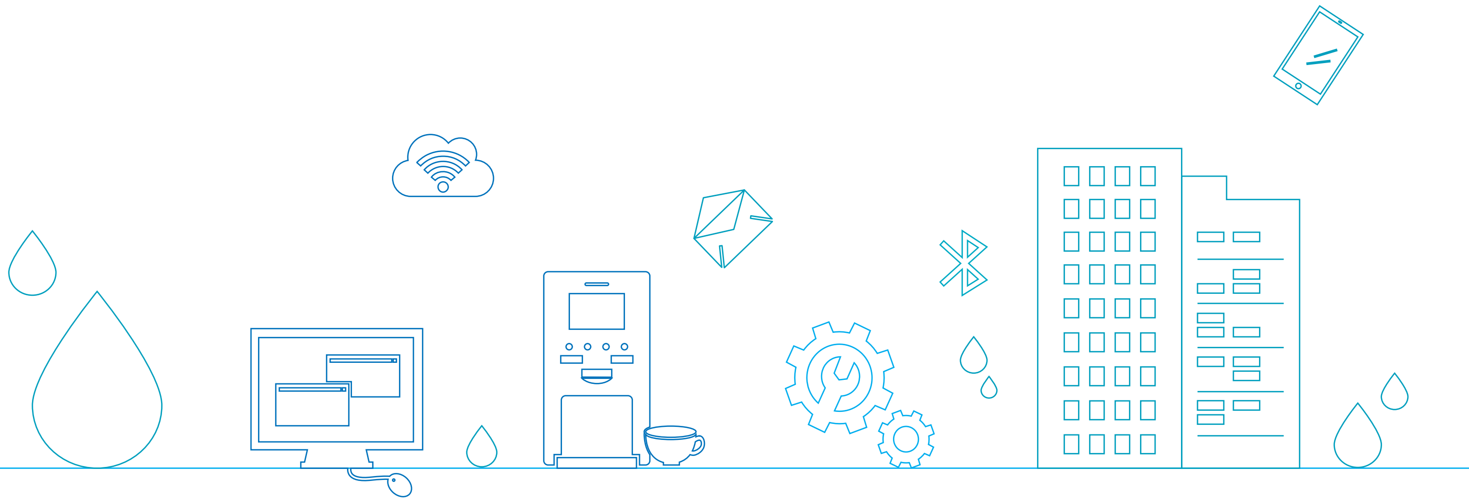
OZNER 浩泽

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)

Interim Report 2018



OZNER

Drink For Health

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Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

Mr. Tan Jibin
Ms. Lai Siu Kuen *(Resigned on 23 August 2018)*

AUTHORISED REPRESENTATIVES

Mr. Xiao Shu
Mr. Tan Jibin

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

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

LEGAL ADVISERS

As to Hong Kong Law:

Simpson Thacher & Bartlett

As to PRC Law:

Shu Jin Law Firm

INVESTOR AND MEDIA RELATIONS CONSULTANT

DLK Advisory Limited

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

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183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

2014

COMPANY'S WEBSITE

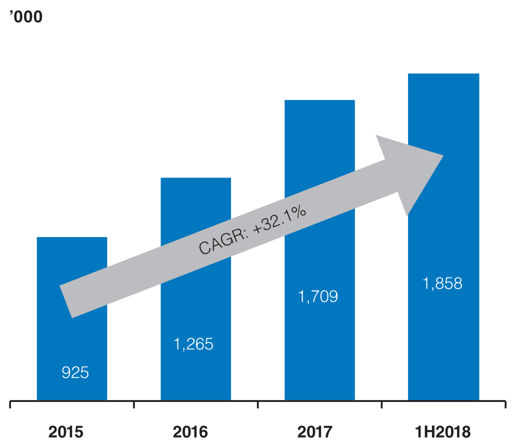
www.ozner.net

Financial and Operational Highlights

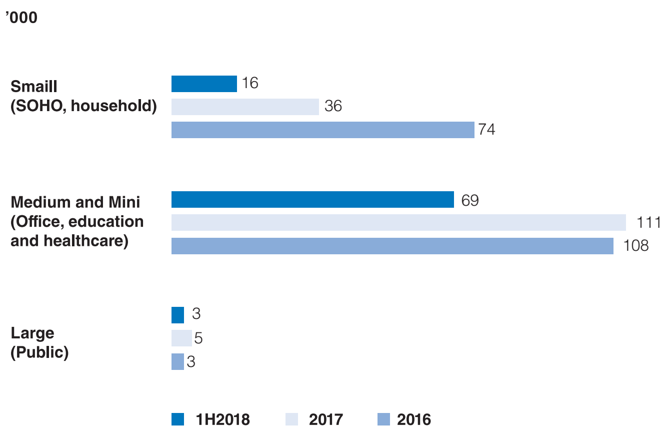
(RMB in thousand)	Six months ended 30 June 2018 (Unaudited)	 2017 (Unaudited)
Revenue		
Water purification services	**525,992**	533,114
Air sanitization services	**3,553**	22,101
Supply chain services	**236,108**	—
Other services	**32,621**	13,138
Gross Profit	**341,861**	311,712
Gross Profit Margin	**42.8%**	54.8%
Net Profit	**90,503**	66,164
Net Profit Margin	**11.3%**	11.6%
Basic earnings per share (RMB cents)	**3.77**	3.37

(RMB in thousand)	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Revenue generating assets	**1,645,388**	1,595,699
Total assets	**6,394,627**	5,786,600
Total liabilities	**3,136,985**	2,705,798

Continuous Growth in the Installation of Water Purifiers



New Leased Water Purifiers Catering for the Needs of Round-the-clock Multi-scenario

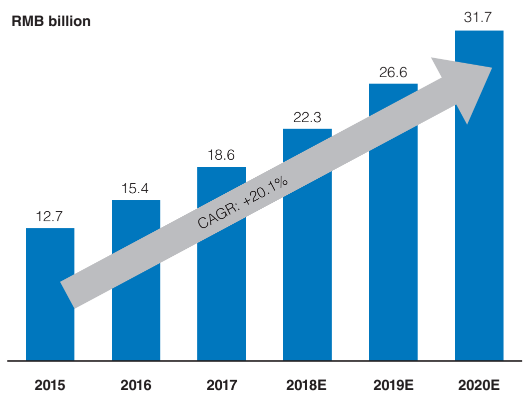


INDUSTRY ANALYSIS

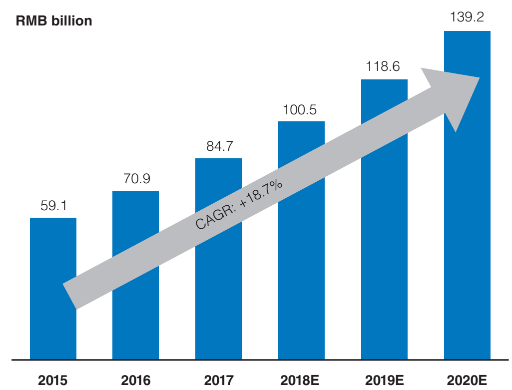
In the first half of 2018, the Chinese water purification industry experienced market reshuffling and integration, as new water purification technology brought a fresh development direction and opportunities to the water purification market. Last year, the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardization Administration of the People's Republic of China issued the "Limited Value of Water Efficiency and Water Efficiency Grades for Reverse Osmosis Drinking Water Treatment Purifiers" (《反滲透淨水器水效限定值及水效等級》) as a national standard. With its implementation, China works hard to regulate the production in the water purification market, eliminate low-quality production, roll out constant reform and address the disorderly market, all in a bid to protect the rights, health and safety of consumers. On the other hand, with the constant development of such pioneering technology as artificial intelligence and the Internet of Things ("IoT") in recent years, Ozner and other leading enterprises have taken the lead in enabling end users to monitor the water quality of their households via mobile phones. Such mobile applications would automatically generate an analytical graph on drinking water, offer "smart" reminders of the life of filter cartridge and replacement, and allow users to have real-time information of water consumption at home. These fresh standards and policies lead the upgrade of water purification technology.

As indicated in the water purification industry report published by the market research institution Frost & Sullivan, Chinese residents are more inclined to spend on individual health and life products, which has been driven by their increasing concern over the health and safety of drinking water, consumption upgrade and faster urbanization. China is witnessing a worsening picture of water pollution, as chemicals and other wastes pollute water sources and more than half of China's river and lakes have polluted water. Hence, residents have higher requirements on the safety of drinking water. All these factors have propped up the speedy growth of the water purification industry. In 2017, Chinese people consumed 309.1 billion liters of drinking water processed by water purifiers, accounting for 29.0% of total consumption of drinking water and representing a compound annual growth rate ("CAGR") of 28.6% between 2013 and 2017. It is expected that such water consumption will amount to 650.4 billion liters by 2020, accounting for 56.3% of total water consumption and representing a CAGR of 45% between 2017 and 2020.

Market Size of China Drinking Water Purifier — Commercial



Market Size of China Drinking Water Purifier — Residential



In 2017, the Chinese market of water purifiers had a total value of RMB103.3 billion, which comprised an aggregate of RMB84.7 billion for the household market and an aggregate of RMB18.6 billion for the commercial market, representing a CAGR of 21.6% between 2013 and 2017. It is expected that the water purifier market will have a total market capitalization of RMB233.2 billion by 2022, representing a CAGR of approximately 17.7% between 2017 and 2022.

	2013	2017	2022
Korea	83.7%	84.6%	85.3%
Japan	77.6%	78.8%	79.9%
United States	71.6%	72.9%	74.3%
Europe	68.5%	70.1%	71.8%
China	**13.4%**	**21.7%**	**37.9%**

The above table presents a comparison of the penetration rate of water purifiers in respective countries. Source of information: Water Purification Industry Report by Frost & Sullivan

According to the data, the penetration rate of water purifier usage merely stood at 13.4% in China in 2013, and the figure increased to 21.7% in 2017. Currently, such penetration rate has been generally above 70% in such countries and regions as Korea, Japan, Europe and the United States. Compared with them, China still has a relatively low penetration rate of water purifier usage. The report predicts that such rate will be able to reach 37.9% in China by 2022.

The water purification industry manifests huge market potential. Against the backdrop of such swift development in the water purification market, the Company attained significant results in capturing domestic market share. The Frost & Sullivan report indicates that the Group maintained its first place in the market share of the commercial market in 2017, accounting for 8.0% which far exceeds the second place with 2.5% market share. The Group has also lifted its ranking to the fifth place in the market share of the household market in 2017.

BUSINESS REVIEW

For the period ended 30 June 2018 (the "1H 2018" or the "Period"), the Group revolved around water purification and air sanitisation as its core business, sustained the adoption of "leasing + service" and the innovative model of IoT, strived to provide leading solutions to around-the-clock drinking water service, strengthened and implemented the strategy of "being user-centered and conducting platform-based development to secure continuous service revenue". The Group has also built its channel platform to launch Ozner's eco-products at a faster pace in an effort to further widen its market share, continuously improved its own service system to raise service efficiency. In addition, Ozner pushed forward its technological research and development ("R&D") and product portfolio on a comprehensive scale, focused on users and integrated intelligent products, services, IoT and big data to offer around-the-clock safe drinking water solutions and services to customers. Furthermore, by strategic investment and the integration of upstream and downstream industry chains and channels, the Group has reduced costs to further obtain users and deliver continuous repeated revenue.

During the Period, the Group recorded robust growth in both revenue and gross profit as compared to the period ended 30 June 2017 ("1H 2017" or "the same period of last year"). Revenue grew by approximately RMB229.9 million from approximately RMB568.4 million for the same period of last year to approximately RMB798.3 million for the Period. The Group's gross profit increased by approximately 9.7% from approximately RMB311.7 million for the same period of last year to approximately RMB341.9 million for the Period, while the Group's net profit increased by approximately 36.8% from approximately RMB66.2 million for the same period of last year to approximately RMB90.5 million for the Period. The increase in revenue, gross profit and net profit was mainly attributable to the healthy growth of the Group's business.

In line with its strategic position as a provider of around-the-clock drinking water service solutions, the Group made vigorous efforts on installation of leased water purification machines. During the Period, an additional 149,000 water purifiers were installed, among which, 88,000 were leased water machines, which have increased approximately 45.0% compared with the same period of last year.

The Group has sustained its integration of online and offline services, coupled with comprehensive upgrade of its business model: "HoYo Services Home" (浩優服務家) provides the Group and each sub-brand product with the Company's own standardized service platform where users can place their orders online for on-site home service. Meanwhile, equipment is under remote control to offer comprehensive IoT value-added service. "iFamily APP" (浩澤淨水家) represents a new user-centered online-offline retail model that relies on cloud platform and user data to provide user big data service and consumer behavior analysis for the Group's business. Orderly ecological operation of products ensures that the Group not just meets the needs of the existing customers effectively, but enables fast integration of new brands and business, so that strategic and business models can be replicated and promoted rapidly.

WORK ON TECHNOLOGICAL R&D, INNOVATION AND PRODUCT PORTFOLIO PROCEEDED IN FULL FORCE, WITH GREATER PRESENCE OF THE IOT TECHNOLOGY TO SHAPE A NEW ERA FOR WATER PURIFICATION

Ozner will continue to focus on its core technologies such as water purification, ozone and IoT, to broaden its water purification product line, based on which efforts will made to horizontally expand to air sanitisation, dishwashers, IoT equipment and other smart products for different occasions such as family, office, catering and leisure. With that, Ozner is committed to providing around-the-clock purification products for and solutions to drinking water.

The Group maintains its focus on R&D, innovation and product quality improvement. As at 30 June 2018, a total of 145 patent applications were submitted, with stronger R&D capability and a solid foundation laid for the launch of new products and technologies in the years to come. Ozner spares no effort in independent R&D. In addition to its R&D centers for water purification products which covers nearly 1,000 square meters, the Group continues to set up joint research laboratories with the Hong Kong Polytechnic University and Zhejiang University, to ensure product quality and cutting-edge characteristics. As at 30 June 2018, the Group had passed a number of authoritative certifications from home and abroad, such as ISO9001 Quality Management System Certification, International Certification Body (CB) Certification, European Conformity (CE) Certification, China Compulsory Certification (CCC) and National Sanitation Foundation's NSF58 Certification.

In respect of production, the Group is consistent with its strategy of completing all production processes on its own, able to control product quality through the entire process. Currently, Ozner has seven industrial bases across the country, encompassing the full product line of Ozner and its core component consumables such as household water purifiers, large water purifiers, air purifiers, intelligent products, motors, dishwashers and filter cartridge consumables. In particular, Shaanxi Ozner Environmental Protection Technology Industrial Park (陝西浩澤環保科技產業園) has become the largest production base for the water purification industry cluster in China.

During the Period, the Group released Novo OS, a cloud IoT system developed by the Group for the base level. The platform leverages on the IoT technology to address the general service demand for water purification products, with the capacity to deliver supplementary services such as around-the-clock instant connection and access to WeChat terminal. The Group has also released six intelligent products from its independent R&D, as part of its application of the IoT platform to products. Among the six products, the intelligent IoT-powered household water purifier represents a major breakthrough in the water heating function and produces hot water within three seconds, which saves the time for waiting; the intelligent thermos kettle can be connected to the mobile phone within a second and offers such functions as reminders, temperature and duration setting for heating preservation, etc.; the intelligent commercial dishwasher with lid has the characteristic of "being clean, fast, intelligent and large capacity" and serves as Ozner's first business dishwasher. By improving its technological innovation capability on a going basis, the Group never cease its exploration of the IoT and advanced intelligent technology whilst offering a healthy and safe environment of drinking water for users on a continuous basis.

In addition, the Group has incorporated the IoT technology into various spheres, such as product R&D, warehousing and logistics, channel building and production operation. The water purifiers developed and produced by the Group are equipped with such functions as automatic reminders of filter cartridge, real-time monitoring of water quality and active reporting for equipment repair. Under the new round of IoT system upgrade, Ozner fully connects product, channel, production and finance, and forms a closed loop in which businesses, operators, users and products are closely connected to one another as a loop, so as to usher in a new era of interconnectivity for water purification. Equipped with these advantages, Ozner water purifiers have gained the trust of multiple Fortune 500 companies, including China National Petroleum Corporation (CNPC), China Telecom, The People's Insurance Company (Group) of China Limited (PICC), Lenovo and Honeywell.

The Group is also recognized by all walks of life for its leading industrial brand, intelligent products and innovative business model. During the Period, the Group won the honorary title "National Leading Enterprise with Good Quality in the Water Purification Industry" (全品質國淨水行業領軍企業) conferred by China Association for Quality Inspection (中國品質檢驗協會) and the award "Top 10 Provider of Commercial Water Purifiers in China" (中國商用淨水十強) conferred by 2018 China Water Purification Brand Summit (中國淨水品牌峰會). Apart from that, the Group has been elected as a vice-president unit for the seventh session of Shanghai Household Electric Appliance Profession Association (上海家用電器行業協會) and re-elected as a vice-director unit of the Professional Committee for Water Home Appliance (水家電專委會), both of which represent the industrial support and recognition of Ozner. The Group will continue to actively engage itself in industrial communication and standard preparation, spread the knowledge on high-quality water home appliance among the public, guide the society to correctly understand and pay attention to the health issue of drinking water, and contribute to promoting the sustainable healthy development of the water purification industry.

A SYNERGETIC ECOSPHERE WITH CONTINUOUS DEVELOPMENT OF THE CHANNEL PLATFORM AIMS TO LAUNCH THE PRODUCTS OF OZNER ECOSPHERE MORE QUICKLY

For 1H 2018, the Group recorded stable sales in its water purification business, with a high 95.2% of renewal for leased water purification machines. For 1H 2018, the Group recorded an aggregate of approximately 149,000 newly installed water purification machines (including approximately 88,000 leased ones), which represents a year-on-year increase of approximately 45.0%, with an accumulated total number of approximately 1,858,000 water purifiers installed. As such, the Group has further consolidated its leadership in the water purifier market.

During the Period, the Group continued with its win-win collaborative management and maintenance model with its distributors, and further widened its sales network and direct service system. As at 30 June 2018, the Group added 522 new distributors, which brought the total number of distributors to over 6,918. While the distributor network helps the Group capture the end markets at a higher speed, zero inventory and the operational model of self-management system reduce the service and after-sale management by distributors, enabling them to focus on opening up channels and quickly developing the market for stable subsequent income. This has further boosts the loyalty of distributors towards the Group.

AN INDUSTRIAL CHAIN-BASED SERVICE SYSTEM IS UNDER CONTINUOUS DEVELOPMENT TO IMPROVE SERVICE QUALITY AND FURTHER EXPAND THE QUALITY SERVICE NETWORK

Home appliance service has evolved from basic repair service to a service system based on the industrial chain. Intelligent water purification systems, represented by Ozner, are designed to become one of the outstanding growth areas in the future market for household and commercial water purifier market. Ozner's around-the-clock drinking water service centers on safe drinking water in various occasions and at different time, from morning to night, from living room to office, from school to airport and hospital.

As of 30 June 2018, the Group's service network covered over 2,100 cities and counties across the country and a total of over 1,500 service system engineers. During the Period, the Group conducted platform-based upgrade on its service projects, during which engineers were engaged in pilot regional contracting work and household and commercial maintenance services and products were launched. Ozner's drive of safe drinking water goes beyond the R&D of cutting-edge technology and quality assurance during the production process. It also lies in continuous work on the Group's self-operated aftersales service model and system, which greatly lifts the efficiency of fault detection, repair and maintenance and transforms passive service to active service.

AN MERGER AND ACQUISITION STRATEGY FOR INTEGRATION SEEKS TO TAP INTO STRATEGIC SYNERGY

As at 30 June 2018, the Group made good progress in the acquisition of Guangdong Bili Drinking Water Equipment Co., Ltd. ("Guangdong Bili"). With comprehensive and in-depth engagement in the segment of public drinking water engineering, Guangdong Bili won successive bids for major engineering projects in Shandong, Xinjiang, Henan, Zhejiang and Fujian, with the highest bidding rate of the industry. In the meantime, the project invested in the R&D of maternal and child products in the first half of the year. Ozner leveraged on its unique business model, technological R&D and advantageous service system in environmentally friendly water purification, and capitalized on Guangdong Bili's strong network of channels in the public water purification market of campuses, fully promoting the technology of intelligent water chips and having successive collaborations with the education bureaus in multiple provinces.

In 2018, Foshan Lepuda Motor Co., Ltd. ("Foshan Lepuda") established its business department for intelligent robots and servo motors with newly upgraded products, in line with the market environment for intelligent home appliance. In 2018, Foshan Lepuda also received the "2018 Best Supplier for Samsung Group" award. Foshan Lepuda leverages on Ozner's constantly innovated intelligent product line in the water purification industry and advantageous status in building the smart water ecosystem, and Foshan Lepuda's world-leading technological advantages in micro motors, enabling both parties to carry out comprehensive strategic cooperation in the industry chain of environmentally friendly home appliance, supply chain and channel resource integration.

Led by a stable and efficient management team, Guangdong Bili and Foshan Lepuda recorded revenue of RMB84.9 million and RMB236.1 million respectively for 1H 2018, representing a year-on-year increase of 33.7% and 70.9% respectively.

PAYING ATTENTION TO WATER PURIFICATION FOR PUBLIC WELFARE AND ACTING ON THE NATIONAL CAUSE FOR IMPROVING DRINKING WATER

The Group is attentive to water purification for public welfare and acts on the national cause for improving drinking water. The Group installed direct drinking equipment for Xulingzhen Lianjia Hope Primary School (許嶺鎮鏈家希望小學) to bring healthy and safe drinking water to the students and teachers there. The Group's volunteers spread knowledge on healthy drinking water to local students, in a bid to promote the concept of healthy drinking water. The volunteers also reached the village primary schools in Qinghai, Yunnan, Shaanxi, Shanxi and Hebei, to conduct public welfare activities on water purification. In addition, the Group worked to survey the water ecological environment at the source of the Yangtze River, offer effective protection to the ecological environment there, and continuously address the garbage pollution from the source of the Yangtze River. So far, Ozner has worked with the non-government organisation GreenRiver for seven consecutive years, as part of its continuous attention to protect the ecological environment and raise social awareness of the source of our mother river.

FUTURE STRATEGIES

Going forward, the Group will continue to go deeper in respect of safe drinking water as its core, by implementing strategies on intelligent products and the IoT platform and concentrating on water purification and air sanitisation as its core business. The Group will offer its users around-the-clock multi-scenario water purification service, striving to build a leading industrial platform for healthy living solutions in China. Under the concept of "gathering momentum and jointly operating the water purification sector", the Group moves ahead with its partners, distributors and users, and seeks to form a complete industrial eco-chain that encompasses the levels of strategy, product, service and channel and covers both specific points and broad aspects, so as to raise the Group's overall profitability and create greater value for the shareholders of the Company.

FINANCIAL REVIEW

Revenue

Our total revenue increased by 40.5% from RMB568.4 million for the six months ended 30 June 2017 to RMB798.3 million for the six months ended 30 June 2018, which was primarily attributable to the healthy development of various business segments of the Group.

For the six months ended 30 June 2017 and 2018, the revenue from water purification services amounted to RMB533.1 million and RMB526.0 million, respectively, which were roughly at the same level. In particular, rental income grew by 16.0% from RMB321.5 million for the six months ended 30 June 2017 to RMB372.9 million for the six months ended 30 June 2018, primarily attributable to the Group's strategy adjustment to the segment of water purification services. Since 2018, we have started to focus more on exploring the lease market, especially that of commercial water purification. The share of revenue from leasing water purification machines in the total revenue of water purification business increased from 60.3% for the six months ended 30 June 2017 to 70.9% for the six months ended 30 June 2018. For the six months ended 30 June 2018 and 2017, the Group leased and sold a total of approximately 149,000 and 201,000 units of water purification machines, respectively, of which the number of newly leased machines increased from approximately 60,700 units for the six months ended 30 June 2017 to approximately 88,000 units for the six months ended 30 June 2018, with the accumulated total of water purification machines installed up from approximately 1,709,000 units as of 31 December 2017 to approximately 1,858,000 units as of 30 June 2018.

Revenue generated from air sanitization services decreased by 83.9% from RMB22.1 million for the six months ended 30 June 2017 to RMB3.6 million for the six months ended 30 June 2018. The decrease was primarily based on the Group's concentration on water purification services business and the strategic arrangement of transferring air sanitization services to associated companies.

Revenue generated from supply chain services was RMB236.1 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil), which was mainly due to the sales of micro motor products by Foshan Lepuda.

Gross Profit Margin

The Group's gross profit margin declined from 54.8% for the six months ended 30 June 2017 to 42.8% for the six months ended 30 June 2018, primarily due to the slight decrease in gross profit margin of water purification services and the relatively low average gross profit margin of supply chain services.

Our gross profit margin of water purification business was 55.0% and 50.9% for the six months ended 30 June 2017 and 2018, respectively. Such decrease in gross profit margin was due to the fact that the gross profit margin of selling campus water purification machines was lower than that of leasing water purification machines, and that a higher proportion of revenue came from the renewal service fee from end users, which has a relatively low profit margin. The lease service for water purification machines recorded a decline in gross profit margin from 57.6% for the six months ended 30 June 2017 to 53.1% for the six months ended 30 June 2018.

Our gross profit margin of air sanitization business was 24.8% and 14.4% for the six months ended 30 June 2017 and 2018, respectively. Such decline was mainly attributable to the disposal of remaining fragmented sales following the business transfer.

Our gross profit margin of supply chain services was 18.2% for the six months ended 30 June 2018.

The gross profit margin of other services was 99.2% and 94.3% for the six months ended 30 June 2017 and 2018, respectively. Such decrease of gross profit was primarily attributable to the introduction of external financing channels.

Other Income and Gains

Other income and gains amounted to RMB29.6 million and RMB37.7 million for the six months ended 30 June 2017 and 2018, respectively. Such change was mainly attributable to the decrease in government grants and the increase in both interest income and technical service income.

Selling and Distribution Expenses

For the six months ended 30 June 2017 and 2018, our selling and distribution expenses were RMB130.2 million and RMB82.2 million, respectively, accounting for 22.9% and 10.3% of the revenue for the same periods. Our selling and distribution expenses decreased by 36.9% or RMB48.0 million from the six months ended 30 June 2017 to the six months ended 30 June 2018. Such decrease was primarily due to the decrease of RMB48.3 million in salary, welfare and travel expenses, which in turn was mainly because the Group strategically restructured its sales staff.

Administrative Expenses

For the six months ended 30 June 2017 and 2018, our administrative expenses were RMB61.8 million and RMB85.4 million, respectively, accounting for 10.9% and 10.7% of the revenue for the same periods. Our administrative expenses increased by 38.2% or RMB23.6 million from the six months ended 30 June 2017 to the six months ended 30 June 2018. Such increase was mainly due to (i) hiring professionals to handle merger and acquisition exercises; (ii) the increase in depreciation and amortization arising from merger and acquisition; and (iii) the effect of releasing restricted share certificates and options.

Finance Costs

Finance costs mainly represented the finance expenses in relation to bonds, the loans from sales and leaseback arrangements, other liquidity and the loans for mergers and acquisitions. Finance costs grew by 78.6% or RMB32.0 million from RMB40.7 million for the six months ended 30 June 2017 to RMB72.7 million for the six months ended 30 June 2018. Such growth primarily came from the increase in financing from sales and leaseback arrangements, other liquidity and the loans for mergers and acquisitions.

Income Tax Expense

Pursuant to relevant laws, rules and regulations in the People's Republic of China (the "PRC") and with approval from competent tax authorities, our water purifier business and supply chain business are entitled to certain preferential tax treatments, including (i) Shanghai Haoze Water Purification Technology Development Co., Ltd., qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from November 2015 to October 2018, which will be renewed after October 2018; (ii) Shanghai Ozner Comfort Environment & Science Co., Ltd., qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from November 2017 to October 2020; (iii) Guangdong Bili, qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from October 2015 to September 2018, which will be renewed after September 2018; (iv) Foshan Lepuda, qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from December 2016 to November 2019; and (v) Shaanxi Haoze Environmental Technology Development Co., Ltd., approved by local competent tax authority to be an enterprise engaged in an encouraged industry, is entitled to the preferential tax rate of 15% from 2012 to 2020.

Primarily as a result of the preferential tax treatments we received in relation to water purification service and supply chain service, our income tax expense amounted to RMB17.8 million and RMB23.3 million for the six months ended 30 June 2017 and 2018, respectively. The effective tax rate (calculated by dividing income tax expense by profit before tax) was 21.2% and 20.5% for the six months ended 30 June 2017 and for the six months ended 30 June 2018, respectively, which basically remained stable.

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

Profit for the Period attributable to owners of the parent increased by approximately RMB10.5 million from RMB67.1 million for the six months ended 30 June 2017 to RMB77.6 million for the six months ended 30 June 2018. At the same time, our net profit margin decreased from 11.6 % for the six months ended 30 June 2017 to 11.3% for the six months ended 30 June 2018. Such decline was attributable to the sale of motor products with a relatively low 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 30 June 2018, the Group's bank balances and cash together with short-term investments (bank time deposits) amounted to RMB644.4 million (as at 31 December 2017: RMB553.8 million), representing an increase of 16.4% from that as at 31 December 2017. For surplus cash, we intend to deposit the cash as short-term demand deposits and/or money market instruments. As at 30 June 2018, all cash equivalents were denominated mainly in RMB and Hong Kong dollars.

Trade and Bills Receivables

Trade and bills receivables decreased from RMB354.2 million as at 31 December 2017 to RMB340.0 million as at 30 June 2018. Such decrease was attributable to the increase in receivables for motor products which experienced sales growth and to the recovery of sales amounts for air sanitisation machines by the end of last year. Our average trade receivable turnover days were 38 days and 78 days for the year ended 31 December 2017 and the six months ended 30 June 2018, which mainly due to the longer account period for motor products as well as the Group's efforts to increase the long-term business partnership with its premium distributors and entitle them to a certain credit period.

Inventories

Inventories increased from RMB308.8 million as at 31 December 2017 to RMB367.1 million as at 30 June 2018. Such increase was primarily due to the increase in inventory of raw materials and work-in-progress to fulfill the demands from customers.

Current Ratio and Gearing Ratio

As at 31 December 2017 and 30 June 2018, the current ratio was 1.01 and 1.23, respectively. Such increase was due to the increase of long-term borrowings. Our gearing ratio, which was derived by dividing total debt by total equity, was 46.6% and 49.1% as at 31 December 2017 and 30 June 2018, respectively. Such change was due to the increase of financing.

Capital Expenditure

For the six months ended 30 June 2018, the Group's capital expenditure amounted to RMB184.2 million, which was mainly used for purchasing property, plant and equipment and other intangible assets as well as producing water purification machines. During the Period, the Group added new water purification machines amounting to RMB152.8 million and purchased land use right in relation to the third phase of Shaanxi manufacturing facility amounting to approximately RMB5.3 million.

Borrowings and Charges on the Group's Assets

As at 30 June 2018, the Group's interest-bearing bank and other borrowings, finance lease payables, the liability component of bonds, and long-term borrowings amounted to approximately RMB410.9 million (as at 31 December 2017: RMB89.8 million), approximately RMB644.8 million (as at 31 December 2017: RMB779.1 million), approximately RMB347.0 million (as at 31 December 2017: RMB335.6 million) and approximately RMB488.3 million (as at 31 December 2017: RMB231.3 million), 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 one year and the fixed interest rate is 5.13% to 10% per annum. Amongst the finance lease payables, approximately RMB306.8 million (as at 31 December 2017: RMB334.5 million) will be repayable within one year, and approximately RMB338.0 million (as at 31 December 2017: RMB444.6 million) will be repayable between one to three years and the fixed interest rate is 4.91% to 9.0% per annum. The long-term interest-bearing bank and other borrowings will be repayable within one to two years and the fixed interest rate is 5.7% to 9.4% per annum.

The interest-bearing loans and borrowings were denominated in RMB and USD, while the bonds were denominated in Hong Kong dollars.

For the six months ended 30 June 2018, the Group entered into several finance lease agreements (together with finance lease agreements entered into before 1 January 2018, the "Finance Lease Agreements") for the sale and leaseback of 49,524 units water purifiers of the Group to obtain borrowings. As at 30 June 2018, the carrying amount of 898,080 units water purifiers, which were subject to the sale and leaseback arrangements under the Finance Lease Agreements and were treated as secured assets in essence, was approximately RMB1,164.3 million.

As at 30 June 2018, the Group pledged bank deposits amounting to RMB46.4 million as securities for issuance of bank acceptance notes (as at 31 December 2017: RMB69.8 million).

Contingent Liabilities

As at 30 June 2018, the Group had no material contingent liabilities.

Commitments

As at 30 June 2018, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB39.2 million (as at 31 December 2017: RMB20.4 million).

As at 30 June 2018, the Group had capital expenditure of RMB111.0 million contracted for but not provided in the consolidated financial statements in relation to the acquisition of property, plant and equipment (as at 31 December 2017: RMB158.2 million).

As at 30 June 2018, the Group had unpaid annual lease payments of RMB338.7 million which were not yet recognized as rental revenue (as at 31 December 2017: RMB295.2 million).

As at 30 June 2018, 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 for the Hong Kong office that are denominated in Hong Kong dollars.

As 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 currency. 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 six months ended 30 June 2018, the Group had not conducted any material acquisitions or disposals. In addition, the Group currently has no specific plan for acquisition of major assets or other business.

ISSUE OF EQUITY SECURITIES DURING THE INTERIM PERIOD

As disclosed in the Company's announcement dated 16 May 2018, the Company, Yue Xiu Securities Company Limited ("Yue Xiu Securities") and China Industrial Securities International Capital Limited ("China Industrial Securities") (Yue Xiu Securities and China Industrial Securities together, the "Placing Agents") entered into a share placing agreement (the "Share Placing Agreement"), pursuant to which, upon completion of the placing on 31 May 2018, an aggregate of 90,000,000 new shares (being ordinary shares of nominal value HK$0.01 each in the share capital of the Company each, a "Share") (the "Placing Shares") have been successfully placed by the Placing Agents to not less than six placees in total (the "Placees") at the placing price of HK$2.00 per Placing Share (the "Placing").

The net price per Placing Share, after deduction of relevant expenses, is approximately HK$1.98. The closing price of the Shares on the date of the Share Placing Agreement was HK$2.04 per Share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The gross proceeds from the Placing amounted to HK$180,000,000, while the net proceeds from the Placing (after deducting the placing commission and other fees and expenses) amounted to approximately HK$178,573,000, which full amount remains unutilized and is intended to be used for the general working capital of the Group, in accordance with the intention as previously disclosed by the Company in the announcement of the Company dated 16 May 2018. The unutilized proceeds are estimated to be fully utilized by the end of 2018.

The Placees are professional, institutional or other investors who are third parties independent of and not acting in concert with the Company or its connected persons. None of the Placees has, immediately upon completion of the Placing, become a substantial shareholder of the Company. The Placing has provided a good opportunity for the Company to raise capital, while broadening the shareholder base and strengthening the capital base and the financial position of the Company.

For further details, please refer to the announcements of the Company dated 16 May 2018 and 31 May 2018.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had 2,421 employees. Total staff costs (including Directors' emoluments, share option expenses and the restricted share unit scheme expenses) were RMB81.6 million for the six months ended 30 June 2018, as compared to RMB88.1 million for the six months ended 30 June 2017. Apart from salary payments, other employee benefits including social insurance and housing provident fund are in amounts equal to pre-determined percentages of the salaries, bonuses and certain allowances of our employees.

The Group has also adopted pre-IPO share option scheme, the share option scheme and restricted share unit scheme (collectively known as the "Schemes") for the purpose of incentivizing and rewarding the eligible participants for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Group. As at 30 June 2018, a total of 233,800,000 share options granted under the pre-IPO share option scheme were outstanding.

On 23 March 2018, the Group resolved to grant 65,000,000 share options to the grantees entitling them to subscribe for a total of 65,000,000 new Shares under the share option scheme. The exercise price of share options granted was HK$2.45, and the closing price of the Shares on the date of grant was HK$2.02. The 65,000,000 share options were granted to five Directors, among which, the grant of the 52,000,000 share options to Mr. Xiao Shu was subject to the approval by the independent shareholders at general meeting, which approval was obtained at the extraordinary general meeting of the Company held on 29 June 2018. For details, please refer to the Company's circular and poll results announcement dated 14 May 2018 and 29 June 2018, respectively.

On 19 June 2018, under the Group's restricted share unit ("RSUs") scheme, 15,839,250 ordinary shares of the Company with a par value of HK$0.01 each RSUs were granted to 266 selected persons, of which (i) RSUs representing 1,080,795 Shares were granted to four selected persons who are Directors of the Company; (ii) RSUs representing 6,908,262 Shares were granted to 235 selected persons who were employees of the Group; and (iii) RSUs representing 7,850,193 Shares were granted to 27 selected persons who were distributors of the Group. For details, please refer to the Company's announcement dated 19 June 2018.

As at 30 June 2018, RSUs representing a total of 29,511,040 Shares were granted, of which (i) RSUs representing 143,910 Shares were vested; and (ii) RSUs representing 29,367,130 Shares were outstanding and held by the RSU Trustee. 3,833,960 Shares are currently held by the RSU Trustee for future grant of RSUs.

For the six months ended 30 June 2018, the total expense of the Schemes was RMB7.6 million (for the six months ended 30 June 2017: RMB6.8 million).

SUBSEQUENT EVENTS AFTER THE INTERIM PERIOD

The Group did not have any significant subsequent events after the interim period ended 30 June 2018.

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.

On 6 June 2018, Shanghai Haoze Water Purification Technology Development Co., Ltd. (上海浩澤淨水科技發展有限公司) ("Shanghai Haoze"), a wholly-owned subsidiary of the Company, as borrower, entered into an entrusted loan agreement (the "Entrusted Loan Agreement") with Bohai International Trust Co., Ltd. (渤海國際信托股份有限公司) ("Bohai International"), as lender, pursuant to which an entrusted loan of RMB295,000,000 (the "Entrusted Loan") has been granted by Bohai International to Shanghai Haoze at an interest rate of 9.4% per annum. The Entrusted Loan shall be for an initial term of two years commencing from the drawdown date (being 12 June 2018) and may be extended for two additional terms of one year each after the expiry of the initial term. Under the Entrusted Loan Agreement, Mr. Xiao Shu, as the controlling shareholder of the Company, shall be required to remain as the chairman and the single largest shareholder of the Company (counting his direct and indirect interest in the Company) during the term of the Entrusted Loan Agreement. A breach of such obligation is regarded as a default of the Entrusted Loan Agreement and may result in Bohai International exercising its right to terminate the Entrusted Loan Agreement and to demand for immediate repayment.

As at the date of this interim report, the aforementioned Facility and Entrusted Loan are still subsisting and the respective undertakings by Mr. Xiao Shu continue to exist.

INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2017 and 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

There was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries during the six months ended 30 June 2018.

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

As at 30 June 2018, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Long/short positions in ordinary shares of the Company:

Name of director	Long/short positions	Nature of interest	Note	Number of ordinary Shares	Approximate percentage of shareholding as at 30 June 2018(C)
Mr. XIAO Shu	Long position	Founder of discretionary trusts	(a)	786,834,150	36.84%
		Beneficial owner	(b)	107,284,706	5.02%
Mr. WANG Duo	Long position	Interest of spouse		859,000	0.04%

Notes:

(a) These 786,834,150 Shares are held as to 341,820,000 Shares by Baida Holdings Limited, 62,182,200 Shares by Lion Rise Holdings Limited and 382,831,950 Shares by Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited are wholly-owned by Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited under the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. XIAO Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, Mr. XIAO Shu is deemed to be interested in the 341,820,000 Shares, 62,182,200 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 107,284,706 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 and the Share Option Scheme entitling Mr. Xiao to subscribe for 103,086,706 Shares.

(c) As at 30 June 2018, the Company had 2,135,981,950 ordinary Shares in issue.

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

Name of Director	Number of options/restricted share units beneficially owned	Approximate percentage of shareholding as at 30 June 2018[1]
Mr. XIAO Shu	**103,086,706**	4.83%
Mr. ZHOU Guanxuan	**3,105,616**	0.15%
Mr. TAN Jibin	**12,812,140**	0.60%
Mr. LI Honggao	**8,605,056**	0.40%
Mr. WANG Yonghui	**3,773,050**	0.18%
	131,382,568	6.15%[2]

Notes:

(1) As at 30 June 2018, the Company had 2,135,981,950 ordinary Shares in issue.

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

Save as disclosed above, as of 30 June 2018, none of the directors nor the chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE INCENTIVE SCHEMES

The Company operates the Pre-IPO Share Option Scheme, the Share Option Scheme and Restricted Share Unit Scheme (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 22 to the interim condensed consolidated financial statements.

Pre-IPO Share Option Scheme

On 26 May 2014, the Pre-IPO Share Option Scheme was approved and adopted by the then sole Shareholder. The Pre-IPO Share Option Scheme was valid and effective for a period commencing from the date of its adoption and expiring on the listing date of the Company, being 17 June 2014 (the "Listing Date"), 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 2018	Exercised during the Period	Lapsed during the Period	Forfeited during the Period	As at 30 June 2018	Approximate percentage of shareholding as at 30 June 2018*
Director						
Mr. XIAO Shu	51,086,706	–	–	–	51,086,706	2.39%
Mr. TAN Jibin	8,547,535	–	–	–	8,547,535	0.40%
Mr. LI Honggao	3,200,000	–	–	–	3,200,000	0.15%
	62,834,241	–	–	–	62,834,241	2.94%
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	91,024,529	–	–	–	91,024,529	4.26%
Total	156,318,846	–	–	–	156,318,846	7.32%

* As at 30 June 2018, the Company had 2,135,981,950 ordinary Shares in issue.

As at 30 June 2018, the maximum number of shares that may be issued pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme is 156,318,846 shares (31 December 2017: 156,318,846 Shares), representing approximately 7.32% of the issued share capital of the Company both as at 30 June 2018 and as at the date of this interim report (31 December 2017: approximately 7.64% of the issued share capital of the Company as at 31 December 2017).

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

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

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

Share Option Scheme

The Share Option Scheme was approved and adopted on 26 May 2014 with implementation conditional on the listing of the Company. At the AGM of the Company held on 27 May 2016, the Shareholders approved the refreshment of the scheme mandate limit for the Share Option Scheme and any other share option schemes of the Company to 10% of the shares in issue as at the date of the AGM (the "Refreshed Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. As at 30 June 2018, the Company may grant options under the Share Option Scheme entitling the holders thereof to subscribe for up to 107,968,200 shares (31 December 2017: 172,968,200 shares), representing approximately 5.05% (31 December 2017: approximately 16% of the issued share capital as at the date of the 2017 annual report of the Company) of the issued share capital of the Company as at 30 June 2018 and as at the date of this interim report.

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

			Number of share options							
Name of participant	Date of Grant	Exercise price per share	As at 1 January 2018	Granted during the Period	Exercised during the Period	Lapsed during the Period	Forfeited during the Period	As at 30 June 2018	Exercise period	Closing price of the Shares immediately before the date of grant
Directors										
Mr. XIAO Shu	23 March 2018[(1)]	HK$2.45	–	52,000,000	–	–	–	52,000,000	22 March 2028	HK$2.03
Mr. ZHOU Guanxuan	23 March 2018	HK$2.45	–	3,000,000	–	–	–	3,000,000	22 March 2028	HK$2.03
Mr. TAN Jibin	23 March 2018	HK$2.45	–	3,000,000	–	–	–	3,000,000	22 March 2028	HK$2.03
Mr. LI Honggao	23 March 2018	HK$2.45	–	4,000,000	–	–	–	4,000,000	22 March 2028	HK$2.03
Mr. WANG Yonghui	23 March 2018	HK$2.45	–	3,000,000	–	–	–	3,000,000	22 March 2028	HK$2.03
Total:			–	65,000,000	–	–	–	65,000,000		

Note (1): As disclosed in the Company's announcement dated 26 March 2018 and circular dated 14 May 2018, the grant of share options to Mr. Xiao Shu was subject to the approval of independent shareholders at a general meeting, and such approval was obtained at the extraordinary general meeting of the Company held on 29 June 2018.

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.

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.

The share options granted to each of the grantees shall be vested and become exercisable:

(i) as to 40% of the share options on the expiry of 12 months from the relevant date of grant;

(ii) as to an additional 30% of the share options on the expiry of 24 months from the relevant date of grant; and

(iii) as to an additional 30% of the share options on the expiry of 36 months from the relevant date of grant.

RESTRICTED SHARE UNIT SCHEME

On 7 December 2015, the Board approved the adoption of a restricted share unit scheme (the "RSU Scheme") 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 7.5 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.

On 19 June 2018, in order to incentivize the different participants in the business ecosystem of the Group for their contributions and to attract, motivate and retain them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company, the Board has resolved to further amend the rules of the RSU Scheme such that the persons eligible to receive RSUs under the RSU Scheme will include any person who is either:

(i) an employee (whether full-time or part-time), a director (whether executive or non-executive, but excluding independent non-executive directors) or an officer of the Company or any of the Company's subsidiaries or investee companies;

(ii) any business or joint venture partner, distributor, supplier, service provider or agent of the Company or any of the Company's subsidiaries or investee companies; or

(iii) an employee (whether full-time or part-time) of any business or joint venture partner, distributor, supplier, service provider or agent of the Company or any of the Company's subsidiaries or investee companies,

who the Board considers, in its sole discretion, has contributed or will contribute to the Company or any of the Company's subsidiaries or investee companies.

Details of the RSUs granted under the RSU Scheme for the period ended 30 June 2018 were as follows:

Name of the grantee	Position held with the Group	Number of Shares represented by RSUs at 1 January 2018	Date of grant	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Number of Shares represented by RSUs at 30 June 2018
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
		291,381[(2)]	21 July 2017	–	–	–	–	291,381
		–	19 June 2018	121,897[(4)]	–	–	–	121,897
Mr. Li Honggao	Executive Director	1,039,364[(2)]	21 July 2017	–	–	–	–	1,039,364
		–	19 June 2018	365,692[(4)]	–	–	–	365,692
Mr. Tan Jibin	Executive Director	777,015[(2)]	21 July 2017	–	–	–	–	777,015
		–	19 June 2018	487,590[(4)]	–	–	–	487,590
Mr. Zhou Guanxuan	Executive Director	–	19 June 2018	105,616[(4)]	–	–	–	105,616
Subtotal		2,467,532		1,080,795	–	–	–	3,548,327
Employees and distributors of the Group		64,759[(1)]	13 July 2016	–	–	–	–	64,759
		9,043,082[(2)]	21 July 2017	–	–	(2,590)	–	9,040,492
		2,201,543[(3)]	25 August 2017	–	–	–	–	2,201,543
		–	19 June 2018	14,758,455[(4)]	–	(102,536)	–	14,655,919
Subtotal		11,309,384		14,758,455	–	(105,126)	–	25,962,713
Total		424,531[(1)]	13 July 2016	–	–	–	–	424,531
		11,150,842[(2)]	21 July 2017	–	–	(2,590)	–	11,148,252
		2,201,543[(3)]	25 August 2017	–	–	–	–	2,201,543
		–	19 June 2018	15,839,250[(4)]	–	(102,536)	–	15,736,714
		13,776,916		15,839,250	–	(105,126)	–	29,511,040

Notes:

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

(4) The closing price of the shares on the Stock Exchange as at 19 June 2018, being the date on which the RSUs were granted, was HK$1.95 per Share.

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 31,527,000 Shares on the market at an average price of approximately HK$1.7912 per Share and a total consideration of approximately HK$56,470,000.

Immediately after the grant of the RSUs representing 15,839,250 underlying Shares on 19 June 2018, RSUs representing a total of 29,682,796 Shares have been granted, of which (i) RSUs representing 192,838 Shares have been vested; and (ii) RSUs representing 29,489,958 Shares are outstanding and held by the RSU Trustee. 1,844,204 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 section headed "Share Incentive Schemes" above, at no time during the Period or at the end of the Period was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined under the SFO or to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

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

As at 30 June 2018, 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 at 30 June 2018
Standard Chartered Trust (Singapore) Limited	Long position	(a)	Trustee of a trust	786,834,150	36.84%
SCTS Capital Pte. Ltd.	Long position	(a)	Nominee for another person	786,834,150	36.84%
Glorious Shine Holdings Limited	Long position	(h)	Beneficial owner	382,831,950	17.92%
Glorious Shine Capital Limited	Long position	(h)	Interest in a controlled corporation	382,831,950	17.92%
Baida Holdings Limited	Long position	(b)	Beneficial owner	341,820,000	16.00%
Baida Capital Limited	Long position	(b)	Interest in a controlled corporation	341,820,000	16.00%
SAIF Partners IV L.P.	Long position	(c)	Beneficial owner	334,857,000	15.68%
SAIF IV GP, L.P.	Long position	(c)	Interest in a controlled corporation	334,857,000	15.68%
SAIF IV GP Capital Ltd.	Long position	(c)	Interest in a controlled corporation	334,857,000	15.68%
Mr. Andrew Yan YAN	Long position	(c)	Interest in a controlled corporation	334,857,000	15.68%
Mr. XIE Zhikun	Long position	(d)	Interest in a controlled corporation	437,265,697	20.47%
China Innovative Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	437,265,697	20.47%
Beijing Zhonghaijiacheng Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	437,265,697	20.47%
Chongqing Innovative Investment Co., Ltd	Long position	(d)	Beneficial owner	4,954,000	0.23%
Tibet Zhongxin Ruiyin Investment Management Co., Ltd. (西藏中新睿銀投資管理有限公司)	Long position	(d)	Interest in a controlled corporation	243,455,497	11.40%
Chongqing Zhongxinrongbang Investment Centre (Limited partnership)	Long position	(d)	Beneficial owner	243,455,497	11.40%
Shenzhen Qianhai China Innovative Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	188,856,200	8.84%
Hong Kong China Innovative Capital Management Co., Ltd	Long position	(d)	Beneficial owner	188,856,200	8.84%
Ares FW Holdings, L.P.	Long position	(e)	Beneficial owner	187,166,800	8.76%
ACOF Asia GP, Ltd.	Long position	(e)	Interest in a controlled corporation	187,166,800	8.76%
ACOF Asia Management, L.P.	Long position	(e)	Interest in a controlled corporation	187,166,800	8.76%
Ares Management (Cayman), Ltd.	Long position	(e)	Interest in a controlled corporation	187,166,800	8.76%
Watercube Holdings, L.L.C.	Long position	(f)	Beneficial owner	139,006,800	6.51%
GS Direct, L.L.C.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.51%
Goldman, Sachs & Co.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.51%
The Goldman, Sachs & Co. L.L.C.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.51%
The Goldman Sachs Group, Inc.	Long position	(f) & (g)	Interest in a controlled corporation	151,604,800	7.10%

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 is deemed to be interested in the 334,857,000 Shares held by SAIF Partners IV L.P..

(d) These 437,265,697 Shares consist of (i) 243,455,497 Shares in which Chongqing Zhongxinrongbang Investment Centre (Limited partnership) is interested (representing the maximum number of Shares which may be issued by the Company based on the then conversion price of HK$1.91 per Share for the 5% convertible bonds due 2020 in an aggregate principal amount of HK$465,000,000 issued by the Company (the "Bonds"), where no Bonds have been converted into Shares as of 30 June 2018), (ii) 4,954,000 Shares in which Chongqing Innovative Investment Co., Ltd. is interested and (iii) 188,856,200 Shares in which Hong Kong China Innovative Capital Management Co., Ltd is interested. Tibet Zhongxin Ruiyin Investment Management Co., Ltd. (西藏中新睿銀投資管理有限公司), 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 437,265,697 Shares in which Tibet Zhongxin Ruiyin Investment Co., Ltd., 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.

(i) As at 30 June 2018, the Company had 2,135,981,950 ordinary Shares in issue.

Save as disclosed above, as at 30 June 2018, 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, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE CODE

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

During the six months ended 30 June 2018, the Company complied with all the principles and the code provisions of the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules with the exception of code provision A.2.1 of the Corporate Governance Code which is explained in further details below. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance requirements.

Code Provision A.2.1 of the Corporate Governance Code

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

The Audit Committee has discussed with the management and external auditor the accounting principles and policies adopted by the Group, and reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018.

CHANGES IN DIRECTORS' AND CHIEF EXECUTIVE'S INFORMATION

There had been no changes to the Directors' and chief executive's information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the period from 1 January 2018 to 30 June 2018.

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

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages 32 to 72, which comprises the condensed consolidated statement of financial position of Ozner Water International Holding Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
Hong Kong
24 August 2018

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June

	Notes	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Continuing operations			
Revenue from contracts with customers	3	**425,375**	246,855
Rental income		**372,899**	321,498
Revenue	5	**798,274**	568,353
Cost of revenue		**(456,413)**	(256,641)
Gross profit		**341,861**	311,712
Other income and gains	4	**37,670**	29,649
Selling and distribution expenses		**(82,226)**	(130,197)
Administrative expenses		**(85,384)**	(61,798)
Other expenses		**(10,768)**	(24,686)
Share of profits and losses of associates		**(14,655)**	—
Operating profit		**186,498**	124,680
Finance costs		**(72,676)**	(40,690)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**113,822**	83,990
Income tax expense	7	**(23,319)**	(17,826)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**90,503**	66,164
Attributable to :			
Equity owners of the parent		**77,645**	67,094
Non-controlling interests		**12,858**	(930)
		90,503	66,164
Earnings per share attributable to ordinary equity holders of the parent:			
Basic (RMB cents)	8	**3.77**	3.37
Diluted (RMB cents)	8	**3.77**	3.37

For the six months ended 30 June

	Notes	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Profit for the period		**90,503**	66,164
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**1,304**	6,647
Total comprehensive income for the period, net of tax		**91,807**	72,811
Attributable to :			
Equity owners of the parent		**78,949**	73,741
Non-controlling interests		**12,858**	(930)
		91,807	72,811

The Board did not declare any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Interim Condensed Consolidated Statement of Financial Position

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Revenue generating assets	9	**1,645,388**	1,595,699
Property, plant and equipment	10	**822,522**	865,937
Prepaid land lease payments		**116,240**	111,989
Intangible assets	11	**219,471**	229,835
Goodwill		**220,041**	220,041
Investment in associates		**239,880**	86,135
Available-for-sale investments	12	**—**	152,491
Financial assets at fair value through other comprehensive income	12	**152,491**	—
Deferred tax assets		**91,356**	77,412
Prepayments,deposits and other receivables		**530,245**	780,380
TOTAL NON-CURRENT ASSETS		**4,037,634**	4,119,919
CURRENT ASSETS			
Inventories	13	**367,079**	308,781
Prepaid land lease payments		**2,744**	2,924
Trade and bills receivables	14	**340,022**	354,187
Prepayments, deposits and other receivables		**858,933**	377,196
Pledged deposits	16	**46,414**	69,764
Amount due from related parties		**97,389**	—
Short-term investments	16	**337,930**	347,834
Cash and cash equivalents	16	**306,482**	205,995
TOTAL CURRENT ASSETS		**2,356,993**	1,666,681
CURRENT LIABILITIES			
Trade and bills payables	17	**334,047**	397,936
Other payables, advances from customers and accruals		**576,308**	557,853
Deferred revenue		**34,011**	61,258
Interest-bearing bank and other borrowings	18	**410,864**	89,827
Finance lease payables	19	**306,764**	334,532
Dividends payable		**46,035**	—
Income tax payable		**215,320**	210,382
TOTAL CURRENT LIABILITIES		**1,923,349**	1,651,788
NET CURRENT ASSETS		**433,644**	14,893
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,471,278**	4,134,812

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Finance lease payables	19	**338,000**	444,606
Liability component of convertible bonds	20	**346,966**	335,581
Interest-bearing bank and other borrowings	18	**488,305**	231,321
Deferred tax liabilities		**40,365**	42,502
TOTAL NON-CURRENT LIABILITIES		**1,213,636**	1,054,010
NET ASSETS		**3,257,642**	3,080,802
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	21	**17,284**	16,554
Share premium	21	**1,552,017**	1,407,728
Treasury shares		**(49,779)**	(26,429)
Equity component of convertible bonds		**52,321**	52,321
Reserves		**1,525,150**	1,482,837
		3,096,993	2,933,011
Non-controlling interests		**160,649**	147,791
TOTAL EQUITY		**3,257,642**	3,080,802

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Share-based payment reserve RMB'000	Retained earnings RMB'000	Merger reserve RMB'000	Foreign currency translation reserve RMB'000	Other reserves RMB'000	Total RMB'000	Non-Controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	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
Profit for the period	–	–	–	–	–	77,645	–	–	–	77,645	12,858	90,503
Other comprehensive income for the period: translation from functional currency to presentation currency	–	–	–	–	–	–	–	1,304	–	1,304	–	1,304
Transfer (from)/to reserve	–	–	–	–	–	(14,440)	–	–	14,440	–	–	–
Issue ordinary shares	730	144,289	–	–	–	–	–	–	–	145,019	–	145,019
Share-based payments	–	–	–	–	9,399	–	–	–	–	9,399	–	9,399
Dividend	–	–	–	–	–	(46,035)	–	–	–	(46,035)	–	(46,035)
Repurchase of share capital	–	–	(23,350)	–	–	–	–	–	–	(23,350)	–	(23,350)
At 30 June 2018 (unaudited)	17,284	1,552,017	(49,779)	52,321	150,308	792,821	56,018	(11,424)	537,427	3,096,993	160,649	3,257,642

For the six months ended 30 June 2017

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

Interim Consolidated Statement of Cash Flows

For the six months ended 30 June

	Notes	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**113,822**	83,990
Adjustments for:			
Depreciation of revenue generating assets	9	**100,820**	95,203
Depreciation of property, plant and equipment		**22,125**	20,069
Share of profits and losses of associates		**14,655**	—
Amortisation of intangible assets		**7,958**	1,999
Amortisation of other non-current assets		**744**	222
Share-based payments	22	**9,399**	6,401
Unrealised exchange (gain)/loss		**(1,907)**	7,600
Loss on disposal of items of property, plant and equipment	10	**937**	—
Loss on disposal of revenue generating assets	9	**7,110**	3,070
Fair value losses on contingent consideration		**96**	—
(Reversal of write-down)/write-down of inventories to net realisable value	13	**(18,768)**	339
Finance costs		**72,676**	40,690
Impairment of trade and bills receivables	14	**137**	488
		329,804	260,071
Increase in inventories		**(39,530)**	(22,786)
Decrease/(increase) in trade and bills receivables		**14,028**	(62,023)
Increase in prepayments, deposits and other receivables		**(74,940)**	(313,870)
Decrease in due from a shareholder		**—**	784
Increase in due from related parties		**(97,389)**	—
Decrease/(increase) in pledged deposits		**23,350**	(6,162)
(Decrease)/increase in trade and bills payables		**(63,889)**	34,753
Increase in other payables, advances from customers and accruals		**34,458**	35,310
Decrease in deferred revenue		**(27,247)**	(48,194)
Cash used in operations		**98,645**	(122,117)
Income tax paid		**(34,462)**	(33,616)
Net cash flows from/(used in) operating activities		**64,183**	(155,733)

For the six months ended 30 June

	Note	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of revenue generating assets		**(105,182)**	(94,383)
Purchases of items of property, plant and equipment		**(54,391)**	(51,134)
Purchases of intangible assets		**(1,606)**	(1,216)
Payment for land lease		**(911)**	(19,560)
Acquisition of subsidiaries, net of cash received		**(16,099)**	—
Purchases of associates		**(168,400)**	—
Decrease/(increase) in short-term investment		**9,904**	(64,226)
Increase of loans		**(146,000)**	—
Decrease of investment down payment		**11,753**	—
Decrease in pledged deposits		**—**	3,242
Net cash flows used in investing activities		**(470,932)**	(227,277)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**744,208**	378,900
Interest paid		**(64,256)**	(32,570)
Proceeds from issue of shares		**145,019**	475,117
Repayment of borrowings		**(300,561)**	(110,149)
Repurchase of share capital for RSU Scheme		**(23,350)**	(9,293)
Net cash flows from financing activities		**501,060**	702,005
NET INCREASE IN CASH AND CASH EQUIVALENTS		**94,311**	318,995
Cash and cash equivalents at beginning of the period		**205,995**	486,882
Effect of foreign exchange rate changes, net		**6,176**	(11,393)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**306,482**	794,484
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**352,896**	839,852
Less: Pledged deposits		**(46,414)**	(45,368)
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	16	**306,482**	794,484

1. CORPORATE AND THE 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 period ended 30 June 2018, 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
- Other services

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

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

2.1 Basis of Preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). It was approved and authorised for issue by the board of directors on 24 August 2018.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

The unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousands, except when otherwise indicated.

These interim condensed consolidated financial statements have not been audited.

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

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards and interpretations effective as of 1 January 2018 include:

• Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
• Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
• IFRS 9	*Financial Instruments*
• IFRS 15	*Revenue from Contracts with Customers*
• Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
• Amendments to IAS 40	*Transfers of Investment Property*
• IFRIC-22	*Foreign Currency Transactions and Advance Consideration*
• IFRIC-23	*Uncertainty over Income Tax Treatments*
• Annual Improvements *2014–2016 Cycle*	*Amendments to IFRS 1 and IAS 28*

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. As required by IAS 34, the nature and effect of these changes are disclosed below consolidated financial statements of the Group.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

IFRS 15 *Revenue from Contracts with Customers* (Continued)

The Group adopted IFRS 15 using the modified retrospective method of adoption. The effect of adopting IFRS 15 is, as follows:

- The comparative information for each of the primary financial statements would be presented based on the requirements of IAS 11, IAS 18 and related Interpretations;

- The cumulative catch-up adjustment to the opening balance of retained earnings (or other components of equity) as at 1 January 2018, either for all contracts or only for contracts that are not completed at the date of initial application, would not be significant and retrospected in the condensed consolidated statement of changes in equity for the six months ended 30 June 2018; and

- As required for the interim condensed consolidated financial information, the Group disaggregated 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. Refer to note 3 for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes to the financial statements would also follow the requirements of IAS 11, IAS 18 and related Interpretations. As a result, the disclosure of disaggregated revenue in note 3 would not include comparative information under IFRS 15.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has not restated comparative information for financial instruments in the scope of IFRS 9. Therefore, the comparative information is reported under IAS 39 and is not comparable to the information presented for the six months ended 30 June 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained profits and accumulated other comprehensive income as of 1 January 2018.

Changes to classification and measurement

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

IFRS 9 *Financial Instruments* (Continued)

Changes to classification and measurement (Continued)

The new classification and measurement of the Group's debt financial assets are, as follows:

All the Group's debt financial assets are Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's cash and cash equivalents, restricted cash, trade and notes receivables, financial assets included in prepayments and other receivables, and due from related parties.

Other financial assets are classified and subsequently measured, as follows:

All the Group's equity financial assets are Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as AFS financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

As of 1 January 2018, the category of loans and receivables under IAS 39, including cash and cash equivalents, restricted cash, trade and notes receivables, financial assets included in prepayments and other receivables, and due from related parties, were transferred to debt instruments at amortised cost under IFRS 9. Meanwhile, available-for-sale investments under IAS 39 were transferred to financial assets at fair value through other comprehensive income under IFRS 9.

The statement of financial position as at 31 December 2017 was not restated as the new measurement requirement under IFRS 9 is not of significant financial impact.

The accounting for financial liabilities remains largely the same as it was under IAS 39.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all the debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

IFRS 9 *Financial Instruments* (Continued)

Changes to the impairment calculation (Continued)

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The impact of adopting expected credit loss model under IFRS 9 was not significant and, therefore, the Group made no adjustment to retained profits and accumulated other comprehensive income as of 1 January 2018.

2.3 Issued But Not Yet Effective International Financial Reporting Standards

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

New standards and interpretations effective as of 1 January 2018 include:

• Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
• Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
• IFRS 16	*Leases*[1]
• IFRS 17	*Insurance Contracts*[3]
• Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
• IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*[1]
• Annual Improvements *2015-2017 Cycle*	*Amendments to IFRSs*[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 No mandatory effective date yet determined but available for adoption

3 Effective for annual periods beginning on or after 1 January 2021

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

2.3 Issued But Not Yet Effective International Financial Reporting Standards (Continued)

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

IFRS 16, issued in January 2017, replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC15 Operating Leases — Incentives and SIC 27 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. 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.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

With the adoption of IFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers, including construction contracting, properties sales and others, for the six months ended 30 June 2018 is as follows:

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods or services		
Water purification services		
Sales of goods	**126,509**	163,925
Training services	**26,584**	47,691
Air sanitization services		
Rendering of services	**—**	10,501
Sales of goods	**3,553**	11,600
Supply chain services		
Sales of goods	**236,108**	—
Other services		
Interest income from financing service	**32,621**	13,138
	425,375	246,855
Timing of revenue recognition		
Services transferred over time	**59,205**	71,330
Goods transferred at a point in time	**366,170**	175,525
	425,375	246,855

4. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants	**3,806**	19,576
Interest income	**14,846**	9,770
Others	**19,018**	303
	37,670	29,649

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

5. OPERATING SEGMENT INFORMATION

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 10%, 8%, 7%, and 13%, 9%, 8% was derived from sales from the water purification segment to three customers for each of the six months ended 30 June 2018 and the year ended 31 December 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:

Six months ended 30 June 2018 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Supply chain services RMB'000	Others services RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	525,992	3,553	236,108	32,621	798,274
Segment cost of revenue					
Sales to external customers	258,345	3,041	193,169	1,858	456,413
Segment results	161,817	(3,329)	25,270	30,617	214,375
Reconciliations:					
Share-based payments					(9,399)
Corporate and other unallocated expenses					(13,427)
Exchange loss					(5,051)
Finance costs					(72,676)
Profit before tax					113,822
Segment assets	4,190,184	100,778	373,419	451,591	5,115,972
Reconciliations:					
Corporate and other unallocated assets					1,278,655
Total assets					6,394,627
Segment liabilities	1,970,778	51,719	239,077	60,163	2,321,737
Reconciliations:					
Convertible bonds					346,966
Corporate and other unallocated liabilities					468,282
Total liabilities					3,136,985
Other segment information					
Depreciation and amortisation	130,791	—	854	2	131,647
Reversal of impairment recognised in profit or loss	(18,631)	—	—	—	(18,631)
Capital expenditure*	177,918	160	6,108	4	184,190

* 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)

Six months ended 30 June 2017 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Others services RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	533,114	22,101	13,138	568,353
Segment cost of revenue				
Sales to external customers	239,900	16,630	111	256,641
Segment results	124,968	4,779	12,025	141,772
Reconciliations:				
Share-based payments				(6,401)
Corporate and other unallocated expenses				(6,649)
Exchange loss				(4,042)
Finance costs				(40,690)
Profit before tax				83,990
Segment assets	3,257,947	5,338	380,556	3,643,841
Reconciliations:				
Corporate and other unallocated assets				559,178
Tax related assets and Cash and cash equivalents				321,679
Total assets				4,524,698
Segment liabilities	1,207,097	4,650	18,149	1,229,896
Reconciliations:				
Convertible bonds				339,722
Corporate and other unallocated liabilities				185,995
Total liabilities				1,755,613
Other segment information				
Depreciation and amortisation	117,263	—	8	117,271
Impairment losses recognised in profit or loss	509	318	—	827
Capital expenditure*	173,029	—	—	173,029

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

6. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cost of services provided		**1,044**	9,063
Cost of inventories sold		**276,433**	110,882
Depreciation of revenue generating assets	9	**100,820**	95,203
Depreciation of property, plant and equipment	10	**64,621**	51,284
Less: Amount capitalised in revenue generating assets		**(42,496)**	(31,215)
		22,125	20,069
Amortisation of intangible assets	11	**11,970**	6,143
Less: Amount capitalised in revenue generating assets		**(4,012)**	(4,144)
		7,958	1,999
Amortisation of prepaid land lease payments		**1,852**	982
Less: Amount capitalised in revenue generating assets		**(1,108)**	(771)
		744	211
Research and development costs		**23,408**	17,208
Auditor's remuneration		**1,805**	1,405
Employee benefit expense (including directors' remuneration):			
Total wages and salaries		**81,565**	88,109
Less: Amount capitalised in revenue generating assets		**(33,193)**	(16,852)
		48,372	71,257
Total pension scheme contributions		**7,393**	15,722
Less: Amount capitalised in revenue generating assets		**(6,925)**	(2,653)
		468	13,069
Operating lease expenses		**19,341**	12,119
Less: Amount capitalised in revenue generating assets		**(14,554)**	(1,540)
		4,787	10,579
Share-based payments	22	**9,399**	6,401
Foreign exchange differences, net		**5,051**	4,042
Impairment of trade and bills receivables	14	**137**	488
(Reversal of write-down)/write-down of inventories to net realisable value		**(18,768)**	339
Loss on disposal of items of property, plant and equipment	10	**937**	—
Loss on disposal of revenue generating assets	9	**7,110**	3,070

7. INCOME TAX

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

All of the Group's subsidiaries 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% (2017: 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 Development Co., Ltd., qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from November 2015 to October 2018, which will be renewed after October 2018.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Shanghai Haoze Comfort Environment & Science Co., Ltd., qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from November 2017 to October 2020.

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, is entitled to the preferential tax rate of 15% for three years from October 2015 to September 2018, which will be renewed after September 2018.

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, is entitled to the preferential tax rate of 15% for three years from December 2016 to November 2019.

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

Pursuant to the document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB1,205,000 and RMB1,447,000 for the six months ended 30 June 2017 and 2018, respectively, relating to the additional deduction of research and development costs.

The breakdown of income tax expense are as follow:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax	**39,400**	38,598
Deferred tax	**(16,081)**	(20,772)
Income tax expense reported in profit or loss	**23,319**	17,826

7. INCOME TAX (Continued)

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax	**113,822**	83,990
Tax at the statutory tax rate	**28,455**	20,997
Lower tax rates for specific provinces or enacted by local authorities	**(12,061)**	(11,570)
Tax exempted by local authorities	**4,512**	6,159
Expenses not deductible for tax	**3,055**	1,427
Unrecognised tax losses	**835**	2,018
Additional deduction of research and development costs	**(1,447)**	(1,205)
Tax at the effective income tax rate	**23,319**	17,826

8. EARNINGS PER SHARE ("EPS")

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

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

8. EARNINGS PER SHARE ("EPS") (Continued)

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings:		
Profit attributable to owners of the parent, used in the basic and diluted EPS calculation:	**77,645**	67,094
Interest on convertible bonds	**12,858**	18,209
Profit attributable to owners of the parent, before the effect of convertible bonds	**90,503**	85,303
Shares:		
Weighted average number of ordinary shares for basic EPS	**2,058,293,950**	1,993,620,623
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**243,455,497**	243,455,497
	2,301,749,447	2,237,076,120
Basic EPS (RMB cents)	**3.77**	3.37
Diluted EPS (RMB cents)	**3.77***	3.37

* Because the diluted EPS increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic EPS for the six months ended 30 June 2018.

9. REVENUE GENERATING ASSETS

Acquisitions and disposals

During the six months ended 30 June 2018, the Group acquired revenue generating assets with a cost of RMB152,798,000 (six months ended 30 June 2017: RMB121,208,000). Revenue generating assets with a net book value of RMB4,821,000 were transferred from property, plant and equipment by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB8,460,000).

Depreciation for revenue generating assets was RMB100,820,000 during the period (six months ended 30 June 2017: RMB95,203,000).

Revenue generating assets with a net book value of RMB7,110,000 were disposed of by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB3,070,000), resulting in a net loss on disposal of RMB7,110,000 (six months ended 30 June 2017: RMB3,070,000).

As at 30 June, 2018, certain of the Group's revenue generating assets with net carrying amount of approximately RMB1,164,296,000 were pledged to secure other borrowing in relation to the sales and leaseback.

10. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2018, the Group acquired assets with a cost of RMB26,968,000 (six months ended 30 June 2017: RMB26,924,000), excluding property under construction. Depreciation for items of property, plant and equipment was RMB64,621,000 during the period (six months ended 30 June 2017: RMB51,284,000). Property, plant and equipment with a net book value of RMB4,821,000 were transferred to revenue generating assets by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB8,460,000).

The construction in process is totaling to RMB6,036,000 as at 30 June 2018 (31 December 2017: RMB6,040,000) mainly representing the new experience stores under construction.

The loss on disposal of asset is RMB937,000 by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

11. INTANGIBLE ASSETS

During the six months ended 30 June 2018, the Group acquired intangible assets with a cost of RMB1,606,000 (six months ended 30 June 2017: RMB1,248,000). Amortisation for intangible assets was RMB11,970,000 during the period (six months ended 30 June 2017: RMB6,143,000).

There is no intangible assets disposed by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

12. AVAILABLE-FOR-SALE INVESTMENTS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Available-for-sale investments:		
Equity investments, at cost	**–**	152,491
Financial assets at fair value through other comprehensive income:		
Equity investments, at fair value	**152,491**	–

As of 1 January 2018, available-for-sale investments under IAS 39 were reclassified to financial assets at fair value through other comprehensive income under IFRS 9 (note 2.2).

13. INVENTORIES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Raw materials	**117,388**	103,825
Work in progress	**53,083**	47,880
Finished goods	**205,645**	184,881
	376,116	336,586
Write-down of inventories to net realizable value	**(9,037)**	(27,805)
	367,079	308,781

14. TRADE AND BILLS RECEIVABLES

		As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade receivables		**318,373**	330,095
Amount due from contract customers	15	**—**	1,509
Bills receivable		**25,060**	25,857
		343,433	357,461
Impairment		**(3,411)**	(3,274)
Net trade and bills receivables		**340,022**	354,187

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

14. TRADE AND BILLS RECEIVABLES (Continued)

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 90 days	196,710	245,459
Over 90 days and within 180 days	58,766	69,661
Over 180 days and within 1 year	80,670	34,369
Over 1 year and within 2 years	3,876	3,189
Over 2 years and within 3 years	—	—
	340,022	352,678

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

	Six months ended 30 June 2018 RMB'000 (Unaudited)	Year ended 31 December 2017 RMB'000 (Audited)
As at 1 January	3,274	2,083
Impairment for trade receivables	137	1,191
As at 30 June/31 December	3,411	3,274

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

Transferred financial assets that are not derecognised in their entirety

As at 30 June 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB12,410,000 (31 December 2017: RMB7,060,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the period to which the suppliers have recourse was RMB12,410,000 as at 30 June 2018 (31 December 2017: RMB7,060,000).

15. CONSTRUCTION CONTRACTS

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Gross amount due from contract customers	–	1,509
Contract costs incurred plus recognised profits less recognised losses to date	–	28,681
Less: Progress billings	–	(27,172)
	–	1,509

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Cash and bank balances	352,896	275,759
Time deposits	337,930	347,834
Total cash and bank balances	690,826	623,593
Less: Pledged as collateral for issuance of bank acceptance notes	(46,414)	(69,764)
Short-term investment	(337,930)	(347,834)
Cash and cash equivalents	306,482	205,995
Denominated in RMB	558,091	485,557
Denominated in HK$	131,228	137,140
Denominated in US$	1,336	896
Denominated in EUR$	171	–
Total cash and bank balances	690,826	623,593

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one month and three 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.

17. TRADE AND BILLS PAYABLES

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 90 days	**291,210**	288,872
Over 90 days and within 180 days	**7,580**	70,898
Over 180 days and within 1 year	**9,707**	10,562
Over 1 year and within 2 years	**20,020**	24,070
Over 2 year and within 3 years	**5,472**	1,750
Over 3 years	**58**	1,784
	334,047	397,936

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

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	5.22	2019	30,000	5.22	2018	30,000
	5.35	2019	165,444	—	—	—
	5.74	2019	20,100	—	—	—
Bank Loans — secured	5.13	2019	12,500	5.13	2018	15,900
	5.50	2019	43,320	5.50	2018	13,927
	5.65	2019	9,500	—	—	—
Other loans — unsecured	10.00	2019	30,000	10.00	2018	30,000
	10.00	2019	100,000			
			410,864			89,827
Non-current						
Bank loans — unsecured	5.70	2019	28,405	5.70	2019	29,900
Bank Loans — secured	9.40	2020	272,200	6.56	2020	11,721
	—	—	—	6.25	2020	2,000
Other loans — unsecured	9.00	2019	187,700	9.00	2019	187,700
			488,305			231,321
			899,169			321,148

	2018 RMB'000	2017 RMB'000
Analyzed into		
Bank loans repayable:		
Within one year	280,864	59,827
In the second year	300,605	29,900
In the third to fifth years, inclusive	—	13,721
	581,469	103,448
Factoring and entrusted loan repayable		
Within one year	130,000	30,000
In the second year	187,700	187,700
	899,169	321,148

18. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Group's loan facilities amounting to RMB310,764,000, of which RMB309,269,000 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 30 June 2018, certain of the Group's bank loans were secured by the pledge of certain of the Group's property, plant and equipment amounting to RMB76,506,000 (31 December 2017: RMB87,583,000) and prepaid land lease payments amounting to RMB19,831,000 (31 December 2017: RMB19,947,000).

19. FINANCE LEASE PAYABLES

Finance lease payables as at 31 December 2017 and 30 June 2018 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 As at 30 June 2018 RMB'000	Minimum lease payments As at 31 December 2017 RMB'000	**Present value of minimum lease payments As at 30 June 2018 RMB'000**	Present value of minimum lease payments As at 31 December 2017 RMB'000
Amounts payable:				
Within one year	**358,317**	397,462	**306,764**	334,532
In the second year	**302,416**	300,975	**280,690**	269,435
In the third to fifth years	**59,650**	183,388	**57,310**	175,171
Total minimum finance lease payments	**720,383**	881,825	**644,764**	779,138
Future finance charges	**(75,619)**	(102,687)		
Total net finance lease payables	**644,764**	779,138		
Portion classified as current liabilities	**(306,764)**	(334,532)		
Non-current portion	**338,000**	444,606		

20. CONVERTIBLE BONDS

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

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

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

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

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

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

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

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

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

20. CONVERTIBLE BONDS (Continued)

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

	Liability component of Convertible Bonds RMB'000	Equity component of Convertible Bonds RMB'000	Total RMB'000
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

	Liability component of Convertible Bonds RMB'000	**Equity component of Convertible Bonds RMB'000**	**Total RMB'000**
At 31 December 2017	**335,581**	**52,321**	**387,902**
Interest expense	**18,221**	**—**	**18,221**
Interest paid	**(9,800)**	**—**	**(9,800)**
Currency translation differences	**2,964**	**—**	**2,964**
At 30 June 2018	**346,966**	**52,321**	**399,287**

21. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

Ordinary shares issued and fully paid	Number of shares in issue	Share capital
		RMB'000
At 31 December 2015	1,735,422,000	13,802
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
Issue of shares	90,000,000	730
At 30 June 2018	2,135,981,950	17,284

Share premium	RMB'000
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
Issue of shares	144,289
At 30 June 2018	1,552,017

Share premium

On 16 May 2018, the Group procured the Placing of up to 90,000,000 Placing Shares at a price of HK$2.00 per Placing Share with exchange rate of 0.8121.

22. 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.

22. SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Option Scheme (Continued)

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 30 June 2017 RMB'000 (Unaudited)
Total expense arising from equity-settled share-based payment transactions	**–**	6,803
Less: Amount capitalised in revenue generating assets	**–**	(402)
	–	6,401

There were no cancellations of or modifications to the awards during the six months ended 30 June 2018.

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 2018	Granted during the period	Forfeited during the period	Exercised during the period	Expired during the period	Outstanding at 30 June 2018
Directors						
Mr. Xiao Shu	51,086,706	–	–	–	–	51,086,706
Mr. Tan Jibin	8,547,535	–	–	–	–	8,547,535
Mr. Li Honggao	3,200,000	–	–	–	–	3,200,000
Other employees						
In aggregate	93,484,605	–	–	–	–	93,484,605
	156,318,846	–	–	–	–	156,318,846
Exercisable at the end of the period	156,318,846	–	–	–	–	156,318,846

The weighted average remaining contractual life of the share options outstanding as at 30 June 2018 was 6 years. The weighted average fair value of the options granted under the Pre-IPO Share Option Scheme was HK$1.07 (RMB0.85).

22. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme

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

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

Share option unit was granted under the share option scheme share during the six months ended 30 June 2018. 65,000,000 share options of the Company were approved to be granted to directors of a member of the Group under the Share Option Scheme on 29 June 2018 (for Xiao Shu) and 23 March 2018 (for other directors). The exercise price of the options granted under the Share Option Scheme was HK$2.45. The options granted under the 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	3/22/2019–3/22/2028	40%
Upon 24 months after the listing date	3/22/2020–3/22/2028	70%
Upon 36 months after the listing date	3/22/2021–3/22/2028	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.

22. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

The fair value of options granted was estimated on the date of grant using the following assumptions:

Xiao Shu

Share price	HK$1.83
Risk free rate of interest	2.245%
Dividend yield	1.492%
Life of option	9.73 years
Volatility	54.64%
Exercise multiple	3.342
Forfeiture rate	0%

Other directors

Share price	HK$2.02
Risk free rate of interest	2.032%
Dividend yield	1.352%
Life of option	10 years
Volatility	55.25%
Exercise multiple	3.342
Forfeiture rate	0%

The volatility is determined based on the average historical volatility of several comparable companies' stocks and reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. The exercise multiple and forfeiture rate are estimated based on studies of historical data and current expectations and are not necessarily indicative of exercise patterns that may occur.

The share option expense recognised for employee services received during the period is RMB1,780,000.

There were no cancellations of or modifications to the awards during the six months ended 30 June 2018.

22. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

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

	Outstanding at 1 January 2018	Granted during the period	Forfeited during the period	Exercised during the period	Expired during the period	Outstanding at 30 June 2018
Directors						
Mr. Xiao Shu	—	52,000,000	—	—	—	52,000,000
Mr. Tan Jibin	—	3,000,000	—	—	—	3,000,000
Mr. Zhou Guanxuan	—	3,000,000	—	—	—	3,000,000
Mr. Li Honggao	—	4,000,000	—	—	—	4,000,000
Mr. Wang Yonghui	—	3,000,000	—	—	—	3,000,000
	—	65,000,000	—	—	—	65,000,000
Exercisable at the end of the period	—	—	—	—	—	—

The weighted average remaining contractual life of the share options outstanding as at 30 June 2018 was 10 years. The weighted average fair value of the options granted under the Share Option Scheme was HK$0.88 (RMB0.74) for Xiao Shu and HK$1.05 (RMB0.84) for other directors.

Restricted Share Unit Scheme

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

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

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

15,734,124 restricted share (31 December 2017: 13,776,916 restricted share) was granted under the restricted share unit scheme during the six months ended 30 June 2018. The expense recognised for employee services received during the period is RMB7,619,000.

22. SHARE-BASED PAYMENTS (Continued)

Restricted Share Unit Scheme (Continued)

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

	Outstanding at 1 January 2018	Granted during the period	Forfeited during the period	Exercised during the period	Expired during the period	Outstanding at 30 June 2018
Directors						
Mr. Tan Jibin	777,015	487,590	—	—	—	1,264,605
Mr. Li Honggao	1,039,364	365,692	—	—	—	1,405,056
Mr. Wang Yonghui	651,153	121,897	—	—	—	773,050
Mr. Zhou Guanxuan	—	105,616	—	—	—	105,616
Other employees						
In aggregate	9,107,841	6,908,262	(105,126)	—	—	15,910,977
Distributors in aggregate	2,201,543	7,850,193	—	—	—	10,051,736
	13,776,916	15,839,250	(105,126)	—	—	29,511,040
Exercisable at the end of the period		—	—	—	—	222,454

23. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its water purification machines of Shanghai Haoze Water Purification Technology and Plants of Foshan Lepuda under operating lease arrangements, with leases negotiated for term of one year.

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within one year	**336,499**	295,231
In the second to fifth years, inclusive	**2,232**	—
	338,731	295,231

23. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within one year	**15,159**	9,443
In the second to fifth years, inclusive	**24,055**	10,947
	39,214	20,390

24. COMMITMENTS

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	**111,027**	158,232

25. RELATED PARTY TRANSACTIONS

(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
Shanghai Hoyo Information Technology Co., Ltd. ("Haoyou")	An associate of the Company
Shanghai Ozner Noorey Environment Technology Co., Ltd. ("Noorey")	An associate of the Company
Guangdong Hax Electrical Appliance Technology Co., Ltd. ("Hax")	An associate of the Company
Shanghai Ozoup Environment Technology Co., Ltd. ("Ozoup")	An associate of the Company

* On 17 June 2014, Fresh Water Group transferred all 1,266,000,000 shares of the Company to certain other investors.

(b) The Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Associates:			
Sales of products	(i)	**1,957**	—
Purchases of products and services	(ii)	**49,870**	—
		52,227	—

(i) The sales to the associates were made according to the published prices and conditions offered to the major customers of the Group, except that a longer credit period of up to six months is normally granted.

(ii) The purchases from the associates were made according to the published prices and conditions offered by the associates to their major customers.

(c) Compensation of key management personnel of the Group:

	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Short term employee benefits	**3,253**	3,573
Pension scheme contributions	**17**	19
Share-based payments	**2,939**	4,350
Total compensation paid to key management personnel	**6,209**	7,942

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

26. FINANCIAL INSTRUMENTS BY CATEGORY

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

	As at 30 June 2018 RMB'000
Financial assets	
Financial assets at fair value through other comprehensive income	152,491
Debt instruments at amortised cost:	
Trade and bills receivables	340,022
Financial assets included in deposits and other receivables	866,717
Short-term investments	337,930
Pledged deposits	46,414
Cash and cash equivalents	306,482
	2,050,056

	As at 30 June 2018 RMB'000
Financial liabilities	
Financial liabilities at amortised cost:	
Trade and bills payables	334,047
Financial liabilities included in other payable and accruals	243,060
Liability component of convertible bonds	346,966
Interest-bearing bank and other borrowings	899,169
Finance lease payables	644,764
	2,468,006

26. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	As at 31 December 2017 RMB'000
Financial assets	
Available-for-sale investments	152,491
Loans and receivables:	
Trade and bills receivables	354,187
Financial assets included in deposits and other receivables	651,698
Short-term investments	347,834
Pledged deposits	69,764
Cash and cash equivalents	205,995
	1,781,969

	As at 31 December 2017 RMB'000
Financial liabilities	
Financial liabilities at amortised cost:	
Trade and bills payables	397,936
Financial liabilities included in other payable and accruals	249,761
Liability component of convertible bonds	335,581
Interest-bearing bank and other borrowings	321,148
Finance lease payables	779,138
	2,083,564

27. EVENTS AFTER THE REPORTING PERIOD

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

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 August 2018.