OZNER 浩泽

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2014)

Annual Report 2017

Contents

Corporate Information

Directors

Executive Directors

Mr. Xiao Shu *(Chairman and Chief Executive Officer)*
Mr. Zhu Mingwei
(Vice Chairman and Deputy Chief Executive Officer)
(resigned on 28 March 2017)
Mr. He Jun (resigned on 28 March 2017)
Mr. Tan Jibin
Mr. Xiao Lilin (resigned on 28 March 2017)
Mr. Zhou Guanxuan *(Vice Chairman)*
(re-designated from independent non-executive Director on 28 March 2017)
Mr. Li Honggao (appointed on 28 March 2017)
Mr. Wang Yonghui (appointed on 28 March 2017)

Non-Executive Directors

Mr. Ng Benjamin Jin-Ping (resigned on 28 March 2017)
Mr. Yan Andrew Yan (appointed on 28 March 2017 and resigned on 27 September 2017)
Mr. He Sean Xing
Ms. Wang Haitong (resigned on 22 August 2017)
Ms. Gui Songlei (appointed on 22 August 2017)
Mr. Wang Duo (appointed on 27 September 2017)

Independent Non-Executive Directors

Dr. Chan Yuk Sing Gilbert
Mr. Lau Tze Cheung Stanley
Dr. Bao Jiming (appointed on 28 March 2017)
Mr. Gu Jiuchuan

Joint Company Secretaries

Mr. Tan Jibin
Ms. Lai Siu Kuen

Authorized Representatives

Mr. Xiao Shu
Mr. Tan Jibin

Audit Committee

Mr. Lau Tze Cheung Stanley *(Chairman)*
Dr. Chan Yuk Sing Gilbert
Mr. Zhou Guanxuan (resigned on 28 March 2017)
Dr. Bao Jiming (appointed on 28 March 2017)
Mr. Gu Jiuchuan

Remuneration Committee

Dr. Bao Jiming *(Chairman)* (appointed on 28 March 2017)
Mr. Zhou Guanxuan (re-designated from chairman to member on 28 March 2017)
Mr. Zhu Mingwei (resigned on 28 March 2017)
Mr. Lau Tze Cheung Stanley

Nomination Committee

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

Auditors

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

DLK Advisory Limited

Registered Office

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

Principal Place of Business in Hong Kong

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

Headquarters and Principal Place of Business and Head Office in China

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar

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

Stock Code

2014

Company's Website

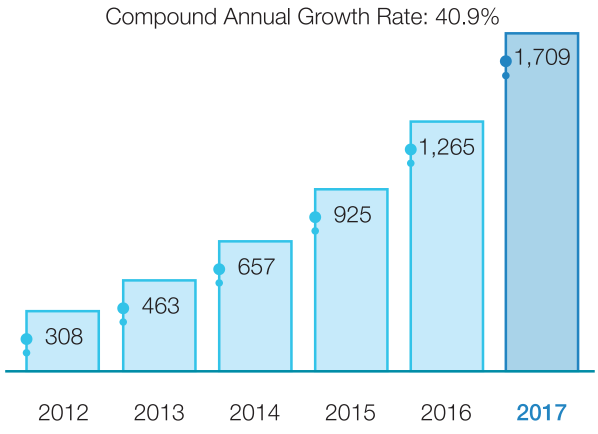
www.ozner.net

Financial and Operational Highlights

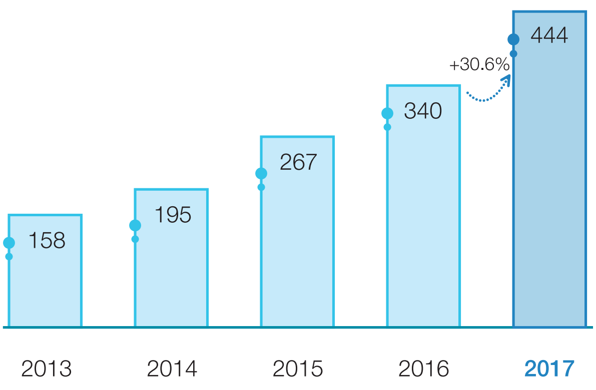
(RMB in thousands)	Year ended 31 December **2017**	2016
Total Revenue	**1,549,027**	920,766
Water purification services	**1,169,417**	854,202
Air sanitization services and others	**379,610**	66,564
Gross Profit	**715,689**	502,093
Profit for the year	**240,880**	228,655
Basic earnings per share (RMB cents)	**11.43**	13.31

(RMB in thousands)	As at 31 December **2017**	2016
Revenue generating assets	**1,595,699**	1,484,409
Total assets	**5,786,600**	3,688,522
Total liabilities	**2,705,798**	1,464,876

Fast Enlarging Installation Base



Installation base (1,000 units)

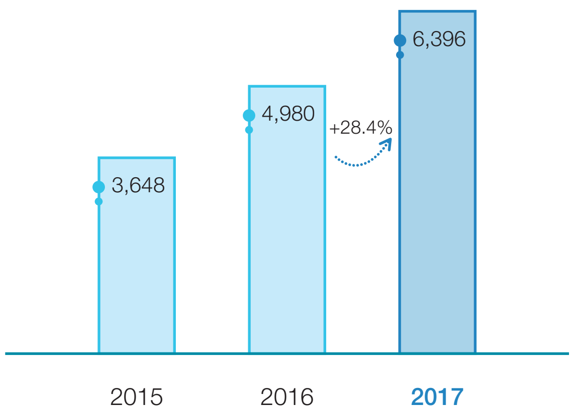


New Installation (1,000 units)

Sustained High Renewal Rate

	2015	2016	**2017**
Corporate	96%	95.1%	**94.7%**
Household	98%	97.4%	**97.2%**

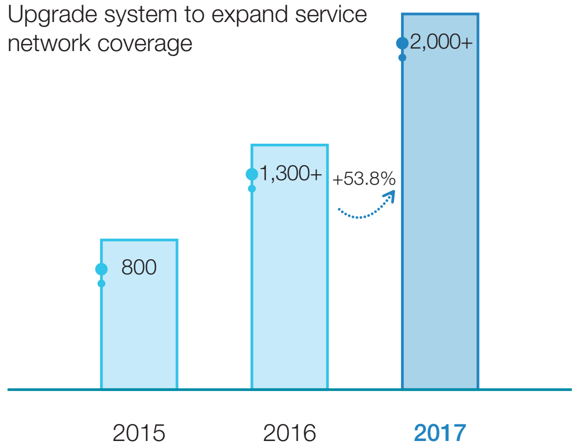
Number of Distributors



Number of distributors (unit)

Service Network Coverage

Upgrade system to expand service network coverage



Number of covered cities & counties (unit)

Chairman's Statement and Management Discussion and Analysis

Industry Analysis

2017 was a year of the environmental protection policy. Upon certain amendments, the Law of the PRC on Prevention and Control of Water Pollution was promulgated while invitation for comments on the Law of the PRC on Prevention and Control of Soil Pollution has commenced. 2017 was also a critical year for the implementation and completion of the phase target stated in "Water Pollution Prevention and Control Action Plan" ("Ten Water Plan"). The effort and coverage for environmental protection by the central government would be further strengthened, which played a positive and important role in promoting the development of the environmental protection industry. According to a preliminary estimate by the Academy for Environmental Planning under Ministry of Environmental Protection, the total investment injected by the whole society for completing "Ten Water Plan" was about RMB4.6 trillion. Through step-up investment in pollution control, the output of the environmental protection industry increased by approximately RMB1.9 trillion, of which the direct purchase of environmental-friendly industrial products and services was approximately RMB1.4 trillion, which indirectly boosted the output of the environmental protection industry by RMB506.43 billion. Due to favourable policies and market demand, the peak of environmental investment will be ushered in 2018, and the potential of market with trillion dollars valuation is expected to be further released.

On behalf of the board ("Ozner Water", "Ozner" or the "Company"), I am pleased to present the annual report of subsidiaries (collectively the "Group") for the year ended 31 December 2017.

In addition, the report of the Nineteenth National Congress emphasized the accelerated reform of the ecological civilization system in order to build a beautiful China. The "beautiful China" includes not only a scenic ecological environment, high-tech green industries, but also a responsible government that responds positively to public opinion. The report reaffirmed that environmental protection would remain as the focus of the government and it would scale up efforts on environmental protection and investment in the next few years. The report also reflected that China has begun to play an increasing roles on international environmental issues.

For the water purification industry, with the people's increasing awareness regarding the health level of drinking water and the improvement of living standard, consumers in general have become more concerned with the quality of drinking water, enabling water purifiers to enter into a prime development period as one of the important categories of environmental electrical appliances. According to the forecast of the AskCI Consulting Co., Ltd. (中商產業研究院), the water purifier industry will leverage the emerging opportunities for development. The "high-end, large flux and smart" products will be the core features in the development of water purification industry.

For the air sanitization industry, the performance of the air purifier market continued to strengthen. According to the report data of the All View Cloud (AVC), the purifier market scale reached RMB16.2 billion in 2017, representing an increase of 20% year-on-year. According to the "Market Demand Forecast for Air Purifier in the PRC and Investment Strategic Planning Analysis Report" published by the China Industrial Research Institute (中國產業研究院), the sales of air purifiers in China will maintain a high growth rate of 30% to 35% in the future, and it will climb over RMB50 billion in 2020.

Business Review

2017 was a critical year that Ozner focuses on promoting and implementing the strategy of a safe drinking water through incorporating various smart products and applying Internet of Things ("IOT") platform strategy. During the year under review, Ozner further broadened the market segments in the water purification field, establishing its commercial leading position while it continued to promote the overseas layout. Ozner also enriched its product portfolio and developed and upgraded IOT and big data technology with Cloud Platform, in order to actively seek expanding the local and international sales channels and networks, so that a continuous recurring revenue could be achieved by quickly attracting users and efficiently retaining customers. Moreover, Ozner integrated the upstream and downstream industry chain and reached an in-depth cooperation with strategic partners through strategic investment, so as to further consolidate the advantages of channels and supply chain, resulting in comprehensive improvement of reducing costs, guaranteed quality, reserve technology, new products and technology research and development.

For the year ended 31 December 2017 (the "year 2017" or the "year"), there was a significant increase in the Group's revenue and gross profit as compared to last year. The revenue increased by approximately 68.2% from approximately RMB920.8 million for the year ended 31 December 2016 to approximately RMB1,549.0 million for the year ended 31 December 2017, of which the revenue arising from water purification business contributed a major proportion increase by 36.9%. The Group's gross profit increased by approximately 42.5% from approximately RMB502.1 million for the year ended 31 December 2016 to approximately RMB715.7 million for the year ended 2017. The increases above were mainly due to the healthy growth of the Group's water and air sanitization businesses and the additional business brought by the investment and acquisition of two subsidiaries during the year.

Innovative Business and Fully Upgraded Business Model

In 2017, leveraging on experience in the water purification market over the years, Ozner further consolidated the user-centered and diversified product portfolio with four major business segments, namely water purification, air sanitization, smart products and core supplies components, with an aim to form a multi-service complementary sharing and a cooperative and comprehensive product business layout by using "leasing + service" and the IOT innovation model.

The two major platforms of the Group undertook four major business segments, with the objective of providing continuous service to the users and distributors, integrating online and offline services and fully upgrading business models. Among them, "HoYo Services Home (浩優服務家)" provided the Group and each sub-brand product with the Company's own standardized service, and remotely controlled for the devices to provide comprehensive IOT value-added services. "iFamily APP" created a new online and offline user-centered retail model to provide user big data service and analysis about consumer behavior for the Group's businesses relying on the cloud platform and user data. The orderly ecological operation of the products ensured that it could not only effectively meet the needs of existing customers, but also enabled rapid integration of new brands and new businesses, so that the rapid replication and promotion of strategic and business models could be made.

Focus on Research and Development and Technological Innovation, Further Optimizing and Enriching the Product Portfolio

The Group still input great effort in research and development and innovation that a total of one hundred and ninety three patent applications were submitted in 2017, in that way, Ozner's capabilities on research and development have further strengthened and laid down a solid foundation for the market of new products and technologies in the coming years, including the introduction of certain smart products such as black technology smart water chip, smart water meter, smart vertical commercial drinking water purifier and smart water purifier dishwasher, to enhance the competitiveness and portfolio of products, marking Ozner's step forward to the creation of smart home ecosystem.

Ozner will continue to focus on the core technologies, including purification, ozone and IOT, to broaden its water purification product line as the basis for horizontal expansion of the air sanitization, dishwasher and other smart products for different occasions of family, office, catering and leisure. Ozner is committed to providing comprehensive and environmentally friendly smart purification products solutions, of which the IOT technology will not only reflect in its product features, but also as the key to link the products, services and various business segments of Ozner, becoming a new growth feature of Ozner's business in the future.

During the year, Ozner water purifier was selected as the first batch of water purifier products which passed the new national standard. Ozner's smart water purifier was connected to the 24-hour 365 days cloud service center of Ozner, and the working status of water purifier would be under real-time monitoring and feedback to the cloud service center with quick response by Ozner's after-sales service team, in order to provide users with a healthy and safe environment for drinking water while keeping exploring in the intelligent exploration and ushering in a new era of direct drinking water through continuous innovation of its own technology.

Our industry-leading brand, smart products and innovative business model have been recognized by the society. In 2017, the Group won the titles of "National Influential Brand of Water Purification Industry (全國淨水行業影響力品牌)" and "National Innovation Products of Water Purification Industry (全國淨水行業創新產品)", "2017 Most Valuable Investment Award (二零一七年度最具價值投資獎)" and "2017 Business Model Leadership Award (二零一七年度商業模式引領獎)" awarded by the China Finance Summit (中國財經峰會), "Commercial Water Purification Leader Brand (商用淨水領軍品牌)" and "Influential Brand (卓越影響力品牌)" awarded by the 2017 China Ecological Water Purification Industry Conference (二零一七年中國淨水行業生態大會), "Product Innovation Award (產品創新獎)" for the 2017 China Environmental Electrical industry (二零一七年中國環境電器行業), among others.

Consolidate Existing Customer Base, Develop Partnership Business Model and Vigorously Expand Network of Distributors and Channels

The Group's sales and channels are further integrated through applying Internet platform-based approach. Partnership as a business model has started to be implemented in the Ozner. Along with expanding and developing its existing marketing and service channels, the Company introduced a competitive incentive mechanism that transformed the existing employer-employee relationship into a partnership mechanism. This not only enabled a reduction in management costs, it also enhanced the subjective initiative and efficiency of both the employees and partners.

During the year, the Group continued to uphold the creation of a win-win cooperation and maintenance model with distributors, and further expanded its sales network and direct service system. As of 31 December 2017, our service network spread to more than 2,000 cities, counties and villages throughout the country with more than 1,000 customer service staff and service system engineers. The Group had around 6,400 distributors in total. As the distributor network occupied the end markets with higher speed, zero inventory and operational model of self-management system has reduced the service and after-sale management by the distributors, enabling the distributors to focus on rapidly developing channels and the market for its stable subsequent income, and further increase their reliability and loyalty towards the Group.

Strategic Integration and Optimization of the Layout of the Industrial Chain Through Acquisitions and Mergers

During the year, the Group carried out a strategic layout of investment, acquisition and merger on its industrial chain, which served its "development of user-centered platform in order to obtain continuous service income" strategy, to further obtain user and channel resources. The Group was seeking vertical and upstream and downstream integration in the industry with strategic cooperation in the field of water purification, user channels, dishwashers, supply chain and air sanitization, under which the Group was able to leverage on industry synergy, so that a user-centered sustainable service platform strategy could be achieved and the layout of the industrial chain could be optimized.

On 22 May 2017, the Group entered into a share purchase agreement pursuant to which it agreed to acquire 51% equity interest in Guangdong Bili Drinking Water Equipment Co., Ltd. ("Guangdong Bili"), at the total consideration of RMB173,910,000. Relying on the unique business model, technology research and development and excellent service system of Ozner in the field of environmental protection and water purification, and supported by Guangdong Bili's strong network of channels in the public water purification market of the campus, it is expected that both parties will conduct a comprehensive strategic cooperation in the aspects, such as the expansion of market channels and sharing of service resource, and to explore new models for the development of Internet + era water purification market, consolidating the leadership of public drinking water equipment in the schools as well as accelerating the capturing of the market share in public water purification.

On 23 June 2017, the Group entered into a share purchase agreement pursuant to which it agreed to acquire a 51% equity interest in Foshan Lepuda Motor Co., Ltd ("Foshan Lepuda"), at the total consideration of RMB160,650,000. Under Ozner's constantly innovative smart product line in the water purification industry and the status advantages of wisdom aquatic ecosystem construction, and the world's leading technical advantages in the field of micro motor of Foshan Lepuda, both parties would carry out comprehensive strategic cooperation in environmental protection appliance industry chain, supply chain and channel resource integration, to speed up the layout of the whole industry chain ecology and to enhance brand competitiveness and influence by bringing out such cooperation benefits of mutual benefit and a win-win situation.

After the strategic integration and deep cooperation, Ozner's input of capital, technologies and management into its partners, such as with Guangdong Bili and Foshan Lepuda, to realize a mutual benefit and win-win result. Under the leadership of stable and efficient management team, and riding on the Group's leading position in the industry and the Company's unique business model, both of Guangdong Bili and Foshan Lepuda have achieved rapid business growth in the second half of year 2017.

Improving Efficiency by Optimizing Internal Management and Transform into Technology-Managed Platform

Ozner improved the comprehensive management from aspects such as talent, system and policy. Through the optimization of post evaluation, employee empowerment and the implementation of partnership system, Ozner would be transformed from a human-based business platform to a technology-managed platform. In terms of system optimization, leveraging on its management process with the Internet, the Group has established a research and development system and supply chain management system in line with Ozner's characteristics and has promoted the informationized production and service system. While deepening the awareness of cost control in day-to-day decisions made by each department, all the Group's processes have been institutionalized that formed an imitable and producible management system to enhance efficiency and provide management support for the Group's comprehensive implementation of the brand. The implementation of the "triple-effect" management concept, that was, effectiveness, efficiency and efficacy, further enhanced Ozner's management capabilities and provide a strong internal support for its rapid development.

Future Strategy

Looking forward into 2018, the Group will continue to deepen the promotion of the strategy of a safe drinking water solution focused platform, supported by smart products and IOT. Focusing on the core business of water purification and air sanitization, we will strive to build a leading industrial platform for healthy living solutions in the PRC. Based on globally recognized strong research and development capabilities and self-developed patented technology to further enhance the production capability, to ensure the supply and to reduce costs as well as to optimize the product portfolio; using IOT big data technology to create a cloud platform to provide a full range of intelligent services and solutions; further broaden user channels, so as to acquire clients and enhance their retention to provide value-added services; expand channels for acquisition of clients through mergers and acquisitions with a client-centered approach. The Group will establish a complete industrial ecological chain to enhance the Group's overall profitability from the strategic level, product level, service level and channel level and from point to surface, with an aim to create more value for the shareholders of the Company.

Financial Review

Revenue

Our total revenue increased by 68.2% from RMB920.8 million for the year ended 31 December 2016 to RMB1,549.0 million for the year ended 31 December 2017, primarily attributable to the increase in revenue from water purification services and air sanitization services, and the acquisition of two subsidiaries during the year.

Revenue from water purification services increased by 36.9% from RMB854.2 million for the year ended 31 December 2016 to RMB1,169.4 million for the year ended 31 December 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 1,709,000 units as at 31 December 2017 and the increase in the number of new distributors. For the year ended 31 December 2017, the Group sold and leased a total of approximately 444,000 units of new water purification machines. We expanded our sales and marketing network to penetrate the household market. At the same time, we cooperated with Guangdong Bili for deepening the development of campus market.

Revenue generated from air sanitization services increased by 144.9% from RMB54.6 million for the year ended 31 December 2016 to RMB133.7 million for the year ended 31 December 2017. The increase was primarily due to the increased sales of household air purifiers.

Revenue generated from supply chain services for the year ended 31 December 2017 was RMB214.4 million (for the year ended 31 December 2016: nil), which was mainly due to the sales of micro motor products by Foshan Lepuda.

Gross Profit Margin

Our gross profit margin decreased from 54.5% for the year ended 31 December 2016 to 46.2% for the year ended 31 December 2017, primarily attributable to the slight decrease in gross profit margin in water purification services, the relatively lower average gross profit margin in supply chain services, while it was partially offset by the increase in gross profit margin in air sanitization and financing business.

Our gross profit margin in water purification business was 55.8% and 50.8% for the years ended 31 December 2016 and 2017, respectively. Such decrease in gross profit margin was due to sales of new models of water purification machines and campus water purification machines, the gross profit margin of which are lower than that of leasing of water purification machines, and at the same time, the increase in proportion of the revenue contributed from renewed service fee from end users, which is at a lower profit margin. The revenue contributed by leasing of water purification machines in total revenue of water purification business decreased from 65.3% for the year ended 31 December 2016 to 57.0% for the year ended 31 December 2017.

Gross profit margin of the air sanitization business for the years ended 31 December 2016 and 2017 were 24.2% and 34.6%, respectively, the increase was mainly due to an increase in the proportion of sales of household air purifiers, with its gross profit margin higher than that of air sanitization development services.

Other Income and Gains

Our other income and gains were RMB20.5 million and RMB198.3 million for the years ended 31 December 2016 and 2017, respectively. The increase was mainly due to (i) the disposal of partial shareholding in a subsidiary of the Group which generated an income of RMB138.9 million; (ii) the increase of government grants generated from local economic development incentives by RMB20.6 million; and (iii) the increase of interest income arising from an increase in average bank balances and short-term investments by RMB8.7 million.

Selling and Distribution Expenses

For the years ended 31 December 2016 and 2017, our selling and distribution expenses were RMB155.0 million and RMB267.9 million, respectively, representing 16.8% and 17.3% of the revenue of the same periods, which was increased by 72.8% or RMB112.9 million from the year ended 31 December 2016 to the year ended 31 December 2017. Such increase was primarily due to increase in salary and welfare expenses amounting to RMB75.9 million and traveling expenses amounting to RMB22.6 million. Such increase was due to increase of headcount of sales and marketing department for the promotion and capturing of business growth in market.

Administrative Expenses

For the years ended 31 December 2016 and 2017, our administrative expenses were RMB114.0 million and RMB166.2 million, respectively, representing 12.4% and 10.7% of the revenue of the same periods. Our administrative expenses increased by 45.7% or RMB52.2 million from the year ended 31 December 2016 to the year ended 31 December 2017. Such increase was mainly due to the increase of headcount of management team for the acquisition projects and the engagement of professional parties for handling of merge and acquisition work. Meanwhile, the Group involved professionals to optimize the organizational structure and management processes and upgraded human resource and financial system for its rapid expansion.

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 issue date and end of the reporting period. The fair values of the derivative component are determined based on the valuations performed by American Appraisal, 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. The Group recorded the fair value gains on derivative component of convertible bonds of RMB96.1 million for the year ended 31 December 2016 and no such gains were recorded for the year ended 31 December 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 113.3% or RMB56.9 million from RMB50.2 million for the year ended 31 December 2016 to RMB107.1 million for the year ended 31 December 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 business and supply chain business enjoy certain preferential tax treatments, including (i) Shanghai Haoze Water Purification Technology Development Co., Ltd. qualifying as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2015 to 2017; (ii) Shanghai Haoze Comfort Environment & Science Co., Ltd. qualifying as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2017 to 2019; (iii) Guangdong Bili qualifying as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2015 to 2017; (iv) Foshan Lepuda qualifying as a High and New Technology Enterprise is entitled to the preferential tax rate of 15% for three years from 2016 to 2018; and (v) Shaanxi Haoze Environmental Technology Development Co., Ltd., being approved by the competent tax authority where it is located to be an enterprise engaging in an encouraged industry enjoys the preferential tax rate of 15% from 2012 to 2020.

Primarily as a result of the preferential tax treatment we received in relation to our water purification service and supply chain service, our income tax expense was RMB37.3 million and RMB45.2 million for the years ended 31 December 2016 and 2017, respectively. The effective tax rate (calculated by dividing income tax expense by profit before tax) was 14.0% and 15.8% for the years ended 31 December 2016 and 2017, respectively, which basically remained stable.

Profit for the Year and Net Profit Margin

Profit for the Year increased by 5.3% from RMB228.7 million for the year ended 31 December 2016 to RMB240.9 million for the year ended 31 December 2017, which was mainly because the increase in selling, distribution expenses and administrative expenses offset the increase in gross profit.

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, and intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Cash Positions

As at 31 December 2017, the Group's bank balances and cash together with short-term investments (bank time deposit) was RMB553.8 million (31 December 2016: RMB486.9 million), representing an increase of 13.8% as compared to that as of 31 December 2016. For the surplus cash, we intend to deposit the cash into short term demand deposits and/or money market instruments. As of 31 December 2017, all cash equivalents were denominated mainly in RMB and Hong Kong dollars.

Trade and Bills Receivables

Trade and bills receivables increased from RMB44.0 million as at 31 December 2016 to RMB354.2 million as of 31 December 2017. The increase was mainly due to the increase in the sales of water machines, air purifiers and motor products, etc. Also the Group is committed to enhance long-term business cooperation with quality distributors, which enjoys a certain credit period. Our average trade receivable turnover days were 23 days and 38 days for the years ended 31 December 2016 and 2017, respectively.

Inventories

Inventories increased from RMB164.2 million as at 31 December 2016 to RMB308.8 million as at 31 December 2017. Such increase was primarily due to increase in inventory of raw materials and work-in-progress of Guangdong Bili and Foshan Lepuda. Our average inventories turnover days were 131 days and 85 days for years ended 31 December 2016 and 2017, respectively.

Current Ratio and Gearing Ratio

The current ratio was 1.29 and 1.01 as at 31 December 2016 and 2017, respectively. The decrease was due to increase of finance lease payables that was mainly used in long-term assets investment. Our gearing ratio, which was derived by dividing total debt by total equity, was 34.3% and 46.6% as of 31 December 2016 and 2017, respectively. Such change was due to financing lease arrangement during the year.

Capital Expenditure

For the year ended 31 December 2017, the Group's capital expenditure amounted to approximately RMB404.7 million, which was mainly used for the purchases of property, plant and equipment and other intangible assets and the production of water purification machines. During the year, the Group added new water purification machines amounting to RMB308.3 million, and purchased equipment in relation to the second phase of Shaanxi manufacturing facility amounting to approximately RMB22.2 million and purchased land use right in relation to the third phase of Shaanxi manufacturing facility amounting to approximately RMB23.7 million.

Borrowings and Charges on the Group's Assets

As at 31 December 2017, the Group had short-term interest-bearing bank and other borrowings, finance lease payables, bond liabilities component and long-term interest-bearing loans and borrowings of approximately RMB89.8 million (31 December 2016: RMB49.5 million), approximately RMB779.1 million (31 December 2016: RMB371.8 million), approximately RMB335.6 million (31 December 2016: RMB342.0 million) and approximately RMB231.3 million (31 December 2016: nil), respectively. The Bonds will mature on 6 November 2020 and the interest rate is 5.0% per annum. The short-term interest-bearing bank and other borrowings will be repayable within 1 year and the fixed interest rate is a range of 5.18%–5.50% per annum. Amongst the finance lease payables, approximately RMB334.5 million (31 December 2016: RMB146.8 million) will be repayable within 1 year, and approximately RMB444.6 million (31 December 2016: RMB225.0 million) will be repayable between 1 and 3 years and the fixed interest rate is 4.91%–9.0% per annum. The long-term interest-bearing bank and other borrowings will be repayable between 1 and 2 years and the fixed interest rate is 5.7%–9.0% per annum.

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

During the year, the Group entered into several finance lease agreements (the "Finance Lease Agreements") for the sale and leaseback of approximately 489,000 water purification machines and 729 manufacturing equipments of the Group for other borrowing. As at 31 December 2017, the carrying amounts of the approximately 865,000 water purification machines and 729 manufacturing equipments subject to the sale and leaseback arrangements under the Finance Lease Agreements, in substance treated as secured assets, were approximately RMB1,197.1 million.

As at 31 December 2017, the Group pledged bank deposits amounting to RMB69.8 million as securities for issuance of bank acceptance notes (as at 31 December 2016: RMB42.4 million).

Save as disclosed above, the Group did not have any charges on the assets as at 31 December 2017 (31 December 2016: nil).

Contingent Liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

Commitments

As at 31 December 2017, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB20.4 million (as at 31 December 2016: RMB10.0 million).

As at 31 December 2017, the Group had capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to RMB158.2 million (as at 31 December 2016: RMB84.0 million).

As at 31 December 2017, the Group had unpaid annual leasing fee payments which are not yet recognized as rental revenue amounting to RMB295.2 million (as of 31 December 2016: RMB167.6 million).

As at 31 December 2017, the Group had no other capital commitments save as disclosed above.

Exchange Rate Risk

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

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

Material Acquisitions and Future Plans for Major Investment

During the year ended 31 December 2017, the Group had entered into 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 (together, the "Bili Vendors"), each an independent third party, 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. On 18 December 2017, the Group entered into a supplemental agreement to the aforesaid share purchase agreement with, amongst others, the Bili Vendors, pursuant to which the parties agreed that part of the consideration of RMB43,477,500 to be settled by the allotment and issuance of consideration shares shall instead be settled in cash. For details, please refer to the Company's announcement dated 18 December 2017.

On 23 June 2017, the Group entered into a share purchase agreement with Mr. Peng Dongkun (彭東琨) ("Mr. Peng") and Ms. Li Lijun (李麗君) ("Ms. Li"), each an independent third party, Suichuan Lepu Business Service Centre (Limited Partnership) (the "Partnership Enterprise"), Foshan Lepuda, Foshan Lepu Trading Co., Ltd ("Foshan Lepu Trading") 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 18 December 2017, the Group entered into a supplemental agreement to the aforesaid share purchase agreement with, amongst others, Mr. Peng and Ms. Li, pursuant to which the parties agreed that part of the consideration of RMB32,130,000 to be settled by the allotment and issuance of consideration shares shall instead be settled in cash. For details, please refer to the Company's announcement dated 18 December 2017.

On 30 June 2017, the Group entered into a share purchase agreement with Mr. Lim Chang Huat ("Mr. Lim"), 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.

Save as disclosed above, the Group did not conduct any material investments, acquisitions or disposals. As at the date of this report, the Group has no specific future plans for material investments.

Employees and Remuneration Policy

As of 31 December 2016 and 2017, the Group had 2,018 and 4,241 employees, respectively. Total staff costs (including Directors' emoluments and share option expenses) for the year ended 31 December 2017 were RMB198.1 million, as compared to RMB107.4 million for the year ended 31 December 2016. Apart from salary payments, other employee benefits including social insurance and housing accumulation funds are in amounts equal to pre-determined percentages of the salaries, bonuses and certain allowances of our employees.

The Group has also adopted the Pre-IPO Share Option Scheme, the Share Option Scheme and the Restricted Share Unit Scheme (together referred to 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 31 December 2017, a total of 156,318,846 share options granted under the Pre-IPO Share Option Scheme were outstanding. During the year ended 31 December 2017, no share options were granted or agreed to be granted under the Schemes.

On 21 July 2017, restricted share units representing 11,150,842 shares (being 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 restricted share units representing 2,116,178 shares were granted to four selected persons who are directors of the Company or a director of the Company's subsidiary; and restricted share units representing 9,034,664 shares were granted to 211 selected persons who are employees or distributors of the Group. On 25 August 2017, restricted share units representing 2,201,543 ordinary shares with par value of HK$0.01 each of the Company under the Restricted Share Unit Scheme were granted to 13 selected persons who are distributors of the Group.

For the year ended 31 December 2017, the total expense of the Schemes was RMB13.2 million (year ended 31 December 2016: RMB22.4 million).

Use of Net Proceeds from Listing

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

As of 31 December 2017, the proceeds from the global offering[1] have been fully utilized:

Items	% of use of proceeds	Proceeds from the global offering RMB million	Used up to 31 December 2017 RMB million
Manufacturing of water machines	54%	533.6	533.6
Construction of 2nd phase of production facility in Shaanxi	20%	197.6	197.6
Repayment of bank loan	11%	109.1	109.1
Sales and marketing fee	5%	49.4	49.4
General working capital	10%	98.5	98.5
Total	100%	988.2	988.2

1 The figures in the table are approximate figures.

As at 31 December 2017, the Company has used the net proceeds from the global offering of RMB988.2 million pursuant to the section headed "Future Plans and Use of Proceeds" contained in the offering prospectus.

Final Dividend

The Board recommends the payment of a final dividend of RMB0.0225 (equivalent to HK$0.0279) per share for the year ended 31 December 2017 (2016: Nil) to the shareholders of the Company. The final dividend, if approved, will be payable on or around 30 July 2018 and is subject to the approval of the shareholders at the annual general meeting to be held on 29 June 2018.

Future Outlook

Looking forward into 2018, we will be confident to exploit new opportunities and undertake challenges, while continue to focus on safe water purification, and provide our customers with an overall wonderful and healthy life. We will embark on strategic mergers and acquisitions collaboration with partners, optimize products portfolio and continue to establish channel platforms, so as to consolidate our market position. We will gradually establish the Ozner Ecosphere and further promote our product portfolio to the targeted market. We aim to create the greatest value for all our shareholders, investors and the community at large.

Acknowledgements

The Group is thankful to all employees for their excellent contribution to the development of the Group. The Board hereby would like to express its sincere gratitude to the management for their diligent dedication and commitment for the team's contribution is crucial to ensure the continual success of the Group in the future. Meanwhile, the Group also expresses its deep appreciation to the shareholders, customers and business partners for their long-term support. The Group will endeavour to commit to the sustainable growth of its business and strive to achieve the whole year sales target of 2018, along with creating the greatest value for shareholders and related stakeholders.

XIAO Shu
Chairman and Chief Executive Officer

Hong Kong
20 March 2018

Corporate Social Responsibility

Ozner "Winter for two people — Loving and Benevolent Journey on Protecting the source of Yangtze River"

In January 2017, the source of Yangtze River became warmer due to some visitors, the volunteers of Ozner "Winter for two people — Loving and Benevolent Journey on Protecting the source of Yangtze River" Project. They had a special New Year's benevolent experience at the source of Yangtze River's water ecology conservancy station. The daily work of the volunteers includes, among other things, meteorological monitoring, water quality testing, garbage classifying, cooking, wild animal protecting and blogging.

Ozner, collaborated with China News Services Held the World Water Day Summit, themed "Health awareness on Drinking Water"

In March 2017, on the occasion of World Water Day, Ozner and China News Service co-organized the 2017 "Healthy China" summit, themed as "Concern for Safe Drinking Water & Construction of New Ecosystem". The summit would mainly focus on three major themes, namely, "China's Water Map", "From Water Safety to Water Health Impact", along with "the Last Mile to Ensure Drinking Water Safety", with the aim to arouse public awareness of water effects on health of and to promote the upgrade of China's water safety.

Jingze Program on Entering into Yunnan

On 6 November 2017, the Ozner Group and its subsidiary brand, Bili Company (碧麗公司), joined by "China Business Network", despatched a set of Ozner drinking water purification equipment to the Yunnan Nuijing Jiunai Shanwan Elementary School(雲南怒江舊乃山完小). This has ended the children's long history of drinking mountain spring water and even children in remote mountain areas could have access to clean drinking water every day. The six volunteers from Ozner Group conducted a series of two-day interactive activities with teachers and students from Jiunai Shanwan Elementary School. Those activities included "A Lecture on Drinking Water for Small Class", environmental art contest with theme "Blue Sky and Crystal Water", as well as family visits and donations to the poverty-stricken students.

Corporate Governance Report

Corporate Governance Practices

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

During the year ended 31 December 2017, the Company has complied with all the applicable code provisions as set out in the CG Code, save and except for the following deviation:

Code provision A.2.1

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

The Board

Responsibilities

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

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

Board Composition

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

Executive Directors

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

Non-executive Directors

Mr. He Sean Xing
Ms. Gui Songlei
Mr. Wang Duo

Independent non-executive Directors

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

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

During the year ended 31 December 2017 and up to the date of this annual report, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

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

Induction and Continuous Professional Development

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

During the reporting period, all directors have participated in continuing education programmes to develop and update their knowledge and skills. The directors read newspapers, publications and updated information on the economy, water pollution, directors' duties, among others; they self-studied the revision publication prepared by the Stock Exchange that are related to risk management and internal control of corporate governance. The Group's independent non-executive directors also participated in other external seminars on listing rule updates, risk management and internal control, along with attending seminars on "how to properly deal with Inside and sensitive Information", among others. The Company has set up a training record system that aims to assist directors to record all the training courses they have participated previously.

According to the CG Code, the management shall provide the board members with monthly updates containing information including the performance, financial position and future prospect of the Company so as to enable the directors to perform their duties under the Listing Rules. The Company regularly provides all the directors with monthly data collection so that the directors are able to make informed decisions and perform their responsibilities and duties as directors of the Company.

Appointment and Re-election of Directors

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

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

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

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

Board Meetings

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

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

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

During the year ended 31 December 2017, four Board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Director	Attended/Eligible to attend
Mr. Xiao Shu	4/4
Mr. Zhou Guanxuan	4/4
Mr. Tan Jibin	4/4
Mr. Li Honggao	4/4
Mr. Wang Yonghui	4/4
Mr. He Sean Xing	4/4
Ms. Gui Songlei	2/2
Mr. Wang Duo	2/2
Dr. Chan Yuk Sing Gilbert	4/4
Mr. Lau Tze Cheung Stanley	4/4
Dr. Bao Jiming	4/4
Mr. Gu Jiuchuan	4/4

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Specific enquiry of all the Directors has been made and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2017.

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

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

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

Remuneration of Directors

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors. The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of each of the Directors for the year ended 31 December 2017 are set out in note 9 to the consolidated financial statements. Apart from the executive Directors, the Group does not have any other members of senior management.

Directors' Liability Insurance

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

Board Committees

Nomination Committee

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

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

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

During the year ended 31 December 2017, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

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

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

Board Diversity Policy

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

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

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

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

Remuneration Committee

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

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

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

During the year ended 31 December 2017, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Dr. Bao Jiming *(Chairman)*	0/0
Mr. Zhou Guanxuan	1/1
Mr. Lau Tze Cheung Stanley	1/1
Mr. Zhu Mingwei	1/1

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

Audit Committee

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

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

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

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

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

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

During the year ended 31 December 2017, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. Lau Tze Cheung Stanley *(Chairman)*	2/2
Dr. Chan Yuk Sing Gilbert	2/2
Dr. Bao Jiming	1/1
Mr. Gu Jiuchuan	2/2
Mr. Zhou Guanxuan	1/1

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

During the year, the Audit Committee also reviewed the audited consolidated annual results of the Company and its subsidiaries for the year ended 31 December 2016 and the unaudited interim results of the Company and its subsidiaries for the period ended 30 June 2017 as well as the report prepared by the external auditors relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control and other matters.

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on pages 57 to 62 of this annual report.

Internal Control and Risk Management

The Board acknowledges that it is the responsibility of the Board for maintaining adequate internal control and risk management systems to safeguard Shareholder investments and Company assets and reviewing the effectiveness of such systems on an annual basis. The Board is also aware of the fact that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Company adopted the three lines of defence model in the management of risk. Operational management forms the core of the first line of defence as they contact with the risk sources in the first place. They are responsible for identifying, reporting and preliminarily managing risks in their daily operations. Our second line of defence is aimed to facilitate and monitor the implementation of effective risk management practices by operational management and assists risk owners in defining risk exposures and reporting adequate risk-related information throughout the Company. Our internal audit function is the core of the third line of defense and mainly responsible for checking, auditing and monitoring the work performed by the first and second lines of defense.

The Company's risks are identified from business processes in our established enterprise-wide risk assessment methodologies. We select key participants across the Company who are involved in each of the business process as interviewees to identify the risks to form our risk universe. Each risk within the risk universe is assessed in terms of likelihood of occurrence and the significance of impact, taken into account the current internal controls in place to mitigate these risks. The risk assessment results are reported to senior management and the Board for the confirmation of our risk response strategies, based on their preferences towards risk, the available resources for risk mitigation, and the current controls in place.

The Company's internal control system intends to facilitate the design and functioning of good control practices and reduce the likelihood and impact of risks to an acceptably low level, in order to achieve our objectives in operations, reporting, and compliance.

Any material internal control defects identified are timely communicated and carefully evaluated for their potential impacts. The departments or functions who are owners of these controls, are required to propose corrective measures and obtain approval from management before implementation. The implementation status is monitored by both management and the internal audit function to ensure these control defects are properly resolved in a timely manner. The Company has also established policies and procedures for the handling and dissemination of inside information. The information to be disclosed should be properly reviewed and approved by our compliance functions and management to ensure its appropriateness and accuracy, and is closely monitored after disclosure. The Company plans to use its best endeavor to continuously refine our internal control system whenever necessary.

The Company's internal audit department plays a major role in the monitoring of the Company's internal governance processes. The major tasks of the department include providing reasonable assurance on the effectiveness of the Company's governance, risk management and internal controls in areas of operations, safeguarding of assets, reporting, and compliance, and conducting risk-based audits of all subsidiaries of the Company on a regular basis with recommended action plans to audit findings. The department also provides consulting services in risk management and internal control related issues within the Company.

We prepare and submit reports to the Board in risk and control related issues at least annually, detailing our risk management activities, the overall risk exposures, prioritization of risks based on risk assessment results and management's risk preferences with a careful evaluation of the current internal control systems and availability of resources. The Board reviews the reasonableness of reports and representations from management and makes sufficient enquiries whenever they consider necessary, before reaching their conclusions.

For the year ended 31 December 2017, the Board, through the Audit Committee, conducted an annual review of the effectiveness of the financial reporting, internal control and risk management of the Company including the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting, internal audit and financial reporting functions and considered these systems are effective and adequate.

Auditors' Remuneration

For the year ended 31 December 2017, the total remuneration paid or payable to the Company's auditors, Ernst & Young, for audit and audit related services was RMB4.1 million.

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

Items of auditors' services	Amount (RMB'000)
Audit service	2,942
Review service	1,132
Total	4,074

Joint Company Secretaries

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

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

For the year ended 31 December 2017, each of Mr. Tan and Ms. Lai has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

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

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

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

During the year, the Company held an extraordinary general meeting on 18 January 2017 ("EGM") and an annual general meeting on 28 June 2017 ("2017 AGM") and below is the attendance of each Director:

	Attended/Eligible to attend	
Name of Director	**EGM**	**2017 AGM**
Mr. Xiao Shu	0/1	1/1
Mr. Zhou Guanxuan(1)	0/1	0/1
Mr. Tan Jibin	1/1	1/1
Mr. Li Honggao(2)	0/0	0/1
Mr. Wang Yonghui(2)	0/0	0/1
Mr. He Sean Xing	0/1	0/1
Ms. Gui Songlei(3)	0/0	0/0
Mr. Wang Duo(4)	0/0	0/0
Dr. Chan Yuk Sing Gilbert	0/1	0/1
Mr. Lau Tze Cheung Stanley	1/1	1/1
Dr. Bao Jiming	1/1	0/1
Mr. Gu Jiuchuan	0/1	0/1
Mr. Yan Andrew Yan(5)	0/0	0/1
Ms. Wang Haitong(6)	0/1	0/1
Mr. Ng Benjamin Jin-Ping(7)	0/1	0/0
Mr. Xiao Lilin(7)	0/1	0/0
Mr. Zhu Mingweiv(7)	0/1	0/0
Mr. He Jun(7)	0/1	0/0

Note:

(1) Re-designated as an executive director from the previous independent non-executive director on 28 March 2017

(2) Appointed on 28 March 2017

(3) Appointed on 22 August 2017

(4) Appointed on 27 September 2017

(5) Appointed on 28 March 2017 and resigned on 27 September 2017

(6) Resigned on 22 August 2017

(7) Resigned on 28 March 2017

The Chairman of the Board, the Chairman of the Board committee and the external auditor of the Company were all present at the 2017 AGM to answer shareholders' questions.

Shareholders' Rights

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

Convening of Extraordinary General Meeting and Putting Forward Proposals

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

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

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

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

Enquiries to the Board

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

Constitutional Documents

There has not been any change in the Memorandum and Articles of Association of the Company during the year ended 31 December 2017 and up to the date of this annual report.

Directors and Senior Management

Executive Directors

Mr. XIAO Shu (肖述), aged 44, is the Chairman of the Board, an executive Director and our chief executive officer. He is also the president and chief engineer of Shanghai Haoze Water Purification Technology Development Co., Ltd. ("Shanghai Haoze Water Purification Technology"), and the president of Shanghai Haoze Comfort Environment & Service Co., Ltd. ("Shanghai Comfort"). He was appointed as the Director on 19 November 2013 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Xiao has more than 15 years of experience in technology development, sales and marketing and strategic management. Mr. Xiao founded our business when he established Shanghai Comfort, a company which we acquired in 2012, in October 2005 and has remained as the management of Shanghai Comfort since then until he joined Shanghai Haoze Environmental Technology Co., Ltd. in January 2011. Mr. Xiao held his interests in Shanghai Comfort through Shanghai Comfort Products Technology Co., Ltd., a company which was engaging in the sales of air purification products and drinking water machines and which was established by Mr. Xiao as one of the founders in 2003. Mr. Xiao is the inventor of several patented water and air purification technologies owned by the Group. Prior to establishing our business via the establishment of Shanghai Comfort, Mr. Xiao worked at Sinorate Enterprises Limited, a company specializing in the production of electronic goods and components, between April 1993 and April 1999 where he sequentially served as product engineer, quality control manager and director of the production department. Between June 2001 and June 2002, he worked at Shanghai Oasun Environment High Technology Company Limited (上海歐臣環境高科技有限公司) ("Shanghai Oasun"), a company engaging in the business of providing water purification solutions, and was in charge of research and development and production management. Mr. Xiao received a bachelor's degree in agriculture (soilless cultivation) from Northwest A&F University (西北農林科技大學) (Shaanxi, PRC), which is formerly known as Northwest Agricultural Institute (西北農學院), in July 1992. Mr. Xiao is also accredited as an Internal Quality Auditor following the completion of an internal quality auditor course and the passage of the national internal quality auditor examination administered by the National Educational Center for Conformity Assessment in December 2001.

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

Mr. ZHOU Guanxuan (周貫煊), aged 59, is an executive Director. He was appointed to our Board as an independent non-executive Director on 26 May 2014 and has been re-designated as an executive Director on 28 March 2017. After the re-designation, Mr. Zhou is responsible for the management of the Group's supply chain. Mr. Zhou has more than 30 years of experience in household appliances manufacturing and operations management. From 1975 to September 1999, Mr. Zhou worked at the Midea Group Co., Ltd (SZE: 000333), a company listed on Shenzhen Stock Exchange and engaging in the business of manufacturing of household electrical appliances, and assumed office in the technology and production department before he was promoted as the general manager of Midea Redian Group Co., Ltd, an affiliate of Midea Group Co., Ltd. From 2000 to 2007, Mr. Zhou was the president of Foshan Shunde District Beijiao Town Weigao Electronics Industry Company Limited (佛山市順德區北滘鎮偉高電器實業有限公司), a company engaging in the business of research and development, manufacturing and sale of electronic appliances. From 2011 to 2013, he was the director and general manager of Jiangxi Jingdezhen Saide Ceramics Co., Ltd. (江西景德鎮賽德陶瓷有限公司), a company engaging in the business of manufacturing, development and sale of ceramics decoration materials.

Mr. TAN Jibin (譚濟濱), aged 36, is an executive Director. He joined our Group on 6 April 2011 as the financial controller and vice president of Shanghai Haoze Water Purification Technology and was appointed as the Director on 19 November 2013. Mr. Tan is primarily responsible for overseeing the overall financial and administrative affairs of the Group. Mr. Tan has about 10 years of experience in accounting and finance. Prior to joining the Group, Mr. Tan served as a senior auditor in Deloitte Touche Tohmatsu, an accounting firm, from July 2004 to April 2009 and as an associate finance manager in China Aoyuan Property Group Limited (HKSE: 3883), a Chinese property company listed on the Stock Exchange, from May 2009 to March 2011. He obtained a bachelor's degree in international finance from Guangdong University of Foreign Studies (廣東外語外貿大學) (Guangdong, PRC) in June 2004.

Mr. LI Honggao (李紅高), aged 36, has been appointed as an executive Director of the Company with effect from 28 March 2017. Mr. Li joined our Group on 1 June 2006 and currently serves as senior vice president of the Group and president of the public water purification business group of the Group. Mr. Li is primarily responsible for the sales, management and operation of the public and commercial water purification business of the Group. Mr. Li has over 10 years of sales and marketing experience in water purification business. Mr. Li has also served as sales director, marketing and operation director and general manager of the business department of the Group consecutively prior to his current position. Mr. Li is currently a master of business administration candidate at Fudan University (復旦大學), the PRC.

Mr. WANG Yonghui (王永暉), aged 41, has been appointed as an executive Director of the Company with effect from 28 March 2017. He joined our Group on 15 September 2014 and currently serves as vice president and investment director of the Group. Mr. Wang is responsible for capital markets related work and investments of the Group. Mr. Wang has extensive financial and capital markets related work experience. Before joining the Group, Mr. Wang has served various positions at the headquarter of Bank of China, the investment banking division of Banc of America Securities (now merged into Bank of America Merrill Lynch), and SOHO China Limited. Mr. Wang obtained a bachelor's degree in economics from the University of International Business and Economics (對外經濟貿易大學), the PRC, in July 1999 and his master of business administration degree from Emory University, the United States of America, in May 2006.

Non-Executive Directors

Mr. HE Sean Xing (何欣), aged 53, is a non-executive Director. He was appointed to the Board on 10 January 2014 and is primarily responsible for providing strategic advices and guidance on the business development of our Group. He is currently a senior partner of Ares Private Equity Group. Mr. He has extensive knowledge in corporate financing and merger and acquisition transactions. Prior to joining Ares Private Equity Group in March 2010, he worked at The Carlyle Group, a global asset management firm from August 2000 to March 2010, where he was promoted as a managing director of the Asia Growth Group. Before joining The Carlyle Group, Mr. He acted as an associate director of the Asia-pacific investment team of Intel Capital, an investment manager of the greater China region of Nikko Global Asset Management (Hong Kong) Limited and a senior research analyst at DBS Securities Limited, all of which are financial services providers.

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

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

Mr. WANG Duo (王鐸), aged 39, has been appointed as a non-executive director of the Company with effect from 27 September 2017 and is primarily responsible for providing strategic advice and guidance on the business development of the Group.

Mr. Wang is the founding partner of Mangrove Capital, a fund headquartered in the PRC which focuses on the growth stage investment in leading companies in cloud computing, big data, enterprise services, artificial intelligence, and internet of things. Prior to founding Mangrove Capital in 2016, Mr. Wang was a partner of SAIF Partners, a technology, media and telecommunications (TMT) venture capital fund, from 2006 to 2016, and a senior investment manager at ZTE Corporation, a telecom equipment and solutions provider, from 2004 to 2006. Mr. Wang has been a CFA since 2005 and he is one of the founding members of the CFA Society Beijing, a member of the CFA Institute global network of societies. He was also named as a Top 40 investor under 40 in 2014 by Cyzone, a venture capital media in the PRC. Mr. Wang obtained a bachelor's degree in commerce and information systems from the University of Melbourne, Australia, in 2001.

Ms. GUI Songlei (桂松蕾), aged 40, has been appointed as a non-executive director of the Company with effect from 22 August 2017 and is primarily responsible for providing strategic advice and guidance on the business development of the Group. Ms. Gui is currently the chairperson and general manager of China Innovative Capital Management Co., Ltd (中新融創資本管理有限公司). Ms. Gui is also the chairperson of ZhongRong Fund Management Co., Ltd (中融基金管理有限公司) and has extensive management experience at financial institutions. She has been an independent director of Beijing SPC Environment Protection Co., Ltd (北京清新環境技術股份有限公司) (a company listed on the SEM Board of the Shenzhen Stock Exchange, stock code: 002573) since July 2013 and was a non-executive director of TCL Corporation (TCL集團股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000100) from May 2014 to August 2015.

Ms. Gui has a wealth of experience in equity investments, with a particular focus on equity investments in listed companies, and has cumulatively led equity investments amounting to RMB20 billion in the past six years. Such investments involved companies engaged in industries such as high-end equipment manufacturing, technology, media and telecommunications (TMT), consumer services, energy and environmental protection. Ms. Gui graduated from the Shanghai University of Finance and Economics (上海財經大學), the People's Republic of China, with a bachelor's degree in science in July 2000, and obtained a Master of Finance from the Rensselaer Polytechnic Institute, the United States of America, in June 2002.

Independent Non-Executive Directors

Mr. GU Jiuchuan (顧久傳), aged 69, is an independent non-executive Director. He was appointed to our Board on 26 May 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Gu has extensive experience and knowledge in the water purification industry. Before working at Wuxi Haide Membrane Technology Co., Ltd. (無錫市海德膜技術有限公司), a company engaging in the water purification business, from 1999 to 2010 as technical director, Mr. Gu worked at China Huajing Electronics Group Co., Ltd. (中國華晶電子集團公司), a company specialized in the research and development and manufacturing of semi-conductor equipment. In November 2013, Mr. Gu became the vice chairman of the China Desalination Association (中國水利企業協會脱鹽分會) and in October 2013, Mr. Gu was appointed as the managing member of the technology certification committee of water purification products of the

China General Certification Center (北京鑒衡認證中心淨水產品認證技術委員會主任委員). He has been the honorary chairman of AnHui Water Purification Association (安徽省淨水行業協會) and the member of the expert guidance panel of the Fund for Drinking Water Safety and Health established by the China Health Promotion Foundation (中國健康促進基金會飲水安全與健康專項基金) since 2012, an expert member of the advisory panel of the Drinking Water Industry Committee established by the National Development and Reform Commission Public Nutrition and Development Center (國家發改委公眾營養與發展中心飲用水產業委員會) since 2011. He also served as the chief secretary of the Wuxi Water Purification Association (無錫市淨水行業協會) and the secretary of the Purified Water Industry Committee of China Private Economy Research Association (中國民(私)營經濟研究會淨水行業委員會). Mr. Gu has participated in the drafting of various national industry standards concerning water purification systems and has made numerous publications on the topic of water purification. Currently, Mr. Gu is the honorary chief editor of the magazine "中國直飲水" and the special consultant, member of the think tank and editor of the magazine "直飲水時代".

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

Dr. CHAN Yuk Sing Gilbert (陳玉成), aged 59, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. Dr. Chan is an assistant professor in the department of applied biology and chemical technology of the Hong Kong Polytechnic University. His recent research focus is on the application of ozone technology. He is the chairman of the Sino Ozone Association of the PRC. Over the years, Dr. Chan has made various publications and speeches on the topic of healthy water and ozone.

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

Mr. LAU Tze Cheung Stanley (劉子祥), aged 55, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. He has over 20 years of experience in accounting and finance, management consulting and corporate finance. Mr. Lau served as the chief financial officer and company secretary of Asia Fashion Holdings Limited (亞洲時尚控股有限公司) (SGX: AFH), a company listed on the Singapore Stock Exchange, from January 2008 to August 2012 and the chief financial officer of China Kangda Food Company Limited (中國康大食品有限公司) (HKSE: 834, SGX: CKANG), a company listed on both the Stock Exchange and the Singapore Stock Exchange, from December 2005 to December 2007. Before that, Mr. Lau worked at Messrs. Lo Hung Yan, Certified Public Accountant and provided management consulting, auditing and corporate secretarial services and advice to his clients since April 1993.

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

Dr. BAO Jiming (包季鳴), aged 65, has been appointed as an independent non-executive director of the Company, the chairman of the Remuneration Committee and a member of the Audit Committee with effect from 28 March 2017. He is currently a professor of the School of Management of Fudan University (復旦大學), with years of research experience in corporate management. Dr. Bao is also the vice chairman of Shanghai Management Science Society (上海市管理科學學會) and the associate director of the Shanghai Services Development Research Institute (上海現代服務業發展研究院). Before these positions, Dr. Bao has served various positions at Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司) from May 1995 to January 2009, including the deputy office general manager, office general manager, general manager of the overseas business division, general manager of the corporate management division, assistant vice president of the group, vice president of the group and president of its overseas subsidiaries, and executive director of the group and chairman of its overseas subsidiaries. From February 1995 to May 1995, Dr. Bao served as deputy manager (副處長) of the Science Section of Shanghai Municipal Education Commission (上海教育委員會科技處), and from September 1985 to February 1995, Dr. Bao served various positions at the School of Management of Fudan University, including the deputy director of the training department, assistant to the dean of the School of Management, researcher and secretary general of the Fudan Development Institute (復旦發展研究院), lecturer, associate professor and tutor for students pursuing master studies.

Dr. Bao is a non-executive director of Jiangsu Misho Ecology & Landscape Co., Ltd. (江蘇美尚生態景觀股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 300495), since September 2011; a non-executive director of Youngor Group Co., Ltd. (雅戈爾集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600177), since April 2014; a non-executive director of Wanxiang Qianchao Co., Ltd. (萬向錢潮股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000559), since June 2016; and a non-executive director of Antong Holdings Co., Ltd. (安通控股股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600179), since August 2016.

Dr. Bao obtained his doctorate degree in management from Fudan University, the PRC, in 1992 and conducted post-doctoral research at the School of Economics at Fudan University from 1994 to 1996.

Senior Management

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

Joint Company Secretaries

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

Ms. LAI Siu Kuen (黎少娟), is one of the joint company secretaries of the Company and was appointed on 10 January 2014. Ms. Lai is an associate director of the Listing Services Department of TMF Hong Kong Limited, a company engaging in the business of providing corporate services. Ms. Lai is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Report of the Directors

Principal Activities

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

Results and Dividends

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 63 to 147.

The Directors recommend the payment of a final dividend of RMB0.025 (equivalent to HK$0.0279) per share to the Shareholders for the year ended 31 December 2017 (2016: Nil).

Business and Financial Review

The business and financial review of the Group for the year ended 31 December 2017 and a discussion on the Group's future development are set out in the section headed "Chairman's Statement and Management Discussion and Analysis" on pages 6 to 18 of this annual report.

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

Principal Risks and Uncertainties

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

Business risk

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

Liquidity risk

As of 31 December 2017, the Group recorded net current asset of RMB14,893,000, which was primarily attributable to the increase of investments and finance lease payables; and the increase in installation of new water purification machines when the Group invested huge internal resources to manufacturing of commutation for leasing purpose.

Exchange rate risk

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

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

Financial instruments risk

The major financial instruments risks faced by the Group are interest risk and credit risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks, the financial risk management objectives and policies are set out in note 42 to the consolidated financial statements.

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

Use of Proceeds from the Company's Initial Public Offering

Details of the use of proceeds from the Listing are set out on page 17 of this annual report.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 148. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Revenue Generating Assets

Details of movements in the property, plant and equipment and revenue generating assets of the Company during the year are set out in notes 14 and 15 to the consolidated financial statements, respectively.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 33 to the consolidated financial statements.

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

Issued New Shares

As disclosed in the Company's announcement dated 16 November 2016, the Company entered into the Subscription Agreement with Glorious Shine Holdings Limited, the Subscriber, on 13 November 2016, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue 316,299,950 new Shares. The Subscriber is wholly-owned by Glorious Shine Capital Limited, which in turn is held by the Xiao Family Trust and the discretionary beneficiaries of which include Mr. Xiao Shu, Chairman and Chief Executive Officer of the Group and certain of his family members, as a party acting in concert. The Subscription Price is HK$1.71 per Subscription Share, representing a premium of approximately 2.40% to the closing price of HK$1.67 per Share as quoted on the Stock Exchange on 11 November 2016 (being the Last Trading Day). Upon Completion, Mr. Xiao, the Subscriber and their associates and concert parties will be interested in 791,032,150 issued Shares in aggregate, representing approximately 38.66% of the issued share capital of the Group as enlarged by the allotment and issue of the Subscription Shares.

The gross proceeds from the subscription amounted to approximately HK$540,873,000 and the net proceeds amounted to approximately HK$537,873,000. The net subscription price was approximately HK$1.70 per Subscription Share. The Company intends that the net proceeds of the Subscription will be used as follows: (i) approximately 25% will be used for manufacturing and installation of water purifying machines; (ii) approximately 25% will be used for the opening of "experience stores"; (iii) approximately 20% will be used for potential merger and acquisition of targets in the water purification and air sanitization industries; (iv) approximately 15% will be used for the building of the distribution network and service platform; and (v) approximately 15% will be used for sales and marketing activities.

The Board considers that entering into the Subscription Agreement represents a good opportunity to (i) raise a substantial amount of additional funds for the Company; (ii) improve the financial position and liquidity of the Group; and (iii) provide the Company with financial flexibility necessary for the Group's future business development and the capability to capture investment opportunity as and when it arises.

The above-mentioned subscription was completed on 25 January 2017 and the Subscription Shares were issued on 25 January 2017.

For details, please refer to the Company's announcements dated 16 November 2016 and 25 January 2017 and the Company's circular dated 30 December 2016. Unless otherwise defined, the capitalized terms used in this section shall the same meanings as defined in the aforesaid announcement and circular. Other than the aforesaid, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2017.

Closure of Register of Members

The Company will hold an AGM on 29 June 2018.

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 19 June 2018 to Friday, 29 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 15 June 2018, being the business day before the first day of closure of the register of members of the Company.

For determining the entitlement to the proposed final dividend, the register of shareholders of the Company will be closed from 6 July 2018 to 16 July 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 5 July 2018.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2017, the Company's reserves available for distribution to Shareholders amounted to RMB1,336.2 million.

Charitable Contributions

During the year, the Group made charitable contributions totaling RMB405,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 33.3% of the total sales for the year and sales to the largest customer included therein amounted to 10.7%. Purchases from the Group's five largest suppliers accounted for 54.9% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 37.8%.

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

Key Relationships with Employees, Customers and Suppliers

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

The Group places great emphasis on end user satisfaction in the operation of our business. The end users' loyalty to our products and services is demonstrated by strong renewal rates as approximately over 95.5%. The Group maintains a good relationship with our distributors, clients and end customers.

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

Directors

The directors of the Company during the year were as follows:

Executive Directors

Mr. Xiao Shu *(Chairman and Chief Executive Officer)*
Mr. Zhu Mingwei *(Vice Chairman and Deputy Chief Executive Officer)*
(resigned on 28 March 2017)
Mr. He Jun (resigned on 28 March 2017)
Mr. Tan Jibin
Mr. Xiao Lilin (resigned on 28 March 2017)
Mr. Zhou Guanxuan *(Vice Chairman)*
(re-designated from independent non-executive Director on 28 March 2017)
Mr. Li Honggao (appointed on 28 March 2017)
Mr. Wang Yonghui (appointed on 28 March 2017)

Non-Executive Directors

Mr. Ng Benjamin Jin-Ping (resigned on 28 March 2017)
Mr. Yan Andrew Yan (appointed on 28 March 2017 and resigned on 27 September 2017)
Mr. He Sean Xing
Ms. Wang Haitong (resigned on 22 August 2017)
Ms. Gui Songlei (appointed on 22 August 2017)
Mr. Wang Duo (appointed on 27 September 2017)

Independent Non-Executive Directors

Dr. Chan Yuk Sing Gilbert
Mr. Lau Tze Cheung Stanley
Dr. Bao Jiming (appointed on 28 March 2017)
Mr. Gu Jiuchuan

The Company has received annual confirmation of independence from Dr. Chan Yuk Sing Gilbert, Mr. Lau Tze Cheung Stanley, Dr. Bao Jiming and Mr. Gu Jiuchuan still considers them to be independent.

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

In accordance with article 99 of the Articles of Association, Ms. Gui Songlei and Mr. Wang Duo shall retire by rotation at the AGM and being eligible, have offered themselves for re-election at the forthcoming AGM.

In accordance with article 110 of the Articles of Association, Mr. Zhou Guanxuan, Mr. Li Honggao, Dr. Chan Yuk Sing Gilbert and Mr. Gu Jiuchuan will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Directors' and Senior Management's Biographies

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

Permitted Indemnity Provisions

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

Directors' Service Contracts

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

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

Directors' Interests in Transactions, Arrangements or Contracts

Saved as the related party transactions as disclosed in note 39 to the consolidated financial statements and in the "Connected Transactions" section below, no Director and/or any of his/her connected entity had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisted at the end of the year or at anytime during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long/short positions in ordinary shares of the Company

Name of director	Long/short positions	Nature of Interest	Note	Number of ordinary shares	Percentage of the Company's issued share capital as at 31 December 2017
Mr. XIAO Shu	Long position	Founder of discretionary trusts	(a)	786,834,150	38.46%
		Beneficial owner	(b)	55,284,706	2.70%
Mr. WANG Duo	Long position	Interest of spouse	–	1,011,000	0.05%

(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.

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

Name of Director	Number of options /restricted share units directly beneficially owned	Approximate percentage of shareholding as at 31 December 2017
Mr. XIAO Shu	51,086,706	2.50%
Mr. TAN Jibin	9,324,550	0.46%
Mr. LI Honggao	4,239,364	0.21%
Mr. WANG Yonghui	651,153	0.03%
	65,301,773	3.19%[1]

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

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share Incentive Schemes

The Company operates the Pre-IPO Share Option Scheme, the Share Option Scheme and Restricted Share Unit Scheme (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 34 to the 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.

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

Name or category of participant	Number of share options: As at 1 January 2017	Exercised during the Period	Lapsed during the Period	Forfeited during the Period	As at 31 December 2017	Approximate percentage of shareholding as at 31 December 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	—	—	(855,593)	61,604,487	3.01%
Total	157,174,439	—	—	(855,593)	156,318,846	7.64%

(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 31 December 2017, the maximum number of shares that may be issued pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme was 156,318,846 shares (31 December 2016: 157,174,439 Shares), representing approximately 7.64% (31 December 2016: approximately 9.09% of the issued share capital of the Company as at 31 December 2016) as at 31 December 2017 and as at the date of this annual report. For the year ended 31 December 2017, the total share option expense was RMB13.2 million (for the year ended 31 December 2016: RMB22.4 million).

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

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

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

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

Grantee	Number of options granted	Theoretical value of share options RMB'000
Mr. XIAO Shu	51,086,706	46,766
Mr. ZHU Mingwei (resigned on 28 March 2017)	11,160,859	10,217
Mr. HE Jun (resigned on 28 March 2017)	10,662,531	9,761
Mr. TAN Jibin	8,547,535	7,824
Mr. XIAO Lilin (resigned on 28 March 2017)	7,596,652	6,954
Mr. LI Honggao	3,200,000	2,500
Mr. CHEN Jie	1,128,547	882
Mr. XIAO Jianping	875,464	684
Mr. PAN Jianming	456,065	356
Mr. XIN Junwei (resigned)	63,009	49
Other employees	74,022,632	57,701
	168,800,000	143,694

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

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

Share Option Scheme

The Share Option Scheme was approved and adopted on 26 May 2014 with implementation conditional on the listing of the Company. 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 31 December 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 329,287,046 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 31 December 2017, the total number of shares which may be issued on the exercise of options to be granted under the Share Option Scheme was 172,968,200 shares (31 December 2016: 172,968,200 shares), representing approximately 16% (31 December 2016: 10% as at the date of the 2016 annual report of the Company) of the issued share capital of the Company as at the date of this annual report.

There was no outstanding share option under the Share Option Scheme at the beginning and at the end of the year ended 31 December 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) and has a remaining period of approximately 6 years as at the date of this annual report.

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 year ended 31 December 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 and has a remaining period of approximately 8 years as at the date of this report.

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.

Details of the RSUs granted under the RSU Scheme for the year ended 31 December 2017 were as follows:

Name of the grantee	Position held with the Group	Number of Shares represented by RSUs at 1 January 2017	Date of grant	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Number of Shares represented by RSUs at 31 December 2017
Directors, chief executive or substantial shareholder of the Company or associate of any of them								
Mr. Wang Yonghui	Executive Director	359,772[1]	13 July 2016	—	—	—	—	359,772
		—	21 July 2017	291,381[2]	—	—	—	291,381
Mr. Li Honggao	Executive Director	—	21 July 2017	1,039,364[2]	—	—	—	1,039,364
Mr. Tan Jibin	Executive Director	—	21 July 2017	777,015[2]	—	—	—	777,015
Mr. Zhu Mingwei[4]	Chairman of Shanghai Haoze Environmental Technology Co., Ltd. and a former executive Director	—	21 July 2017	8,418[2]	—	—	—	8,418
Subtotal		359,772		2,116,178	—	—	—	2,475,950
Employees and distributors of the Group		64,759[1]	13 July 2016	—	—	—	—	64,759
		—	21 July 2017	9,043,730[2]	—	(9,066)	—	9,034,664
		—	25 August 2017	2,201,543[3]	—	—	—	2,201,543
Subtotal		64,759		11,245,273	—	(9,066)	—	11,300,966
Total		424,531[1]	13 July 2016	—	—	—	—	424,531
		—	21 July 2017	11,159,908[2]	—	(9,066)	—	11,150,842
		—	25 August 2017	2,201,543[3]	—	—	—	2,201,543
		424,531		13,361,451	—	(9,066)	—	13,776,916

Notes:

(1) The closing price of the Shares on The Stock Exchange on Hong Kong Limited as at 13 July 2016, being the date on which the RSUs were granted, was HK$1.31 per Share.

(2) The closing price of the Shares on The Stock Exchange on Hong Kong Limited as at 21 July 2017, being the date on which the RSUs were granted, was HK$1.92 per Share.

(3) The closing price of the Shares on The Stock Exchange on Hong Kong Limited as at 25 August 2017, being the date on which the RSUs were granted, was HK$2.00 per Share.

(4) Mr. Zhu Mingwei resigned as an executive Director on 28 March 2017.

Save as disclosed above, none of the Grantees of the RSUs is a director, chief executive or substantial shareholder of the Company or associate (as defined in the Listing Rules) of any of them. 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 newly 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.

Immediately after the grant of the RSUs on 25 August 2017, RSUs representing 2,201,543 underlying Shares as mentioned in this report, RSUs representing a total of 13,843,546 Shares have been granted and are outstanding and held by the RSU Trustee and 4,496,454 Shares are held by the RSU Trustee for future grant of RSUs.

No new Shares will be issued by the Company as a result of the grants 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.

Rights to Acquire the Company's Securities

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

Equity-linked Agreements

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

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

As at 31 December 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 31 December 2017
Standard Chartered Trust (Singapore) Limited	Long position	(a)	Trustee of a trust	786,834,150	38.46%
SCTS Capital Pte. Ltd.	Long position	(a)	Nominee for another person	786,834,150	38.46%
Glorious Shine Holdings Limited	Long position	(h)	Beneficial owner	382,831,950	18.71%
Glorious Shine Capital Limited	Long position	(h)	Interest in a controlled corporation	382,831,950	18.71%
Baida Holdings Limited	Long position	(b)	Beneficial owner	341,820,000	16.71%
Baida Capital Limited	Long position	(b)	Interest in a controlled corporation	341,820,000	16.71%
SAIF Partners IV L.P.	Long position	(c)	Beneficial owner	334,857,000	16.37%
SAIF IV GP, L.P.	Long position	(c)	Interest in a controlled corporation	334,857,000	16.37%
SAIF IV GP Capital Ltd.	Long position	(c)	Interest in a controlled corporation	334,857,000	16.37%
Mr. Andrew Yan YAN	Long position	(c)	Interest in a controlled corporation	334,857,000	16.37%
Mr. XIE Zhikun	Long position	(d)	Interest in a controlled corporation	433,141,697	21.17%
China Innovative Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	433,141,697	21.17%
Beijing Zhonghaijiacheng Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	433,141,697	21.17%
Chongqing Innovative Investment Co., Ltd	Long position	(d)	Interest in a controlled corporation	243,455,497	
			Beneficial owner	4,954,000	
				248,409,497	12.14%
Chongqing Zhongxinrongbang Investment Centre (Limited partnership)	Long position	(d)	Beneficial owner	243,455,497	11.90%
Shenzhen Qianhai China Innovative Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	184,732,200	9.03%
Hong Kong China Innovative Capital Management Co., Ltd	Long position	(d)	Beneficial owner	184,732,200	9.03%
Ares FW Holdings, L.P.	Long position	(e)	Beneficial owner	187,166,800	9.15%
ACOF Asia GP, Ltd.	Long position	(e)	Interest in a controlled corporation	187,166,800	9.15%
ACOF Asia Management, L.P.	Long position	(e)	Interest in a controlled corporation	187,166,800	9.15%
Ares Management (Cayman), Ltd.	Long position	(e)	Interest in a controlled corporation	187,166,800	9.15%
Watercube Holdings, L.L.C.	Long position	(f)	Beneficial owner	139,006,800	6.79%
GS Direct, L.L.C.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.79%
Goldman, Sachs & Co.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.79%
The Goldman, Sachs & Co. L.L.C.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.79%
The Goldman Sachs Group, Inc.	Long position	(f) & (g)	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.

(b) 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.

(c) 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 and resigned on 27 September 2017) is deemed to be interested in the 334,857,000 Shares held by SAIF Partners IV L.P..

(d) 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 is 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.

(e) Ares FW Holdings, L.P. is an exempted limited partnership organized and existing under the laws of the Cayman Islands and is 100% controlled by ACOF Asia GP Ltd. which in turn is 100% controlled by ACOF Asia Management, L.P. and which in turn is 100% controlled by Ares Management (Cayman), Ltd. Accordingly, each of ACOF Asia GP Ltd., ACOF Asia Management, L.P. and Ares Management (Cayman), Ltd. is deemed to be interested in the 187,166,800 Shares held by Ares FW Holdings, L.P..

(f) Watercube Holdings, L.L.C. is a limited liability company organized under the laws of Delaware. GS Direct, L.L.C., a limited liability company organized under the laws of Delaware, is the managing member of Watercube Holdings L.L.C. and owns 80.1% of the voting interest in Watercube Holdings L.L.C. Goldman, Sachs & Co., a limited partnership organized under the laws of New York, is the managing member of GS Direct, L.L.C. The Goldman, Sachs & Co. L.L.C., a limited liability company organized under the laws of Delaware, is the general partner of Goldman, Sachs & Co. The Goldman Sachs Group, Inc., a corporation organized under the laws of Delaware, holds (i) 100% voting interests of The Goldman, Sachs & Co. L.L.C.; (ii) 99.8% voting interests of Goldman, Sachs & Co.; and (iii) 100% non-voting interests of GS Direct, L.L.C. The Goldman Sachs Group, Inc. is listed on the New York Stock Exchange. Accordingly, each of GS Direct, L .L .C., Goldman, Sachs & Co., The Goldman, Sachs & Co. L.L.C. and The Goldman Sachs Group, Inc. is deemed to be interested in the 139,006,800 Shares held by Watercube Holdings, L.L.C..

(g) 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.

(h) 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 31 December 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.

Connected Transactions

Save as disclosed below, the Group had not entered any connected transactions or continuing connected transactions which are required to be disclosed in this annual report in compliance with the requirements of Chapter 14A of the Listing Rules during the year ended 31 December 2017. The Directors confirm that they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2017 is contained in note 39 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules.

On 13 November 2016, the Company entered into the Subscription Agreement with Glorious Shine Holdings Limited, the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 316,299,950 new Shares at a total subscription price of HK$540,872,914.50, being a subscription price of HK$1.71 per Subscription Share.

The Subscriber is wholly-owned by Glorious Shine Capital Limited. The entire issued share capital of Glorious Shine Capital Limited is in turn held by Standard Chartered Trust (Singapore) Limited as the trustee of the Xiao Family III Trust. The Xiao Family III Trust is a discretionary trust established by Mr. Xiao (as the settlor) and the discretionary beneficiaries of which include Mr. Xiao and certain of his family members. Hence, the Subscriber is an associate of Mr. Xiao, and therefore a connected person of the Company.

Mr. Xiao is the chairman, chief executive officer and executive director of the Company. The Subscriber, being an associate of Mr. Xiao, is a connected person of the Company under Rule 14A.07 of the Listing Rules. Therefore, the Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The subscription was completed on 25 January 2017 and the subscription Shares was issued on 25 January 2016. Upon the completion of the transaction, Mr. Xiao, the Subscriber and their associates and concert parties are interested in 791,032,150 issued Shares in aggregate, representing approximately 38.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

CONTINUING DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 18 April 2018, Hong Kong Fresh Water International Group Limited ("HK Fresh Water"), a wholly-owned subsidiary of the Company, as borrower, entered into a facility letter (the "Facility Letter") with DBS Bank Ltd., Hong Kong Branch ("DBS"), as lender, pursuant to which a revolving term loan facility of up to US$25,000,000 has been made available by DBS to the Company, to be applied towards general working capital purposes (the "Facility"). Under the Facility Letter, Mr. Xiao Shu, as the controlling shareholder of the Company, shall be required to remain as the single largest shareholder maintaining over 30% shareholding and control in the Company so long as any sums are owing or to be advanced thereunder. A breach of such undertaking may result in DBS exercising its right to demand for immediate repayment of all principal, interest, fees and other amounts outstanding under the Facility Letter. As at the date of this report, the Facility is still subsisting and the undertaking by Mr. Xiao Shu continues to exist.

Sufficiency of Public Float

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

Directors' Interests in a Competing Business

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

Events after the Reporting Period

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

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2017, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Environmental Protection

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

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

Corporate Governance

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 21 to 32 of this annual report.

Review by Audit Committee

The Audit Committee was established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on 26 May 2014. The Audit Committee consists of four members, namely Mr. LAU Tze Cheung Stanley, Mr. GU Jiuchuan, Dr. CHAN Yuk Sing Gilbert and Mr. ZHOU Guanxuan (resigned on 28 March 2017 and Dr. BAO Jiming has been appointed on the same date), all being independent non-executive Directors. Mr. LAU Tze Cheung Stanley has been appointed as the chairman of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

The Audit Committee had reviewed together with the management and external auditors of the Company the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended 31 December 2017.

Auditors

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

BY ORDER OF THE BOARD

XIAO Shu (肖述)
Chairman and Chief Executive Officer

Hong Kong
20 March 2018

Independent Auditor's Report

EY 安永

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

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

Opinion

We have audited the consolidated financial statements of Ozner Water International Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 147, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter:	How our audit addressed the key audit matter:
Existence of Revenue Generating Assets and Related Revenue	
The Group manufactures water purification machines and enters into standard dealership contracts with the Group's appointed dealers to lease out the machines and earns rental income from the dealers. The dealership contracts, in substance, grant right to the dealers to sublease the machines to end customers. Water purification machines leased out by dealers to end customers were delivered to and installed by the Group at the end customers' premises. For assets tracking purpose, all installed water purification machines, including the installation date, machine identification number, end customer signed installation form number and the relevant dealer information, were recorded in the Group's CRM system. Such machines were classified as revenue generating assets in the consolidated statement of financial position upon installation. The Group computes and records the related rental income based on the leasing rate and period, and the number of installed water purification machines. Considering the revenue generating assets represented 28% of the total assets of the Group as of 31 December 2017 and the related rental income from water purification services accounted for 43% of total revenue of the Group for the year ended and the fact that these revenue generation assets are located in premises widely spread across the country, the existence of revenue generating assets and the related rental income are the most significant in our audit. The Group's disclosure about revenue generating assets and rental income from water purification services are included in notes 6 and 14 to the consolidated financial statements, respectively.	Our audit procedures included, among others, the assessment of the Group's controls over the revenue generating assets and the related rental income from leasing of water purification machines. On a sample basis, we checked the information in the CRM system to goods delivery notes and installation forms signed by end customers. We confirmed the annual and life-to-date number of installed water purification machines with selected key dealers in writing. We recomputed the related rental income based on the contractual leasing rate and period, and the number of installed water purification machine.

Key audit matter:	How our audit addressed the key audit matter:
Inventory provision	
The total inventories and related inventory provision as of 31 December 2017 amounted to RMB337 million and RMB28 million, respectively. The Group considers inventory provision on a semi-annual basis by assessing the inventories' net realisable values. The determination as to whether the inventories are impaired requires a high level of management judgement and estimates, whereby the Group considers specific factors including the ageing of the inventories, the subsequent selling or rental price or estimated selling or rental price, and the forecasted market demand. Given the significant judgement and estimates used in assessing the net realisable values of inventories, the assessment of inventory provision is considered most significance to our audit. The significant accounting judgement and estimates and the Group's disclosure about inventories and inventory provision are included in notes 4.2 and 22 to the consolidated financial statements, respectively.	Our audit procedures included, among others, the assessment of the Group's control over the determination of inventory provision. On a sample basis, we checked the ageing of the inventories by checking to the related good receipt notes and other relevant supporting evidences. We assessed management's judgement and estimates regarding inventory provision by checking the subsequent rental or sales of inventories and evaluating the assumptions used in the Group's sales forecast by reviewing historical consumption, subsequent consumption, and the annual rental or sales plan. We observed physical stock takes performed by the Group to check if there were any excess and obsolete inventories which required additional provisions. We also reviewed the Group's disclosures in this area for adequacy.
Accounting for acquisition	
During the year ended 31 December 2017, the Group completed two acquisitions that have resulted in the Company obtaining controlling interests in Foshan Lepuda Motor Co., Ltd. ("Foshan Lepuda") and Guangdong Bili Drinking Water Equipment Co., Ltd. ("Guangdong Bili"). We considered the audit of accounting for these acquisitions to be a key audit matter considering the quantitative materiality of these acquisitions, the significant management judgement and estimates made on the purchase price allocation to the assets and liabilities acquired and the adjustments made to align accounting policies of the newly acquired entities with those of the Group. This exercise also required management to determine the fair values of the assets and liabilities acquired and to identify intangible assets acquired in the acquisitions. The Group's disclosures about the business combination are included in notes 4.2 and 35 to the consolidated financial statements.	Our audit procedures include, among others, reading of the sales and purchase agreements to obtain an understanding of the transactions and the key terms. We assessed management's identification and fair value measurement of the acquired assets and liabilities based on our discussion with management and our understanding of the business of the acquired companies. We obtained and reviewed the valuation reports and involved our internal valuation specialist to assist us in reviewing the valuation methodologies used by management and the external valuation expert. We assessed the key assumptions and inputs in measuring the fair values of the net identifiable assets by comparing them to source data and market data and discussing the business plan with management. We also assessed the adequacy of the related disclosures in the consolidated financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Shun Lung Wai.

Ernst & Young
Certified Public Accountants

Hong Kong
20 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	6	**1,549,027**	920,766
Cost of revenue		**(833,338)**	(418,673)
Gross profit		**715,689**	502,093
Other income and gains	6	**198,276**	20,464
Selling and distribution expenses		**(267,941)**	(155,042)
Administrative expenses		**(166,186)**	(114,044)
Other expenses		**(86,691)**	(33,423)
Fair value gains on derivative component of convertible bonds		**—**	96,149
Finance costs	8	**(107,059)**	(50,214)
Profit before tax	7	**286,088**	265,983
Income tax expense	11	**(45,208)**	(37,328)
Profit for the year		**240,880**	228,655
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**10,172**	(21,340)
Other comprehensive income for the year, net of tax		**10,172**	(21,340)
Total comprehensive income for the year		**251,052**	207,315
Profit attributable to:			
Owners of the parent		**230,770**	229,193
Non-controlling interests		**10,110**	(538)
		240,880	228,655
Total comprehensive income attributable to:			
Owners of the parent		**240,942**	207,853
Non-controlling interests		**10,110**	(538)
		251,052	207,315
Earnings per share attributable to ordinary equity holders of the parent:	13		
Basic (RMB cents)		**11.43**	13.31
Diluted (RMB cents)		**11.43**	8.56

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Revenue generating assets	14	**1,595,699**	1,484,409
Property, plant and equipment	15	**865,937**	776,116
Prepaid land lease payments	16	**111,989**	71,780
Intangible assets	17	**229,835**	59,718
Goodwill	18	**220,041**	26,037
Investment in an associate	19	**86,135**	—
Available-for-sale investments	20	**152,491**	—
Prepayments,deposits and other receivables	25	**780,380**	71,237
Deferred tax assets	21	**77,412**	47,697
TOTAL NON-CURRENT ASSETS		**4,119,919**	2,536,994
CURRENT ASSETS			
Inventories	22	**308,781**	164,231
Prepaid land lease payments	16	**2,924**	1,480
Trade and bills receivables	23	**354,187**	44,044
Prepayments, deposits and other receivables	25	**377,196**	411,652
Short-term investments	26	**347,834**	—
Pledged deposits	26	**69,764**	42,448
Cash and cash equivalents	26	**205,995**	486,882
Amount due from a shareholder		**—**	791
TOTAL CURRENT ASSETS		**1,666,681**	1,151,528
CURRENT LIABILITIES			
Trade and bills payables	27	**397,936**	128,378
Other payables, advances from customers and accruals	28	**557,853**	271,882
Deferred revenue	29	**61,258**	124,272
Interest-bearing bank and other borrowings	31	**89,827**	49,500
Income tax payable		**210,382**	170,829
Finance lease payables	32	**334,532**	146,810
TOTAL CURRENT LIABILITIES		**1,651,788**	891,671
NET CURRENT ASSETS		**14,893**	259,857
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,134,812**	2,796,851

Consolidated Statement of Financial Position (Continued)

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Finance lease payables	32	**444,606**	224,960
Liability component of convertible bonds	30	**335,581**	342,039
Interest-bearing bank and other borrowings	31	**231,321**	—
Deferred tax liabilities	21	**42,502**	6,206
TOTAL NON-CURRENT LIABILITIES		**1,054,010**	573,205
NET ASSETS		**3,080,802**	2,223,646
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	33	**16,554**	13,757
Share premium	33	**1,407,728**	935,408
Treasury shares	33	**(26,429)**	(10,895)
Equity component of convertible bonds	30	**52,321**	52,321
Reserves	33	**1,482,837**	1,228,693
		2,933,011	2,219,284
Non-controlling interests		**147,791**	4,362
TOTAL EQUITY		**3,080,802**	2,223,646

Xiao Shu
Director

Zhou Guanxuan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the parent											
	Share capital (Note 33) RMB'000	Share premium (Note 33) RMB'000	Treasury shares (Note 33) RMB'000	Equity component of convertible bonds (Note 30) RMB'000	Share-based payment reserve (Note 33) RMB'000	Retained earnings (Note 33) RMB'000	Merger reserve (Note 33) RMB'000	Foreign currency translation reserve (Note 33) RMB'000	Other reserves (Note 33) RMB'000	Total RMB'000	Non-Controlling Interests RMB'000	Total Equity (Note 33) 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 year	—	—	—	—	—	230,770	—	—	—	230,770	10,110	240,880
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	10,172	—	10,172	—	10,172
Total comprehensive income for the year	—	—	—	—	—	230,770	—	10,172	—	240,942	10,110	251,052
Share-based payments (note 34)	—	—	—	—	13,202	—	—	—	—	13,202	—	13,202
Contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	5,105	5,105
Transfer from retained earnings	—	—	—	—	—	(31,073)	—	—	31,073	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	129,189	129,189
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	(975)	(975)
Repurchase of share capital	—	—	(15,534)	—	—	—	—	—	—	(15,534)	—	(15,534)
Issuance of ordinary shares	2,797	472,320	—	—	—	—	—	—	—	475,117	—	475,117
At 31 December 2017	16,554	1,407,728	(26,429)	52,321	140,909*	775,651*	56,018*	(12,728)*	522,987*	2,933,011	147,791	3,080,802

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2016

	Attributable to owners of the parent											
	Share capital (Note 33) RMB'000	Share premium (Note 33) RMB'000	Treasury shares (Note 33) RMB'000	Equity component of convertible bonds (Note 30) RMB'000	Share-based payment reserve (Note 33) RMB'000	Retained earnings (Note 33) RMB'000	Merger reserve (Note 33) RMB'000	Foreign currency translation reserve (Note 33) RMB'000	Other reserves (Note 33) RMB'000	Total RMB'000	Non-Controlling Interests RMB'000	Total Equity (Note 33) 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	—	1,951,769
Profit for the year	—	—	—		—	229,193	—	—	—	229,193	(538)	228,655
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(21,340)	—	(21,340)	—	(21,340)
Total comprehensive income for the year	—	—	—	—	—	229,193	—	(21,340)	—	207,853	(538)	207,315
Share-based payments (note 34)	—	—	—	—	22,412	—	—	—	—	22,412	—	22,412
Transfer from retained earnings	—	—	—	—	—	(19,816)	—	—	19,816	—	—	—
Reclassification of convertible bonds	—	—	—	52,321	—	—	—	—	—	52,321	—	52,321
Repurchase of share capital	—	—	(15,071)	—	—	—	—	—	—	(15,071)	—	(15,071)
Cancellation of repurchased shares	(45)	(9,099)	9,144	—	—	—	—	—	—	—	—	—
Contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	4,900	4,900
At 31 December 2016	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

* These reserve amounts comprise the consolidated reserves of RMB1,482,837,000 (2016: RMB1,228,693,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**286,088**	265,983
Adjustments for:			
Depreciation of revenue generating assets	14	**206,554**	172,857
Depreciation of property, plant and equipment	7	**37,674**	32,350
Recognition of prepaid land lease payments	7	**680**	—
Amortisation of intangible assets	7	**8,890**	3,040
Amortisation of long-term prepayment		**404**	3,444
Share-based payments	34	**12,801**	21,035
Unrealised exchange losses/(gains)		**10,603**	(918)
Loss on disposal of items of property, plant and equipment	15	**1,619**	364
Loss on disposal of revenue generating assets	14	**4,235**	2,793
Gain on disposal of a subsidiary	19	**(138,870)**	—
Fair value gains on derivative component of convertible bonds	30	**—**	(96,149)
Fair value adjustment of contingent consideration	35	**2,840**	—
Write-down of inventories to net realisable value	7	**22,539**	202
Finance costs	8	**107,059**	50,214
Impairment/(reversal of impairment) of trade and bills receivables	7	**1,191**	(661)
		564,307	454,554
(Increase)/decrease in inventories		**(89,647)**	27,104
(Increase)/decrease in trade and bills receivables		**(224,081)**	28,013
Increase in prepayments, deposits and other receivables		**(385,606)**	(196,330)
Decrease/(increase) in amount due from a shareholder		**791**	(791)
Increase/(decrease) in trade and bills payables		**142,459**	(27,281)
Increase/(decrease) in other payables, advances from customers and accruals		**177,622**	(8,745)
(Increase)/decrease in pledged deposits		**(31,895)**	33,381
Decrease in deferred revenue		**(63,301)**	(47,018)
Cash generated from operations		**90,649**	262,887
Income tax paid		**(36,184)**	(18,768)
Net cash flows from operating activities		**54,465**	244,119

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in pledged deposits		**4,579**	61,656
Increase in short-term investment		**(347,834)**	—
Purchases of revenue generating assets		**(236,343)**	(367,117)
Purchases of items of property, plant and equipment		**(105,969)**	(185,256)
Purchases of intangible assets		**(3,030)**	(5,934)
Acquisition of subsidiaries	35	**(223,672)**	—
Disposal of a subsidiary		**57,164**	—
Purchases of available-for-sale investments		**(152,491)**	—
Investment down payment		**(281,375)**	—
Purchase of prepaid land lease payment		**(4,187)**	(24,560)
Net cash flows used in investing activities		**(1,293,158)**	(521,211)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	36	**908,490**	437,300
Proceeds from issue of shares		**475,117**	—
Capital contribution from non-controlling interests		**5,105**	4,900
Repayment of borrowings	36	**(301,425)**	(16,030)
Interest paid		**(90,579)**	(35,477)
Share repurchase		**(15,534)**	(15,072)
Net cash flows from financing activities		**981,174**	375,621
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(257,519)**	98,528
Cash and cash equivalents at beginning of year	26	**486,882**	380,922
Effect of foreign exchange rate changes, net		**(23,368)**	7,432
CASH AND CASH EQUIVALENTS AT END OF YEAR		**205,995**	486,882
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**275,759**	529,330
Less: Pledged deposits	26	**(69,764)**	(42,448)
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	26	**205,995**	486,882

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. Corporate and Group Information

Ozner Water International Holding Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 15 November 2013. The registered office of the Company is situated at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Company is an investment holding company. During the year ended 31 December 2017, the Company's subsidiaries were involved in the following principal activities in the People's Republic of China (the "PRC"):

- Water purification services
- Air sanitisation services
- Supply chain services
- Others

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

Information about subsidiaries

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

Name of company	Notes	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Ozner Water Group Limited ("Ozner Water Group")		BVI/ 21 November 2013	—	100%	—	Investment holding
Hong Kong Fresh Water International Group Limited ("HK Fresh Water")		Hong Kong/ 31 August 2010	HK$35,000	—	100%	Investment holding
Park Wealth International Limited ("Park Wealth")		BVI/ 23 May 2007	US$50,000	—	100%	Investment holding
Shanghai Haoze Environmental Technology Co., Ltd. ("Shanghai Haoze Environmental Technology")	1	Mainland China 17 November 2010	HK$200,000,000	—	100%	Sale of water purification/air sanitisation products

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

Name of company	Notes	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Shanghai Haoze Water Purification Technology Development Co., Ltd. ("Shanghai Haoze Water Purification Technology")	1	Mainland China 30 July 2009	RMB10,000,000	—	100%	Water purifying services
Shanghai Haorun Environmental Works Co., Ltd. ("Shanghai Haorun Environmental Works")	2	Mainland China 18 December 2010	RMB1,000,000	—	100%	Air sanitisation construction services
Shaanxi Haoze Environmental Technology Development Co., Ltd. ("Shaanxi Haoze Environmental Technology")	2	Mainland China 7 March 2012	RMB70,853,900	—	100%	Water purifying services
Shaanxi Haoze Air Purification Technology Co., Ltd. ("Shaanxi Haoze Air Purification Technology")	2	Mainland China 22 August 2012	RMB3,000,000	—	100%	Air sanitisation products
Shanghai Haoze Comfort Environment and Science Co., Ltd. ("Shanghai Comfort")	1	Mainland China 23 September 2005	RMB54,815,300	—	100%	Development and manufacture of water purification and air sanitisation products
Shanghai Comfort Environmental Works Co., Ltd. ("Shanghai Comfort Environmental Works")	2	Mainland China 7 December 2007	RMB5,100,000	—	100%	Air sanitisation construction services
Shanghai Comfort Water Purification Co., Ltd. ("Shanghai Comfort Water Purification")	2	Mainland China 7 December 2007	RMB100,000	—	100%	Development and manufacture of water purification and air sanitisation products

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

Name of company	Notes	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Shanghai Hongjia Air Purification Equipment Co., Ltd. ("Shanghai Hongjia Air Purification")	2	Mainland China 20 December 2007	RMB500,000	—	100%	Sale of air sanitisation products
Hong Kong Ozner Water International Limited ("HK Ozner")		Hong Kong 13 August 2014	HK$10,000	—	100%	Investment holding
Haoze (Shanghai) Environment and Science Co., Ltd. ("Haoze")	1	Mainland China 14 October 2014	RMB3,000,000	—	100%	Development and sale of air and water purification machines
Small Dragon (Shanghai) Lease & Finance Co., Ltd. ("Lease & Finance")	1	Mainland China 2 June 2015	RMB100,000,000	—	100%	Finance leasing/ leasing/ factoring
Guangdong Bili Drinking Water Equipment Co., Ltd. ("Guangdong Bili")	2	Mainland China 5 November 2001	RMB20,428,600	—	51%	Manufacture and sale of water purification machines
Foshan Lepuda Motor Co., Ltd. ("Foshan Lepuda")	2	Mainland China 4 March 2008	RMB30,000,000	—	51%	Research and development, manufacture and sale of micro motor products

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

2.1 Basis of Preparation

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

2.2 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

3.1 Changes in Accounting Policies and Disclosures

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 36 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3.2 Issued But Not Yet Effective IFRSs

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 1 included in *Annual Improvements 2014–2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[1]
Amendments to IAS 28 included in *Annual Improvements 2014–2016 Cycle*	*Investments in Associates or Joint Ventures*[1]
Amendments to IAS 19	*Employee Benefits*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IFRS 3 included in *Annual Improvements 2015–2017 Cycle*	*Business Combinations*[2]
Amendments to IFRS 11 included in *Annual Improvements 2015–2017 Cycle*	*Joint Arrangements*[2]
Amendments to IAS 12 included in *Annual Improvements 2015–2017 Cycle*	*Income Taxes*[2]
Amendments to IAS 23 included in *Annual Improvements 2015–2017 Cycle*	*Borrowing Costs*[2]

[1] Effective for Annual Periods Beginning on or After 1 January 2018
[2] Effective for Annual Periods Beginning on or After 1 January 2019
[3] Effective for Annual Periods Beginning on or After 1 January 2021
[4] No Mandatory Effective Date Yet Determined But Available for Adoption

3.2 Issued But Not Yet Effective IFRSs (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that the adoption of IFRS 9 will not have a significant impact on the Group's financial performance and financial position, including the measurement of financial assets and disclosures.

3.2 Issued But Not Yet Effective IFRSS (Continued)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS 15 will not be material. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

Based on the assessment, the Group anticipates that the adoption of IFRS 15 is unlikely to have significant impact on the revenue recognition from the provision of water purification, air sanitization, supply chain and factoring business.

(a) Presentation and disclosure

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

3.2 Issued But Not Yet Effective IFRSS (Continued)

(a) Presentation and disclosure (Continued)

IFRS 16, issued in January 2016, replaces IAS 17 Leases, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases — Incentives* and SIC-Int 17 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption, and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 37(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB20,390,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

4.1 Summary of Significant Accounting Policies

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

4.1 Summary of Significant Accounting Policies (Continued)

Investments in associates (Continued)

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Upon loss of significant influence over the associates, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

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

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

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

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

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

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

Fair value measurement

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

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

Level 1	—	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

4.1 Summary of Significant Accounting Policies (Continued)

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

4.1 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment, revenue generating assets and depreciation

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

Expenditure incurred after items of property, plant and equipment and revenue generating assets have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Category	Useful life	Residual value
Revenue generating assets		
— water purification machines	10 years	5%
Plant	20–30 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	0%
Machinery	3 to 10 years	5%
Furniture and fixtures	3 to 5 years	0–5%
Motor vehicles	4–5 years	5%

An item of property, plant and equipment and revenue generating asset and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and trademarks

The patents have been granted for a period of 10 years by the relevant government agency. Trademarks are granted for a period of 10 to 20 years with the option of renewal at the end of this period.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Software

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

Customer relationships

Customer relationships is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated useful life of 6 to 22 years.

4.1 Summary of Significant Accounting Policies (Continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments

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

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

Investments and other financial assets

Initial recognition and measurement

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

4.1 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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

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

Available-for-sale financial investments

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing bank and other borrowing's and convertible bonds.

4.1 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Convertible bonds

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

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

4.1 Summary of Significant Accounting Policies (Continued)

Treasury shares

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

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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

4.1 Summary of Significant Accounting Policies (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

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

Revenue recognition

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

Rental income

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

Rendering of services

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

Sale of goods

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

Interest income

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

4.1 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Construction contracts

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

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

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

Employee benefits

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

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

4.1 Summary of Significant Accounting Policies (Continued)

Foreign currencies

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

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

Group companies

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

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 26 May 2014 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

4.1 Summary of Significant Accounting Policies (Continued)

Share-based payments (Continued)

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

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

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

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

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

4.2 Significant Accounting Judgements, Estimates and Assumptions

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

Judgements

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

Operating lease commitments — Group as lessor

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

4.2 Significant Accounting Judgements, Estimates and Assumptions (Continued)

Estimations uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB220,041,000 (2016: RMB26,037,000).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill recognised by the Group. The carrying amounts of goodwill, revenue generating assets, property, plant and equipment and intangible assets were disclosed in notes 18, 14, 15 and 17, respectively to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, no impairment losses have been recognised for available-for-sale assets (2016: Nil). The carrying amount of available-for-sale assets was RMB152,491,000 (2016: Nil).

4.2 Significant Accounting Judgements, Estimates and Assumptions (Continued)

Estimations uncertainty (Continued)

Estimation of fair value of derivative component of convertible bonds

Derivative component of convertible bonds have been valued based on a valuation technique of binomial model that incorporates various market inputs including risk-free rate, volatility, liquidity discount and risky discount rate, and hence they are subject to uncertainty The fair value of derivative component of convertible bonds at 6 November 2016 was RMB52,321,000.

Net realisable value of inventories

Net realisable value of inventories is based on the ageing of the inventories, the subsequent selling or rental price or estimated selling or rental price, and the forecasted market demand. It could change significantly as a result of changes in market conditions. Management reassesses these estimates semi-annually. The carrying values of inventories provision were RMB27,805,000 and RMB5,266,000 as at 31 December 2017 and 2016, respectively. Further details are disclosed in note 22.

Business Combination

On 1 July 2017, the Group acquired 51% equity interest in Foshan Lepuda and 51% equity interest in Guangdong Bili. Intangible assets acquired by the Group in the acquisition include patents, trademarks and customer relationships. The residual portion of the purchase consideration was allocated as goodwill, which represents the balance of the purchase consideration over the fair value of identifiable net assets acquired by the Group. The purchase price allocation has involved significant management judgement and estimation, such as the valuation methodologies, budgeted revenue, the discount rate adopted and the estimation of useful life of the intangible assets. Further details are given in note 35 to the financial statements.

5. Operating Segment Information

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

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

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

(c) the supply chain segment engages in the sales of micro motor products; and

(d) the "other" segment comprises, principally, the Group's financing service in lending loans to distributors.

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

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

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

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

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

Revenue of approximately 17%, 16%, 12%, and 13%, 9%, 8% was derived from sales from the water purification segment to three customers for each of the years ended 31 December 2016 and 2017, respectively.

5. Operating Segment Information (Continued)

Operating segments

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

Year ended 31 December 2017	Water purification RMB'000	Air sanitization RMB'000	Supply chain RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	1,169,417	133,729	214,412	31,469	1,549,027
Segment cost of revenue					
Sales to external customers	575,307	87,413	170,500	118	833,338
Segment results	209,484	25,427	26,260	27,333	288,504
Reconciliations:					
Share-based payments					(12,801)
Gain on disposal of a subsidiary					138,870
Corporate and other unallocated expenses					(13,393)
Exchange loss					(8,033)
Finance costs					(107,059)
Profit before tax					286,088
Segment assets	4,002,873	272,357	273,994	423,772	4,972,996
Reconciliations:					
Corporate and other unallocated assets					813,604
Total assets					5,786,600
Segment liabilities	1,808,944	60,778	225,560	57,988	2,153,270
Reconciliations:					
Convertible bonds					335,581
Corporate and other unallocated liabilities					216,947
Total liabilities					2,705,798
Other segment information					
Depreciation and amortisation	252,603	460	720	15	253,798
Impairment losses recognised in profit or loss	22,499	1,231	—	—	23,730
Capital expenditure*	389,205	2,435	13,045	—	404,685

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

5. Operating Segment Information (Continued)

Operating segments (continued)

Year ended 31 December 2016	Water purification RMB'000	Air sanitization RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	854,202	54,553	12,011	920,766
Segment cost of revenue				
Sales to external customers	377,178	41,339	156	418,673
Segment results	221,698	13,301	9,935	244,934
Reconciliations:				
Share-based payments				(21,035)
Fair value gains on derivative component of convertible bonds				96,149
Corporate and other unallocated expenses				(3,961)
Exchange gain				110
Finance costs				(50,214)
Profit before tax				265,983
Segment assets	3,020,908	5,938	265,645	3,292,491
Reconciliations:				
Corporate and other unallocated assets				396,031
Total assets				3,688,522
Segment liabilities	931,816	8,148	637	940,601
Reconciliations:				
Convertible bonds				342,039
Corporate and other unallocated liabilities				182,236
Total liabilities				1,464,876
Other segment information				
Depreciation and amortisation	208,241	—	6	208,247
Impairment losses recognised in profit or loss	195	(654)	—	(459)
Capital expenditure*	462,795	—	—	462,795

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

6. Revenue, Other Income and Gains

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

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

	2017 **RMB'000**	2016 RMB'000
Revenue		
Water purification services:		
Rental income	**666,921**	557,943
Training services	**84,787**	103,186
Sales of goods	**417,709**	193,073
Air sanitisation services:		
Construction services	**27,010**	38,871
Sales of goods	**105,854**	14,390
Others	**865**	1,292
Supply chain services:		
Sales of goods	**214,412**	—
Others	**31,469**	12,011
	1,549,027	920,766
Other income and gains		
Government grants	**32,560**	11,965
Interest income	**16,502**	7,786
Gain on disposal of a subsidiary	**138,870**	—
Others	**10,344**	713
	198,276	20,464

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

7. Profit Before Tax

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of construction services provided		**21,493**	30,595
Cost of inventories sold		**515,533**	145,921
Depreciation of revenue generating assets	14	**206,554**	172,857
Depreciation of property, plant and equipment	15	**98,031**	69,919
Less: Amount capitalised in revenue generating assets		**(60,357)**	(37,569)
		37,674	32,350
Amortisation of intangible assets	17	**18,105**	10,193
Less: Amount capitalised in revenue generating assets		**(9,215)**	(7,153)
		8,890	3,040
Amortisation of prepaid land lease payments	16	**2,710**	1,480
Less: Amount capitalised in revenue generating assets		**(2,030)**	(1,480)
		680	—
Research and development costs		**45,051**	29,283
Auditors' remuneration		**4,074**	3,807
Employee benefit expense (including directors' remuneration (note 9)):			
Total wages and salaries		**162,725**	117,933
Less: Amount capitalised in revenue generating assets		**(45,844)**	(38,402)
		116,881	79,531
Total pension scheme contributions		**35,348**	30,095
Less: Amount capitalised in revenue generating assets		**(4,549)**	(13,071)
		30,799	17,024
Operating lease expenses		**30,711**	26,043
Less: Amount capitalised in revenue generating assets		**(14,554)**	(13,805)
		16,157	12,238
Share-based payments	34	**12,801**	21,035
Foreign exchange differences, net		**8,033**	(110)
Fair value gains on derivative component of convertible bonds	30	**—**	(96,149)
Impairment/(reversal of impairment) of trade and bills receivables	23	**1,191**	(661)
Write-down of inventories to net realisable value	22	**22,539**	202
Loss on disposal of items of property, plant and equipment	15	**1,619**	364
Fair value change on contingent payable		**2,840**	—
Loss on disposal of revenue generating assets	14	**4,235**	2,793
Gain on disposal of a subsidiary	19	**(138,870)**	—

8. Finance Costs

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank loan and other borrowings (including convertible bonds)	**107,059**	50,214

9. Directors' and Chief Executive's Remuneration

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

	2017 RMB'000	2016 RMB'000
Fees	**745**	692
Salaries, allowances and benefits in kind	**11,097**	6,038
Pension scheme contributions	**36**	20
Share-based payments	**4,942**	14,208
	16,820	20,958

In 2014, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

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

2017

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu*	—	1,902	—	2,254	4,156
Mr. Zhu Mingwei(1)	—	214	1	—	215
Mr. He Jun(1)	—	214	1	—	215
Mr. Tan Jibin	—	2,757	4	751	3,512
Mr. Xiao Lilin(1)	—	214	2	—	216
Mr. Li Honggao(1)	—	2,507	4	992	3,503
Mr. Wang Yonghui	—	2,007	21	610	2,638
Mr. Zhou Guanxuan	45	1,282	3	335	1,665
	45	11,097	36	4,942	16,120
Non-executive directors:					
Mr. He Sean Xing	—	—	—	—	—
Ms. Gui Songlei	—	—	—	—	—
Mr. Wang Duo	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Dr. Bao Jiming	151	—	—	—	151
Mr. Gu Jiuchuan	183	—	—	—	183
Dr. Chan Yuk Sing Gilbert	183	—	—	—	183
Mr. Lau Tze Cheung Stanley	183	—	—	—	183
	700	—	—	—	700
	745	11,097	36	4,942	16,120

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

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

2016

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu*	—	1,684	—	8,150	9,834
Mr. Zhu Mingwei	—	1,256	4	1,781	3,041
Mr. He Jun	—	1,172	4	1,701	2,877
Mr. Tan Jibin	—	1,089	4	1,364	2,457
Mr. Xiao Lilin	—	837	8	1,212	2,057
	—	6,038	20	14,208	20,266
Non-executive directors:					
Mr. Ng Benjamin Jin-Ping	—	—	—	—	—
Mr. He Sean Xing	—	—	—	—	—
Ms. Wang Haitong	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Mr. Zhou Guanxuan	173	—	—	—	173
Mr. Gu Jiuchuan	173	—	—	—	173
Dr. Chan Yuk Sing Gilbert	173	—	—	—	173
Mr. Lau Tze Cheung Stanley	173	—	—	—	173
	692	—	—	—	692
	692	6,038	20	14,208	20,958

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

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

10. Five Highest Paid Employees

The five highest paid employees during the year included five executive directors (2016: five executive directors), details of whose remuneration are set out in note 9 above.

11. Income Tax

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

All of the Group's subsidiaries registered in the PRC and operating only in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Except for those further explained below, PRC 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, was entitled to the preferential tax rate of 15% for three years from 2015 to 2017.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Shanghai Comfort, qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2017 to 2019. In 2017, it obtained renewed qualification of High and New Technology Enterprise.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Guangdong Bili, qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2015 to 2017.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Foshan Lepuda, qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2016 to 2018.

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

Pursuant to the document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB3,431,000 for the year ended 31 December 2017 (2016: RMB1,916,000), relating to the additional deduction of research and development costs.

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

	2017 **RMB'000**	2016 RMB'000
Current tax	**75,352**	58,771
Deferred tax (note 21)	**(30,144)**	(21,443)
Income tax expense reported in profit or loss	**45,208**	37,328

11. Income Tax (Continued)

Reconciliation of the tax expense and the accounting profit multiplied by the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled for 2016 and 2017:

	2017 RMB'000	2016 RMB'000
Profit before tax	**286,088**	265,983
Tax at the statutory tax rate	**71,522**	66,496
Lower tax rates for specific provinces or enacted by local authority	**(22,760)**	(23,627)
Income not subject to tax	**(12,703)**	(12,160)
Expenses not deductible for tax	**4,749**	6,576
Unrecognised tax losses	**7,831**	1,959
Additional deduction of research and development costs	**(3,431)**	(1,916)
Tax at the effective income tax rate	**45,208**	37,328

12. Dividends

	2017 RMB'000	2016 RMB'000
Proposed final — RMB2.25 cents (2016: Nil) per ordinary share	**46,035**	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings Per Share ("EPS")

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

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

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

	2017 **RMB'000**	2016 RMB'000
Earnings:		
Profit attributable to owners of the parent, used in the basic EPS calculation:	**230,770**	229,193
Interest on convertible bonds (note 30)	**36,621**	35,071
Less: Fair value gains on derivative component of convertible bonds	**—**	(96,149)
Profit attributable to owners of the parent, before the effect of convertible bonds	**267,391**	168,115

	Number of shares	
Shares:		
Weighted average number of ordinary shares for basic EPS	**2,018,221,731**	1,722,509,456
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**243,455,497**	242,336,917
	2,261,677,228	1,964,846,373
Basic EPS (RMB cents)	**11.43**	13.31
Diluted EPS (RMB cents)*	**11.43**	8.56

* No adjustment has been made to the basic EPS amounts presented for the year ended 31 December 2017 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic EPS amounts presented. An adjustment has been made to the basic EPS amount presented for the year ended 31 December 2016 in respect of a dilution as the convertible bonds had a dilutive effect on the basic earnings per share amount presented.

14. Revenue Generating Assets

	RMB'000
At 1 January 2016:	
Cost	1,552,451
Accumulated depreciation	(307,087)
Net carrying amount	1,245,364
At 1 January 2016, net of accumulated depreciation	1,245,364
Additions	357,844
Transfers from property, plant and equipment	56,851
Disposals	(2,793)
Depreciation provided during the year	(172,857)
At 31 December 2016, net of accumulated depreciation	1,484,409
At 31 December 2016:	
Cost	1,968,788
Accumulated depreciation	(484,379)
Net carrying amount	1,484,409
At 1 January 2017, net of accumulated depreciation	**1,484,409**
Additions	**308,346**
Transfers from property, plant and equipment	**13,733**
Disposals	**(4,235)**
Depreciation provided during the year	**(206,554)**
At 31 December 2017, net of accumulated depreciation	**1,595,699**
At 31 December 2017:	
Cost	**2,284,853**
Accumulated depreciation	**(689,154)**
Net carrying amount	**1,595,699**

15. Property, Plant and Equipment

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016:						
Cost	45,245	500,406	125,154	14,897	231,574	917,276
Accumulated depreciation	(14,708)	(45,009)	(49,863)	(3,355)	—	(112,935)
Net carrying amount	30,537	455,397	75,291	11,542	231,574	804,341
At 1 January 2016, net of accumulated depreciation	30,537	455,397	75,291	11,542	231,574	804,341
Additions	2,700	40,986	2,002	271	52,952	98,911
Depreciation provided during the year	(2,880)	(41,629)	(23,310)	(2,100)	—	(69,919)
Transferred from construction in progress	72,636	207,101	—	—	(279,737)	—
Transfers to intangible assets	—	—	—	—	(2)	(2)
Transfers to revenue generating assets	—	(56,851)	—	—	—	(56,851)
Disposals	(151)	—	(213)	—	—	(364)
At 31 December 2016, net of accumulated depreciation	102,842	605,004	53,770	9,713	4,787	776,116
At 31 December 2016:						
Cost	120,421	685,829	126,230	15,167	4,787	952,434
Accumulated depreciation	(17,579)	(80,825)	(72,460)	(5,454)	—	(176,318)
Net carrying amount	102,842	605,004	53,770	9,713	4,787	776,116

15. Property, Plant and Equipment (Continued)

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017:						
Cost	120,421	685,829	126,230	15,167	4,787	952,434
Accumulated depreciation	(17,579)	(80,825)	(72,460)	(5,454)	—	(176,318)
Net carrying amount	102,842	605,004	53,770	9,713	4,787	776,116
At 1 January 2017, net of accumulated depreciation	102,842	605,004	53,770	9,713	4,787	776,116
Additions	12,946	36,857	3,753	922	15,096	69,574
Depreciation provided during the year	(30,853)	(53,568)	(8,991)	(4,619)	—	(98,031)
Transferred from construction in progress	—	16,343	—	—	(16,343)	—
Transfers to revenue generating assets	—	(13,733)	—	—	—	(13,733)
Acquisition of subsidiaries	1,868	125,508	1,123	2,818	2,500	133,817
Disposal of a subsidiary	—	—	(187)	—	—	(187)
Disposals	—	(1,530)	—	(89)	—	(1,619)
At 31 December 2017, net of accumulated depreciation	86,803	714,881	49,468	8,745	6,040	865,937
At 31 December 2017:						
Cost	135,506	864,576	132,151	20,365	6,040	1,158,638
Accumulated depreciation	(48,703)	(149,695)	(82,683)	(11,620)	—	(292,701)
Net carrying amount	86,803	714,881	49,468	8,745	6,040	865,937

The carrying value of motor vehicles held under finance leases at 31 December 2017 was RMB7,585,000 (2016: RMB8,177,000). Additions during the year include motor vehicles was nil (2016: nil) under finance leases. At 31 December 2017, certain of the Group's buildings with a net carrying amount of approximately RMB87,583,000 (2016: Nil) were pledged to secure general banking facilities granted to the Group (note 31).

16. Prepaid Land Lease Payments

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**73,260**	74,740
Addition	**23,736**	—
Acquisition of subsidiaries	**20,627**	—
Amortised during the year	**(2,710)**	(1,480)
Carrying amount at 31 December	**114,913**	73,260
Current portion	**(2,924)**	(1,480)
Non-current portion	**111,989**	71,780

At 31 December 2017, certain of the Group's prepaid land lease payments with a net carrying amount of approximately RMB19,947,000 (2016: Nil) were pledged to secure general banking facilities granted to the Group (note 31).

17. Intangible Assets

	Patents RMB'000	Trademarks RMB'000	Customer relationships RMB'000	Software RMB'000	Total RMB'000
At 1 January 2016:					
Cost	31,655	12,439	—	47,120	91,214
Accumulated amortisation	(11,434)	(5,050)	—	(10,859)	(27,343)
Net carrying amount	20,221	7,389	—	36,261	63,871
At 1 January 2016, net of accumulated amortisation	20,221	7,389	—	36,261	63,871
Addition	—	—	—	5,663	5,663
Amortisation provided during the year	(3,526)	(1,581)	—	(4,709)	(9,816)
At 31 December 2016, net of accumulated amortisation	16,695	5,808	—	37,215	59,718
At 31 December 2016:					
Cost	31,655	12,439	—	52,783	96,877
Accumulated amortisation	(14,960)	(6,631)	—	(15,568)	(37,159)
Net carrying amount	16,695	5,808	—	37,215	59,718
At 1 January 2017, net of accumulated amortisation	**16,695**	**5,808**	**—**	**37,215**	**59,718**
Addition	**—**	**—**	**—**	**3,030**	**3,030**
Acquisition of subsidiaries	**11,500**	**71,000**	**102,700**	**12**	**185,212**
Disposal of subsidiary	**—**	**—**	**—**	**(20)**	**(20)**
Amortisation provided during the year	**(4,091)**	**(4,408)**	**(3,214)**	**(6,392)**	**(18,105)**
At 31 December 2017, net of accumulated amortisation	**24,104**	**72,400**	**99,486**	**33,845**	**229,835**
At 31 December 2017:					
Cost	**43,155**	**83,439**	**102,700**	**55,792**	**285,086**
Accumulated amortisation	**(19,051)**	**(11,039)**	**(3,214)**	**(21,947)**	**(55,251)**
Net carrying amount	**24,104**	**72,400**	**99,486**	**33,845**	**229,835**

18. Goodwill

	RMB'000
At 31 December 2016:	
Cost	26,037
Accumulated impairment	—
Net carrying amount	26,037
Cost at 1 January 2017, net of accumulated impairment	26,037
Acquisition of subsidiaries	194,004
Impairment during the year	—
Cost and net carrying amount at 31 December 2017	220,041
At 31 December 2017:	
Cost	**220,041**
Accumulated impairment	**—**
Net carrying amount	**220,041**

Goodwill of the Group includes RMB545,000 arising from the acquisition of Shanghai Haoze Environmental Technology in 2010, RMB25,492,000 arising from the acquisition of Park Wealth in 2012, RMB119,531,000 arising from the acquisition of Guangdong Bili in 2017 and RMB74,473,000 arising from the acquisition of Foshan Lepuda in 2017. No impairment was recognised for the years ended 31 December 2017 and 2016.

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

The Group performed its annual impairment test in December 2017 and 2016. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing the indicators of impairment. No indicators of impairment were noted during 2017 and 2016.

In 2017, the recoverable amount of the water purification services CGU and the supply chain CGU was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was between16% and 18% (2016: 16%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3% (2016: 3%) which was less than the long term average growth rate of water purification industry. Management determined budgeted growth rates based on past performance and its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business.

Assumptions were used in the value in use calculation of the water purification services CGU and the supply chain CGU for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

18. Goodwill (Continued)

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

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

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

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

19. Investment in an Associate

During the year ended 31 December 2017, the Group disposed of 19.5% equity interest in Shanghai Hoyo Information Technology Co., Ltd. ("Haoyou") at a consideration of RMB58,500,000. Haoyou is principally engaged in water purifying services. The disposal was completed in December 2017 and the Group recognised a gain on disposal of approximately RMB138,870,000. After completion of the disposal, Haoyou became an associate of the Group with 31.5% equity interests.

20. Available-For-Sale Investments

	2017 **RMB'000**	2016 RMB'000
Unlisted equity investments, at cost	**152,491**	—

The unlisted equity investments represent the investments in entities established in the PRC. The investments are measured at cost less impairment at each reporting date because they do not have quoted market prices in an active market and the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

21. Deferred Tax Assets/Liabilities

Deferred tax relates to the following:

Deferred tax assets:

	Elimination of unrealised profits RMB'000	Accruals RMB'000	Bad debt and provision RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2016	2,677	20,647	1,504	1,702	26,530
Deferred tax (charged)/credited to profit or loss during the year (note 11)	(1,345)	24,460	(246)	(1,702)	21,167
At 31 December 2016 and 1 January 2017	1,332	45,107	1,258	—	47,697
Deferred tax (charged)/credited to profit or loss during the year (note 11)	(3)	24,362	3,578	—	27,937
Acquisition of subsidiaries	—	1,778	—	—	1,778
At 31 December 2017	**1,329**	**71,247**	**4,836**	**—**	**77,412**

Deferred tax liabilities:

	Accrued government grant RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2016	1,191	5,291	6,482
Deferred tax credited to profit or loss during the year (note 11)	(241)	(35)	(276)
At 31 December 2016 and 1 January 2017	950	5,256	6,206
Deferred tax credited to profit or loss during the year (note 11)	(259)	(1,948)	(2,207)
Acquisition of subsidiaries	—	38,503	38,503
At 31 December 2017	**691**	**41,811**	**42,502**

21. Deferred Tax Assets/Liabilities (Continued)

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

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

At the end of each reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB757,968,000 and RMB1,025,835,000 as at 31 December 2016 and 2017, respectively.

22. Inventories

	2017 **RMB'000**	2016 RMB'000
Raw materials	**103,825**	40,912
Work in progress	**47,880**	28,901
Finished goods	**184,881**	99,684
Write-down of inventories to net realisable value	**(27,805)**	(5,266)
	308,781	164,231

23. Trade and Bills Receivables

		2017 RMB'000	2016 RMB'000
Trade receivables		**330,095**	41,522
Amount due from contract customers	24	**1,509**	3,305
Bills receivable		**25,857**	1,300
		357,461	46,127
Impairment		**(3,274)**	(2,083)
Net trade and bills receivables		**354,187**	44,044

Trade and bills receivables mainly represent water purification product sales receivables from distributors, receivables for air sanitization services and receivables for sales of motor products. The Group usually requires a payment in advance before installation of water purification machines from most of the distributors. The Group only grants credit period to some distributors with long-term relationship and good credit history. The credit period is generally five months. For sales of goods of water machines, the Group grants less than 90 days credit term to the customers. For air sanitization service receivables, the payment terms are stipulated in the relevant contracts. The credit period is generally one month with a retention period of one year. For sales of motor products, the Group grants credit terms of generally 3 to 4 months to the customers. 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.

23. Trade and Bills Receivables (Continued)

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

	2017 RMB'000	2016 RMB'000
Within 90 days	**245,459**	33,304
Over 90 days and within 180 days	**69,661**	2,248
Over 180 days and within 1 year	**34,369**	1,462
Over 1 year and within 2 years	**3,189**	3,451
Over 2 years and within 3 years	**—**	274
	352,678	40,739

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**343,866**	38,460
Past due but not impaired		
Within 90 days past due	**6,367**	992
90 to 180 days past due	**1,458**	869
180 days to 1 year past due	**987**	—
1 to 2 years past due	**—**	418
	352,678	40,739

The balances of the trade and bills receivables of RMB108,998,000 and RMB2,279,000 as at 31 December 2017 and 2016, respectively, were past due. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

23. Trade and Bills Receivables (Continued)

As at 31 December 2017, trade receivables of an initial value of RMB3,274,000 (2016: RMB2,083,000) were impaired and fully provided for. The movements in the provision for impairment of receivables are as follows:

	Individually impaired RMB'000
At 1 January 2016	2,744
Reversed	(661)
At 31 December 2016	2,083
Charged for the year	1,191
At 31 December 2017	**3,274**

Transferred financial assets that are not derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB7,060,000 (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 year to which the suppliers have recourse was RMB7,060,000 (2016: RMB1,200,000) as at 31 December 2017.

24. Construction Contracts

	2017 **RMB'000**	2016 RMB'000
Gross amount due from contract customers	**1,509**	3,305
Contract costs incurred plus recognised profits less recognised losses to date	**28,681**	66,100
Less: Progress billings	**(27,172)**	(62,795)
	1,509	3,305

At 31 December 2017, retentions held by customers for contract works included in trade receivables amounted to approximately RMB3,930,000 (2016: RMB6,381,000).

25. Prepayments, Deposits and Other Receivables

	2017 **RMB'000**	2016 RMB'000
Other receivables	**646,337**	253,355
Prepayment for investments	**281,375**	—
Prepayments	**121,838**	155,437
Prepayment for purchase of property, plant and equipment	**101,213**	69,381
Deposits	**5,361**	2,860
Long-term prepayment	**1,452**	1,856
	1,157,576	482,889
Less: Non-current portion	**(780,380)**	(71,237)
	377,196	411,652

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

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

Prepayments included the Mainland China Value Added Tax ("VAT") receivable amounting to RMB45,555,000 and RMB57,961,000 as at 31 December 2016 and 2017, respectively. Input VAT on purchases can be deducted from output VAT payable. The VAT receivable is deductible input VAT which has not been claimed to the tax bureau.

26. Cash and Cash Equivalents, Pledged Deposits and Short-Term Investments

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**275,759**	310,816
Time deposits	**347,834**	218,514
Total cash and bank balances	**623,593**	529,330
Less: Pledged as collateral for issuance of bank acceptance notes	**(69,764)**	(42,448)
Short-term investment	**(347,834)**	—
Cash and cash equivalents	**205,995**	486,882
Denominated in RMB	**485,557**	502,788
Denominated in HK$	**137,140**	25,920
Denominated in US$	**896**	622
Total cash and bank balances	**623,593**	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 1 week to 3 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.

27. 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:

	2017 RMB'000	2016 RMB'000
Within 90 days	**288,872**	44,385
Over 90 days and within 180 days	**70,898**	63,934
Over 180 days and within 1 year	**10,562**	7,043
Over 1 year and within 2 years	**24,070**	11,118
Over 2 year and within 3 years	**1,750**	111
Over 3 years	**1,784**	1,787
	397,936	128,378

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

28. Other Payables, Advances from Customers and Accruals

	2017 RMB'000	2016 RMB'000
Other payables	**445,975**	206,081
Advances from customers	**89,256**	43,184
Accruals	**22,622**	22,617
	557,853	271,882

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

29. Deferred Revenue

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

30. 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 a 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").

30. Convertible Bonds (Continued)

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 recognized in profit or loss. Starting from the second year of the issuance date, upon the expiration of the Price Adjustment, the fair value of the derivative component, with an amount of RMB52,321,000 as at 6 November 2016 was assigned as an equity component.

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

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

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

	Liability component of Convertible Bonds RMB'000	Derivative component of Convertible Bonds RMB'000	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
At 1 January 2017	**342,039**	**—**	**52,321**	**394,360**
Interest expense	**36,621**	**—**	**—**	**36,621**
Interest paid	**(20,141)**	**—**	**—**	**(20,141)**
Currency translation differences	**(22,938)**	**—**	**—**	**(22,938)**
At 31 December 2017	**335,581**	**—**	**52,321**	**387,902**

31. Interest-Bearing Bank and Other Borrowings

	2017			2016		
	Effective interest rate(%)	**Maturity**	**RMB'000**	Effective interest rate(%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**5.22**	**2018**	**30,000**	4.50	2017	30,000
				4.57	2017	19,500
Bank loans — secured	**5.13**	**2018**	**15,900**			
	5.50	**2018**	**13,927**	—	—	—
Other loans — unsecured	**10.00**	**2018**	**30,000**	—	—	—
			89,827			49,500
Non-current						
Bank loans — unsecured	**5.70**	**2019**	**29,900**	—	—	—
Bank loans — secured	**6.56**	**2020**	**11,721**	—	—	—
	6.25	**2020**	**2,000**	—	—	—
Other loans — unsecured	**9.00**	**2019**	**187,700**	—	—	—
			231,321			—
			321,148			49,500

	2017 RMB'000	2016 RMB'000
Analyzed into		
Bank loans repayable:		
Within one year	**59,827**	49,500
In the second year	**217,600**	—
In the third to fifth years, inclusive	**13,721**	—
	291,148	49,500
Factoring repayable		
Within one year	**30,000**	—
	321,148	49,500

31. Interest-Bearing Bank and Other Borrowings (Continued)

Group's loan facilities amounting to RMB109,900,000 of which RMB103,800,000 had been utilized as at the end of the reporting period, are guaranteed by the Company's subsidiaries Shaanxi Haoze Environmental Technology, Ozner Water International Holding Limited, Shanghai Haoze Water-Purification Technology, Guangdong Bili and Foshan Lepuda. As at 31 December 2017, certain of the Group's bank loans were secured by the pledge of certain of the Group's property, plant and equipment (note 15) amounting to RMB87,583,000 (31 December 2016: Nil) and prepaid land lease payments (note 16) amounting to RMB19,947,000 (31 December 2016: Nil).

32. Finance Lease Payables

Finance lease payables as at 31 December 2017 and 2016 represents the borrowings under a financing arrangements entered into by the Group with a third-party leasing company, in the form of a sale and leaseback transaction which results in a finance lease and bear a repurchase option. The subjects sold and leased back under the financing arrangements are the water purifying machines owned by the Group. As the repurchase prices are set at RMB100 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods of two years and the Group is certain that it will exercise the repurchase option, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralised borrowings at amortised cost using the effective interest method.

The Group's finance lease payables were payable as follows:

	Minimum lease payments 2017 RMB'000	Minimum lease payments 2016 RMB'000	**Present value of minimum lease payments 2017 RMB'000**	Present value of minimum lease payments 2016 RMB'000
Amounts payable:				
Within one year	**397,462**	178,822	**334,532**	146,810
In the second year	**300,975**	162,954	**269,435**	147,672
In the third to fifth years	**183,388**	80,564	**175,171**	77,288
Total minimum finance lease payments	**881,825**	422,340	**779,138**	371,770
Future finance charges	**(102,687)**	(50,570)		
Total net finance lease payables	**779,138**	371,770		
Portion classified as current liabilities	**(334,532)**	(146,810)		
Non-current portion	**444,606**	224,960		

33. Share Capital, Share Premium, Treasure Shares and Reserves

Ordinary shares issued and fully paid

	Number of shares in issue	Share capital
		RMB'000
At 1 January 2014	1	—
Issuance of share capital to Fresh Water Group on 18 March 2014	1	—
Issuance of share capital to Fresh Water Group on 17 June 2014	1,265,999,998	10,076
Issuance of share capital in the initial public offering on 17 June 2014	422,000,000	3,350
Issuance of share capital for over-allotment on 27 June 2014	63,300,000	502
Shares cancellation	(15,878,000)	(126)
At 31 December 2015	1,735,422,000	13,802
Share cancellation	(5,740,000)	(45)
At 31 December 2016	1,729,682,000	13,757
Issue of Shares	316,299,950	2,797
At 31 December 2017	2,045,981,950	16,554

Share premium

	RMB'000
At 1 January 2014	—
Issuance of share capital to Fresh Water Group on 18 March 2014	600
Issuance of share capital to Fresh Water Group on 17 June 2014	(10,076)
Issuance of share capital in the initial public offering on 17 June 2014	855,065
Issuance of share capital for over-allotment on 27 June 2014	129,258
Shares cancellation	(30,340)
At 31 December 2015	944,507
Shares cancellation	(9,099)
At 31 December 2016	935,408
Issue of Shares	472,320
At 31 December 2017	1,407,728

33. Share Capital, Share Premium Treasure Shares and Reserves (Continued)

Share premium (Continued)

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

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

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

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

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

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

On 27 June 2014, the Company issued additional 63,300,000 shares at the price of HK$2.70 per share as a result of exercise of over-allotment option by the underwriters.

Total proceeds from the initial public offering (including the over-allotment) were HK$1,310,310,000 (approximately RMB1,040,142,000), and net proceeds were HK$1,244,847,000 (approximately RMB988,175,000) after deduction of related issuance costs.

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$540,873,000 and the net proceeds raised from the subscription was approximately HK$537,710,000. The subscription was completed on 25 January 2017 and the subscription shares were issued on 25 January 2017.

During the twelve months ended 31 December 2017, the Company purchased a total of 8,789,000 (2016: 13,052,000) ordinary shares of HK$0.01 each in the capital of the Company at an aggregate price of approximately RMB15,534,000 (2016: RMB15,071,000) on the Hong Kong Stock Exchange. In 2016, a total of 5,740,000 treasury shares were cancelled and the total amount paid for the purchase of the shares of RMB9,144,000 has been charged to share capital and share premium of the Company.

As at 31 December 2017, treasure shares of RMB26,429,000 (2016: RMB10,895,000) consisted of remaining repurchased ordinary shares of 18,977,000 (2016: 10,188,000) without cancellation at the end of reporting period.

33. Share Capital, Share Premium Treasure Shares and Reserves (Continued)

Reserves

(a) Share-based payment reserve

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

(b) Merger reserve

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

(c) Foreign currency translation reserve

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

(d) Other reserves

Other reserves represent the statutory reserve fund which comprise:

(i) Reserve fund

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

(ii) Statutory surplus reserve

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

34. 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.

34. Share-Based Payments (Continued)

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

	2017 RMB'000	2016 RMB'000
Total expense arising from equity-settled share-based payment transactions	**13,202**	22,412
Less: Amount capitalised in revenue generating assets	**(401)**	(1,377)
	12,801	21,035

There were no cancellations of or modifications to the awards in 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 2017	**Granted during the year**	**Forfeited during the year**	**Exercised during the year**	**Expired during the year**	**Outstanding at 31 December 2017**
Directors						
Mr. XIAO Shu	**51,086,706**	—	—	—	—	**51,086,706**
Mr. ZHU Mingwei[(1)]	**11,160,859**	—	—	—	—	**11,160,859**
Mr. HE Jun[(1)]	**10,662,531**	—	—	—	—	**10,662,531**
Mr. TAN Jibin	**8,547,535**	—	—	—	—	**8,547,535**
Mr. XIAO Lilin[(1)]	**7,596,652**	—	—	—	—	**7,596,652**
Mr. LI Honggao[(1)]	**3,200,000**	—	—	—	—	**3,200,000**
Other employees						
In aggregate	**64,920,156**	—	**(855,593)**	—	—	**64,064,563**
	157,174,439	—	**(855,593)**	—	—	**156,318,846**
Exercisable at the end of the year		—	—	—	—	**156,318,846**

(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.

34. Share-Based Payments (Continued)

	Outstanding at 1 January 2016	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 2016
Directors						
Mr. Xiao Shu	51,086,706	—	—	—	—	51,086,706
Mr. Zhu Mingwei	11,160,859	—	—	—	—	11,160,859
Mr. He Jun	10,662,531	—	—	—	—	10,662,531
Mr. Tan Jibin	8,547,535	—	—	—	—	8,547,535
Mr. Xiao Lilin	7,596,652	—	—	—	—	7,596,652
Other employees						
In aggregate	71,733,131	—	(3,612,975)	—	—	68,120,156
	160,787,414	—	(3,612,975)	—	—	157,174,439
Exercisable at the end of the year		—	—	—	—	110,022,107

The weighted average remaining contractual life of the share options outstanding as at 31 December 2017 was 7.5 years. The weighted average fair value of the options granted under the Pre-IPO Share Option Scheme was HK$1.07 (RMB0.85).

Share Option Scheme

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

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

No share option was granted under the Share Option Scheme as at 31 December 2017.

34. Share-Based Payments (Continued)

Restricted Share Unit Scheme

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

The board of directors may, at its absolute discretion, grant restricted share unit under the restricted share unit scheme to directors, senior management, employees and distributors 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.

A total number of 13,776,916 shares have been granted and are outstanding and held by the RSU Trustee as at 31 December 2017.

The following table discloses movements of the company's restricted share unit held by the key management personal, other employees and distributors of the company.

	Outstanding at 1 January 2017	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 2017
Directors						
Mr. Zhu Mingwei[(1)]	—	8,418	—	—	—	8,418
Mr. Tan Jibin	—	777,015	—	—	—	777,015
Mr. Li Honggao[(1)]	—	1,039,364	—	—	—	1,039,364
Mr. Wang Yonghui	359,772	291,381	—	—	—	651,153
Other employees						
In aggregate	64,759	9,043,730	(9,066)	—	—	9,099,423
Distributors in aggregate	—	2,201,543	—	—	—	2,201,543
	424,531	13,361,451	(9,066)	—	—	13,776,916
Exercisable at the end of the year		—	—	—	—	222,454

(1) Mr. ZHU Mingwei has resigned as the executive director on 28 March 2017, Mr. LI Honggao has been appointed as an executive director on 28 March 2017.

35. Business Combinations

(a) On 1 July 2017, the Group acquired 51% interest in Guangdong Bili from an independent third party. Guangdong Bili is engaged in the manufacture and sales of water purification machines. The acquisition was made as part of the Group's strategy to expand its market share of water purification business. The purchase consideration for the acquisition was in the form of cash.

The Group has elected to measure the non-controlling interest in Guangdong Bili at the non-controlling interest's proportionate share of Guangdong Bili's identifiable net assets.

The fair values of the identifiable assets and liabilities of Guangdong Bili as at the date of acquisition were as follows:

	Fair value recognized on acquisition RMB'000
Property, plant and equipment	57,198
Intangible assets	57,912
Cash and bank balances	6,613
Trade receivables	11,041
Prepaid land lease payments	9,360
Deferred tax assets	986
Prepayments, deposits and other receivables	5,919
Inventories	27,701
Due from non-controlling shareholder	8,811
Trade payables	(18,016)
Accruals and other payables	(32,991)
Income tax payable	(1,490)
Deferred revenue	(287)
Short-term borrowings	(19,000)
Deferred tax liabilities	(13,322)
Total identifiable net assets at fair value	100,435
Non-controlling interest	(49,213)
Goodwill on acquisition	119,531
Satisfied by	
Cash consideration paid	118,497
Cash consideration payable	20,631
Contingent consideration payable	31,625

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB11,041,000 and RMB2,343,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB11,041,000 and RMB2,343,000, respectively.

35. Business Combinations (Continued)

(a) (Continued)

The Group incurred transaction costs of RMB709,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

As part of the purchase agreement, contingent consideration is payable, which is dependent on the financial performance of Guangdong Bili for the year ended 31 December 2018. The initial amount recognised was RMB31,625,000 which was determined using the probability weighted expected return method and is within Level 3 fair value measurement. The consideration is due for final measurement and adjustment, if necessary in 2019. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(118,497)
Cash and bank balances acquired	6,613
Net outflow of cash and cash equivalents included in cash flows from investing activities	(111,884)
Transaction costs of the acquisition included in cash flows from operating activities	(709)
	(112,593)

Since the acquisition, Guangdong Bili contributed RMB101,861,000 to the Group's revenue and RMB3,844,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB166,591,000 and RMB10,141,000, respectively.

(b) On 1 July 2017, the Group acquired 51% interest in Foshan Lepuda from an independent third party. Foshan Lepuda is engaged in the manufacture and sales of micro motor products. The acquisition was made as part of the Group's strategy to expand its influence over supply chain services. The purchase consideration for the acquisition was in the form of cash.

The Group has elected to measure the non-controlling interest in Foshan Lepuda at the non-controlling interest's proportionate share of Foshan Lepuda's identifiable net assets.

35. Business Combinations (Continued)

(b) (Continued)

The fair values of the identifiable assets and liabilities of Foshan Lepuda as at the date of acquisition were as follows:

	Fair value recognized on acquisition RMB'000
Property, plant and equipment	76,619
Intangible assets	127,300
Cash and bank balances	15,229
Trade and bill receivables	78,703
Prepaid land lease payments	11,267
Deferred tax assets	792
Prepayments, deposits and other receivables	18,870
Inventories	49,912
Trade and bill payables	(109,476)
Accruals and other payables	(27,817)
Income tax payable	(49)
Long-term payable	(16,223)
Short-term borrowings	(36,728)
Deferred tax liabilities	(25,181)
Total identifiable net assets at fair value	163,218
Non-controlling interest	(79,976)
Goodwill on acquisition	74,473
Satisfied by	
Cash consideration paid	127,017
Cash consideration payable	11,144
Contingent consideration payable	19,554

35. Business Combination (Continued)

(b) (Continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB78,703,000 and RMB5,413,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB78,703,000 and RMB5,413,000, respectively.

The Group incurred transaction costs of RMB409,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

As part of the purchase agreement, contingent consideration is payable, which is dependent on the financial performance of Foshan Lepuda during the 12-month period subsequent to the acquisition. The initial amount recognised was RMB19,554,000 which was determined using the probability weighted expected return method and is within Level 3 fair value measurement. The consideration is due for final measurement and adjustment, if necessary in 2018. The fair value of contingent consideration was RMB22,394,000 as at 31 December 2017.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(127,017)
Cash and bank balances acquired	15,229
Net outflow of cash and cash equivalents included in cash flows from investing activities	(111,788)
Transaction costs of the acquisition included in cash flows from operating activities	(409)
	(112,197)

Since the acquisition, Foshan Lepuda contributed RMB214,412,000 to the Group's revenue and RMB23,699,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB325,822,000 and RMB25,899,000, respectively.

36. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of revenue generating assets and property, plant and equipment with a total capital value at the inception of the leases of RMB610,065,000 (2016: 387,800,000).

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings RMB'000	**Finance lease payables** RMB'000	**Convertible bonds** RMB'000
At 1 January 2017	49,500	371,770	342,039
Changes from financing cash flows	199,697	407,368	—
Acquisition of subsidiaries	71,951	—	—
Interest expense	10,024	60,414	36,621
Repayment of borrowings	(98,728)	(202,697)	—
Interest paid	(10,024)	(60,414)	(20,141)
Foreign exchange movement	—	—	(22,938)
At 31 December 2017	321,148	779,138	335,581

37. 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:

	2017 **RMB'000**	2016 RMB'000
Within one year	**295,231**	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:

	2017 **RMB'000**	2016 RMB'000
Within one year	**9,443**	9,282
In the second to fifth years, inclusive	**10,947**	739
	20,390	10,021

38. Commitments

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments at the reporting date:

	2017 **RMB'000**	2016 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**158,232**	83,994

39. 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) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**11,842**	6,730
Pension scheme contributions	**36**	20
Share-based payments	**4,942**	14,208
Total compensation paid to key management personnel	**16,820**	20,958

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

40. Financial Instruments by Category

Financial assets — loans and receivables

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	**354,187**	44,044
Financial assets included in deposits and other receivables	**651,698**	256,215
Short-term investments	**347,834**	—
Pledged deposits	**69,764**	42,448
Cash and cash equivalents	**205,995**	486,882
	1,629,478	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

	2017 RMB'000	2016 RMB'000
Trade and bills payables	**397,936**	128,378
Financial liabilities included in other payable and accruals	**249,761**	83,353
Liability component of convertible bonds	**335,581**	342,039
Interest-bearing bank loan and other borrowings	**321,148**	49,500
Finance lease payables	**779,138**	371,770
	2,083,564	975,040

41. Fair Value Measurement

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

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial liabilities				
Liability component of convertible bonds (note 30)	**335,581**	342,039	**327,320**	341,507
	335,581	342,039	**327,320**	341,507

41. Fair Value Measurement (Continued)

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

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

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

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

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

Fair value hierarchy

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

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement for:				
Investment in an associate	—	—	86,135	86,135
Contingent consideration	—	—	54,019	54,019
			140,154	140,154

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. (2016: nil).

41. Fair Value Measurement (Continued)

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

	2017 RMB'000	2016 RMB'000
Financial Assets:		
At 1 January	—	—
Purchases	238,626	—
At 31 December	238,626	—

	2017 RMB'000	2016 RMB'000
Contingent consideration:		
At 1 January	—	—
Addition	51,179	—
Total losses recognised in the statement of profit or loss included in other income	2,840	—
At 31 December	54,019	—

42. Financial Risk Management Objectives and Policies

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

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

Foreign currency risk

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

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

42. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at each reporting date to a reasonably possible change in the HK$ exchange rate, respectively, with all other variables held constant, of the Group's profit before tax (cash and cash equivalents denominated in HK$.

	Increase/ (decrease) in HK$ rate	Increase/ (decrease) in profit before tax
2016		
If HK$ weakens against RMB	–5%	(1,163)
If HK$ strengthens against RMB	+5%	1,163
2017		
If HK$ weakens against RMB	**–5%**	**(1,770)**
If HK$ strengthens against RMB	**+5%**	**1,770**

* Excluding retained earnings

Credit risk

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

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

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

42. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

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

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

31 December 2017

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	19,435	427,568	447,003
Trade and bills payables	—	397,936	—	397,936
Financial lease payables	—	397,462	484,363	881,825
Interest-bearing bank loan	—	89,827	231,321	321,148
Financial liabilities included in other payables and accruals	249,761	—	—	249,761
	249,761	904,660	1,143,252	2,297,673

31 December 2016

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	20,797	478,334	499,131
Trade and bills payables	—	128,378	—	128,378
Financial lease payables	—	178,822	243,518	422,340
Interest-bearing bank loan	—	49,500	—	49,500
Financial liabilities included in other payables and accruals	83,353	—	—	83,353
	83,353	377,497	721,852	1,182,702

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

42. Financial Risk Management Objectives and Policies (Continued)

Capital management (Continued)

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

	2017 **RMB'000**	2016 RMB'000
Trade and bills payables	**397,936**	128,378
Other payables and accruals	**468,597**	228,698
Financial lease payables	**779,138**	371,770
Short-term borrowings	**89,827**	49,500
Interest-bearing bank and other borrowings	**231,321**	—
Less: Cash and cash equivalents	**(205,995)**	(486,882)
Net debt	**1,760,824**	291,464
Liability component of convertible bonds	**335,581**	342,039
Equity attributable to owners of the parent	**2,933,011**	2,219,284
Adjusted capital	**3,268,592**	2,561,323
Adjusted capital and net debt	**5,029,416**	2,852,787
Gearing ratio	**35%**	10%

43. Events After the Reporting Period

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

44. Statement of Financial Position of the Company

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

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Due from subsidiaries	**1,534,627**	1,425,047
Investments in subsidiaries	**128,308**	128,308
Prepayments	**108,875**	—
TOTAL NON-CURRENT ASSETS	**1,771,810**	1,553,355
CURRENT ASSETS		
Other receivables	**111,698**	15,145
Due from related parties	**34**	34
Due from a shareholder	**—**	791
Prepaid expenses	**31**	—
Cash and cash equivalents	**10,747**	17,257
TOTAL CURRENT ASSETS	**122,510**	33,227
CURRENT LIABILITIES		
Other payables	**3,841**	1,866
Due to subsidiaries	**24,796**	24,796
TOTAL CURRENT LIABILITIES	**28,637**	26,662
NET CURRENT ASSETS	**93,873**	6,565
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,865,683**	1,559,920
NON-CURRENT LIABILITIES		
Liability component of convertible bonds	**335,581**	342,039
NET ASSETS	**1,530,102**	1,217,881
EQUITY		
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		
Share capital	**16,554**	13,757
Share premium (note)	**1,407,728**	935,408
Treasury shares (note)	**(26,429)**	(10,895)
Equity Component of convertible bonds	**52,321**	52,321
Reserves (note)	**79,928**	227,290
TOTAL EQUITY	**1,530,102**	1,217,881

44. Statement of Financial Position of the Company (Continued)

Note:

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

	Share premium RMB'000	Retained earnings RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Treasury shares RMB'000	Total RMB'000
At 1 January 2016	944,507	(73,368)	55,130	105,295	(4,968)	1,026,596
Profit for the year	—	48,642	—	—	—	48,642
Other comprehensive income	—	—	69,179	—	—	69,179
Share-based payments	—	—	—	22,412	—	22,412
Cancellation of repurchased shares	(9,099)	—	—	—	9,144	45
Repurchase of shares	—	—	—	—	(15,071)	(15,071)
At 1 January 2017	**935,408**	**(24,726)**	**124,309**	**127,707**	**(10,895)**	**1,151,803**
Loss for the year	**—**	**(46,806)**	**—**	**—**	**—**	**(46,806)**
Other comprehensive income	**—**	**—**	**(100,556)**	**—**	**—**	**(100,556)**
Share-based payments	**—**	**—**	**—**	**—**	**—**	**—**
Issuance of ordinary shares	**472,320**	**—**	**—**	**—**		**472,320**
Repurchase of shares	**—**	**—**	**—**	**—**	**(15,534)**	**(15,534)**
At 31 December 2017	**1,407,728**	**(71,532)**	**23,753**	**127,707**	**(26,429)**	**1,461,227**

The share-based payment reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 34 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options expire or be forfeited.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 19 March 2018.

Financial Summary

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
Water purification services	**1,169,417**	854,202	679,388	411,267	313,960
Air sanitization services	**133,729**	54,553	63,626	100,444	88,374
Supply chain services	**214,412**	—	—	—	—
Other	**31,469**	12,011	2,385	—	—
	1,549,027	920,766	745,399	511,711	402,334
Gross Profit	**715,689**	502,093	438,945	334,715	272,792
Gross Profit Margin	**46.2%**	54.5%	58.9%	65.4%	67.8%
Profit for the year	**240,880**	228,655	28,061	123,902	152,912
Net Profit Margin	**15.6%**	24.8%	3.8%	24.2%	38.0%

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue generating assets	**1,595,699**	1,484,409	1,245,364	941,668	585,345
Total assets	**5,786,600**	3,688,522	3,309,395	2,450,033	1,309,705
Total liabilities	**2,705,798**	1,464,876	1,357,626	554,213	976,163
Total equities	**3,080,802**	2,223,646	1,951,769	1,895,820	334,542

Note:

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