing 482,095 Shares were outstanding as at 1 January 2017 and 30 June 2017, amongst which RSUs representing 359,772 Shares were granted to Mr. WANG Yonghui (who was appointed as an executive Director on 28 March 2017). The remaining RSUs outstanding at the beginning and at the end of the Period were granted to the employees of the Group. All the outstanding RSUs at the beginning and at the end of the Period were granted on 13 July 2016.

The grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs.

The granted RSUs shall vest as follows:

- (i) as to 40% of the RSUs on the date ending 12 months after the date of grant of the RSUs;
- (ii) as to an additional 30% of the RSUs on the date ending 24 months after the date of grant of the RSUs; and
- (iii) as to the remaining 30% of the RSUs on the date ending 36 months after the date of grant of the RSUs.

The RSU Scheme involves granting of RSUs over the existing Shares underlying the RSUs under the RSU Scheme which were held by Computershare Hong Kong Trustees Limited (the "RSU Trustee") as trustee for the benefit of the relevant participants in the RSU Scheme. Since the adoption of the RSU Scheme, the RSU Trustee has purchased a total number of 18,340,000 Shares on the market at an average price of approximately HK\$1.60 per Share and a total consideration of approximately HK\$29,403,836.

No new Shares will be issued by the Company as a result of the grant of the RSUs as mentioned in this report, and accordingly, the granting of the RSUs will not result in any dilution effect on the shareholdings of existing shareholders of the Company.



Other Information (Continued)

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 convertible bonds issued by the Company on 6 November 2015, 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.

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

As at 30 June 2017, 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:

Long/short positions in ordinary shares of the Company

Name	Long/ Short Positions	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as of 30 June 2017
Standard Chartered Trust (Singapore) Limited	Long position	(a)	Trustee of a trust	786,834,150	38.46%
	Short Position	(b)	Trustee of a trust	46,875,000	2.29%
SCTS Capital Pte. Ltd.	Long position	(a)	Nominee for another person	786,834,150	38.46%
	Short Position	(b)	Nominee for another person	46,875,000	2.29%
Glorious Shine Holdings Limited	Long position	(j)	Beneficial owner	382,831,950	18.71%
Glorious Shine Capital Limited	Long position	(j)	Interest in a controlled corporation	382,831,950	18.71%
Baida Holdings Limited	Long position	(c)	Beneficial owner	341,820,000	16.71%
	Short Position	(b)	Beneficial owner	46,875,000	2.29%
Baida Capital Limited	Long position	(c)	Interest in a controlled corporation	341,820,000	16.71%
	Short Position	(b)	Interest in a controlled corporation	46,875,000	2.29%
SAIF Partners IV L.P.	Long position	(d)	Beneficial owner	334,857,000	16.37%
SAIF IV GP, L.P.	Long position	(d)	Interest in a controlled corporation	334,857,000	16.37%
SAIF IV GP Capital Ltd.	Long position	(d)	Interest in a controlled corporation	334,857,000	16.37%
Central Huijin Investment Ltd.	Long position	(e)	Interest in a controlled corporation	46,875,000	
		(e)	Security interest	239,300,000	
				<u>286,175,000</u>	13.99%
China Construction Bank Corporation	Long position	(e)	Interest in a controlled corporation	46,875,000	
		(e)	Security interest	239,300,000	
				<u>286,175,000</u>	13.99%

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 2017
Mr. XIE Zhikun	Long position	(f)	Interest in a controlled corporation	433,141,697	21.17%
China Innovative Capital Management Co., Ltd	Long position	(f)	Interest in a controlled corporation	433,141,697	21.17%
Beijing Zhonghaijicheng Capital Management Co., Ltd	Long position	(f)	Interest in a controlled corporation	433,141,697	21.17%
Chongqing Innovative Investment Co., Ltd	Long position	(f)	Interest in a controlled corporation	243,455,497	
		(f)	Beneficial owner	4,954,000	
				<u>248,409,497</u>	12.14%
Chongqing Zhongxinrongbang Investment Centre (Limited partnership)	Long position	(f)	Beneficial owner	243,455,497	11.90%
Shenzhen Qianhai China Innovative Capital Management Co., Ltd	Long position	(f)	Interest in a controlled corporation	184,732,200	9.03%
Hong Kong China Innovative Capital Management Co., Ltd	Long position	(f)	Beneficial owner	184,732,200	9.03%
Ares FW Holdings, L.P.	Long position	(g)	Beneficial owner	187,166,800	9.15%
ACOF Asia GP, Ltd.	Long position	(g)	Interest in a controlled corporation	187,166,800	9.15%
ACOF Asia Management, L.P.	Long position	(g)	Interest in a controlled corporation	187,166,800	9.15%
Ares Management (Cayman), Ltd.	Long position	(g)	Interest in a controlled corporation	187,166,800	9.15%
Watercube Holdings, L.L.C.	Long position	(h)	Beneficial owner	139,006,800	6.79%
GS Direct, L.L.C.	Long position	(h)	Interest in a controlled corporation	139,006,800	6.79%
Goldman, Sachs & Co.	Long position	(h)	Interest in a controlled corporation	139,006,800	6.79%
The Goldman, Sachs & Co. L.L.C.	Long position	(h)	Interest in a controlled corporation	139,006,800	6.79%
The Goldman Sachs Group, Inc.	Long position	(h) & (j)	Interest in a controlled corporation	151,604,800	7.41%

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 382,831,950 Shares, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. XIAO Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, each of Mr. XIAO Shu, Standard Chartered Trust (Singapore) Limited and SCTS Capital Pte. Ltd. is deemed to be interested in the aggregate number of 786,834,150 Shares held by Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.



Other Information (Continued)

- (b) 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 the 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. Accordingly, Baida Capital Limited is deemed to be interested in the 341,820,000 Shares held by Baida Holdings Limited.
- (d) SAIF Partners IV L.P. is a limited partnership fund established in the Cayman Islands whose sole general partner is SAIF IV GP, L.P., a limited partnership established in the Cayman Islands. The sole general partner of SAIF IV GP, L.P. is SAIF IV GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands, which is wholly-owned and controlled by Mr. Andrew Yan YAN. Accordingly, each of SAIF IV GP, L.P., SAIF IV GP Capital Ltd. and Mr. Andrew Yan YAN (who has been appointed as a non-executive Director on 28 March 2017) 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. CCB 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 433,141,697 Shares consist of 243,455,497 Shares in which Chongqing Zhongxinrongbang Investment Centre (Limited Partnership) is interested, 4,954,000 Shares in which Chongqing Innovative Investment Co., Ltd. is interested and 184,732,200 Shares in which Hong Kong China Innovative Capital Management Co., Ltd. is interested. Chongqing Innovative Investment Co., Ltd., being the general partner of Chongqing Zhongxinrongbang Investment Centre (Limited Partnership), is wholly-owned by China Innovative Capital Management Co., Ltd. which is in turn owned as to 80% by Beijing Zhonghaijiacheng Capital Management Co., Ltd., a company owned as to 99% by Mr. XIE Zhikun. Hong Kong China Innovative Capital Management Co., Ltd. is wholly-owned by Shenzhen Qianhai China Innovative Capital Management Co., Ltd. which is in turn wholly-owned by China Innovative Capital Management Co., Ltd. By virtue of the SFO, each of Mr. Xie Zhikun, China Innovative Capital Management Co., Ltd. and Beijing Zhonghaijiacheng Capital Management Co., Ltd. is deemed to be interested in the aggregate number of 433,141,697 Shares in which Chongqing Zhongxinrongbang Investment Centre (Limited Partnership), Chongqing Innovative Investment Co., Ltd., Hong Kong China Innovative Capital Management Co., Ltd. and Shenzhen Qianhai China Innovative Capital Management 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. Accordingly, each of ACOF Asia GP Ltd., ACOF Asia Management, L.P. and Ares Management (Cayman), Ltd. is deemed to be interested in the 187,166,800 Shares held by Ares FW Holdings, L.P..
- (h) Watercube Holdings, L.L.C. is a limited liability company organized under the laws of Delaware. GS Direct, L.L.C., a limited liability company organized under the laws of Delaware, is the managing member of Watercube Holdings L.L.C. and owns 80.1% of the voting interest in Watercube Holdings L.L.C. Goldman, Sachs & Co., a limited partnership organized under the laws of New York, is the managing member of GS Direct, L.L.C. The Goldman, Sachs & Co. L.L.C., a limited liability company organized under the laws of Delaware, is the general partner of Goldman, Sachs & Co. The Goldman Sachs Group, Inc., a corporation organized under the laws of Delaware, holds (i) 100% voting interests of The Goldman, Sachs & Co. L.L.C.; (ii) 99.8% voting interests of Goldman, Sachs & Co.; and (iii) 100% non-voting interests of GS Direct, L.L.C. The Goldman Sachs Group, Inc. is listed on the New York Stock Exchange. Accordingly, each of GS Direct, L.L.C., Goldman, Sachs & Co., The Goldman, Sachs & Co. L.L.C. and The Goldman Sachs Group, Inc. is deemed to be interested in the 139,006,800 Shares held by Watercube Holdings, L.L.C..
- (i) Goldman Sachs International is a wholly-owned subsidiary of Goldman Sachs Group UK Limited, which is a wholly-owned subsidiary of 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 12,598,000 Shares held by Goldman Sachs International.
- (j) The entire issued share capital of the Glorious Shine Holdings Limited is held by Glorious Shine Capital Limited. By virtue of the SFO, Glorious Shine Capital Limited is deemed to be interested in the 382,831,950 Shares held by the Glorious Shine Holdings Limited.

Save as disclosed above, as at 30 June 2017, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section “Directors’ and chief executive’s interests and short positions in shares and underlying shares and debentures” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

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 2017, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all the 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 Dr. BAO Jiming, 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 condensed consolidated financial statements for the six months ended 30 June 2017.

CHANGES IN DIRECTORS’ AND CHIEF EXECUTIVE’S INFORMATION

Mr. ZHU Mingwei, Mr. HE Jun and Mr. XIAO Lilin have resigned as the executive Director on 28 March 2017. Mr. NG Benjamin Jin-ping has resigned as the non-executive Director with effect from 28 March 2017. On 28 March 2017, the Company appointed Mr. LI Honggao and Mr. WANG Yonghui as the executive Directors; Mr. Andrew Yan YAN was appointed as a non-executive Director; Dr. BAO Jiming was appointed as an independent non-executive Director; Mr. ZHOU Guanxuan has been re-designated as an executive Director and appointed as vice chairman of the Company. For more details, please refer to the announcement of the company dated 28 March 2017.

On 22 August 2017, Ms. WANG Haitong has resigned as the non-executive Director. The Company has appointed Ms. GUI Songlei as a non-executive Director. For more details, please refer to the announcement of the Company dated 22 August 2017.

Save as disclosed herein, there had been no changes to the Directors’ and chief executive’s information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the period from 1 January 2017 to 30 June 2017.



INDEPENDENT REVIEW REPORT



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

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages 29 to 58, which comprises the condensed consolidated statement of financial position of Ozner Water International Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2017 and the related 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 financial information 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 this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information 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, 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 financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
23 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June

	Notes	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	4	568,353	422,808
Cost of revenue		(256,641)	(169,855)
Gross profit		311,712	252,953
Other income and gains	4	29,649	9,089
Selling and distribution expenses		(130,197)	(84,395)
Administrative expenses		(61,798)	(54,420)
Other expenses		(24,686)	(13,417)
Fair value gains on derivative component of convertible bonds		—	91,084
Operating profit		124,680	200,894
Finance costs		(40,690)	(17,612)
Profit before tax	5	83,990	183,282
Income tax expense	6	(17,826)	(21,770)
Profit for the period		66,164	161,512
Attributable to :			
Equity holders of the parent		67,094	161,512
Non-controlling interests		(930)	—
		66,164	161,512
Earnings per share attributable to ordinary equity holders of the parent:			
Basic (RMB cents)	7	3.37	9.36
Diluted (RMB cents)	7	3.37	4.43
Profit for the period		66,164	161,512
Other comprehensive income/(loss)			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>			
Translation from functional currency to presentation currency		6,647	(5,648)
Total comprehensive income for the period, net of tax		72,811	155,864
Attributable to :			
Equity holders of the parent		73,741	155,864
Non-controlling interests		(930)	—
		72,811	155,864

The Board did not declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Revenue generating assets	8	1,515,804	1,484,409
Property, plant and equipment	9	745,918	776,116
Prepaid land lease payments — non-current portion		91,333	71,780
Intangible assets	10	54,823	59,718
Goodwill		26,037	26,037
Prepayment for acquiring property, plant and equipment		97,001	69,381
Deferred tax assets		68,320	47,697
Other receivable — non-current portion		216,620	—
Other non-current asset		1,634	1,856
TOTAL NON-CURRENT ASSETS		2,817,490	2,536,994
CURRENT ASSETS			
Inventories	11	186,678	164,231
Prepaid land lease payments — current portion		1,964	1,480
Trade and bills receivables	12	105,579	44,044
Prepayments, deposits and other receivables		508,902	411,652
Pledged deposits	15	45,368	42,448
Amount due from a shareholder	24	7	791
Short-term investments	14	64,226	—
Cash and cash equivalents	15	794,484	486,882
TOTAL CURRENT ASSETS		1,707,208	1,151,528
CURRENT LIABILITIES			
Trade and bills payables	16	163,131	128,378
Other payables, advances from customers and accruals		304,795	271,882
Deferred revenue		76,078	124,272
Interest-bearing loans and borrowings	17	9,700	49,500
Other borrowings	18	267,463	146,810
Income tax payable		175,811	170,829
TOTAL CURRENT LIABILITIES		996,978	891,671
NET CURRENT ASSETS		710,230	259,857
TOTAL ASSETS LESS CURRENT LIABILITIES		3,527,720	2,796,851

Condensed Consolidated Statement of Financial Position (Continued)

	Notes	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	19	339,722	342,039
Other borrowings	18	412,857	224,960
Deferred tax liabilities		6,057	6,206
TOTAL NON-CURRENT LIABILITIES		758,636	573,205
NET ASSETS		2,769,084	2,223,646
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	20	16,554	13,757
Share premium	20	1,407,728	935,408
Treasury shares		(20,188)	(10,895)
Equity component of convertible bonds		52,321	52,321
Reserves		1,309,237	1,228,693
		2,765,652	2,219,284
Non-controlling interests		3,432	4,362
TOTAL EQUITY		2,769,084	2,223,646

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the parent											
	Share capital	Share premium	Treasury shares	Equity	Share-	Retained earnings	Merger reserve	Foreign	Other reserves	Total	Non-Controlling Interests	Total equity
				component of	based			currency				
				convertible bonds	payment reserve			translation reserve				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2017	13,757	935,408	(10,895)	52,321	127,707	575,954	56,018	(22,900)	491,914	2,219,284	4,362	2,223,646
Profit for the period	-	-	-	-	-	67,094	-	-	-	67,094	(930)	66,164
Other comprehensive loss for the year: translation from functional currency to presentation currency	-	-	-	-	-	-	-	6,647	-	6,647	-	6,647
Issue ordinary shares	2,797	472,320	-	-	-	-	-	-	-	475,117	-	475,117
Share-based payments	-	-	-	-	6,803	-	-	-	-	6,803	-	6,803
Repurchase of share capital	-	-	(9,293)	-	-	-	-	-	-	(9,293)	-	(9,293)
At 30 June 2017 (unaudited)	16,554	1,407,728	(20,188)	52,321	134,510	643,048	56,018	(16,253)	491,914	2,765,652	3,432	2,769,084

For the six months ended 30 June 2016

	Attributable to equity holders of the parent										
	Share capital	Share premium	Treasury shares	Share-	Retained earnings	Merge reserve	Foreign	Other reserves	Total equity		
				based			currency				
				payment reserve			translation reserve				
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	
Share-based payments		-	-	-	16,691	-	-	-	-	16,691	
Profit for the period		-	-	-	-	161,512	-	-	-	161,512	
Other comprehensive loss for the year: transaction from functional currency to presentation currency		-	-	-	-	-	-	(5,648)	-	(5,648)	
Cancellation of share repurchased		(45)	(9,099)	9,144	-	-	-	-	-	-	
Repurchase of share capital		-	-	(15,071)	-	-	-	-	-	(15,071)	
At 30 June 2016 (unaudited)		13,757	935,408	(10,895)	121,986	528,089	56,018	(7,208)	472,098	2,109,253	

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	Notes	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		83,990	183,282
Adjustments for:			
Depreciation of revenue generating assets	8	95,203	78,618
Depreciation of property, plant and equipment		20,069	22,677
Amortisation of intangible assets		1,999	2,026
Amortisation of other non-current assets		222	2,183
Share-based payments	21	6,401	15,673
Unrealised exchange loss/(gain)		7,600	(900)
Loss on disposal of items of property, plant and equipment	9	—	111
Loss on disposal of revenue generating assets	8	3,070	411
Fair value gains on derivative component of convertible bonds	19	—	(91,084)
Write-down/(reversal of write-down) of inventories to net realisable value	11	339	(40)
Finance costs		40,690	17,612
Impairment/(reversal of impairment) of trade and bills receivables	12	488	(224)
		260,071	230,345
(Increase)/decrease in inventories		(22,786)	13,899
Increase in trade and bills receivables		(62,023)	(4,979)
Increase in prepayments, deposits and other receivables		(313,870)	(41,093)
Decrease/(Increase) in due from a shareholder		784	(756)
(Increase)/decrease in pledged deposits		(6,162)	13,209
Increase/(decrease) in trade and bills payables		34,753	(9,880)
Increase/(decrease) in other payables, advances from customers and accruals		35,310	(10,566)
Decrease in deferred revenue		(48,194)	(62,305)
Cash generated from operations		(122,117)	127,874
Income tax paid		(33,616)	(20,778)
Net cash flows(used in)/from operating activities		(155,733)	107,096

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June

	Notes	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of revenue generating assets		(94,383)	(186,555)
Purchases of items of property, plant and equipment		(51,134)	(232,614)
Purchases of intangible assets		(1,216)	(2,645)
Payment for land lease		(19,560)	—
Increase in short-term investment		(64,226)	—
Decrease in pledged deposits		3,242	61,656
Net cash flows used in investing activities		(227,277)	(360,158)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		378,900	103,500
Interest paid		(32,570)	(10,006)
Proceeds from issue of shares		475,117	—
Repayment of borrowings		(110,149)	—
Repurchase of share capital for RSU Scheme		(9,293)	(15,071)
Net cash flows from financing activities		702,005	78,423
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		486,882	380,922
Effect of foreign exchange rate changes, net		(11,393)	3,544
CASH AND CASH EQUIVALENTS AT END OF YEAR		794,484	209,827
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		839,852	272,447
Less: Pledged deposits		45,368	62,620
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	15	794,484	209,827

Notes to the Condensed Consolidated Financial Statements (Continued)

3. OPERATING SEGMENT INFORMATION

The following table presents revenue, cost of revenue, profit and certain asset, liability and expenditure information for the Group's operating segments for the six months ended 30 June 2017 and 2016, respectively:

Six months ended 30 June 2017 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Financing services RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	533,114	22,101	13,138	568,353
Segment cost of revenue				
Sales to external customers	239,900	16,630	111	256,641
Segment results	124,968	4,779	12,025	141,772
<i>Reconciliations:</i>				
Share-based payments				(6,401)
Corporate and other unallocated expenses				(6,649)
Exchange loss				(4,042)
Finance costs				(40,690)
Profit before tax				83,990

Six months ended 30 June 2016 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Financing services RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	382,215	37,370	3,223	422,808
Segment cost of revenue				
Sales to external customers	140,703	29,033	119	169,855
Segment results	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

Notes to the Condensed Consolidated Financial Statements (Continued)

3. OPERATING SEGMENT INFORMATION (Continued)

The following table presents assets and liabilities information for the Group's operating segments as at 30 June 2017 and 31 December 2016, respectively:

As at 30 June 2017 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Financing services RMB'000	Total RMB'000
Segment assets	3,257,947	5,338	380,556	3,643,841
<i>Reconciliations:</i>				
Corporate and other unallocated assets				559,178
Tax related assets				321,679
Total assets				4,524,698
Segment liabilities	1,207,097	4,650	18,149	1,229,896
<i>Reconciliations:</i>				
Convertible bonds				339,722
Corporate and other unallocated liabilities				185,995
Total liabilities				1,755,613

As at 31 December 2016 (audited)	Water purification services RMB'000	Air sanitization services RMB'000	Financing services RMB'000	Total RMB'000
Segment assets	3,020,908	5,938	265,645	3,292,491
<i>Reconciliations:</i>				
Corporate and other unallocated assets				396,031
Total assets				3,688,522
Segment liabilities	931,816	8,148	637	940,601
<i>Reconciliations:</i>				
Convertible bonds				342,039
Corporate and other unallocated liabilities				182,236
Total liabilities				1,464,876

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

Notes to the Condensed Consolidated Financial Statements (Continued)

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue		
<i>Water purification services:</i>		
Rental income	321,498	266,869
Training services	47,691	50,247
Sales of goods	163,925	65,099
<i>Air sanitisation services:</i>		
Rendering of services	10,501	32,606
Sales of goods	11,600	3,581
Others	—	1,183
Interest income from financing service	13,138	3,223
	568,353	422,808
Other income and gains		
Government grants	19,576	7,980
Interest income	9,770	1,079
Others	303	30
	29,649	9,089

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

Notes to the Condensed Consolidated Financial Statements (Continued)

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Cost of services provided		9,063	25,542
Cost of inventories sold		110,882	52,281
Depreciation of revenue generating assets	8	95,203	78,618
Depreciation of property, plant and equipment	9	51,284	33,829
Less: Amount capitalised in revenue generating assets		(31,215)	(11,152)
		20,069	22,677
Amortisation of intangible assets	10	6,143	5,045
Less: Amount capitalised in revenue generating assets		(4,144)	(3,019)
		1,999	2,026
Amortisation of prepaid land lease payments		982	771
Less: Amount capitalised in revenue generating assets		(771)	(771)
		211	—
Research and development costs		17,208	10,653
Auditors' remuneration		1,405	1,033
Employee benefit expense (including directors' remuneration):			
Total wages and salaries		88,109	61,917
Less: Amount capitalised in revenue generating assets		(16,852)	(9,392)
		71,257	52,525
Total pension scheme contributions		15,722	4,878
Less: Amount capitalised in revenue generating assets		(2,653)	(1,249)
		13,069	3,629
Operating lease expenses		12,119	10,651
Less: Amount capitalised in revenue generating assets		(1,540)	(5,387)
		10,579	5,264
Share-based payments	20	6,401	15,673
Warranty provision		16,798	13,947
Foreign exchange differences, net		4,042	945
Fair value gains on derivative component of convertible bonds	18	—	(91,084)
Impairment/(reversal of impairment) of trade and bills receivables	12	488	(224)
Write-down/(reversal of write-down) of inventories to net realisable value		339	(40)
Loss on disposal of items of property, plant and equipment	9	—	111
Loss on disposal of revenue generating assets	8	3,070	411

Notes to the Condensed Consolidated Financial Statements (Continued)

6. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI. No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the 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% (2016: 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, is entitled to the preferential tax rate of 15% for three years from November 2015 to October 2018.

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

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 to an income tax credit of RMB706,000 and RMB1,205,000 for the six months ended 30 June 2016 and 2017, respectively, relating to the additional deduction of research and development costs.

The breakdown of income tax expense are as follow:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current tax	38,598	37,006
Deferred tax	(20,772)	(15,236)
Income tax expense reported in profit or loss	17,826	21,770

Notes to the Condensed Consolidated Financial Statements (Continued)

6. INCOME TAX (Continued)

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Profit before tax	83,990	183,282
Tax at the statutory tax rate	20,997	45,821
Lower tax rates for specific provinces or enacted by local authorities	(11,570)	(12,543)
Tax exempted by local authorities	6,159	(17,556)
Expenses not deductible for tax	1,427	4,348
Unrecognised tax losses	2,018	2,338
Additional deduction of research and development costs	(1,205)	(706)
Tax losses utilised from previous periods	—	68
Tax at the effective income tax rate	17,826	21,770

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.

Notes to the Condensed Consolidated Financial Statements (Continued)

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

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings:		
Profit attributable to owners of the parent, used in the basic and diluted EPS calculation:	67,094	161,512
Interest on convertible bonds	18,209	16,786
Less: Fair value gains on derivative component of convertible bonds	—	(91,084)
Profit attributable to owners of the parent, before the effect of convertible bonds	85,303	87,214
Shares:		
Weighted average number of ordinary shares for basic EPS	1,993,620,623	1,725,878,867
Effect of dilution — weighted average number of ordinary shares: Convertible bonds	243,455,497	241,218,338
	2,237,076,120	1,967,097,205
Basic EPS (RMB cents)	3.37	9.36
Diluted EPS (RMB cents)	3.37*	4.43

* Because the diluted EPS increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic EPS for the six months ended 30 June 2017.

8. REVENUE GENERATING ASSETS

Acquisitions and disposals

During the six months ended 30 June 2017, the Group acquired revenue generating assets with a cost of RMB121,208,000 (six months ended 30 June 2016: RMB202,516,000). Revenue generating assets with a net book value of RMB8,460,000 were transferred from property, plant and equipment by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

Depreciation for revenue generating assets was RMB95,203,000 during the period (six months ended 30 June 2016: RMB78,618,000).

Revenue generating assets with a net book value of RMB3,070,000 were disposed of by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB411,000), resulting in a net loss on disposal of RMB3,070,000 (six months ended 30 June 2016: RMB411,000).

As at 30 June, 2017, certain of the Group's revenue generating assets with net carrying amount of approximately RMB1,009,294,000 were pledged to secure other borrowing in relation to the sales and leaseback.

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2017, the Group acquired assets with a cost of RMB26,924,000 (six months ended 30 June 2016: RMB14,783,000), excluding property under construction. Depreciation for items of property, plant and equipment was RMB51,284,000 during the period (six months ended 30 June 2016: RMB33,829,000). Property, plant and equipment with a net book value of RMB8,460,000 were transferred to revenue generating assets by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

The construction in process is totaling to RMB7,409,000 as at 30 June 2017 (31 December 2016: RMB4,787,000) mainly representing the new experience stores under construction.

There is no asset disposed by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB111,000).

10. INTANGIBLE ASSETS

During the six months ended 30 June 2017, the Group acquired intangible assets with a cost of RMB1,248,000 (six months ended 30 June 2016: RMB2,465,000). Amortisation for intangible assets was RMB6,143,000 during the period (six months ended 30 June 2016: RMB5,045,000).

There is no intangible assets disposed by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

11. INVENTORIES

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Raw materials	51,833	40,912
Work in progress	37,620	28,901
Finished goods	102,830	99,684
	192,283	169,497
Write-down of inventories to net realisable value	(5,605)	(5,266)
	186,678	164,231

Notes to the Condensed Consolidated Financial Statements (Continued)

12. TRADE AND BILLS RECEIVABLES

		As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Trade receivables		80,731	41,522
Amount due from contract customers	13	—	3,305
Bills receivable		27,419	1,300
		108,150	46,127
Impairment		(2,571)	(2,083)
Net trade and bills receivables		105,579	44,044

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

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 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Within 90 days		80,862	33,304
Over 90 days and within 180 days		20,626	2,248
Over 180 days and within 1 year		3,948	1,462
Over 1 year and within 2 years		143	3,451
Over 2 years and within 3 years		—	274
		105,579	40,739

12. TRADE AND BILLS RECEIVABLES (Continued)

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

	Six months ended 30 June 2017 RMB'000 (Unaudited)	Year ended 31 December 2016 RMB'000 (Audited)
As at 1 January	2,083	2,744
(Reversal of)/impairment loss for trade receivables	488	(661)
As at 30 June/31 December	2,571	2,083

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

As at 30 June 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB6,550,000 (2016: RMB1,200,000) 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 RMB6,550,000 (2016: RMB1,200,000) as at 30 June 2017.

13. CONSTRUCTION CONTRACTS

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Gross amount due from contract customers	—	3,305
Contract costs incurred plus recognised profits less recognised losses to date Less: Progress billings	11,707 (11,707)	66,100 (62,795)
	—	3,305

Notes to the Condensed Consolidated Financial Statements (Continued)

14. SHORT TERM INVESTMENTS

The short term investments were structured financial products issued by an asset management company with fixed interest rates ranging from 8% to 12% per annum and had no fixed maturity date in the PRC.

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Cash and bank balances	709,664	523,816
Time deposits	130,188	5,514
Total cash and bank balances	839,852	529,330
Less: Pledged as collateral for issuance of bank acceptance notes	45,368	42,448
Cash and cash equivalents	794,484	486,882
Denominated in RMB	686,652	502,788
Denominated in HK\$	152,593	25,920
Denominated in US\$	607	622
Total cash and bank balances	839,852	529,330

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 one month and six 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.

Notes to the Condensed Consolidated Financial Statements (Continued)

16. 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:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Within 90 days	94,221	44,385
Over 90 days and within 180 days	39,991	63,934
Over 180 days and within 1 year	10,767	7,043
Over 1 year and within 2 years	15,835	11,118
Over 2 year and within 3 years	473	111
Over 3 years	1,844	1,787
	163,131	128,378

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

17. INTEREST-BEARING BANK LOAN

	30 June 2017			31 December 2016		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate(%)	Maturity	RMB'000 (Audited)
Current						
Bank loans — secured	4.57	2017	9,700	4.50	2017	30,000
			—	4.57	2017	19,500
			9,700			49,500

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Analyzed into		
Bank loan		
Within one year	9,700	49,500

The Group's loan facilities amounting to RMB100,000,000, of which RMB9,700,000 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.

Notes to the Condensed Consolidated Financial Statements (Continued)

18. OTHER BORROWINGS

Other borrowings as at June 30, 2017 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 2017, the Group's other borrowings were payable as follows:

	Minimum lease payments As at 30 June 2017 RMB'000 (Unaudited)	Present value of minimum lease payments As at 30 June 2017 RMB'000 (Unaudited)
Amounts payable:		
Within one year	324,942	267,463
Over one year	455,549	412,857
Total minimum finance lease payments	780,491	680,320
Future finance charges	(100,171)	
Total net finance lease payables	680,320	
Portion classified as current liabilities	(267,463)	
Non-current portion	412,857	

At 30 June 2017, the above other borrowings have been secured over revenue generating assets with an aggregate carrying value of RMB1,020.4 million.

19. 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 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.

Notes to the Condensed Consolidated Financial Statements (Continued)

19. CONVERTIBLE BONDS (Continued)

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

	Liability component of Convertible Bonds RMB'000	Derivative component of Convertible Bonds RMB'000	Equity component of Convertible Bonds RMB'000	Total RMB'000
At 1 January 2016	305,914	142,006	—	447,920
Interest expense	35,071	—	—	35,071
Interest paid	(20,334)	—	—	(20,334)
Fair value adjustment	—	(96,149)	—	(96,149)
Currency translation differences	21,388	6,464	—	27,852
Reclassification	—	(52,321)	52,321	—
At 31 December 2016	342,039	—	52,321	394,360

	Liability component of Convertible Bonds RMB'000	Equity component of Convertible Bonds RMB'000	Total RMB'000
At 31 December 2016	342,039	52,321	394,360
Interest expense	18,210	—	18,210
Interest paid	(10,090)	—	(10,090)
Currency translation differences	(10,437)	—	(10,437)
At 30 June 2017	339,722	52,321	392,043

20. SHARE CAPITAL, SHARE PREMIUM AND TREASURE SHARES

Ordinary shares issued and fully paid	Number of shares in issue	Share capital RMB'000
At 31 December 2015	1,735,422,000	13,802
Shares cancellation	(5,740,000)	(45)
At 31 December 2016	1,729,682,000	13,757
Issue of shares	316,299,950	2,797
At 30 June 2017 (Unaudited)	2,045,981,950	16,554

Share premium	RMB'000
At 1 January 2016 and 31 December 2015	944,507
Shares cancellation	(9,099)
At 1 January 2017 and 31 December 2016	935,408
Issue of shares	472,320
At 30 June 2017 (Unaudited)	1,407,728

On 25 January 2017, the Company issued a total of 316,299,950 ordinary shares at a price of HK\$1.71 per share to Glorious Shine Holding Limited, which is wholly-owned by Glorious Shine capital Limited under the Xiao Family III Trust, which is a discretionary trust established by Mr. Xiao Shu and the discretionary beneficiaries of which include Mr. Xiao Shu and certain of his family members.

21. 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.

21. 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:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 30 June 2016 RMB'000 (Unaudited)
Total expense arising from equity-settled share-based payment transactions	6,803	16,691
Less: Amount capitalised in revenue generating assets	(402)	(1,018)
	6,401	15,673

There were no cancellations of or modifications to the awards during the six months ended 30 June 2017.

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

	Outstanding at 1 January and 31 December 2016	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 30 June 2017
<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	68,120,156	—	(746,843)	—	—	67,373,313
	157,174,439	—	(746,843)	—	—	156,427,596
Exercisable at the end of the period	110,022,107					156,427,596

The weighted average remaining contractual life of the share options outstanding as at 30 June 2017 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).

21. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme

The Share Option Scheme was approved and adopted on 26 May 2014 with implementation conditional on the listing of the Company. The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (including but not limited to the Pre-IPO Share Option Scheme, the “Other Schemes”) of the Company must not in aggregate exceed 168,800,000 (the “Scheme Mandate Limit”). Options lapsed in accordance with the terms of the Share Option Scheme and any of the Other Schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

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

No share option unit was granted under the share option scheme share during the six months ended 30 June 2017.

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 (2016: 424,531 restricted share) was granted under the restricted share unit scheme during the six months ended 30 June 2017.

22. 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:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Within one year	262,623	167,630

(b) As lessee

The Group leases certain of its warehouses and factory properties under operating lease arrangements, negotiated for terms of one to four years with an option for renewal after the end of lease terms, at which time all terms will be renegotiated.

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

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Within one year	10,826	9,282
In the second to fifth years, inclusive	2,394	739
	13,220	10,021

Notes to the Condensed Consolidated Financial Statements (Continued)

23. 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:

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Contracted, but not provided for: Property, plant and equipment	111,027	83,994

24. 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) Outstanding balances with related parties :

The Group had an outstanding balance due from shareholder of RMB7,000 as at the end of the reporting period. This balance is unsecured, interest-free and has no fixed terms of repayment.

25. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets — loans and receivables

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Trade and bills receivables	105,579	44,044
Financial assets included in deposits and other receivables	565,236	256,215
Pledged deposits	45,368	42,448
Cash and cash equivalents	794,484	486,882
	1,510,667	829,589

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

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Trade and bills payables	163,131	128,378
Financial liabilities included in other payable and accruals	89,474	83,353
Interest-bearing loans and borrowings	9,700	49,500
Other borrowings	680,320	371,770
Liability component of convertible bonds	339,722	342,039
	1,282,347	975,040

26. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 12 July 2017, the Group, as the vendor and lessee, entered into a sale and leaseback agreement with Shanghai Zhongcheng Financial Leasing Co., Ltd., as the purchaser and lessor. According to the agreement, the Group agreed to sell and lease back about 77,300 water purifying machines, for a leased term commencing from the effective date of the agreement and expiring on 12 July 2020. The effective date of the agreement is the date when the Group received the consideration of RMB100 million paid by Shanghai Zhongcheng Financial Leasing Co., Ltd. for the purchase of the water purifying machines. As at the date of issue of these financial statements, the Group received such consideration. The Group recognized a borrowing of around RMB109.2 million and accounted it at amortised cost by using the effective interest method during the lease period ending on 12 July 2020.

On 8 August 2017, the Group, as the vendor and lessee entered into a sale and leaseback agreement with Qinghui Leasing Co., Ltd., as the purchaser and lessor. According to the agreement, the Group agreed to sell and lease back about 73,300 water purifying machines, for a leased term commencing from the effective date of the agreement and expiring on 28 February 2020. The effective date of the agreement is the date when the Group receives the consideration of RMB83.8 million paid by Qinghui Leasing Co., Ltd. for the purchase of the water purifying machines. As at the date of issue of these financial statements, the Group has received such consideration. The Group recognized a borrowing of around RMB75 million and accounted it at amortised cost by using the effective interest method during the lease period ending on 28 February 2020.

On 3 July 2017, the Board of the Group is pleased to announce that the Group entered into the share purchase Agreement with Mr. Lim Chang Huat, an independent third party (“the Seller”), pursuant to which the Seller has conditionally agreed to sell, and the purchaser has conditionally agreed to purchase the Sale Shares representing approximately 51% of the shareholding interest in the Target named NEP HOLDINGS (MALAYSIA) BERHAD at the Consideration of RM296,820,000. The Consideration of RM296,820,00 for the acquisition of the Sale Shares shall be satisfied by the Purchaser in cash. After Closing, the Purchaser will own 51% of the issued share capital of the Target. The Target will become a non wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into those of the Group. The Target Group is a leading water purification systems and service provider in Malaysia, Singapore and Hong Kong, with high-end water purification products for residential and commercial use.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 August 2017.