OZNER 浩泽

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2014)

ANNUAL REPORT 2018

CONTENTS

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
Ms. Sui Wei (Appointed on 20 February 2019)
Mr. He Sean Xing (Resigned on 20 February 2019)
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

Authorized 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

CORPORATE INFORMATION (CONTINUED)

Investor and Media Relations Consultant

DLK Advisory Limited

Registered Office

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

Principal Place of Business in Hong Kong

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

Headquarters and Principal Place of Business and Head Office in China

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar

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

Stock Code

2014

Company's Website

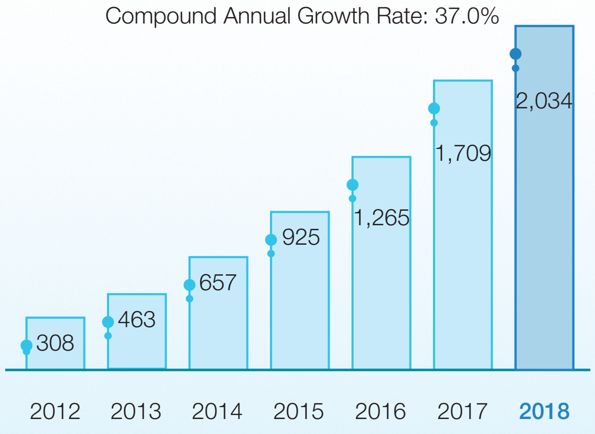
www.ozner.net

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(RMB in thousands)	Year ended 31 December 2018	2017
Total Revenue	**1,644,914**	1,549,027
Water purification services	**1,149,169**	1,169,417
Air sanitization services and others	**495,745**	379,610
Gross Profit	**760,641**	715,689
Profit for the year	**134,270**	240,880
Basic earnings per share (RMB cents)	**5.45**	11.43

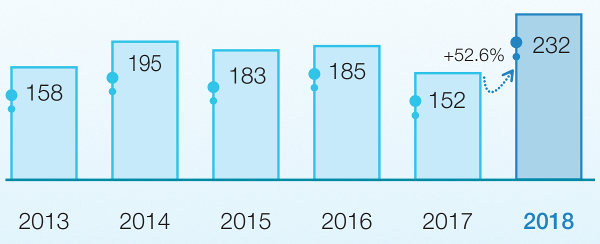
(RMB in thousands)	As at 31 December 2018	2017
Revenue-generating assets	**1,789,034**	1,595,699
Total assets	**6,574,693**	5,786,600
Total liabilities	**3,263,887**	2,705,798

Fast Enlarging Installation Base



Installation base (1,000 units)

Increase in Rental Model's Proportion



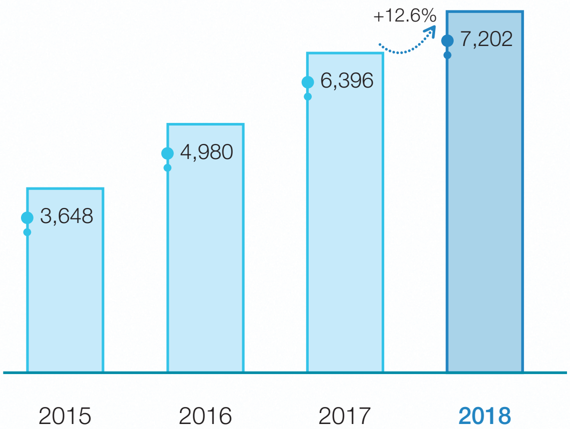
Rental Model New Installation (1,000 units)

FINANCIAL AND OPERATIONAL HIGHLIGHTS (CONTINUED)

Sustained High Renewal Rate

	2016	2017	2018
Corporate	95.1%	94.7%	**94.8%**
Household	97.4%	97.2%	**98.4%**

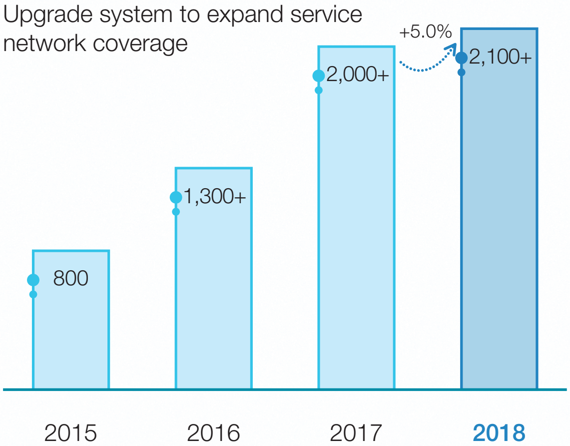
Number of Distributors



Number of distributors (unit)

Service Network Coverage

Upgrade system to expand service network coverage



Number of covered cities & counties (unit)

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

Industry Analysis

In 2018, China faced a challenging economic environment as a result of the following: monetary policy of the U.S. Federal Reserve shocked and affected the emerging markets, U.S.-China trade tension escalated, China's private economy struggled and policy for domestic economy changed greatly, all of which led to weaker investor confidence in China's economic outlook and slower growth in manufacturing and trades. With the appreciation of the U.S. dollar and the risk aversion of investors, the development of enterprises in some emerging economies has been limited and put under pressure.

Last year, both opportunities and risks were present in the water purification industry. Despite the challenging economic environment, the industry entered a stage of steady growth while competition in the water purification industry has intensified. Under the backdrop of consumption upgrades, consumers' purchasing power has increased, traditional product types have been upgraded, and popularity of new product types have accelerated. "Limited Value of Water Efficiency and Water Efficiency Grades for Reverse Osmosis Drinking Water Treatment Purifiers" as a national standard was officially implemented during the year. The standard set the water purifier rate and provided consumers with guidance in the purchase of water-saving products with high efficiency. The introduction of the new national standard for water efficiency has brought good opportunities for the development of products with high clean water efficiency and production rate. The composite filtration water purifier has grown rapidly. At this stage, water purification enterprises continue to adapt to the demand for high quality from consumers, innovate products to cater to the market and increase the value of additional services leading to sound development.

According to the water purification industry data released by Zhongyikang, as the promotion of water pollution prevention and control continues, the quality of water environment has improved steadily, but the current situation of water pollution is still bleak. Last year, among the 1,940 surface water quality monitoring sections, the proportion of Class IV and below still exceeded 30%. Among the 5,100 groundwater quality monitoring points, the proportion of the poorer and below was still more than 60%. From the results of the national residents' evaluation of tap water quality, it can be seen that people's awareness of having safe drinking water has gradually risen. 83% of the residents believe that tap water at home has to be purified before drinking, while only 7% of the residents consider that purified tap water is not needed. The data shows that residents' demand for drinking purified water has driven the rapid development of the water purification industry.

In the commercial market, data from Zhongyikang revealed that the domestic production of bottled water in 2017 was about 64.3 million tons, and in 2018, it exceeded 70 million tons. At present, 90% of drinking water sources in public places such as government facilities, schools, medical institutions, airports, coach stations etc., is bottled water or water fountains. Therefore, the number of potential commercial institutions as end users of water purifiers is increasing. According to the Water Purification Industry Report by Frost & Sullivan (a market research firm), it was estimated that, by 2022, the total size of the water purification market is expected to reach RMB233.2 billion, representing compound annual growth rate of approximately 17.7% for five years. Further, the compound annual growth rate of the commercial water purification market is expected to reach 20.1% for five years, showing that there is a huge room for development in the commercial water purification market in China.

For intelligent home on Internet of Things ("IoT"), according to the data from Institute of Forward-Looking Industries (前瞻產業研究院), market size of intelligent home in China was over RMB170 billion in 2018 and forecasted to reach RMB200 billion in 2019. Meanwhile, China actively promotes national standard of intelligent home on IoT and encourages enterprises to actively participate in the setting of international standard. Policies for the industry and the national standard have been formulated at the national level in a bid to foster the development of industry and build a nationwide information network of intelligent home, so as to improve R&D results of IoT for rendering better service to the public.

In our opinion, new rules of competition for water purifier and development landscape have been formed. Based on technical edges which are driven by innovation and the edges in market resource integration, the completely new model will lead the whole water purification industry towards intelligent home and information and technique development of IoT.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Annual Business Review

In 2018, the Group continued to enhance its safe drinking water strategy through promoting intelligent products and applying its IoT platform strategy, and focused on its core business of water purification and air sanitisation, providing around-the-clock solutions for drinking water in various occasions that cover all kinds of users. No matter day or night, living room or office, school or airport or even hospital, the Group considers having safe drinking water as the beginning to building intelligent homes on IoT ecosystem. The Group strives to become a leading industrial platform for healthy living solutions in China.

During the year under review, the Group successfully implemented its strategy in several dimensions: strengthened commercial leasing model and business segments to acquire users and recurring income; improved innovation model of IoT to strengthen upgrading of products in IoT; adhered to its commitment to innovation and R&D of technology, developed the platform of "production, learning and research" to improve techniques quality and diversified layout of products; expanded after-sales service system team to improve service quality and operating level and attracted platform engineers to join; further extended distribution network and lowered selling expense and operating cost; actively engaged in strategic cooperation with the government to establish an industry fund with a total value of approximately RMB3 billion, with an aim to become influential Ozner environmental protection intelligent industry cluster in Central and Western China and contribute to the "Belt and Road" Initiative.

The Group recorded steady growth in both revenue and gross profit for the year ended 31 December 2018 ("2018" or "Year") as compared to the previous year. For the year ended 31 December 2018, revenue grew by approximately 6.2% from approximately RMB1,549.0 million for the year ended 31 December 2017 to approximately RMB1,644.9 million for the year ended 31 December 2018. The Group's gross profit increased by approximately 6.3% from approximately RMB715.7 million for the year ended 31 December 2017 to RMB760.6 million for the year ended 31 December 2018, while the Group's net profit decreased by approximately 44.3% from approximately RMB240.9 million for the year ended 31 December 2017 to approximately RMB134.3 million for the year ended 31 December 2018. The decrease in net profit was mainly attributable to the fair value gains on disposal of a subsidiary in 2017.

Implemented sustainable strategy of Ozner to strengthen commercial water purification machine business, resulting in 65.5% year-on-year increase in installation of commercial water purification machines for leasing

During the Year, the Group focused on further strengthening water purification machines for commercial leasing business, which aimed to attract loyal commercial customers and users with higher renewal rates to bring recurring consumption. The Group has experienced an increase in the accumulated number of water purification machines installed from approximately 1,709,000 units as at 31 December 2017 to approximately 2,034,000 units as at 31 December 2018 and a total of approximately 373,000 units of new water purification machines. Among them, the number of new water purification machines for commercial leasing was 192,000 units with a year-on-year increase of 65.5% and accounted for approximately RMB620.7 million of revenue for this business segment, representing an increase of 21.8% year-on-year, while new household water purification machines have 55,000 units and accounted for approximately RMB161.8 million of revenue for this business segment, representing an increase of 2.8% year-on-year. The changes in revenue for the business segments proved that the Group has shifted the strategy focus to further reduction of sales expenses incurred from expanding the household water purification machine market and obtaining more commercial customers for leasing and users with stable renewal rates. Such focus reveals that, as the Group continues to expand its market shares through expanding innovative and sharing business model, it has formed its strategic business layout to enhance the sustainable development of the Group for the future.

Fully applied innovate model of IoT big data to promote further upgrade of IoT technology used in products

During the Year, the innovative model of IoT big data has further facilitated the upgrade of the IoT technology used in the Group's products: the instant data connection and uploading for products is now possible; under human management, products can achieve automatic binding to mobile devices, so as to bring convenience to users such that their drinking water data is readily available; users are automatically reminded of filter replacing for the water purification machines through cell phones and mobile devices; with intelligent after-sales services, users can be immediately informed of the products' status, and with the function of "one-click repair", their data can be sent to the after-sales engineers platform of Ozner via IoT such that the engineers from the maintenance department can directly serve the users.

During the Year, the Group has 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. As part of its application of the IoT platform to products, the Group has released a number of self-developed intelligent products, including intelligent IoT countertop household water purifier, which represents a major breakthrough in the water heating function; intelligent thermos kettle, which can be connected to the mobile phone within a second and offers functions such as reminders and temperature and duration setting for heating preservation; the intelligent commercial dishwasher with lid, which serves as Ozner's first commercial dishwasher; intelligent waterproof faucet and intelligent water chip.

In addition, the Group has incorporated the IoT technology into various areas, such as product R&D, warehousing and logistics, channel building and production operation. With a comprehensive deployment for IoT technology, the Group has made an analysis on asset management and remote wireless management, remote automatic charging and repair service, big data technology for user portraits and drinking water habits and regional water quality. The Group also further developed drinking water products and services that better cater to the needs of users. Such analysis and environment were meant to increase the efficiency of the Company as a whole.

Committed to working on technological R&D and innovation capabilities, highlighted benefits of "production, learning and research", and enhanced the product techniques, quality and diversification of product portfolio

During the Year, the Group has been continuously improving its R&D and innovation capabilities and never ceased in its exploration in the technology and R&D of safe drinking water. As at 31 December 2018, the Group has obtained a total of 421 patents. The research laboratory of the Group has obtained the accreditation of qualification from the CNAS national independent laboratory. The further strengthened capabilities on R&D have accelerated the introduction of the Group's new products and technologies applied to the market, laying down a solid foundation for enhancing the Group's product techniques, quality and diversification layout.

In 2018, the "Zhejiang University — Ozner Life and Health Joint Laboratory" founded by the Group announced the initial research result of project "Safety and Health of Ozner direct drinking water with a biological study". Bringing forth the first biological report of safe direct drinking water published in the industry, the research result was about the characteristics of water quality of Ozner direct drinking water, comprehensive assessment of genotoxicity of organic compounds in the water and synthetic biological effects. It indicated that the Ozner direct drinking water, which applied the Ozner's APO+ safe water purification technology, contains minerals and trace elements which are good for human health and free of toxic elements and pollutants such as arsenic and lead. This achievement indicates that Ozner has accumulated further advantages from its core technology innovation, R&D and "production, learning and research" platform.

During the Year, the Group won the yearly awards of "National Influential Brand of Water Purification Industry (全國淨水行業影響力品牌)" and "National Outstanding Contribution Enterprise of Water Purification Industry (全國淨水行業突出貢獻企業)" presented by China Quality Inspection Agency Water Purification Equipment Professional Committee (中國質量檢驗協會淨水設備專業委員會). In addition, the Group was also presented with the "Most Innovative Listed Company Award (最佳創新上市公司)" at the Chinese Listed Company International Development Forum (中國上市公司國際發展論壇), "Corporate Excellence Award On The 40th Anniversary Of China's Commerce Reform and Opening Up (中國商業改革開放四十週年卓越企業)" at the commemoration meeting of the 40th anniversary of China's Commerce Reform and Opening Up, "Commercial Water Purification Leader Brand (商用淨水領軍品牌)" and "Outstanding Influential Brand (卓越影響力品牌)" at the 2018 Chinese water purification industry Brands Gala (二零一八中國淨水行業品牌盛會). The Group also received "AAA Grade in the Enterprise Credit Evaluation (企業信用評價AAA級信用企業)" from China Quality Inspection Association (中國質量檢驗協會). These awards and accolades demonstrate that the Group's leading brand in the industry, intelligent products and social influence are well recognized by all parties.

Expanded our service system, improved service quality and operation standard of the platform, developed full categories of home appliances' cleaning and purification service, and introduced platform engineers to join

During the Year, to catch up with the industry trend, Ozner service system centered on the strategy of water purification product for home appliances, further expanding self-service system team by combining online and offline services and improving the service quality and operation standard on the platform to provide users with standardized door-to-door installation and maintenance services. 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. As at 31 December 2018, the Group's service network covered over 2,185 cities and counties with a number of 112 after-sales service staff and a total of 2,890 service system engineers. The after-sales service network has now extended to remote areas such as Tibet, Mohe and Kashi, achieving full coverage in mainland China.

Focusing on the development of air conditioning cleaning and ventilator cleaning as well as partnering with developing cleaning service of refrigerator, water heater and microwave oven, the Group has continued to grow its home appliances' cleaning and purification service offerings, expanding from water purification services to products of full categories of home appliances' cleaning and purification service. The Group devoted efforts in the business operation of twenty-four core cities in China, providing cleaning services for over twenty well-known domestic and international brands such as Bosch (博世), Honeywell, Apureli, Aiken (艾肯) and Menred. Furthermore, through strict internal training and service competition, the professional skill of after-sales engineer is enhanced and the enthusiasm for training is increased. Continuously introducing platform engineers to join has also enhanced the service quality of service system teams and extended the coverage of the service system across the country.

Continued to establish network platforms and increased the number of distributors to lower the Group's selling expenses and operation cost

During the Year, the Group continued to adopt its win-win collaborative management and maintenance model with its distributors, continuously established network platforms, set up full-crew marketing system, increased and strengthened the business operators and their efforts, accentuated assessment for merchant sales team, supported and enhanced operators and distributors' capability on developing new clients in all aspects. As at 31 December 2018, the Group added 806 new distributors, which brought the total number of distributors to over 7,202.

While the distributor network and the management of distributor has helped the Group's products capture the end markets faster, zero inventory and the operational model of self-management system have reduced the service and after-sale management carried out by distributors, enabling them to focus on opening up channels and developing the market for stable subsequent income rapidly. This has further boosted the loyalty of distributors towards the Group. On the other hand, the Group has its supportive policy for distributors and promotion of partnership program. The incentive and sharing system from partnership program has fully incentivized the distributors so as to lower the Group's selling expenses and operation cost.

Actively entered into strategic cooperation framework agreement with the government and established an industry fund with a total value of RMB3 billion

On 28 September 2018, the Group entered into the strategic cooperation framework agreement with Xianyang People's Government in relation to the implementation of the strategic business development plan of the Group in Xianyang, Shaanxi Province, China. Pursuant to the strategic cooperation framework agreement, the Group proposed to (i) establish facilities in Qindu District, Xianyang with functions covering operational management, scientific research, manufacturing, experiment laboratory and testing, logistics, IoT-based services and other ancillary facilities, and (ii) further increase its investment in Qian County, Xianyang through local expansion of its water purification business. At the same time, the Xianyang People's Government proposed to actively support the Group in following aspects including (i) the listing of the development plan as a "key project" (重點項目) of its socio-economic and industrial development and municipal level plan; (ii) the provision of considerable support to facilitate the implementation of the development plan, providing support in relation to land supply and land prices, jointly setting up an industrial investment fund; and (iii) provide assistance in any issues arising from such implementation of the development plan.

Built an Ozner environmental protection and intelligence industrial clusters

The Group proactively responded to "the Belt and Road" Initiative and implement investment plan of "One district, One region, One base" during the Year, convincing enterprises that are on the eco-chain to develop in Xianyang, Shaanxi Province, China, establishing an industry fund with a total value of RMB3 billion, building an environmental protection and intelligence industrial clusters that integrate Ozner's eco-chain, industrial supporting production, high-end intelligent manufacture and R&D and online training education. Ozner Group will invest deeply in resources such as technology, capital, talents, channels and supply chains. By establishing the industry fund, further investment will be made in R&D and the manufacture of the Company's water purification machines, air sanitisation machines, dishwashers, core supply products, dishwasher in relation to water treatment systems and other intelligent products in relation to water. The establishment of the fund and the intelligence industrial clusters carried material strategic meanings for Ozner to become the leader in the water purification industry.

Ecological enterprises steadily developed, creating strategic synergy effects

In 2018, Guangdong Bili and Foshan Lepuda recorded revenues of RMB234,562,000 and RMB418,118,000, respectively, representing year-on-year growths of 40.8% and 18.5%, respectively. Led by a stable and efficient management team and with comprehensive and in-depth engagement in the segment of public drinking water engineering, Guangdong Bili won bids for major engineering projects in Shandong, Xinjiang, Henan, Zhejiang and Fujian successively, and has 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 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 addition, Guangdong Bili also adopted the Ozner commercial mode and launched intelligent 4.0 drinking equipment, which led the public drinking-water industry moving into the 4.0 era.

Foshan Lepuda project established its business department for intelligent robots and servo motors with newly upgraded products, which is in line with the market environment for the intelligent home appliance. During the Year, Foshan Lepuda also received the "2018 Best Supplier for Samsung Group" award. Foshan Lepuda entered into a cooperation agreement with the government of Hanshan County in relation to the investment in construction of a motor factory. In October, Foshan Lepuda entered into a strategic cooperation agreement with Korea Haijian Electric Motor (韓國海堅電機) to establish a joint venture company. Foshan Lepuda leverages on intelligent product line constantly innovated by Ozner in the water purification industry and advantageous status in building the intelligent water ecosystem, while Foshan Lepuda itself possesses world-leading technological advantages in micro motors. Therefore, both parties are able to form a deep strategic cooperation in the industry chain of environmentally friendly home appliance, supply chain and channel resource integration.

Paid attention to water purification for public welfare and performed corporate social responsibility

In terms of corporate social responsibility, the Group set up "Ozner Industrial Factory to help people cast off poverty to get rich" in Taiping Village, the enriching village within the scope of accurate support in Qianxian County, Shaanxi in 2018. The Group would help Taiping village achieve 100% completion rate of poverty alleviation by stages in 2018, and the highest income of an underprivileged villager could reach 546 percent of the receivable income during the same period. It is expected that, by 2020, Taiping village's goal of poverty alleviation will be fully attained as scheduled. The public welfare project "For the youth, healthy water project on campus", which is supported by Ozner, was initiated in Sichuan. Hence, nearly 2 million students in 21 cities across the province could drink the safe direct drinking water from Ozner. Furthermore, the Group also partnered with HOME LINK Group at Xuling town, Anhui province and provided more than 300 teachers and students in the HOME LINK Hope Primary School with healthy and safe direct drinking water.

Future strategies of the Group

Looking ahead to 2019, the Group will further solidify its core business 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. The Group will continue its R&D on big data and IoT, with a target to web-enabling over 80% of products, further deepen strategic cooperation with the government, build an Ozner environmental protection and intelligence industrial park, complete the establishment of the industry fund with a value of RMB3 billion in Xianyang, Shaanxi, implement the business model of iFamily APP, create and promote new retail sales model of Ozner's eco-products, increase the number of registered engineer on the platform of HoYo Services Home, expand the coverage of national service system, put efforts in developing dishwasher business to raise the Group's overall revenue and profitability and create more value for shareholders of the Company.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Review

Revenue

Our total revenue increased by 6.2% from RMB1,549.0 million for the year ended 31 December 2017 to RMB1,644.9 million for the year ended 31 December 2018, primarily attributable to the healthy development of various business segments of the Group.

For the years ended 31 December 2018 and 2017, the revenue from water purification services amounted to RMB1,149.2 million and RMB1,169.4 million, respectively, which were roughly at the same level. In particular, rental income grew by 17.3% from RMB666.9 million for the year ended 31 December 2017 to RMB782.5 million for the year ended 31 December 2018, primarily attributable to the Group's strategy adjustment on 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 57.0% for the year ended 31 December 2017 to 68.1% for the year ended 31 December 2018. For the years ended 31 December 2018 and 2017, the Group leased and sold a total of approximately 373,000 and 444,000 units of water purification machines, respectively, of which the number of newly leased machines increased from approximately 152,000 units for the year ended 31 December 2017 to approximately 232,000 units for the year ended 31 December 2018, with the accumulated total of water purification machines installed up from approximately 1,709,000 units as at 31 December 2017 to approximately 2,034,000 units as at 31 December 2018.

Revenue generated from air sanitisation services decreased by 97.2% from RMB133.7 million for the year ended 31 December 2017 to RMB3.8 million for the year ended 31 December 2018, primarily due to the fact that the Group has emphasized more on the business of the water purification services and has made strategic arrangement of transferring air sanitization services to an associate.

Revenue generated from supply chain services increased by 94.2% from RMB214.4 million for the year ended 31 December 2017 to RMB416.3 million for the year ended 31 December 2018, which was mainly due to the stably increase in revenue from the sales of micro motor products by Foshan Lepuda. We have started to consolidate such business from the second half year of 2017.

Gross Profit Margin

The Group's gross profit margin was 46.2% for the year ended 31 December 2018, the same as that for the year ended 31 December 2017. This was due to the combined effect of slight increase in gross profit margin of water purification services and revenue increase of supply chain services with relatively low average gross profit margin.

Our gross profit margin of water purification business was 50.8% and 54.2% for the years ended 31 December 2017 and 2018, respectively. Such increase in gross profit margin was due to the increase in proportion of revenue contributed from leasing water purification machines, which has a higher gross profit margin than that of direct sales of water purification machines. The revenue contributed by leasing of water purification machines in total revenue of water purification business increased from 57.0% for the year ended 31 December 2017 to 68.1% for the year ended 31 December 2018.

Our gross profit margin of supply chain services was 20.5% and 15.8% for the years ended 31 December 2017 and 2018, respectively. Such decrease was mainly attributable to price adjustment in order to win new business in the competitive market.

Other Income and Gains

Other income and gains amounted to RMB198.3 million and RMB75.3 million for the years ended 31 December 2017 and 2018, respectively. Such decrease was mainly attributable to the fact that we have a gain on disposal partial shareholding in a subsidiary of RMB138.9 million for the year ended 31 December 2017.

Selling and Distribution Expenses

For the years ended 31 December 2017 and 2018, our selling and distribution expenses were RMB267.9 million and RMB171.0 million, respectively, accounting for 17.3% and 10.4% of the revenue for the same periods. Our selling and distribution expenses decreased by 36.2% or RMB96.9 million from the year ended 31 December 2017 to the year ended 31 December 2018. Such decrease was primarily due to the decrease of RMB119.2 million in salary, welfare and travel expenses, which in turn was mainly because the Group strategically adjusted its structure of sales staff.

Administrative Expenses

For the years ended 31 December 2017 and 2018, our administrative expenses were RMB166.2 million and RMB211.7 million, respectively, accounting for 10.7% and 12.9% of the revenue for the same periods. Our administrative expenses increased by 27.4% or RMB45.6 million from the years ended 31 December 2017 to the year ended 31 December 2018. Such increase was mainly due to (i) the effect of releasing restricted share units and options; (ii) the increase in expenditure on improvement of organizational structure and management processes; and (iii) the increase in depreciation and amortization arising from merger and acquisition.

Finance Costs

Finance costs mainly represented the finance expenses in relation to bonds, the loans from sales and leaseback arrangements, the loans for mergers and acquisitions and other financings. Finance costs grew by 58.8% or RMB62.9 million from RMB107.1 million for the year ended 31 December 2017 to RMB170.0 million for the year ended 31 December 2018. Such growth primarily came from the increase in financing from sales and leaseback arrangements, the loans for mergers and acquisitions and other financings.

Income Tax Expense

Pursuant to relevant laws, rules and regulations in 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 2018 to 2020; (ii) 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 2017 to 2019; (iii) Foshan Lepuda, qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from 2016 to 2018; (iv) Guangdong Bili, qualified as a High and New Technology Enterprise, is entitled to the preferential tax rate of 15% for three years from 2018 to 2020; 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 RMB45.2 million and RMB61.7 million for the years ended 31 December 2017 and 2018, respectively. The effective tax rate (calculated by dividing income tax expense by profit before tax) was 15.8% and 31.5% for the years ended 31 December 2017 and 2018, respectively. The increase in the effective tax rate was mainly attributable to (i) the disposal gain of a subsidiary for the year ended 31 December 2017 was not subject to tax; (ii) a higher proportion of profits generated from the entities without preferential tax treatments.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Profit for the Year and Net Profit Margin

Profit for the Year decreased by 44.3% from RMB240.9 million for the year ended 31 December 2017 to RMB134.3 million for the year ended 31 December 2018, which was mainly affected by the gain on disposal partial shareholding of a subsidiary in 2017. Net profit margin decreased from 15.6% for the year ended 31 December 2017 to 8.2% for the year ended 31 December 2018. The factors contributed to the decrease as mentioned above. If excluding the adjusted items listed below, net profit margin were 12.8% and 12.3% for the years ended 31 December 2018 and 2017.

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

	2018 RMB'000	2017 RMB'000
Profit for the year	134,270	240,880
Adjusted items:		
— Share-based payments	40,315	12,801
— Fair value gains on derivative component of convertible bonds	(1,524)	—
— Fair value gains on derivative financial instruments	(15,473)	—
— Fair value gains on disposal of a subsidiary	—	(88,560)
— Amortised costs of liability component of convertible bonds[1]	22,786	16,778
— Amortization of intangible assets resulting from business acquisitions	19,215	—
— Exchange difference in relation to capital in nature	10,805	8,033
Non-IFRS adjusted profit for the year	210,394	189,932

Note:

(1) The amortised cost of liability component of convertible bonds is the amount at which the convertible bond was measured at initial recognition plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

Liquidity and Financial Resources

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

Cash Positions

As at 31 December 2018, the Group's bank balances and cash together with short-term investments (bank time deposit) was RMB398.3 million (31 December 2017: RMB553.8 million), representing a decrease of 28.1% as compared to that as at 31 December 2017. For the surplus cash, we intend to deposit the cash into short-term demand deposits/or money market instruments. As at 31 December 2018, all cash equivalents were denominated mainly in RMB and Hong Kong dollars.

Trade and Bills Receivables

Trade and bills receivables increased from RMB354.2 million as at 31 December 2017 to RMB462.0 million as at 31 December 2018. The increase was mainly due to (i) the increase in the sales of motor products, which provide a relative long credit period; (ii) the Group is committed to enhance long-term business cooperation with quality distributors, which enjoys a certain credit period. Our average trade receivable turnover days were 38 days and 89 days for the years ended 31 December 2017 and 2018, respectively.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Inventories

Inventories increased from RMB308.8 million as at 31 December 2017 to RMB345.6 million as at 31 December 2018. The increase was primarily due to the increase in inventory of raw materials and work-in-progress to fulfill the demands from customers. Our average inventories turnover days were 85 days and 130 days for years ended 31 December 2017 and 2018, respectively.

Current Ratio and Gearing Ratio

The current ratio was remained stable at 1.01 and 1.05 as at 31 December 2017 and 2018, respectively. Our gearing ratio, which was derived by dividing total debt by total equity, was 46.6% and 59.4% as at 31 December 2017 and 2018, respectively. Such change was due to the increase of financing.

Capital Expenditure

For the year ended 31 December 2018, the Group's capital expenditure amounted to approximately RMB534.5 million, which was mainly used for purchasing property, plant and equipment and other intangible assets as well as producing water purification machines. During the Year, the Group added new water purification machines amounting to RMB434.4 million, the third phase of Shaanxi manufacturing facility amounting to approximately RMB60.0 million.

Borrowings and Charges on the Group's Assets

As at 31 December 2018, the Group's interest-bearing bank and other borrowings, finance lease payables and the liability component of convertible bonds amounted to approximately RMB1,008.4 million (31 December 2017: RMB321.1 million), approximately RMB450.1 million (31 December 2017: RMB779.1 million) and approximately RMB507.7 million (31 December 2017: RMB335.6 million), respectively. The 2015 Convertible Bonds and 2018 Convertible Bonds will mature on 6 November 2020 and on 2 November 2021, respectively, the interest rate is 5.0% per annum and 6.8% per annum, respectively. The interest-bearing bank and other borrowings will be repayable within two years and the fixed interest rates are ranged from 5.13% to 10% per annum. Amongst finance lease payables, approximately RMB280.6 million (31 December 2017: RMB334.5 million) will be repayable within one year, and approximately RMB169.5 million (31 December 2017: RMB444.6 million) will be repayable between one to three years and the fixed interest rate is 4.91%–7.0% per annum.

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

During the Year, the Group entered into several finance lease agreements (the "Finance Lease Agreements") for the sale and leaseback of 49,524 units water purifiers of the Group to obtain borrowings. As at 31 December 2018, the carrying amount of 667,509 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 RMB757.9 million.

Save as disclosed above, the Group did not have any charges on the assets as at 31 December 2018 (as at 31 December 2017: Nil).

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Commitments

As at 31 December 2018, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to RMB24.2 million (as at 31 December 2017: RMB20.4 million).

As at 31 December 2018, the Group had capital expenditure of RMB363.8 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 31 December 2018, the Group had unpaid annual lease payments of RMB405.6 million which were not yet recognized as rental revenue (as at 31 December 2017: RMB295.2 million).

As at 31 December 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 risk of 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.

Completion of Placing of New Shares under General Mandate

Reference is made to the Company's announcements dated 16 May 2018 and 31 May 2018.

On 31 May 2018, the Group has completed the placing of new shares under general mandate. The placing has been effective in accordance with the terms and conditions of the Share Placing Agreement. An aggregate of 90,000,000 Shares have been successfully placed by the Placing Agents to not less than six Placees in total at the Placing Price of HK$2.00 per Placing Share. The 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. The net proceeds will be used for the general working capital of the Group. The completion time of using the net proceeds will be determined based on the future business development of the Group. The 90,000,000 Placing Shares represent (i) approximately 4.40% of the issued share capital of the Company of 2,045,981,950 Shares immediately before completion of the Placing; and (ii) approximately 4.21% of the issued share capital of the Company of 2,135,981,950 Shares as enlarged by the issue of the 90,000,000 Placing Shares.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Shareholders	Immediately before completion of the Placing		Immediately after completion of the Placing	
	Number of Shares	% of shareholding (approximately)[4]	Number of Shares	% of shareholding (approximately)[4]
Non-public Shareholders				
Mr. XIAO Shu[1]	4,198,000	0.21	4,198,000	0.20
Baida Holdings Limited[1]	341,820,000	16.71	341,820,000	16.00
Lion Rise Holdings Limited[1]	62,182,200	3.04	62,182,200	2.91
Glorious Shine Holdings Limited[1]	382,831,950	18.71	382,831,950	17.92
SAIF Partners IV L.P.	334,857,000	16.37	334,857,000	15.68
Ms. WANG Jingjun[2]	859,000	0.04	859,000	0.04
Sub-total	1,126,748,150	55.07	1,126,748,150	52.75
Public Shareholders				
China Innovative Capital Management Co., Ltd[3]	189,686,200	9.27	189,686,200[3]	8.88
Ares FW Holdings, L.P.	187,166,800	9.15	187,166,800	8.76
The Goldman Sachs Group, Inc.	151,604,800	7.41	151,604,800	7.10
Placees	—	—	90,000,000	4.21
Other public Shareholders	390,776,000	19.10	390,776,000	18.29
Sub-total	919,233,800	44.93	1,009,233,800	47.25
Total	2,045,981,950	100	2,135,981,950	100

(1) 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.

(2) Ms. Wang Jingjun is the spouse of Mr. Wang Duo, a non-executive Director of the Company.

(3) These 189,686,200 Shares represent 4,954,000 Shares held by Chongqing Innovative Investment Co., Ltd and 184,732,200 Shares held by Hong Kong China Innovative Capital Management Co., Ltd. Chongqing Innovative Investment Co., Ltd and Hong Kong China Innovative Capital Management Co., Ltd. are wholly-owned subsidiaries of China Innovative Capital Management Co., Ltd. In addition, Chongqing Innovative Investment Co., Ltd is the general partner of Chongqing Zhongxinrongbang Investment Centre (Limited Partnership). Chongqing Zhongxinrongbang Investment Centre (Limited Partnership) is interested in the bonds which can be converted to a maximum number of 243,455,497 Shares to be issued by the Company.

(4) The percentage figures have been subject to rounding adjustments. Accordingly, figures shown in totals may not be an arithmetic aggregation of the figures preceding them.

Completion of Placing of the 2018 Convertible Bonds under General Mandate

Reference is made to the Company's announcements dated 30 October 2018 and 2 November 2018.

On 2 November 2018, the Group has completed the placing of the 2018 Convertible Bonds under general mandate. The 2018 Convertible Bonds in the principal amount of HK$215,000,000 on the terms and subject to the conditions set out in the Placing Agreement were issued to the Placees at the conversion price of HK$2.03. The 2018 Convertible Bonds were convertible into 105,911,330 New Shares in total, representing approximately 4.96% of the existing issued ordinary share capital of the Company and approximately 4.72% of the ordinary share capital of the Company, as enlarged by full conversion of the 2018 Convertible Bonds. The net proceeds from the issue of the 2018 Convertible Bonds amounted to approximately HK$210,000,000. The Company has used the net proceeds for business development and repayment of domestic debts of the Company. The net price for each New Share is estimated to be approximately HK$1.98.

	Immediately before completion of the Placing		Immediately after the completion of the Placing	
Shareholders	**Number of Shares**	**% of shareholding (approximately)**	**Number of Shares**	**% of shareholding (approximately)**
Non-public Shareholders				
Mr. XIAO Shu[(1)]	4,198,000	0.20	4,198,000	0.19
Baida Holdings Limited[(1)]	341,820,000	16.00	341,820,000	15.25
Lion Rise Holdings Limited[(1)]	62,182,200	2.91	62,182,200	2.77
Glorious Shine Holdings Limited[(1)]	382,831,950	17.92	382,831,950	17.08
SAIF Partners IV L.P.	334,857,000	15.68	334,857,000	14.94
Ms. WANG Jingjun[(2)]	859,000	0.04	859,000	0.04
Sub-total	1,126,748,150	52.75	1,126,748,150	50.27
Public Shareholders				
China Innovative Capital Management Co., Ltd[(3)]	193,810,200	9.07	193,810,200	8.64
Ares FW Holdings, L.P.	187,166,800	8.76	187,166,800	8.35
The Goldman Sachs Group, Inc.	151,604,800	7.10	151,604,800	6.76
Placees	—	—	105,911,330	4.72
Other public Shareholders	476,652,000	22.32	476,652,000	21.26
Sub-total	1,009,233,800	47.25	1,115,145,130	49.73
Total	2,135,981,950	100	2,241,893,280	100

(1) 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.

(2) Ms. Wang Jingjun is the spouse of Mr. Wang Duo, a non-executive Director of the Company.

(3) These 193,810,200 Shares represent 4,954,000 Shares held by Chongqing Innovative Investment Co., Ltd and 188,856,200 Shares held by Hong Kong China Innovative Capital Management Co., Ltd. Chongqing Innovative Investment Co., Ltd and Hong Kong China Innovative Capital Management Co., Ltd. are wholly-owned subsidiaries of China Innovative Capital Management Co., Ltd. In addition, Chongqing Innovative Investment Co., Ltd is the general partner of Chongqing Zhongxinrongbang Investment Centre (Limited Partnership). Chongqing Zhongxinrongbang Investment Centre (Limited Partnership) is interested in the bonds which can be converted to a maximum number of 247,329,788 Shares to be issued by the Company.

(4) The percentage figures have been subject to rounding adjustments. Accordingly, figures shown in totals may not be an arithmetic aggregation of the figures preceding them.

Employees and Remuneration Policy

As at 31 December 2017 and 31 December 2018, the Group had 4,241 and 3,078 employees (including 1,121 employees from after-sale services team), respectively. Total staff costs (including Directors' emoluments and share option and restricted share unit scheme expenses) for the year ended 31 December 2018 were RMB145.0 million, as compared to RMB198.1 million for the year ended 31 December 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.

On 23 March 2018, the Group granted 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 the following five Directors, among which, the grant of share options to Mr. Xiao Shu was approved at the extraordinary general meeting of the Company held on 29 June 2018, the details of which are as follows:

Name	Position held in the Group	Number of share options
Mr. XIAO Shu	Chairman, Chief Executive Officer and executive Director	52,000,000
Mr. ZHOU Guanxuan	Vice Chairman and executive Director	3,000,000
Mr. TAN Jibin	Executive Director and company secretary	3,000,000
Mr. LI Honggao	Executive Director	4,000,000
Mr. WANG Yonghui	Executive Director	3,000,000

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.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The details of RSUs granted to the directors of the Company or its subsidiaries are as follows:

Name	Position held in the Group	Number of RSUs granted
Mr. ZHOU Guanxuan	Vice Chairman and executive Director	105,616
Mr. TAN Jibin	Executive Director and company secretary	487,590
Mr. LI Honggao	Executive Director	365,692
Mr. WANG Yonghui	Executive Director	121,897

As at 31 December 2018, RSUs representing a total of 29,511,040 Shares have been granted, of which (i) RSUs representing 5,580,281 Shares have been vested; and (ii) RSUs representing 23,930,759 Shares are outstanding and held by the RSU Trustee. 35,228,719 Shares are held by the RSU Trustee for future grant of RSUs.

For the year ended 31 December 2018, the total expense of the Schemes was RMB40.3 million (for the year ended 31 December 2017: RMB13.2 million).

Material Acquisitions

During the year ended 31 December 2018, the Group did not conduct any material acquisitions or disposals.

Final Dividend

The Board recommends the payment of a final dividend of RMB1.09 cents (equivalent to approximately HK$1.28 cents) per share for the year ended 31 December 2018 (2017: RMB2.25 cents) to the shareholders of the Company. The final dividend, if approved, will be payable on or around 30 July 2019 and is subject to the approval of the shareholders at the annual general meeting to be held on 28 June 2019.

Appreciation

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, and they are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from its shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to meet its business objectives for 2019 and realise higher values for its shareholders and other stakeholders.

XIAO Shu
Chairman and Chief Executive Officer

Hong Kong
27 March 2019

CORPORATE SOCIAL RESPONSIBILITY

In 2018, Ozner Water continued to adhere to its user-centered strategy for sustainable income and expand the market and water purification business with greater efforts. Meanwhile, the Group is dedicated to its commitment of corporate social responsibility. From charitable educational aid to targeted poverty alleviation, protection of Yangtze River to the promotion of industry development, and green production to care for employees, Ozner insisted on following the principle of "lucid waters and lush mountains are invaluable assets" step-by-step, and brought its corporate advantages into full play for taking corporate social responsibility seriously.

Charity assistance

Establishment of "Ozner Poverty Alleviation Aiding Factory" (浩澤產業脱貧致富幫扶工廠) to cope with issues of employment and low income of hometown villagers

During the year, the Company funded the lease of food supply station in Taiping Village, Qian County and invested over RMB2 million for renovation and purchase of facilities for the establishment of production factory. The total site area of the factory is more than 7,300 square metres. After renovation and refurbishment, the first phase of the factory included two production workshops and one storage warehouse. The workshops of the first phase of the factory serve for checking and repairing injection molding parts and handling manual operation of clothing, where some of the production processing procedures are assigned to the aiding factory. Poor households and villagers with other employment needs in the village are hired to work in the aiding factory. Workers are paid at piece rate wage to avoid affecting their daily agricultural operation. The Company is responsible for the raw materials required for processing, transportation of finished goods, skills training and necessary labour insurance measures. The Company has assigned staff to provide targeted assistant in the industry, including daily management and work inspection. The factory has commenced operation on 8 August 2018. Currently, the monthly wage for the poor households is approximately RMB40,000 in aggregate. Based on the amount of finished pieces, the wage for each worker is between RMB1,000 and RMB2,300.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

Go along the streams in Qinghai-Tibet to protect the source of Yangtze River

During the year, Ozner cooperated with "Green River", a charity organization, to officially commence the charity event named "Go along the streams in Qinghai-Tibet to protect the source of Yangtze River" (行走青藏線，保護長江源). The volunteers of Ozner took part in the journey of the Yangtze River source projection and carried out various charitable activities, including ensuring water safety, investigation on waste, protection of wildlife animals and promotion of knowledge of drinking water.

Due to the high altitude and strong UV light in the plateau area, there is usually a large amount of alkaline solid compounds in the water, resulting in hard water. Intake of hard water for a long period of time could lead to gastroenterological disorders, cardiovascular diseases, neuropathy and urological diseases. Besides, nutrients in food are lost during the cooking process as it is not easy to be cooked thoroughly. One of the key missions of the volunteer team is to ensure water safety of the visitors and the volunteers of Green River in the plateau area at an altitude of 4,500 metres.

Situated at the upper stream of Yangtze River, the Ozner water purification house is a water ecology protection station for the source of Yangtze River, which is comprised of a water purification system and a sewage treatment system. The water purification system filters out solid dissolved substances and provides safe and healthy drinking water for the visitors and staff at the station. Meanwhile, the sewage treatment system is used to treat the daily sewage of the station such that the sewage treated meets the emission standards or can be used for irrigation, preventing the Yangtze River from the pollution due to daily sewage. The volunteer engineers participated in the charity activities carried out annual inspection and maintenance on the Ozner water purification house and replaced certain filtration consumables to ensure smooth operation of the systems.

Through undertaking of continuous charitable activities, Ozner wishes to raise concerns and encourage the participation of environment protection business. Let us protect the crystal clear water and beautiful blue sky by accumulating the power of every single drop of water.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

"For the youth, healthy water project on campus" was initiated in Sichuan Province, in which Ozner helped 2 million students gain access to safe drinking water

In November 2018, the Group has participated in the project of "For the youth, healthy water project on campus" in Sichuan Province, for which the Group has provided direct drinking equipment and helped nearly 2 million primary and middle school students across 21 cities in Sichuan province gain access to safe direct drinking water.

"For the youth, healthy water project on campus" is a public welfare project initiated and executed by the Sichuan Province Committee for the Wellbeing of the Youth (四川省關工委), which is also a concrete measure it implemented to carry out the spirit in the Notice on campus health management issued by the China National Committee for the Wellbeing of the Youth (中國關工委) and National Health Commission (國家衛計委) and the Ministry of Education. The project aims at effectively raising students' awareness of safe drinking water, improving the quality of water drunk by students at schools, as well as creating a good learning and living environment for the healthy growth of youth.

The equipment provided by Ozner Water has been mostly applied to the upgrade and transform of water supply facilities at some primary and secondary schools in Sichuan Province, putting its main focus on building safe drinking water system for primary and secondary schools in poverty areas and remote mountainous areas to cater for students' demand of healthy and safe drinking water at schools. After this project is implemented, it will bring benefits and supplement to the "Water Safety System" in Sichuan Province and further ensure the drinking water safety of students at schools, change their unhealthy drinking habit, meet their drinking needs at schools, and enhance the satisfaction, happiness and sense of safety among all teachers and students.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

Green operation, energy saving and environmental protection

During the year, from research and development to manufacturing and sales, Ozner has included the environmental attribute as one of the important factors of consideration in the entire life cycle of products, and strives to minimize the impact on environment from raw material acquisition, component processing, product manufacturing, packaging and transportation, use of product to waste disposal.

Adhering to the concept of energy-saving and green and low-carbon management, Ozner always procures its best efforts to reduce energy consumption in the production process, continues to implement clean production, increase investment in environmental protection facilities, improve the internal environment of workshops, reduce pollution emissions, explore potential for energy-saving, realize the recycling of materials and energy, and continuously apply environmental strategies of comprehensive prevention to the production processes, products and services, so as to mitigate the risk of contamination to people and environment.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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

During the year ended 31 December 2018, the Company has complied with all the applicable code provisions as set out in the CG Code, save and except for the following deviation:

Code provision A.2.1

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

The Board

Responsibilities

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

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

Board Composition

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

Executive Directors

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

Non-executive Directors

Mr. Wang Duo
Ms. Sui Wei (Appointed on 20 February 2019)
Ms. Gui Songlei

Independent non-executive Directors

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

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

During the year ended 31 December 2018 and up to the date of this annual report, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

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

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

Induction and Continuous Professional Development

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

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

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

Appointment and Re-election of Directors

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

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

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

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

Board Meetings

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

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

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

During the year ended 31 December 2018, four Board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

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

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Specific enquiry of all the Directors has been made and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2018.

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

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

Remuneration of Directors

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors. The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of each of the Directors for the year ended 31 December 2018 are set out in note 9 to the consolidated financial statements. Apart from the executive Directors, the Group does not have any other members of senior management.

Directors' Liability Insurance

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

Board Committees

Nomination Committee

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

The principal duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, making recommendations to the Board on the appointment or re-appointment of Directors and succession planning of Directors, and assessing the independence of the independent non-executive Directors. The Company has adopted a nomination policy, which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment, and diversification of the Directors of the Company. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a Director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

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

During the year ended 31 December 2018, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

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

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

Board Diversity Policy

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

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

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

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

Remuneration Committee

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

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

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

During the year ended 31 December 2018, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

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

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

Audit Committee

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

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

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

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

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

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

During the year ended 31 December 2018, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

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

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

During the year, the Audit Committee also reviewed the audited consolidated annual results of the Company and its subsidiaries for the year ended 31 December 2017 and the unaudited interim results of the Company and its subsidiaries for the period ended 30 June 2018 as well as the report prepared by the external auditor relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control and other matters.

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2018 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on pages 61 to 66 of this annual report.

Internal Control and Risk Management

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

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

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

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

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

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

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

For the year ended 31 December 2018, the Board, through the Audit Committee, conducted an annual review of the effectiveness of the financial reporting, internal control and risk management of the Company including the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting, internal audit and financial reporting functions and considered these systems as effective and adequate.

Auditor's Remuneration

For the year ended 31 December 2018, the total remuneration paid or payable to the Company's auditor, Ernst & Young, for audit and audit related services was RMB5.1 million.

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

Items of auditor's services	**Amount** RMB'000
Audit service	3,886
Review service	1,239
Total	5,125

Company Secretary

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

During the reporting period, Ms. Lai Siu Kuen, one of the joint company secretaries of the Company, resigned as the joint company secretary of the Company on 23 August 2018. Mr. Tan Jibin has acted as the sole company secretary of the Company since 23 August 2018.

For the year ended 31 December 2018, Mr. Tan has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

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

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

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

During the year, the Company held an annual general meeting on 29 June 2018 ("2018 AGM") and an extraordinary general meeting on 29 June 2018 ("EGM") and below is the attendance of each Director:

Name of Director	Attended/Eligible to attend EGM	Attended/Eligible to attend 2018 AGM
Mr. Xiao Shu	0/1	1/1
Mr. Zhou Guanxuan	0/1	0/1
Mr. Tan Jibin	1/1	1/1
Mr. Li Honggao	0/1	0/1
Mr. Wang Yonghui	1/1	1/1
Mr. He Sean Xing	0/1	0/1
Ms. Gui Songlei	0/1	0/1
Mr. Wang Duo	0/1	0/1
Dr. Chan Yuk Sing Gilbert	0/1	0/1
Mr. Lau Tze Cheung Stanley	1/1	1/1
Dr. Bao Jiming	0/1	0/1
Mr. Gu Jiuchuan	0/1	0/1

The Chairman of the Board, the Chairman of the Board committee (or other members of the Board committee) and the external auditor of the Company were all present at the 2018 AGM to answer shareholders' questions.

Dividend Policy

Pursuant to the dividend policy adopted by the Company with effect from 1 January 2019, distributions of dividends are determined at the discretion of the Board. In determining whether any distribution shall be made and the amount of dividends, the Board shall take into account the Company's results of operations, cash flow, financial conditions, statutory and regulatory restrictions, capital, future business plans and prospects, and any other conditions which the Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to compliance with the Company's constitutional documents and companies law of the Cayman Islands.

The Company will evaluate its dividend policy and distributions made from time to time.

Shareholders' Rights

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

Convening of Extraordinary General Meeting and Putting Forward Proposals

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

Such requisition shall be made in writing to the Board or the company secretary of the Company and deposited at the Company's principal place of business in Hong Kong at 31/F, Tower Two, Time Square, 1 Matheson street, Causeway Bay, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The Board shall within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days.

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

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

Enquiries to the Board

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

Constitutional Documents

There has not been any change in the Memorandum and Articles of Association of the Company during the year ended 31 December 2018 and up to the date of this annual report.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. XIAO Shu (肖述), aged 45, is the Chairman of the Board, an executive Director and our chief executive officer. He was appointed as the Director on 19 November 2013 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Xiao has more than 15 years of experience in technology development, sales and marketing and strategic management. Mr. Xiao founded our business in October 2005, when he established Shanghai Haoze Comfort Environment & Service Co., Ltd. ("Shanghai Comfort"), a company which the Group acquired in 2012, and has remained as the management of Shanghai Comfort since then until he joined Shanghai Haoze Environmental Technology Co., Ltd. in January 2011. Mr. Xiao held his interests in Shanghai Comfort through Shanghai Comfort Products Technology Co., Ltd., a company which was engaging in the sales of air purification products and drinking water machines and which was established by Mr. Xiao as one of the founders in 2003. Mr. Xiao is the inventor of several patented water and air purification technologies owned by the Group. Prior to establishing our business via the establishment of Shanghai Comfort, Mr. Xiao worked at Sinorate Enterprises Limited, a company specializing in the production of electronic goods and components, between April 1993 and April 1999 where he sequentially served as product engineer, quality control manager and director of the production department. Between June 2001 and June 2002, he worked at Shanghai Oasun Environment High Technology Company Limited (上海歐臣環境高科技有限公司) ("Shanghai Oasun"), a company engaging in the business of providing water purification solutions, and was in charge of research and development and production management. Mr. Xiao received a bachelor's degree in agriculture (soilless cultivation) from Northwest A&F University (西北農林科技大學) (Shaanxi, PRC), which is formerly known as Northwest Agricultural Institute (西北農學院), in July 1992. Mr. Xiao is also accredited as an Internal Quality Auditor following the completion of an internal quality auditor course and the passage of the national internal quality auditor examination administered by the National Educational Center for Conformity Assessment in December 2001.

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

Mr. ZHOU Guanxuan (周貫煊), aged 60, is an executive Director. He was appointed to our Board as an independent non-executive Director on 26 May 2014 and has been re-designated as an executive Director on 28 March 2017. After the re-designation, Mr. Zhou is responsible for the management of the Group's supply chain. Mr. Zhou has more than 30 years of experience in household appliances manufacturing and operations management. From 1975 to September 1999, Mr. Zhou worked at the Midea Group Co., Ltd (SZE: 000333), a company listed on Shenzhen Stock Exchange and engaging in the business of manufacturing of household electrical appliances, and assumed office in the technology and production department before he was promoted as the general manager of Midea Redian Group Co., Ltd, an affiliate of Midea Group Co., Ltd. From 2000 to 2007, Mr. Zhou was the president of Foshan Shunde District Beijiao Town Weigao Electronics Industry Company Limited (佛山市順德區北滘鎮偉高電器實業有限公司), a company engaging in the business of research and development, manufacturing and sale of electronic appliances. From 2011 to 2013, he was the director and general manager of Jiangxi Jingdezhen Saide Ceramics Co., Ltd. (江西景德鎮賽德陶瓷有限公司), a company engaging in the business of manufacturing, development and sale of ceramics decoration materials.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. TAN Jibin (譚濟濱), aged 37, is an executive Director. He joined our Group on 6 April 2011 as the financial controller and vice president of Shanghai Haoze Water Purification Technology Development Co., Ltd. and was appointed as the Director on 19 November 2013. Mr. Tan is primarily responsible for overseeing the overall financial and administrative affairs of the Group. Mr. Tan has more than 10 years of experience in accounting and finance. Prior to joining the Group, Mr. Tan served as a senior auditor in Deloitte Touche Tohmatsu, an accounting firm, from July 2004 to April 2009 and as an associate finance manager in China Aoyuan Property Group Limited (HKSE: 3883), a Chinese property company listed on the Stock Exchange, from May 2009 to March 2011. He obtained a bachelor's degree in international finance from Guangdong University of Foreign Studies (廣東外語外貿大學) (Guangdong, PRC) in June 2004.

Mr. LI Honggao (李紅高), aged 37, has been appointed as an executive Director of the Company with effect from 28 March 2017. Mr. Li joined our Group on 1 June 2006 and currently serves as senior vice president of the Group and president of the public water purification business group of the Group. Mr. Li is primarily responsible for the sales, management and operation of the public and commercial water purification business of the Group. Mr. Li has over 10 years of sales and marketing experience in water purification business. Mr. Li has also served as sales director, marketing and operation director and general manager of the business department of the Group consecutively prior to his current position. Mr. Li is currently a master of business administration candidate at Fudan University (復旦大學), the PRC.

Mr. WANG Yonghui (王永暉), aged 42, has been appointed as an executive Director of the Company with effect from 28 March 2017. He joined our Group on 15 September 2014 and currently serves as vice president and investment director of the Group. Mr. Wang is responsible for capital markets related work and investments of the Group. Mr. Wang has extensive financial and capital markets related work experience. Before joining the Group, Mr. Wang has served various positions at the headquarter of Bank of China, the investment banking division of Banc of America Securities (now merged into Bank of America Merrill Lynch), and SOHO China Limited. Mr. Wang obtained a bachelor's degree in economics from the University of International Business and Economics (對外經濟貿易大學), the PRC, in July 1999 and his master of business administration degree from Emory University, the United States of America, in May 2006.

Non-Executive Directors

Mr. WANG Duo (王鐸), aged 40, has been appointed as a non-executive director of the Company with effect from 27 September 2017 and is primarily responsible for providing strategic advice and guidance on the business development of the Group.

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

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Ms. SUI Wei (隋煒), aged 39, has been appointed as a non-executive Director of the Company with effect from 20 February 2019 and is primarily responsible for providing strategic advices and guidance on the business development of our Group.

Ms. Sui joined Ares Management LLC in April 2010 and is currently the managing director of its private equity investment department. Before joining Ares Management LLC, Ms. Sui was the vice president of 3i Group PLC's Shanghai office and was in charge of the development, execution, due diligence, negotiation, post-investment management and investment exit strategy of the private equity investment projects in China. Prior to that, Ms. Sui worked at Roland Berger Strategy Consultants, where she gained considerable experience in business strategy, operational enhancement, market entry strategy and brand and channel development. She has also gained a deep understanding in the consumer, retail, automobiles, high-end manufacturing and finance industries. Ms. Sui obtained her Bachelor of Accounting from Fudan University School of Management, and she is a member of the Association of Chartered Certified Accountants, a Chartered Certified Accountant and a Chartered Financial Analyst.

Ms. GUI Songlei (桂松蕾), aged 41, has been appointed as a non-executive director of the Company with effect from 22 August 2017 and is primarily responsible for providing strategic advice and guidance on the business development of the Group. Ms. Gui is currently the chairperson and general manager of China Innovative Capital Management Co., Ltd (中新融創資本管理有限公司). Ms. Gui is also the chairperson of ZhongRong Fund Management Co., Ltd (中融基金管理有限公司) and has extensive management experience at financial institutions. She has been an independent director of Beijing SPC Environment Protection Co., Ltd (北京清新環境技術股份有限公司) (a company listed on the SEM Board of the Shenzhen Stock Exchange, stock code: 002573) since July 2013 and was a non-executive director of TCL Corporation (TCL集團股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000100) from May 2014 to August 2015.

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

Independent Non-Executive Directors

Mr. LAU Tze Cheung Stanley (劉子祥), aged 56, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. He has over 20 years of experience in accounting and finance, management consulting and corporate finance. Mr. Lau served as the chief financial officer and company secretary of Asia Fashion Holdings Limited (亞洲時尚控股有限公司) (SGX: AFH), a company listed on the Singapore Stock Exchange, from January 2008 to August 2012 and the chief financial officer of China Kangda Food Company Limited (中國康大食品有限公司) (HKSE: 834, SGX: CKANG), a company listed on both the Stock Exchange and the Singapore Stock Exchange, from December 2005 to December 2007. Before that, Mr. Lau worked at Messrs. Lo Hung Yan, Certified Public Accountant and provided management consulting, auditing and corporate secretarial services and advice to his clients since April 1993.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

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

Dr. BAO Jiming (包季鳴), aged 66, has been appointed as an independent non-executive director of the Company, the chairman of the Remuneration Committee and a member of the Audit Committee with effect from 28 March 2017. He is currently a professor of the School of Management of Fudan University (復旦大學), with years of research experience in corporate management. Dr. Bao is also the vice chairman of Shanghai Management Science Society (上海市管理科學學會) and the associate director of the Shanghai Services Development Research Institute (上海現代服務業發展研究院). Before these positions, Dr. Bao has served various positions at Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司) from May 1995 to January 2009, including the deputy office general manager, office general manager, general manager of the overseas business division, general manager of the corporate management division, assistant vice president of the group, vice president of the group and president of its overseas subsidiaries, and executive director of the group and chairman of its overseas subsidiaries. From February 1995 to May 1995, Dr. Bao served as deputy manager (副處長) of the Science Section of Shanghai Municipal Education Commission (上海教育委員會科技處), and from September 1985 to February 1995, Dr. Bao served various positions at the School of Management of Fudan University, including the deputy director of the training department, assistant to the dean of the School of Management, researcher and secretary general of the Fudan Development Institute (復旦發展研究院), lecturer, associate professor and tutor for students pursuing master studies.

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

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

Dr. CHAN Yuk Sing Gilbert (陳玉成), aged 60, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. Dr. Chan is an assistant professor in the department of applied biology and chemical technology of the Hong Kong Polytechnic University. His recent research focus is on the application of ozone technology. He is the chairman of the Sino Ozone Association of the PRC. Over the years, Dr. Chan has made various publications and speeches on the topic of healthy water and ozone.

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

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. GU Jiuchuan (顧久傳), aged 70, is an independent non-executive Director. He was appointed to our Board on 26 May 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Gu has extensive experience and knowledge in the water purification industry. Before working at Wuxi Haide Membrane Technology Co., Ltd. (無錫市海德膜技術有限公司), a company engaging in the water purification business, from 1999 to 2010 as technical director, Mr. Gu worked at China Huajing Electronics Group Co., Ltd. (中國華晶電子集團公司), a company specialized in the research and development and manufacturing of semi-conductor equipment. In November 2013, Mr. Gu became the vice chairman of the China Desalination Association (中國水利企業協會脱鹽分會) and in October 2013, Mr. Gu was appointed as the managing member of the technology certification committee of water purification products of the China General Certification Center (北京鑒衡認證中心淨水產品認證技術委員會主任委員). He has been the honorary chairman of AnHui Water Purification Association (安徽省淨水行業協會) and the member of the expert guidance panel of the Fund for Drinking Water Safety and Health established by the China Health Promotion Foundation (中國健康促進基金會飲水安全與健康專項基金) since 2012, an expert member of the advisory panel of the Drinking Water Industry Committee established by the National Development and Reform Commission Public Nutrition and Development Center (國家發改委公眾營養與發展中心飲用水產業委員會) since 2011. He also served as the chief secretary of the Wuxi Water Purification Association (無錫市淨水行業協會) and the secretary of the Purified Water Industry Committee of China Private Economy Research Association (中國民(私)營經濟研究會淨水行業委員會). Mr. Gu has participated in the drafting of various national industry standards concerning water purification systems and has made numerous publications on the topic of water purification. Currently, Mr. Gu is the honorary chief editor of the magazine "中國直飲水" and the special consultant, member of the think tank and editor of the magazine "直飲水時代".

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

Senior Management

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

Company Secretary

Mr. TAN Jibin (譚濟濱), had served as the joint company secretary of the Company since 10 January 2014 until he became the sole company secretary with effect from 23 August 2018. Please refer to his biography under the paragraph headed "Executive Directors" above.

REPORT OF THE DIRECTORS

Principal Activities

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

Results and Dividends

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 67 to 165.

The Directors recommend the payment of a final dividend of RMB1.09 cents (equivalent to HK$1.28 cents) per share to the Shareholders for the year ended 31 December 2018 (2017: RMB2.25 cents).

Business and Financial Review

The business and financial review of the Group for the year ended 31 December 2018 and a discussion on the Group's future development are set out in the section headed "Chairman's Statement and Management Discussion and Analysis" on pages 6 to 20 of this annual report.

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

Principal Risks and Uncertainties

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

Business risk

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

Liquidity risk

As of 31 December 2018, the Group recorded net current asset of RMB121,488,000, which was primarily attributable to the increase of investments and finance lease payables; and the increase in installation of new water purification machines when the Group invested huge internal resources to manufacturing of commutation for leasing purpose.

REPORT OF THE DIRECTORS (CONTINUED)

Exchange rate risk

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

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

Financial instruments risk

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

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

Financial Summary Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 166. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Revenue-Generating Assets

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

Share Capital

Details of movements in the Company's share capital during the year are set out in note 34 to the consolidated financial statements.

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

Consistent with the management's commitment to maintaining the well-being of the Group, and protecting its long-term interest, share repurchase exercises were implemented during the year ended 31 December 2018. During the year ended 31 December 2018, the Company repurchased on the Stock Exchange a total of 3,650,000 Shares at a total consideration of approximately HK$6.45 million, which does not include any fees associated with the repurchase. Consequent to these share repurchase exercises, the Company has acquired and cancelled approximately 0.17% of the total number of issued shares of the Company immediately prior to such repurchases and cancellations. As the Board considers that the value of the Company's shares is consistently undervalued, it trusts that the action taken will go towards addressing this trend. The Board also believes that given the current financial resources of the Company, the share repurchase will not affect the Company's solid financial position. As at the date of this annual report, all the above repurchased shares were cancelled. Details of shares repurchased during the relevant period are set out as follows:

Date of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share Highest HK$	Price paid per Share Lowest HK$	Aggregate consideration paid HK$
24 September 2018	522,000	1.80	1.71	908,110
26 September 2018	401,000	1.82	1.77	724,220
27 September 2018	550,000	1.82	1.81	999,890
28 September 2018	550,000	1.82	1.81	999,770
8 November 2018	1,065,000	1.75	1.64	1,817,850
9 November 2018	562,000	1.80	1.73	999,840

The Directors believe that repurchases of shares are in the best interests of the Company and its Shareholders and that such repurchases of shares would lead to an enhancement of the earnings per share.

Saved as disclosed above and in this annual report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

Closure of Register of Members

The Company will hold an AGM on 28 June 2019.

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 18 June 2019 to Friday, 28 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 17 June 2019, being the business day before the first day of closure of the register of members of the Company.

For determining the entitlement to the proposed final dividend, the register of shareholders of the Company will be closed from Friday, 5 July 2019 to Monday, 15 July 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 4 July 2019.

REPORT OF THE DIRECTORS (CONTINUED)

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution to Shareholders amounted to RMB1,383.8 million.

Charitable Contributions

During the year, the Group made charitable contributions totaling RMB208,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 25.2% of the total sales for the year and sales to the largest customer included therein amounted to 7.6%. Purchases from the Group's five largest suppliers accounted for 35.3% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 9.8%.

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

Key Relationships with Employees, Customers and Suppliers

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

The Group places great emphasis on end user satisfaction in the operation of our business. The end users' loyalty to our products and services is demonstrated by strong renewal rates as approximately over 95.8%. The Group maintains a good relationship with our distributors, clients and end customers.

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

REPORT OF THE DIRECTORS (CONTINUED)

Directors

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

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

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

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

In accordance with article 99 of the Articles of Association, Ms. Sui Wei shall retire by rotation at the AGM and being eligible, has offered herself for re-election at the forthcoming AGM.

In accordance with article 110 of the Articles of Association, Mr. Xiao Shu, Mr. Tan Jibin, Mr. Wang Yonghui and Mr. Lau Tze Cheung Stanley will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 37 to 41 of the annual report.

Permitted Indemnity Provisions

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

Directors' Service Contracts

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

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

Directors' Interests in Transactions, Arrangements or Contracts

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

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

REPORT OF THE DIRECTORS (CONTINUED)

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

As at 31 December 2018, the interests and short positions of the Directors and chief executives in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long/short positions in ordinary shares of the Company

Name of director	Long/short positions	Nature of Interest	Note	Number of ordinary shares	Percentage of the Company's issued share capital as at 31 December 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. TAN Jibin	Long Position	Beneficial owner	—	229,597	0.01%
Mr. LI Honggao	Long Position	Beneficial owner	—	298,698	0.01%
Mr. WANG Yonghui	Long Position	Beneficial owner	—	281,752	0.01%
Mr. WANG Duo	Long position	Interest of spouse	—	859,000	0.04%

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

(b) These 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 entitling Mr. Xiao to subscribe for 103,086,706 Shares.

(c) As at 31 December 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 directly beneficially owned	Approximate percentage of shareholding as at 31 December 2018[2]
Mr. XIAO Shu	103,086,706	4.83%
M. ZHOU Guanxuan	3,105,616	0.15%
Mr. TAN Jibin	12,501,334	0.59%
Mr. LI Honggao	8,189,311	0.38%
Mr. WANG Yonghui	3,404,657	0.16%
	130,287,624	6.10%[1]

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

(2) As at 31 December 2018, the Company had 2,135,981,950 ordinary Shares in issue.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share Incentive Schemes

The Company operates the Pre-IPO Share Option Scheme, the Share Option Scheme and Restricted Share Unit Scheme (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 35 to the consolidated financial statements.

Pre-IPO Share Option Scheme

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

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

REPORT OF THE DIRECTORS (CONTINUED)

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

Name or category of participant	Number of share options: As at 1 January 2018	Exercised during the Year	Lapsed during the Year	Forfeited during the Year	As at 31 December 2018	Approximate percentage of shareholding as at 31 December 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	—	1,144,940	—	89,879,589	4.21%
Total	156,318,846	—	1,144,940	—	155,173,906	7.26%

* As at 31 December 2018, the Company had 2,135,981,950 ordinary Shares in issue.

As at 31 December 2018, the maximum number of shares that may be issued pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme was 155,173,906 shares (31 December 2017: 156,318,846 Shares), representing approximately 7.26% and 7.28% (31 December 2017: approximately 7.64% of the issued share capital of the Company as at 31 December 2017) as at 31 December 2018 and as at the date of this annual report, respectively. For the year ended 31 December 2018, the total share option expense was RMB40.3 million (for the year ended 31 December 2017: RMB13.2 million).

REPORT OF THE DIRECTORS (CONTINUED)

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

Share Option Scheme

The Share Option Scheme was approved and adopted on 26 May 2014 with implementation conditional on the listing of the Company. At the 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 31 December 2018, the total number of shares which may be issued on the exercise of options to be granted under the Share Option Scheme was 107,968,200 shares (31 December 2017: 172,968,200 shares), representing approximately 5.05% (31 December 2017: 16% as at the date of the 2017 annual report of the Company) of the issued share capital of the Company as at the date of this annual report.

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

			Number of share options							
Name of participant	**Date of Grant**	**Exercise price per share**	**As at 1 January 2018**	**Granted during the Year**	**Exercised during the Year**	**Lapsed during the Year**	**Forfeited during the Year**	**As at 31 December 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 (i.e.17 June 2014) and has a remaining period of approximately 5 years as at the date of this annual report.

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

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

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

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

(i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;

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

(iii) the nominal value of the shares.

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.

REPORT OF THE DIRECTORS (CONTINUED)

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

Unless terminated earlier in accordance with the RSU Scheme rules, the RSU Scheme will be valid and effective for a period of ten (10) years commencing from 7 December 2015 and has a remaining period of approximately 6 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.

REPORT OF THE DIRECTORS (CONTINUED)

Details of the RSUs granted under the RSU Scheme for the year ended 31 December 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 year	Exercised during the year	Lapsed during the year	Cancelled during the year	Number of Shares represented by RSUs at 31 December 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.

As at 31 December 2018, RSUs representing a total of 29,511,040 Shares have been granted, of which (i) RSUs representing 5,580,281 Shares have been vested; and (ii) RSUs representing 23,930,759 Shares are outstanding and held by the RSU Trustee. 35,228,719 Shares are held by the RSU Trustee for future grant of RSUs.

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

Rights to Acquire the Company's Securities

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

Equity-linked Agreements

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

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

As at 31 December 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 31 December 2018[i]
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	441,139,988	20.65%
China Innovative Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	441,139,988	20.65%
Beijing Zhonghaijiacheng Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	441,139,988	20.65%
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	247,329,788	11.58%
Chongqing Zhongxinrongbang Investment Centre (Limited partnership)	Long position	(d)	Beneficial owner	247,329,788	11.58%
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%

REPORT OF THE DIRECTORS (CONTINUED)

Notes:

(a) Standard Chartered Trust (Singapore) Limited, the trustee of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, holds the entire issued share capital of Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited through SCTS Capital Pte. Ltd. (as nominee for Standard Chartered Trust (Singapore) Limited). Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited in turn hold the entire issued share capital of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited hold 341,820,000 Shares, 62,182,200 Shares and 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 441,139,988 Shares consist of (i) 247,329,788 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 adjusted conversion price of HK$1.88 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 31 December 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 441,139,988 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 31 December 2018, the Company had 2,135,981,950 ordinary Shares in issue.

Save as disclosed above, as at 31 December 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 and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Connected Transactions

Save as disclosed below, the Group had not entered any connected transactions or continuing connected transactions which are required to be disclosed in this annual report in compliance with the requirements of Chapter 14A of the Listing Rules during the year ended 31 December 2018. The Directors confirm that they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2018 is contained in note 39 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules.

CONTINUING DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

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

Sufficiency of Public Float

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

Directors' Interests in a Competing Business

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

Events after the Reporting Period

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

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2018, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

REPORT OF THE DIRECTORS (CONTINUED)

Environmental Protection

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

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

Corporate Governance

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 25 to 36 of this annual report.

Review by Audit Committee

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

The Audit Committee had reviewed together with the management and external auditor of the Company the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended 31 December 2018.

Auditor

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

BY ORDER OF THE BOARD

XIAO Shu (肖述)
Chairman and Chief Executive Officer

Hong Kong
27 March 2019

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

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

Opinion

We have audited the consolidated financial statements of Ozner Water International Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 165, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Existence of revenue-generating assets and related revenue	
The Group manufactures water purification machines and enters into standard dealership contracts with the Group's appointed dealers to lease out the machines and earns rental income from the dealers. The dealership contracts, in substance, grant the right to the dealers to sublease the machines to end customers. Water purification machines leased out by dealers to end customers were delivered to and installed by the Group at the end customers' premises. For asset tracking purpose, all the relevant information of the installed water purification machines, including the installation date, machine identification number, end customer signed installation form number and the relevant dealer information, was recorded in the Group's Customer Relationship Management ("CRM") system. Such machines were classified as revenue-generating assets in the consolidated statement of financial position upon installation. The Group computes and records the related rental income based on the leasing rate and period, and the number of installed water purification machines. Revenue-generating assets represented 27% of the total assets of the Group as at 31 December 2018 while the rental income from water purification services accounted for 48% of total revenue of the Group for the year. Considering the significance of the assets and the rental income, the existence of revenue-generating assets and the related rental income were the most significant to our audit. The Group's disclosures about rental income from water purification services and revenue-generating assets are included in notes 6 and 14 to the consolidated financial statements, respectively.	Our audit procedures included, among others, the assessment of the Group's controls over the process of the leasing of water purification machines. On a sample basis, we checked the information in the CRM system to the installation forms signed by end customers. We checked the annual and life-to-date number of installed water purification machines with selected key dealers in writing. We recomputed the related rental income based on the contractual leasing rate and period, and the number of installed water purification machines.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of convertible bonds	
The Group issued convertible bonds in November 2018 and the proceeds from the issuance have been split into liability and derivative components. The fair values of the convertible bonds at initial recognition have been valued based on a valuation technique that incorporates various market inputs and the Group's credit rating. The derivative component was subsequently measured at fair value as at the end of the reporting period. The Group engaged an external independent appraiser to perform valuations on the convertible bonds. Fair value measurement is a subjective area and the assessment process is complex and highly judgemental. The Group's disclosures about convertible bonds are included in notes 4.1, 4.2, 31 and 41 to the consolidated financial statements.	We reviewed the valuation reports and evaluated management's assessment of the nature of the components of the convertible bonds. We evaluated the competence, capabilities and objectivity of the external appraiser. We involved our internal valuation specialist to assist us in reviewing the assumptions and valuation methodologies used by the Group and the appraiser. We assessed the inputs used in the valuation technique by checking historical performance of the market as well as historical data of the Group. We also assessed the adequacy of the related disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Equity investments designated at fair value through other comprehensive income	
The Group made several equity investments in FY2018 with total amount of RMB418,068,000, mainly including investments in its distributors and a micro finance company. The Group takes up less than 10% of shares in these entities and exercises no significant influence nor control over them. The amount of investment is representing 6% of the total assets as at 31 December 2018. In accordance with IFRS 9 Financial Instruments, upon initial recognition, the Group had elected to irrevocably classify these financial assets at fair value with changes recognised through other comprehensive income. In addition, as at 1 January 2018, the Group classified irrevocably equity investments previously classified as available-for-sale investments as fair value through other comprehensive income as the Group considers these investments to be strategic in nature. The determination of fair values of these investments requires significant judgements and estimates from management. The Group's disclosures about equity investments designated at fair value through other comprehensive income are included in notes 4.1, 4.2, 20 and 41 to the consolidated financial statements.	We discussed with management their intention of holding these equity investments. We evaluated the methodologies, key assumptions, and determination of the cash flow forecast and other data used by the Group for fair value measurement. We further involved our internal valuation specialists to assist us in assessing the assumptions and methodologies used by management, and the discount rate applied to the cash flow forecast or comparable companies selected. Furthermore, we assessed the basis of preparing the cash flow forecasts and the growth rate used to extrapolate the cash flows by comparing the forecasts with the historical performance and reviewing the business development plan of the Group for the discounted cash flow method and assessed the market data used for valuation multiples method.

Other Information Included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is SIU FUNG TERENCE HO.

Ernst & Young
Certified Public Accountants

Hong Kong
27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	6	1,644,914	1,549,027
Cost of sales		(884,273)	(833,338)
Gross profit		760,641	715,689
Other income and gains	6	75,257	198,276
Selling and distribution expenses		(171,017)	(267,941)
Administrative expenses		(211,745)	(166,186)
Other expenses		(62,852)	(86,691)
Finance costs	8	(170,046)	(107,059)
Share of profits and losses of associates		(24,222)	—
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	196,016	286,088
Income tax expense	11	(61,746)	(45,208)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		134,270	240,880
Attributable to:			
Owners of the parent		112,960	230,770
Non-controlling interests		21,310	10,110
		134,270	240,880
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic (RMB cents)		5.45	11.43
Diluted (RMB cents)		5.45	11.43

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(3,323)	10,172
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		(3,323)	10,172
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		3,528	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		3,528	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		205	10,172
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		134,475	251,052
Attributable to:			
Owners of the parent		113,165	240,942
Non-controlling interests		21,310	10,110
		134,475	251,052

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Revenue-generating assets	14	1,789,034	1,595,699
Property, plant and equipment	15	833,285	865,937
Prepaid land lease payments	16	114,499	111,989
Other intangible assets	17	212,207	229,835
Goodwill	18	220,041	220,041
Investments in associates	19	270,314	86,135
Equity investments designated at fair value through other comprehensive income	20	418,068	—
Available-for-sale investments	20	—	152,491
Prepayments, other receivables and other assets	25	252,277	780,380
Deferred tax assets	21	101,472	77,412
TOTAL NON-CURRENT ASSETS		4,211,197	4,119,919
CURRENT ASSETS			
Inventories	22	345,568	308,781
Prepaid land lease payments	16	2,990	2,924
Trade and bills receivables	23	462,019	354,187
Prepayments, other receivables and other assets	25	937,978	377,196
Amount due from related parties	39	125,364	—
Derivative financial instruments	26	18,726	—
Short-term investments	27	139,942	347,834
Pledged deposits	27	72,600	69,764
Cash and cash equivalents	27	258,309	205,995
TOTAL CURRENT ASSETS		2,363,496	1,666,681
CURRENT LIABILITIES			
Trade and bills payables	28	339,757	397,936
Other payables, advances from customers and accruals	29	559,299	557,853
Amount due to related parties	39	40,160	—
Deferred revenue	30	16,129	61,258
Interest-bearing bank and other borrowings	32	713,362	89,827
Income tax payable		246,164	210,382
Finance lease payables	33	280,612	334,532
Derivative component of convertible bonds	31	46,525	—
TOTAL CURRENT LIABILITIES		2,242,008	1,651,788
NET CURRENT ASSETS		121,488	14,893
TOTAL ASSETS LESS CURRENT LIABILITIES		4,332,685	4,134,812

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Finance lease payables	33	**169,489**	444,606
Liability component of convertible bonds	31	**507,694**	335,581
Interest-bearing bank and other borrowings	32	**295,000**	231,321
Deferred tax liabilities	21	**49,696**	42,502
TOTAL NON-CURRENT LIABILITIES		**1,021,879**	1,054,010
NET ASSETS		**3,310,806**	3,080,802
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	34	**17,284**	16,554
Share premium	34	**1,552,017**	1,407,728
Treasury shares	34	**(63,148)**	(26,429)
Equity component of convertible bonds	31	**52,321**	52,321
Reserves	34	**1,583,231**	1,482,837
		3,141,705	2,933,011
Non-controlling interests		**169,101**	147,791
TOTAL EQUITY		**3,310,806**	3,080,802

Xiao Shu
Director

Zhou Guanxuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the parent												
	Share capital (Note 34) RMB'000	Share premium (Note 34) RMB'000	Treasury shares (Note 34) RMB'000	Equity component of convertible bonds (Note 31) RMB'000	Share-based payment reserve (Note 34) RMB'000	Fair value reserve (Note 34) RMB'000	Retained earnings RMB'000	Merger reserve (Note 34) RMB'000	Foreign currency translation reserve (Note 34) RMB'000	Other reserves (Note 34) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity (Note 34) 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 year	—	—	—	—	—	—	112,960	—	—	—	112,960	21,310	134,270
Other comprehensive income for the year:													
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	3,528	—	—	—	—	3,528	—	3,528
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(3,323)	—	(3,323)	—	(3,323)
Total comprehensive income for the year	—	—	—	—	—	3,528	112,960	—	(3,323)	—	113,165	21,310	134,475
Share-based payments (Note 35)	—	—	—	—	40,315	—	—	—	—	—	40,315	—	40,315
Transfer from retained earnings	—	—	—	—	—	—	(34,643)	—	—	34,643	—	—	—
Repurchase of shares	—	—	(36,719)	—	—	—	—	—	—	—	(36,719)	—	(36,719)
Issuance of ordinary shares	730	144,289	—	—	—	—	—	—	—	—	145,019	—	145,019
Final dividend declared	—	—	—	—	—	—	(53,086)	—	—	—	(53.086)	—	(53,086)
At 31 December 2018	17,284	1,552,017	(63,148)	52,321	181,224*	3,528*	800,882*	56,018*	(16,051)*	557,630*	3,141,705	169,101	3,310,806

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

	Attributable to owners of the parent											
	Share capital (Note 34) RMB'000	Share premium (Note 34) RMB'000	Treasury shares (Note 34) RMB'000	Equity component of convertible bonds (Note 31) RMB'000	Share-based payment reserve (Note 34) RMB'000	Retained earnings RMB'000	Merger reserve (Note 34) RMB'000	Foreign currency translation reserve (Note 34) RMB'000	Other reserves (Note 34) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity (Note 34) RMB'000
At 1 January 2017	13,757	935,408	(10,895)	52,321	127,707	575,954	56,018	(22,900)	491,914	2,219,284	4,362	2,223,646
Profit for the year	—	—	—	—	—	230,770	—	—	—	230,770	10,110	240,880
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	10,172	—	10,172	—	10,172
Total comprehensive income for the year	—	—	—	—	—	230,770	—	10,172	—	240,942	10,110	251,052
Share-based payments (Note 35)	—	—	—	—	13,202	—	—	—	—	13,202	—	13,202
Contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	5,105	5,105
Transfer from retained earnings	—	—	—	—	—	(31,073)	—	—	31,073	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	129,189	129,189
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	(975)	(975)
Repurchase of shares	—	—	(15,534)	—	—	—	—	—	—	(15,534)	—	(15,534)
Issuance of ordinary shares	2,797	472,320	—	—	—	—	—	—	—	475,117	—	475,117
At 31 December 2017	16,554	1,407,728	(26,429)	52,321	140,909*	775,651*	56,018*	(12,728) *	522,987*	2,933,011	147,791	3,080,802

* These reserve amounts comprise the consolidated reserves of RMB1,583,231,000 (2017: RMB1,482,837,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		196,016	286,088
Adjustments for:			
Depreciation of revenue-generating assets	14	233,420	206,554
Depreciation of property, plant and equipment	7	78,991	37,674
Share of profits and losses of associates		24,222	—
Recognition of prepaid land lease payments	7	515	680
Amortisation of other intangible assets	7	16,435	8,890
Amortisation of other non-current assets		524	404
Share-based payments	35	40,315	12,801
Unrealised exchange (gains)/losses		(11,188)	10,603
Loss on disposal of items of property, plant and equipment	15	1,590	1,619
Loss on disposal of revenue-generating assets	14	8,789	4,235
Gain on disposal of a subsidiary	19	—	(138,870)
Fair value adjustment of contingent considerations	7	(15,473)	2,840
Fair value gain on derivative component of convertible bonds		(1,524)	—
(Reversal)/provision for write-down of inventories	7	(7,300)	22,539
Finance costs	8	170,046	107,059
Impairment of trade receivables	7	4,239	1,191
		739,617	564,307
Increase in inventories		(29,487)	(89,647)
Increase in trade and bills receivables		(112,071)	(224,081)
Increase in prepayments, other receivables and other assets		(110,622)	(385,606)
Decrease in an amount due from a shareholder		—	791
Increase in amounts due from related parties		(117,704)	—
(Decrease)/increase in trade and bills payables		(58,179)	142,459
Increase in other payables, advances from customers and accruals		56,812	177,622
Decrease/(increase) in pledged deposits		37,164	(31,895)
Decrease in deferred revenue		(45,129)	(63,301)
Cash generated from operations		360,401	90,649
Income tax paid		(42,830)	(36,184)
Net cash flows from operating activities		317,571	54,465

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase)/Decrease in pledged deposits		(40,000)	4,579
Addition of short-term investments		(343,598)	(347,834)
Repayment in short-term investments		551,490	—
Purchases of revenue-generating assets		(385,514)	(236,343)
Purchases of items of property, plant and equipment		(169,809)	(105,969)
Purchases of other intangible assets		(6,542)	(3,030)
Purchases of associates		(3,400)	—
Acquisition of subsidiaries, net of cash received		(67,271)	(223,672)
Disposal of a subsidiary		—	57,164
Purchases of equity investments at fair value through other comprehensive income/available-for-sale investments		(198,979)	(152,491)
Investment down payment		(80,000)	(281,375)
Purchase of land use right		(4,283)	(4,187)
Net cash flows used in investing activities		(747,906)	(1,293,158)
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank and other borrowings		1,059,059	908,490
Proceeds from issue of shares		145,019	475,117
Proceeds from issue of convertible bonds		183,187	—
Capital contribution from non-controlling interests		—	5,105
Repayment of interest-bearing bank and other borrowings		(700,882)	(301,425)
Interest paid		(138,071)	(90,579)
Shares repurchased		(36,719)	(15,534)
Dividends paid		(53,086)	—
Net cash flows from financing activities		458,507	981,174
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		28,172	(257,519)
Cash and cash equivalents at beginning of year	27	205,995	486,882
Effect of foreign exchange rate changes, net		24,142	(23,368)
CASH AND CASH EQUIVALENTS AT END OF YEAR		258,309	205,995
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		330,909	275,759
Less: Pledged deposits	27	(72,600)	(69,764)
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	27	258,309	205,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate and Group Information

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

Information about subsidiaries

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

Name of company	Notes	Place and date of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Ozner Water Group Limited ("Ozner Water Group")		BVI/ 21 November 2013	HK$40,000,000	100%	—	Investment holding
Hong Kong Fresh Water International Group Limited ("HK Fresh Water")		Hong Kong/ 31 August 2010	HK$35,001	—	100%	Investment holding
Park Wealth International Limited ("Park Wealth")		BVI/ 23 May 2007	US$50,000	—	100%	Investment holding
Shanghai Haoze Environmental Technology Co., Ltd. ("Shanghai Haoze Environmental Technology")	1	Mainland China 17 November 2010	HK$200,000,000	—	100%	Sale of water purification/air sanitisation products
Shanghai Haoze Water Purification Technology Development Co., Ltd. ("Shanghai Haoze Water Purification Technology")	1	Mainland China 30 July 2009	RMB100,000,000	—	100%	Water purifying services
Shanghai Haorun Environmental Works Co., Ltd. ("Shanghai Haorun Environmental Works")	2	Mainland China 18 December 2010	RMB1,000,000	—	100%	Air sanitisation construction services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

Name of company	Notes	Place and date of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Shaanxi Haoze Environmental Technology Development Co., Ltd. ("Shaanxi Haoze Environmental Technology")	2	Mainland China 7 March 2012	RMB350,000,000	—	100%	Water purifying services
Shanghai Haoze Comfort Environment and Science Co., Ltd. ("Shanghai Comfort")	1	Mainland China 23 September 2005	RMB54,815,300	—	100%	Development and manufacture of water purification and air sanitisation products
Haoze (Shanghai) Environment and Science Co., Ltd. ("Haoze")	1	Mainland China 14 October 2014	RMB3,000,000	—	100%	Development and sale of air and water purification machines
Small Dragon (Shanghai) Lease & Finance Co., Ltd. ("Lease & Finance")	1	Mainland China 2 June 2015	RMB500,000,000	—	100%	Finance leasing/ leasing/ factoring
Guangdong Bili Drinking Water Equipment Co., Ltd. ("Guangdong Bili")	2	Mainland China 5 November 2001	RMB20,428,600	—	51%	Manufacture and sale of water purification machines
Foshan Lepuda Motor Co., Ltd. ("Foshan Lepuda")	2	Mainland China 4 March 2008	RMB30,000,000	—	51%	Research and development, manufacture and sale of micro motor products

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, equity investments designated at fair value through other comprehensive income, derivative component of convertible bonds, and contingent considerations. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3.1 Changes in Accounting Policies and Disclosures

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

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*
- *Annual Improvements* 2014–2016 Cycle — Amendments to IFRS 1 and IAS 28

Except for the amendments to the amendments to IFRS 2, amendments to IFRS 4, IFRIC 22, amendments to IAS 40 and *Annual Improvements 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs amendments are described below:

(a) 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.

There are no significant transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

3.1 Changes in Accounting Policies and Disclosures (Continued)

Classification and measurement (Continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Notes	IAS 39 measurement Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other RMB'000	IFRS 9 measurement Amount RMB'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income	(i)	N/A	—	152,491	—	—	152,491	FVOCI[1] (equity)
Available-for-sale investments	(i)	AFS[2]	152,491	(152,491)	—	—	—	N/A
Trade and bills receivables		L&R[3]	354,187	—	—	—	354,187	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	651,698	—	—	—	651,698	AC
Short-term investments		L&R	347,834	—	—	—	347,834	AC
Pledged deposits		L&R	69,764	—	—	—	69,764	AC
Cash and cash equivalents		L&R	205,995	—	—	—	205,995	AC
			1,781,969	—	—	—	1,781,969	
Financial liabilities								
Trade and bills payables		AC	397,936	—	—	—	397,936	AC
Financial liabilities included in other payables and accruals		AC	249,761	—	—	—	249,761	AC
Liability component of convertible bonds		AC	335,581	—	—	—	335,581	AC
Interest-bearing bank and other borrowings		AC	321,148	—	—	—	321,148	AC
			1,304,426	—	—	—	1,304,426	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income

Other than the reclassification mentioned above, as of 1 January 2018, other financial assets previously classified as loans and receivables under IAS 39 were reclassified to financial assets at amortized cost under IFRS 9 at their original carrying values, and there have been no changes to the classification or measurement of financial liabilities as a result of the adoption of IFRS 9.

3.1 Changes in Accounting Policies and Disclosures (Continued)

Changes to the impairment calculation

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The impact of adopting expected credit loss model under IFRS 9 was not significant and, therefore, the Group made no adjustment to reserves as of 1 January 2018 for the changes in impairment.

Changes to hedging accounting

The changes to hedging accounting would not have financial impact on the Group's financial statements as it does not have hedging transactions.

(b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 6 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 4.1 to the consolidated financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

Except for contract liabilities disclosed in note 29, there was no significant impact on the Group's financial position and financial results upon initial application as at 1 January 2018. Comparative information continues to be reported under IAS 11 and IAS 18.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

3.2 Issued But Not Yet Effective IFRSs

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

IFRS 16 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 elective 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 will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

3.2 Issued But Not Yet Effective IFRSs (Continued)

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB20,196,000 and lease liabilities of RMB20,394,000 will be recognised at 1 January 2019.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

4.1 Summary of Significant Accounting Policies

Investments in associates

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Investments in associates (Continued)

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

Business combinations and goodwill

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

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

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

Fair value measurement

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

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

4.1 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

Property, plant and equipment and revenue-generating assets and depreciation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and revenue-generating assets and depreciation (Continued)

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

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

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

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

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

Intangible assets (other than goodwill)

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill) (Continued)

Patents and trademarks

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

Software

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

Customer relationships

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

Research and development costs

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

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

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

Leases

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

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statement of profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

4.1 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the consolidated statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

4.1 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Available-for-sale financial investments (Continued)

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

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

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

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Available-for-sale financial investments

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

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

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

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

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and other borrowings, and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings, the derivative component of convertible bonds and the liability component of convertible bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Loans and borrowings

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

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

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

Commencing from the second year of the issuance date and upon expiration of the price adjustment, the convertible bonds contain only liability and equity components. By the end of the first anniversary of the issuance date, fair value of the conversion option is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Treasury shares

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Income tax

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

Government grants

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

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sale of goods provide customers with rights of return. The rights of return give rise to variable consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of goods (Continued)

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) Training services

Revenue from the rendering of training services is recognised over time as services are rendered and payment is generally due upon completion of training and customer acceptance.

Revenue from other sources

Rental income arising from operating leases on the revenue-generating assets is accounted for on the straight-line basis over the lease terms.

Other income

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

Revenue recognition (applicable before 1 January 2018)

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

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

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" below;

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the consolidated statement of profit or loss and other comprehensive income on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Construction contracts (applicable before 1 January 2018)

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

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

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

Contracts for services (applicable before 1 January 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.1 Summary of Significant Accounting Policies (Continued)

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 26 May 2014 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

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

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

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

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

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

Other employee benefits

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

4.1 Summary of Significant Accounting Policies (Continued)

Borrowing costs

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

Dividends

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

Foreign currencies

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

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

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

4.2 Significant Accounting Judgements, Estimates and Assumptions

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

Judgements

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

Operating lease commitments — Group as lessor

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

Estimations uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB220,041,000 (2017: RMB220,041,000). Further details are given in note 18 to the financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the water purification sector, air sanitisation sector and supply chain sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 23 to the financial statements.

4.2 Significant Accounting Judgements, Estimates and Assumptions (Continued)

Estimations uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

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

Impairment of available-for-sale financial assets

Before 1 January 2018, the Group classified certain assets as available for sale and recognised movements of their fair values in equity. When the fair value declined, management made assumptions about the decline in value to determine whether there was an impairment that should be recognised in the consolidated statement of profit or loss and other comprehensive income. At 31 December 2017, no impairment losses had been recognised for available-for-sale assets. The carrying amount of available-for-sale assets as at 31 December 2017 was RMB152,491,000.

Estimation of fair value of the derivative component of convertible bonds

The derivative component of convertible bonds has been valued based on a valuation technique of the binomial model that incorporates various market inputs including the risk-free rate, volatility, liquidity discount and risky discount rate, and hence they are subject to uncertainty. The fair values of the derivative component of convertible bonds at 2 November 2018 and 31 December 2018 were RMB50,025,000 and RMB46,525,000, respectively.

Fair value of unlisted equity investments

The majority of unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics as detailed in note 41 to the financial statements. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2018 was RMB418,068,000 (2017: RMB152,491,000). Further details are included in note 41 to the financial statements.

Net realisable value of inventories

Net realisable value of inventories is based on the ageing of the inventories, the subsequent selling or rental price or estimated selling or rental price, and the forecasted market demand. It could change significantly as a result of changes in market conditions. Management reassesses these estimates semi-annually. The carrying values of inventories provision were RMB20,505,000 and RMB27,805,000 as at 31 December 2018 and 2017, respectively. Further details are disclosed in note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Operating Segment Information

For management purposes, the Group divides its operation into business units based on their products and services and has four reportable operating segments as follow:

(a) the water purification segment that engages in leasing and sale of water purification machines, training services to distributors and selling of water purification products;

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

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

(d) the "others" segment that primarily comprises the Group's financing service in providing loans to distributors.

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

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

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

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

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

Revenue of approximately 13%, 9%, 8%, and 10%, 10%, 7% was derived from sales by the water purification segment to three customers for each of the years ended 31 December 2017 and 2018, respectively.

5. Operating Segment Information (Continued)

Operating segments

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

Year ended 31 December 2018	Water purification RMB'000	Air sanitisation RMB'000	Supply chain RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	1,149,169	3,754	416,324	75,667	1,644,914
Segment cost of revenue					
Sales to external customers	526,322	2,459	350,495	4,997	884,273
Segment results	338,276	(11,309)	25,396	66,229	418,592
Reconciliations:					
Share-based payments					(40,315)
Corporate and other unallocated expenses					(1,410)
Exchange loss					(10,805)
Finance costs					(170,046)
Profit before tax					196,016
Segment assets	4,566,869	70,511	465,116	339,618	5,442,114
Reconciliations:					
Corporate and other unallocated assets					1,132,579
Total assets					6,574,693
Segment liabilities	1,862,892	65,959	248,510	60,394	2,237,755
Reconciliations:					
Convertible bonds					554,219
Corporate and other unallocated liabilities					471,913
Total liabilities					3,263,887
Other segment information					
Share of (losses)/profits of associates	(17,702)	(6,930)	410	—	(24,222)
Depreciation and amortisation	327,464	38	1,855	4	329,361
(Reversal)/provision for write-down of inventories	(9,810)	1,334	1,176	—	(7,300)
Investments in associates	151,934	115,570	2,810	—	270,314
Capital expenditure*	513,223	125	21,153	6	534,507

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

5. Operating Segment Information (Continued)

Operating segments (Continued)

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

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

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

6. Revenue, Other Income and Gains

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

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	786,730	—
Sale of goods	—	738,840
Training services	—	84,787
Rendering of air sanitisation services	—	27,010
Revenue from other sources		
Gross rental income	782,517	666,921
Interest income from financing services	75,667	31,469
	1,644,914	1,549,027

Revenue from contracts with customers

(i) Disaggregated revenue information

With the adoption of IFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers for the year ended 31 December 2018 is as follows:

For the year ended 31 December 2018

Segments	Water purification services RMB'000	Air sanitisation services RMB'000	Supply chain services RMB'000	Total RMB'000
Type of goods or services				
Sale of goods	319,996	3,754	416,324	740,074
Training services	46,656	—	—	46,656
Total revenue from contracts with customers	366,652	3,754	416,324	786,730
Timing of revenue recognition				
Goods transferred at a point in time	319,996	3,754	416,324	740,074
Services transferred over time	46,656	—	—	46,656
Total revenue from contracts with customers	366,652	3,754	416,324	786,730

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

6. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	Water purification services RMB'000	Air sanitisation services RMB'000	Supply chain services RMB'000	Other services RMB'000	Total RMB'000
Revenue from contracts with customers					
External customers	366,652	3,754	416,324	—	786,730
Revenue from other sources					
External customers	782,517	—	—	75,667	858,184
	1,149,169	3,754	416,324	75,667	1,644,914

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	19,839

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

6. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Training services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of training and customer acceptance, except for new customers, where payment in advance is normally required.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	2018 RMB'000
Within one year	55,353

All the performance obligations are expected to be recognised within one year. There is no variable consideration which is constrained.

An analysis of other income and gains is as follows:

	Note	2018 RMB'000	2017 RMB'000
Other income			
Interest income		31,688	19,342
Government grants		2,343	32,560
Technical service fee		16,981	2,830
Others		3,995	4,674
		55,007	59,406
Gains			
Gain on disposal of a subsidiary	19	—	138,870
Fair value gains, net:			
Derivative financial instruments		18,726	—
Derivative component of convertible bonds		1,524	—
		20,250	138,870
		75,257	198,276

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

7. Profit Before Tax

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of construction services provided		—	21,493
Cost of inventories sold		547,640	515,533
Depreciation of revenue-generating assets	14	233,420	206,554
Depreciation of property, plant and equipment	15	117,919	98,031
Less: Amount capitalised in revenue-generating assets		(38,928)	(60,357)
		78,991	37,674
Amortisation of other intangible assets	17	24,170	18,105
Less: Amount capitalised in revenue-generating assets		(7,735)	(9,215)
		16,435	8,890
Amortisation of prepaid land lease payments	16	2,719	2,710
Less: Amount capitalised in revenue-generating assets		(2,204)	(2,030)
		515	680
Research and development costs		38,752	45,051
Auditors' remuneration		5,125	4,074
Employee benefit expense (including directors' remuneration (note 9)):			
Total wages and salaries		132,941	162,725
Less: Amount capitalised in revenue-generating assets		(33,193)	(45,844)
		99,748	116,881
Total pension scheme contributions		12,090	35,348
Less: Amount capitalised in revenue-generating assets		(6,925)	(4,549)
		5,165	30,799
Operating lease expenses		15,062	30,711
Less: Amount capitalised in revenue-generating assets		(2,346)	(14,554)
		12,716	16,157
Share-based payments	35	40,315	12,801
Foreign exchange differences, net		10,805	8,033
Fair value gains on the derivative component of convertible bonds	31	(1,524)	—
Impairment of trade and bills receivables	23	4,239	1,191
(Reversal)/provision for write-down of inventories	22	(7,300)	22,539
Loss on disposal of items of property, plant and equipment	15	1,590	1,619
Fair value change on a contingent payable		15,473	2,840
Loss on disposal of revenue-generating assets	14	8,789	4,235
Share of losses of associates		24,222	—
Gain on disposal of a subsidiary	19	—	(138,870)

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

8. Finance Costs

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings	127,273	70,438
Interest on convertible bonds	42,773	36,621
	170,046	107,059

9. Directors' and Chief Executive's Remuneration

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

	2018 RMB'000	2017 RMB'000
Fees	700	745
Salaries, allowances and benefits in kind	11,028	11,097
Pension scheme contributions	35	36
Share-based payments	23,224	4,942
	34,987	16,820

Directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

2018

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu*	—	1,678	—	15,644	17,322
Mr. Tan Jibin	—	3,050	4	2,109	5,163
Mr. Li Honggao	—	3,550	4	2,657	6,211
Mr. Wang Yonghui	—	1,550	23	1,523	3,096
Mr. Zhou Guanxuan	—	1,200	4	1,291	2,495
	—	11,028	35	23,224	34,287
Non-executive directors:					
Mr. He Sean Xing	—	—	—	—	—
Ms. Gui Songlei	—	—	—	—	—
Mr. Wang Duo	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Dr. Bao Jiming	175	—	—	—	175
Mr. Gu Jiuchuan	175	—	—	—	175
Dr. Chan Yuk Sing Gilbert	175	—	—	—	175
Mr. Lau Tze Cheung Stanley	175	—	—	—	175
	700	—	—	—	700
	700	11,028	35	23,224	34,987

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

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

2017

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu*	—	1,902	—	2,254	4,156
Mr. Zhu Mingwei(1)	—	214	1	—	215
Mr. He Jun(1)	—	214	1	—	215
Mr. Tan Jibin	—	2,757	4	751	3,512
Mr. Xiao Lilin(1)	—	214	2	—	216
Mr. Li Honggao(1)	—	2,507	4	992	3,503
Mr. Wang Yonghui	—	2,007	21	610	2,638
Mr. Zhou Guanxuan	45	1,282	3	335	1,665
	45	11,097	36	4,942	16,120
Non-executive directors:					
Mr. He Sean Xing	—	—	—	—	—
Ms. Gui Songlei	—	—	—	—	—
Mr. Wang Duo	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Dr. Bao Jiming	151	—	—	—	151
Mr. Gu Jiuchuan	183	—	—	—	183
Dr. Chan Yuk Sing Gilbert	183	—	—	—	183
Mr. Lau Tze Cheung Stanley	183	—	—	—	183
	700	—	—	—	700
	745	11,097	36	4,942	16,820

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

(1) Mr. Zhu Mingwei, Mr. He Jun and Mr. Xiao Lilin have resigned as the executive directors on 28 March 2017; Mr. Li Honggao has been appointed as an executive director on 28 March 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Five Highest Paid Employees

The five highest paid employees during the year included five executive directors (2017: five executive directors), details of whose remuneration are set out in note 9 above.

11. Income Tax

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

All of the Group's subsidiaries registered in the PRC and operating only in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Except for those further explained below, PRC enterprise income tax has been provided at the rate of 25% (2017: 25%) on the taxable income.

Pursuant to relevant laws and regulations in the PRC and with approval from the tax authorities in charge, one of the Group's subsidiaries, Shanghai Haoze Water Purification Technology, qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2018 to 2020. In 2018, it obtained renewed qualification of High and New Technology Enterprise.

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

Pursuant to relevant laws and regulations in the PRC and with approval from the tax authorities in charge, one of the Group's subsidiaries, Guangdong Bili, qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2018 to 2020. In 2018, it obtained renewed qualification of High and New Technology Enterprise.

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

Pursuant to the document "Shan Fa Gai Wai Zi (2013) No. 618" issued by the Development and Reform Commission of Shaanxi Province on 2 May 2013, one of the Group's subsidiaries, Shaanxi Haoze Environmental Technology was 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 RMB4,389,000 for the year ended 31 December 2018 (2017: RMB3,431,000), relating to the additional deduction of research and development costs.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

11. Income Tax (Continued)

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 RMB'000	2017 RMB'000
Current tax	78,612	75,352
Deferred tax (note 21)	(16,866)	(30,144)
Income tax expense reported in profit or loss	61,746	45,208

Reconciliation of the tax expense and the accounting profit multiplied by the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled for 2018 and 2017:

	2018 RMB'000	2017 RMB'000
Profit before tax	196,016	286,088
Tax at the statutory tax rate	49,004	71,522
Lower tax rates for specific provinces or enacted by local authority	(2,595)	(7,574)
Income not subject to tax	—	(24,404)
Expenses not deductible for tax	4,153	1,264
Unrecognised tax losses	15,573	7,831
Additional deduction of research and development costs	(4,389)	(3,431)
Tax at the effective income tax rate	61,746	45,208

12. Dividends

	2018 RMB'000	2017 RMB'000
Proposed final dividend of RMB1.09 cents (2017: RMB2.25 cents) per ordinary share	23,242	46,035

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

13. Earnings Per Share ("EPS")

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

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

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

	2018 RMB'000	2017 RMB'000
Earnings:		
Profit attributable to owners of the parent, used in the basic EPS calculation:	112,960	230,770
Interest on convertible bonds (note 31)	42,773	36,621
Less: Fair value gains on derivative component of convertible bonds	(1,524)	—
Profit attributable to owners of the parent, before the effect of convertible bonds	154,209	267,391

Shares:	**Number of shares**	
Weighted average number of ordinary shares for basic EPS	2,073,866,286	2,018,221,731
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	255,465,130	243,455,497
	2,329,331,416	2,261,677,228
Basic EPS (RMB cents)	5.45	11.43
Diluted EPS (RMB cents)*	5.45	11.43

* No adjustment has been made to the basic EPS amounts presented for the year ended 31 December 2018 in respect of a dilution as the impact of the convertible bonds outstanding, share options and restricted share units had an anti-dilutive effect on the basic EPS amount presented.

14. Revenue-Generating Assets

	RMB'000
At 1 January 2017:	
Cost	1,968,788
Accumulated depreciation	(484,379)
Net carrying amount	1,484,409
At 1 January 2017, net of accumulated depreciation	1,484,409
Additions	308,346
Transfers from property, plant and equipment	13,733
Disposals	(4,235)
Depreciation provided during the year	(206,554)
At 31 December 2017, net of accumulated depreciation	1,595,699
At 31 December 2017:	
Cost	2,284,853
Accumulated depreciation	(689,154)
Net carrying amount	1,595,699
At 1 January 2018, net of accumulated depreciation	**1,595,699**
Additions	**434,379**
Transfers from property, plant and equipment	**1,165**
Disposals	**(8,789)**
Depreciation provided during the year	**(233,420)**
At 31 December 2018, net of accumulated depreciation	**1,789,034**
At 31 December 2018:	
Cost	**2,686,755**
Accumulated depreciation	**(897,721)**
Net carrying amount	**1,789,034**

The net carrying amount of revenue-generating assets held under finance leases at 31 December 2018 was RMB757,859,000 (2017: RMB1,139,799,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Property, Plant and Equipment

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

15. Property, Plant and Equipment (Continued)

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018:						
Cost	135,506	864,576	132,151	20,365	6,040	1,158,638
Accumulated depreciation	(48,703)	(149,695)	(82,683)	(11,620)	—	(292,701)
Net carrying amount	86,803	714,881	49,468	8,745	6,040	865,937
At 1 January 2018, net of accumulated depreciation	86,803	714,881	49,468	8,745	6,040	865,937
Additions	18,275	64,732	2,702	1,627	686	88,022
Depreciation provided during the year	(34,015)	(64,837)	(15,968)	(3,099)	—	(117,919)
Transfers to revenue-generating assets	—	(1,165)	—	—	—	(1,165)
Disposals	(363)	(824)	(390)	(12)	(1)	(1,590)
At 31 December 2018, net of accumulated depreciation	70,700	712,787	35,812	7,261	6,725	833,285
At 31 December 2018:						
Cost	153,342	927,389	132,198	21,751	6,725	1,241,405
Accumulated depreciation	(82,642)	(214,602)	(96,386)	(14,490)	—	(408,120)
Net carrying amount	70,700	712,787	35,812	7,261	6,725	833,285

There were no motor vehicles held under finance leases at 31 December 2018 (2017: RMB7,585,000). At 31 December 2018, certain of the Group's buildings with a net carrying amount of approximately RMB82,662,000 (2017: RMB87,583,000) were pledged to secure general banking facilities granted to the Group (note 32). The carrying value of plant and machinery held under finance leases at 31 December 2018 was RMB49,601,000 (2017: RMB57,313,000).

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

16. Prepaid Land Lease Payments

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**114,913**	73,260
Addition	**5,295**	23,736
Acquisition of subsidiaries	**—**	20,627
Amortised during the year	**(2,719)**	(2,710)
Carrying amount at 31 December	**117,489**	114,913
Current portion	**(2,990)**	(2,924)
Non-current portion	**114,499**	111,989

At 31 December 2018, certain of the Group's prepaid land lease payments with a net carrying amount of approximately RMB19,432,000 (2017: RMB19,947,000) were pledged to secure general banking facilities granted to the Group (note 32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Other Intangible Assets

	Patents RMB'000	Trademarks RMB'000	Customer relationships RMB'000	Software RMB'000	Total RMB'000
At 1 January 2017:					
Cost	31,655	12,439	—	52,783	96,877
Accumulated amortisation	(14,960)	(6,631)	—	(15,568)	(37,159)
Net carrying amount	16,695	5,808	—	37,215	59,718
At 1 January 2017, net of accumulated amortisation	16,695	5,808	—	37,215	59,718
Addition	—	—	—	3,030	3,030
Acquisition of subsidiaries	11,500	71,000	102,700	12	185,212
Disposal of a subsidiary	—	—	—	(20)	(20)
Amortisation provided during the year	(4,091)	(4,408)	(3,214)	(6,392)	(18,105)
At 31 December 2017, net of accumulated amortisation	24,104	72,400	99,486	33,845	229,835
At 31 December 2017:					
Cost	43,155	83,439	102,700	55,792	285,086
Accumulated amortisation	(19,051)	(11,039)	(3,214)	(21,947)	(55,251)
Net carrying amount	24,104	72,400	99,486	33,845	229,835
At 1 January 2018, net of accumulated amortisation	**24,104**	**72,400**	**99,486**	**33,845**	**229,835**
Addition	**—**	**—**	**—**	**6,542**	**6,542**
Amortisation provided during the year	**(3,681)**	**(8,297)**	**(6,429)**	**(5,763)**	**(24,170)**
At 31 December 2018, net of accumulated amortisation	**20,423**	**64,103**	**93,057**	**34,624**	**212,207**
At 31 December 2018:					
Cost	**43,131**	**83,432**	**102,700**	**62,181**	**291,444**
Accumulated amortisation	**(22,708)**	**(19,329)**	**(9,643)**	**(27,557)**	**(79,237)**
Net carrying amount	**20,423**	**64,103**	**93,057**	**34,624**	**212,207**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Goodwill

	RMB'000
At 1 January 2017:	
Cost	26,037
Accumulated impairment	—
Net carrying amount	26,037
Cost at 1 January 2017, net of accumulated impairment	26,037
Acquisition of subsidiaries	194,004
At 31 December 2017	220,041
At 31 December 2017:	
Cost	220,041
Accumulated impairment	—
Net carrying amount	220,041
Cost at 1 January 2018, net of accumulated impairment	**220,041**
Cost and net carrying amount at 31 December 2018	**220,041**
At 31 December 2018:	
Cost	**220,041**
Accumulated impairment	**—**
Net carrying amount	**220,041**

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Water and air purification services cash-generating unit ("CGU") of RMB145,568,000; and
- Supply chain cash-generating unit of RMB74,473,000.

18. Goodwill (Continued)

In 2018, the recoverable amount of the water purification services CGU and the supply chain CGU was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was between 16% and 18% (2017: between 16% and 18%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3% (2017: 3%) which was less than the long term average growth rate of the water purification industry and supply chain industry. Management determined budgeted growth rates based on past performance and its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business.

Assumptions were used in the value in use calculation of the water purification services CGU and the supply chain CGU for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

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

19. Investments in Associates

	2018 RMB'000	2017 RMB'000
Share of net assets	270,314	86,135

The Group's receivable and payable balances with the associates are disclosed in note 39 to the financial statements.

19. Investments in Associates (Continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the associates' loss for the year	(24,222)	—
Share of the associates' total comprehensive loss	(24,222)	—
Aggregate carrying amount of the Group's investments in the associates	270,314	86,135

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

20. Equity Investments Designated at Fair Value through Other Comprehensive Income/Available-for-Sale Investments

Equity investments designated at fair value through other comprehensive income

Unlisted equity investments, at fair value	note	2018 RMB'000	2017 RMB'000
Investments in entities set up with top dealers	(a)	352,507	—
Microfinance company	(b)	63,070	—
Other		2,491	—
Total		418,068	—

(a) The Company invested in 21 dealers, taking up 9.09% share of each. These investees works as distributors of the Company and help to capture end markets faster.

(b) The Company acquire 5.14% share of a microfinance company.

Available-for-sale investments

	2018 RMB'000	2017 RMB'000
Unlisted equity investments, at cost	—	152,491

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income was nil.

21. Deferred Tax Assets/Liabilities

Deferred tax relates to the following:

Deferred tax assets:

	Elimination of unrealised profits RMB'000	Accruals RMB'000	Provisions RMB'000	Total RMB'000
At 1 January 2017	1,332	45,107	1,258	47,697
Deferred tax (charged)/credited to profit or loss during the year (note 11)	(3)	24,362	3,578	27,937
Acquisition of subsidiaries	—	1,778	—	1,778
At 31 December 2017 and 1 January 2018	1,329	71,247	4,836	77,412
Deferred tax credited/(charged) to profit or loss during the year (note 11)	475	24,837	(1,252)	24,060
At 31 December 2018	**1,804**	**96,084**	**3,584**	**101,472**

Deferred tax liabilities:

	Accrued government grant RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Fair value adjustment of financial assets at fair value through profit or loss RMB'000	Elimination of unrealised losses RMB'000	Total RMB'000
At 1 January 2017	950	5,256	—	—	6,206
Deferred tax credited to profit or loss during the year (note 11)	(259)	(1,948)	—	—	(2,207)
Acquisition of subsidiaries	—	38,503	—	—	38,503
At 31 December 2017 and 1 January 2018	691	41,811	—	—	42,502
Deferred tax (credited)/charged to profit or loss during the year (note 11)	(196)	(3,481)	2,801	8,070	7,194
At 31 December 2018	**495**	**38,330**	**2,801**	**8,070**	**49,696**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Deferred Tax Assets/Liabilities (Continued)

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

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

At the end of each reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,025,835,000 and RMB1,222,667,000 as at 31 December 2017 and 2018, respectively.

22. Inventories

	2018 RMB'000	2017 RMB'000
Raw materials	104,148	103,825
Work in progress	74,478	47,880
Finished goods	187,447	184,881
Provision for write-down of Inventories	(20,505)	(27,805)
	345,568	308,781

23. Trade and Bills Receivables

	Note	2018 RMB'000	2017 RMB'000
Trade receivables		**449,314**	330,095
Amount due from contract customers	24	**—**	1,509
Bills receivable		**20,218**	25,857
		469,532	357,461
Impairment		**(7,513)**	(3,274)
Net trade and bills receivables		**462,019**	354,187

Trade and bills receivables mainly represent rental service receivables from distributors, receivables for air sanitisation services and receivables for sales of micro motor products. The Group usually requires a payment in advance before the installation of water purification machines or offering rental service from most of the distributors. The Group only grants a credit period to some distributors with long-term relationship and good credit history. The credit period is generally 5 months for the rental service. For sales of goods of water purification machines, the Group grants a credit term less than 90 days to the customers. For air sanitisation service receivables, the payment terms are stipulated in the relevant contracts. The credit period is generally three month with a retention period of one year. For sales of motor products, the Group grants a credit term of generally 3 to 4 months to the customers. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are unsecured and non-interest- bearing.

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

	2018 RMB'000	2017 RMB'000
Within 90 days	**390,309**	245,459
Over 90 days and within 180 days	**65,465**	69,661
Over 180 days and within 1 year	**4,492**	34,369
Over 1 year and within 2 years	**1,380**	3,189
Over 2 years and within 3 years	**373**	—
	462,019	352,678

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Trade and Bills Receivables (Continued)

The movement in the loss allowance for impairment of trade receivables are as follows:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
At beginning of year	3,274	2,083
Impairment losses, net	4,239	1,191
At end of year	7,513	3,274

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Current	Less than 1 year	Past due 1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.84%	14.32%	58.74%	—	1.60%
Gross carrying amount (RMB'000)	445,919	22,709	904	—	469,532
Expected credit losses (RMB'000)	3,730	3,252	531	—	7,513

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB3,274,000 with a carrying amount before provision of RMB3,274,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

23. Trade and Bills Receivables (Continued)

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	343,866
Past due but not impaired	
Less than 90 days past due	6,367
90 to 180 days past due	1,458
180 days to 1 year past due	987
1 to 2 years past due	—
	352,678

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB12,100,000 (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 year to which the suppliers have recourse was RMB12,100,000 (2017: RMB7,060,000) as at 31 December 2018.

24. Construction Contracts

	2018 RMB'000	2017 RMB'000
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Prepayments, Other Receivables and Other Assets

	2018 RMB'000	2017 RMB'000
Other receivables	**762,187**	704,298
Prepayment for investments	**—**	281,375
Prepayments	**233,773**	63,877
Prepayment for purchase of property, plant and equipment	**180,376**	101,213
Deposits	**10,962**	5,361
Long-term prepayment	**2,957**	1,452
	1,190,255	1,157,576
Less: Non-current portion		
Prepayment for Investments	**—**	281,375
Long-term prepayment	**(2,957)**	(1,452)
Other receivables	**(68,844)**	(396,340)
Prepayment for purchase of property, plant and equipment	**(180,376)**	(101,213)
	(252,277)	(708,380)
	937,978	377,196

Except for loan to distributors included in other receivable amounted to RMB337,349,000 (2017: RMB422,947,000) bearing interest rates arranging from 6% to 12% (2017: 6% to 12%). The above balances are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of deposits and other receivables approximate to their fair values.

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

Other receivables included Mainland China Value Added Tax ("VAT") receivable amounting to RMB57,961,000 and RMB88,451,000 as at 31 December 2017 and 2018, respectively. Input VAT on purchases can be deducted from output VAT payable. The VAT receivable is deductible input VAT which has not been claimed from the tax bureau.

26. Derivative Financial Instruments

	2018 RMB'000	2017 RMB'000
Contingent consideration receivable, at fair value	**18,726**	—

Derivative financial instruments derived from equity investments in dealers, which are measured at fair value with changes into profit or loss. The Company is entitled with contingent receivables from the investees based on further performances of these investee.

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

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**290,909**	275,759
Time deposits	**179,942**	347,834
Total cash and bank balances	**470,851**	623,593
Less: Pledged as collateral for issuance of bank acceptance notes	**(32,600)**	(69,764)
Pledged as collateral for issuance of bank loan	**(40,000)**	—
Short-term investments	**(139,942)**	(347,834)
Cash and cash equivalents	**258,309**	205,995
Denominated in RMB	**334,731**	485,557
Denominated in HK$	**134,529**	137,140
Denominated in US$	**1,591**	896
Total cash and bank balances	**470,851**	623,593

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between 1 week to 3 months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The short-term investments are deposits with terms of more than 3 months.

28. 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:

	2018 RMB'000	2017 RMB'000
Within 90 days	196,683	288,872
Over 90 days and within 180 days	82,508	70,898
Over 180 days and within 1 year	45,980	6,000
Over 1 year and within 2 years	4,357	24,070
Over 2 years and within 3 years	5,246	6,404
Over 3 years	4,983	1,692
	339,757	397,936

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

29. Other Payables, Advances from Customers and Accruals

	note	2018 RMB'000	2017 RMB'000
Other payables		418,256	445,975
Advances from customers	(a)	117,883	89,256
Accruals		23,160	22,622
		559,299	557,853

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

(a) Contract liabilities included in the advance from customers as of 31 December 2018 amounted to RMB55,353,000 (2017: RMB19,839,000). The increase in the contract liabilities is due to increase in the business scale.

30. Deferred Revenue

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

31. Convertible Bonds

On 6 November 2015, the Company issued HK$ denominated and settled convertible bonds at the rate of 5% per annum payable semi-annually in arrears due in 2020 in the principal amount of HK$465,000,000 (equivalent to RMB380,742,000) (the "2015 Convertible Bonds").

Pursuant to the bond subscription agreement, the 2015 Convertible Bonds are:

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

(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 2015 Convertible Bonds will mature on 6 November 2020 with annual effective interest rate of 10.87%. The 2015 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 (the "2015 Price Adjustment").

The first adjustment was made on 1 December 2016, which adjusted the price to HK$1.91 per share, and the second adjustment was made on 13 July 2018, which adjusted the price to HK$1.88 per share.

The proceeds from the issuance of the 2015 Convertible Bonds on 6 November 2015 of HK$465,000,000 have been split into liability and derivative components in the first year of the issuance date. On issuance of the 2015 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 issuance 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 the issuance date, upon the expiration of the 2015 Price Adjustment, the fair value of the derivative component with an amount of RMB52,321,000 as at 6 November 2016 was assigned as an equity component.

Save for the above-mentioned adjustment to the conversion price, all other terms and conditions of the 2015 Convertible Bonds remain unchanged.

31. Convertible Bonds (Continued)

The movements of the liability component and the equity component of the 2015 Convertible Bonds are as follows:

	Liability component of 2015 Convertible Bonds RMB'000	Equity component of 2015 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
At 1 January 2018	**335,581**	**52,321**	**387,902**
Interest expense	**38,083**	**—**	**38,083**
Interest paid	**(19,987)**	**—**	**(19,987)**
Currency translation differences	**16,686**	**—**	**16,686**
At 31 December 2018	**370,363**	**52,321**	**422,685**

On 2 November 2018, the Company issued HK$ denominated and settled convertible bonds at the rate of 6.8% per annum payable semi-annually in arrears due in 2021 in the principal amount of HK$215,000,000 (equivalent to RMB190,344,000) (the "2018 Convertible Bonds").

Pursuant to the bond subscription agreement, the 2018 Convertible Bonds are:

(a) convertible at the option of the bond holders into fully-paid ordinary shares of the Company at any time on or after 13 December 2018 up to the 10th day prior to the maturity date at a conversion price of HK$2.03 per share (subject to adjustments);

(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 2018 Convertible Bonds will mature on 2 November 2021 (the "Maturity Date") with annual effective rate of 22.57% and will be redeemed on maturity at a price equal to 105% of the principal amount together with unpaid accrued interest thereon the Maturity Date.

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 on 2 November 2019 (the "2018 Price Adjustment").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Convertible Bonds (Continued)

The proceeds from the issuance of the 2018 Convertible Bonds on 2 November 2018 of HK$215,000,000 have been split into liability and derivative components in the first year of the issuance date. On issuance of the 2018 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 issuance 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 the issuance date, upon the expiration of the 2018 Price Adjustment, the derivative component will be assigned as an equity component.

There was no movement in the number of the 2018 Convertible Bonds during the year.

The fair values of the derivative component are determined based on the valuations performed by BDO Financial Services Limited, an independent firm of professional valuers, using the applicable option pricing model.

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

	Liability component of 2018 Convertible Bonds RMB'000	Derivative component of 2018 Convertible Bonds RMB'000	Total RMB'000
Nominal value of convertible bonds issued at 2 November 2018	140,319	50,025	190,344
Direct transaction costs attributable to each component	(4,164)	(1,469)	(5,633)
Fair value of each component at the issuance date	136,155	48,556	184,711
Interest expense	4,690	—	4,690
Fair value adjustment	—	(1,524)	(1,524)
Interest paid	(2,087)	—	(2,087)
Currency translation differences	(1,427)	(507)	(1,934)
At 31 December 2018	137,331	46,525	183,856

32. Interest-Bearing Bank and Other Borrowings

	2018			2017		
	Effective interest rate(%)	Maturity	RMB'000	Effective interest rate(%)	Maturity	RMB'000
Current						
Bank loans — unsecured	5.50–6.50	2019	100,100	5.22	2018	30,000
5.72% USD25,000,000 unsecured bank loan	LIBOR+3%	2019	171,932	—	—	—
Bank loans — secured	5.13–6.50	2019	38,420	5.13–5.50	2018	29,827
Current portion of long term						
bank loans — unsecured	5.70	2019	26,910	—	—	—
other loans — unsecured	9.00	2019	187,700	—	—	—
Other loans — unsecured	10.00	2019	182,300	10.00	2018	30,000
Other loans — secured	8.50	2019	6,000	—	—	—
			713,362			89,827
Non-current						
Bank loans — unsecured	—	—	—	5.70	2019	29,900
Bank loans — secured	—	—	—	6.25–6.56	2020	13,721
Other loans — unsecured	9.25	2020	295,000	9.00	2019	187,700
			295,000			231,321
			1,008,362			321,148

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

	2018 RMB'000	2017 RMB'000
Analysed into		
Bank loans and other borrowing repayable		
Within one year	675,862	59,827
In the second year	295,000	217,600
In the third to fifth years, inclusive	—	13,721
	970,862	291,148
Factoring repayable		
Within one year	37,500	30,000
	1,008,362	321,148

(a) The Group's loan facilities amounted to RMB597,012,000 (2017: RMB109,900,000), of which RMB588,833,000 (2017: RMB103,800,000) had been utilized as at the end of the reporting period.

(b) Certain of the Group's bank loans are secured by:

(i) the pledge of Foshan Lepuda's account receivable right of RMB10,392,000 (2017: Nil);

(ii) mortgages over Guangdong Bili's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB36,380,000 (2017: RMB38,615,000), and Guangdong Bili's land, which had an aggregate carrying value at the end of the reporting period of approximately RMB9,011,000 (2017: RMB9,244,000);

(iii) mortgages over the Foshan Lepuda's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB46,282,000 (2017: RMB48,968,000), and Foshan Lepuda's land, which had an aggregate carrying value at the end of the reporting period of approximately RMB10,421,000 (2017: RMB10,703,000);

(iv) the pledge of the Group's shares in Foshan Lepuda, Guangdong Bili, Guangdong Hax Electrical Appliance Technology Co., Ltd. ("Hax") and 4 invested distributors.

(c) Except for the 5.72% bank loan which is denominated in United States dollars, all borrowings are in RMB.

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

33. Finance Lease Payables

Finance lease payables as at 31 December 2018 and 2017 represent the borrowings under a financing arrangement 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 with a repurchase option. The subjects sold and leased back under the financing arrangement 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 to four 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 2018 RMB'000	Minimum lease payments 2017 RMB'000	Present value of minimum lease payments 2018 RMB'000	Present value of minimum lease payments 2017 RMB'000
Amounts payable:				
Within one year	313,624	397,462	280,612	334,532
In the second year	159,658	300,975	151,154	269,435
In the third to fifth years	18,676	183,388	18,335	175,171
Total minimum finance lease payments	491,958	881,825	450,101	779,138
Future finance charges	(41,857)	(102,687)		
Total net finance lease payables	450,101	779,138		
Portion classified as current liabilities	(280,612)	(334,532)		
Non-current portion	169,489	444,606		

34. Share Capital, Share Premium, Treasury Shares and Reserves

Ordinary shares issued and fully paid

	Number of shares in issue	Share capital RMB'000
At 1 January 2017	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 31 December 2018	2,135,981,950	17,284

Share premium

	RMB'000
At 1 January 2017	935,408
Issue of shares	472,320
At 31 December 2017	1,407,728
Issue of shares	144,289
At 31 December 2018	1,552,017

On 13 November 2016, the Company entered into a subscription agreement with Glorious Shine Holdings Limited, a company indirectly held by a discretionary trust established by Mr. Xiao Shu, the chairman and chief executive officer of the Company, for the subscription of 316,299,950 shares at a subscription price of HK$1.71 per share. The gross proceeds from the subscription amounted to approximately HK$540,873,000 and the net proceeds raised from the subscription were approximately HK$537,710,000. The subscription was completed on 25 January 2018 and the subscription shares were issued on 25 January 2017.

On 16 May 2018, the Company issued additional 90,000,000 shares at the price of HK$2.00 per share to financing for the Group's general working capital.

During the year ended 31 December 2018, the Company purchased a total of 21,832,000 (2017: 8,789,000) ordinary shares of HK$0.01 each in the capital of the Company at an aggregate price of approximately RMB36,719,000 (2017: RMB15,534,000) on the Hong Kong Stock Exchange.

As at 31 December 2018, treasury shares of RMB63,148,000 (2017: RMB26,429,000) consisted of remaining repurchased ordinary shares of 38,612,719 (2017: 18,977,000) without cancellation at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Share Capital, Share Premium, Treasury Shares and Reserves (Continued)

Reserves

(a) Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, dealers of the Company or its subsidiaries for their contribution to the Group.

(b) Merger reserve

Through a group reorganisation ("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.

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

(c) Foreign currency translation reserve

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

(d) Fair value reserve

The change in fair value of equity investments at fair value through other comprehensive income is recognised in other comprehensive income and accumulated to the fair value reserve.

(e) Other reserves

Other reserves represent the statutory reserve fund which comprises:

(i) Reserve fund

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

(ii) Statutory surplus reserve

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

35. 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 options	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Share-based Payments (Continued)

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

	2018 RMB'000	2017 RMB'000
Total expense arising from equity-settled share-based payment transactions	40,315	13,202
Less: Amount capitalised in revenue-generating assets	—	(401)
	40,315	12,801

There were no cancellations of or modifications to the awards in 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 year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 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	—	(1,144,940)	—	—	92,339,665
	156,318,846	—	(1,144,940)	—	—	155,173,906
Exercisable at the end of the year	156,318,846	—	—	—	—	155,173,906

35. Share-based Payments (Continued)

	Outstanding at 1 January 2017	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 2017
Directors						
Mr. Xiao Shu	51,086,706	—	—	—	—	51,086,706
Mr. Zhu Mingwei[(1)]	11,160,859	—	—	—	—	11,160,859
Mr. He Jun[(1)]	10,662,531	—	—	—	—	10,662,531
Mr. Tan Jibin	8,547,535	—	—	—	—	8,547,535
Mr. Xiao Lilin[(1)]	7,596,652	—	—	—	—	7,596,652
Mr. Li Honggao[(1)]	3,200,000	—	—	—	—	3,200,000
Other employees						
In aggregate	64,920,156	—	(855,593)	—	—	64,064,563
	157,174,439	—	(855,593)	—	—	156,318,846
Exercisable at the end of the year	—	—	—	—	—	156,318,846

(1) Mr. Zhu Mingwei, Mr. He Jun and Mr. Xiao Lilin have resigned as the executive directors on 28 March 2017; Mr. Li Honggao has been appointed as an executive director on 28 March 2017.

The weighted average remaining contractual life of the share options outstanding as at 31 December 2018 was 5.5 years. The weighted average fair value of the options granted under the Pre-IPO Share Option Scheme was HK$1.07 (RMB0.85).

Share Option Scheme

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

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

35. Share-based Payments (Continued)

Share Option Scheme (Continued)

Share options were granted under the Share Option scheme during the year 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 grant date	3/22/2019-3/22/2028	40%
Upon 24 months after the grant date	3/22/2020-3/22/2028	70%
Upon 36 months after the grant 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.

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 options	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 options	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.

35. Share-Based Payments (Continued)

Share Option Scheme (continued)

The share option expense recognised for employee services received during the year was RMB20,982,000.

There were no cancellations of or modifications to the awards during the year ended 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 year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 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 31 December 2018 was 9 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Share-based Payments (Continued)

Restricted Share Unit Scheme

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

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

15,839,250 restricted share units (31 December 2017: 13,776,916 restricted share units) were granted under the restricted share unit scheme during the year ended 2018. The expense recognised for employee services received during the year was RMB19,333,000.

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

	Outstanding at 1 January 2018	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 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 year	169,812	—	—	—	—	5,638,126

36. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of revenue-generating assets and property, plant and equipment with a total capital value at the inception of the leases of RMB44,470,000 (2017: RMB610,065,000).

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings RMB'000	**Finance lease payables** RMB'000	**Convertible bonds** RMB'000
At 1 January 2018	321,148	779,138	335,581
Changes from financing cash flows	687,214	(373,507)	183,187
Equity component of convertible bonds	—	—	(46,525)
New finance lease	—	44,470	—
Foreign exchange movement	—	—	14,752
Interest expense	—	—	42,773
Interest paid	—	—	(22,074)
At 31 December 2018	1,008,362	450,101	507,694

37. Operating Lease Arrangements

(a) As lessor

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

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

	2018 **RMB'000**	2017 RMB'000
Within one year	**405,582**	295,231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. 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:

	2018 RMB'000	2017 RMB'000
Within one year	9,264	9,443
In the second to fifth years, inclusive	14,900	10,947
	24,164	20,390

38. Commitments

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

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	363,773	158,232

39. Related Party Transactions and Balances

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2018 RMB'000	2017 RMB'000
Associates:			
Sales of products	(i)	5,635	—
Purchases of products	(ii)	132,718	—

Notes:

(i) The sales to the associates were made according to the published prices and conditions offered to the major customers of the Group.

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

39. Related Party Transactions and Balances (Continued)

(b) Outstanding balances with related parties:

(i) Amount due to related parties

	2018 RMB'000	2017 RMB'000
Hax	(132)	—
Shanghai Ozoup Environment Technology Co., Ltd. ("Ozoup")	(3,977)	—
Shanghai Ozner Noorey Environment Technology Co., Ltd. ("Shanghai Noorey Environment")	(32,258)	—
Shanghai Ozner Noorey Air Purification Technology Co., Ltd. ("Shanghai Noorey Air")	(5)	—
Suzhou Coreclean Purification Technology Co., Ltd. ("Coreclean")	(3,788)	—
Haoyou	—	—
Total amount due to related parties	(40,160)	—

The trade payables are non-interest-bearing.

(ii) Amount due from related parties

	2018 RMB'000	2017 RMB'000
Shanghai Hoyo Environmental Technology Co., Ltd.	3,684	—
Coreclean	63,768	—
Shaanxi Ozner Noorey Environmental Technology Co., Ltd. ("Shaanxi Noorey Environmental")	9,040	—
Hax	1,049	—
Ozoup	1,179	—
Haoyou	41,692	—
Shanghai Noorey Environment	2,672	—
Foshan OTOI Industrial Technology Co., Ltd.	2,280	—
Total amount due from related parties	125,364	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Related Party Transactions and Balances (Continued)

(c) Compensation of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Short term employee benefits	11,728	11,842
Pension scheme contributions	35	36
Share-based payments	23,224	4,942
Total compensation paid to key management personnel	34,987	16,820

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

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

40. Financial Instruments by Category

Financial assets — loans and receivables

	2018 RMB'000	2017 RMB'000
Trade and bills receivables	462,019	354,187
Financial assets included in prepayments, other receivables and other assets	684,698	651,698
Short-term investments	139,942	347,834
Pledged deposits	72,600	69,764
Cash and cash equivalents	258,309	205,995
	1,617,568	1,629,478

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

Financial liabilities — financial liabilities at amortised cost

	2018 RMB'000	2017 RMB'000
Trade and bills payables	339,757	397,936
Financial liabilities included in other payable and accruals	197,736	249,761
Liability component of convertible bonds	507,694	335,581
Interest-bearing bank and other borrowings	1,008,362	321,148
	2,053,549	1,304,426

41. Fair Value and Fair Value Hierarchy of Financial Instruments

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

	Carrying amounts		Fair values	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	418,068	—	418,068	—
Financial assets at derivative financial instruments	18,726	—	18,726	
	436,794	—	436,794	—
Financial liabilities				
Derivative component of convertible bonds	46,525	—	46,525	—
Interest-bearing bank borrowings	337,362	103,448	337,362	103,448
Other borrowings	671,000	217,700	672,394	217,700
Liability component of convertible bonds	507,694	335,581	518,400	327,320
	1,562,581	656,729	1,574,681	648,468

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

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a discounted cash flow valuation model or a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares or determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable companies by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The derivative component of the convertible bonds and financial assets at fair value through profit or loss are measured at fair value as at the end of the reporting period. The derivative component of the convertible bonds is valued by using the binomial tree model that incorporates the risk-free rate, volatility and risky rate. Financial assets at fair value through profit or loss are valued by using the Monte Carlo model that incorporates the entire range of results for given assumptions and displays the likelihood of achieving each of them. The expected value of the outcomes is then determined as the probability weighted mean.

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Equity investments designated at fair value through other comprehensive income	Valuation multiples	Discount for lack of marketability	2018: 25%	5% increase/decrease in discount would result in decrease/ increase in fair value by RMB4,200,000
	Discounted cash flow method	Weighted-average cost of capital (WACC)	2018: 16%	1% increase/decrease in WACC would result in decrease in fair value by RMB35,170,000/ increase in fair value by RMB41,850,000
		Long-term growth rate for cash flows	2018: 3%	1% increase/decrease in growth rate would result in increase/ decrease in fair value by RMB10,630,000
		Discount for lack of control	2018: 25%	5% increase/decrease in discount would result in decrease/ increase in fair value by RMB23,500,000
		Discount for lack of marketability	2018: 25%	5% increase/decrease in discount would result in decrease/ increase in fair value by RMB23,500,000
Derivative component of convertible bonds	Binomial tree model	Risk-free rate	2018: 1.82%	1% increase/decrease in risk-free rate would result in decrease/ increase in fair value by RMB696,000
		Volatility	2018: 35.98%	10% increase/decrease in volatility would result in increase/ decrease in fair value by RMB5,127,000
		Risky rate	2018: 20.26%	1% increase/decrease in risky rate would result in increase/ decrease in fair value by RMB910,000
Financial assets at fair value through profit or loss	Monte Carlo method	WACC	2018: 16%	1% increase/decrease in WACC would result in decrease/ increase in fair value by RMB455,000
		Volatility	2018:11%–12%	10% increase/decrease in volatility would result in increase/ decrease in fair value by RMB13,085,000

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	—	—	418,068	418,068
Financial assets at fair value through profit or loss	—	—	18,726	18,726
	—	—	436,794	436,794

The movements in fair value measurements within Level 3 during the year are as follows:

	2018	2017
	RMB'000	RMB'000
Equity investments at fair value through other comprehensive income		
At 1 January	**152,491**	—
Effect of adoption of IFRS 9	**—**	—
At 1 January	**152,491**	—
Total gains recognised in other comprehensive income	**3,528**	—
Purchases	**262,049**	152,491
At 31 December	**418,068**	152,491

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2018 (Continued)

	2018 RMB'000	2017 RMB'000
Financial assets at fair value through profit or loss		
At 1 January	—	—
Effect of adoption of IFRS 9	—	—
At 1 January	—	—
Total gains recognised in profit or loss	—	—
Addition	18,726	—
At 31 December	18,726	—

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2)** RMB'000	**Significant unobservable inputs (Level 3)** RMB'000	**Total** RMB'000
Derivative component of convertible bonds	—	—	46,525	46,525

The Group did not have any financial liabilities measured at fair value as at 31 December 2017.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	337,362	—	337,362
Other borrowings	—	672,394	—	672,394
Liability component of convertible bonds	—	—	518,400	518,400
	—	1,009,756	518,400	1,528,156

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	103,448	—	103,448
Other borrowings	—	217,700	—	217,700
Liability component of convertible bonds	—	—	327,320	327,320
	—	321,148	327,320	648,468

42. Financial Risk Management Objectives and Policies

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

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

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

42. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk

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

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

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

	Increase/ (decrease) in HK$ rate	Increase/ (decrease) in profit before tax
2017		
If HK$ weakens against RMB	–5%	(1,770)
If HK$ strengthens against RMB	+5%	1,770
2018		
If HK$ weakens against RMB	**–5%**	**54,136**
If HK$ strengthens against RMB	**+5%**	**(54,136)**
If USD weakens against RMB	**–5%**	**8,515**
If USD strengthens against RMB	**+5%**	**(8,515)**

Credit risk

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

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

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

42. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

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

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

31 December 2018

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	33,182	651,227	684,409
Trade and bills payables	—	339,757	—	339,757
Financial lease payables	—	313,624	178,334	491,958
Interest-bearing bank and other borrowings	—	784,082	335,734	1,119,816
Financial liabilities included in other payables and accruals	197,736	—	—	197,736
	197,736	1,470,645	1,165,295	2,833,676

31 December 2017

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

42. Financial Risk Management Objectives and Policies (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

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

	2018 RMB'000	2017 RMB'000
Trade and bills payables	339,757	397,936
Other payables and accruals	441,417	468,597
Financial lease payables	450,101	779,138
Short-term borrowings	713,362	89,827
Interest-bearing bank and other borrowings	295,000	231,321
Less: Cash and cash equivalents	(258,309)	(205,995)
Net debt	1,981,328	1,760,824
Liability component of convertible bonds	507,694	335,581
Equity attributable to owners of the parent	3,141,705	2,933,011
Adjusted capital	3,649,399	3,268,592
Adjusted capital and net debt	5,630,727	5,029,416
Gearing ratio	35%	35%

43. Events After the Reporting Period

There were no subsequent events between the end of the reporting period and the date of approval of these financial statements that would cause material impact on the Group.

44. Statement of Financial Position of the Company

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

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Due from subsidiaries	1,805,871	1,534,626
Investments in subsidiaries	181,826	141,512
Prepayments	—	108,875
Equity investments designated at fair value through other comprehensive income	63,070	—
TOTAL NON-CURRENT ASSETS	2,050,767	1,785,013
CURRENT ASSETS		
Other receivables	202,861	111,699
Due from related parties	—	34
Prepaid expenses	—	31
Cash and cash equivalents	65	10,747
TOTAL CURRENT ASSETS	202,926	122,511
CURRENT LIABILITIES		
Other payables	4,627	3,841
Derivative component of convertible bonds	46,525	—
Due to subsidiaries	24,797	24,796
TOTAL CURRENT LIABILITIES	75,949	28,637
NET CURRENT ASSETS	126,977	93,874
TOTAL ASSETS LESS CURRENT LIABILITIES	2,177,744	1,878,887
NON-CURRENT LIABILITIES		
Liability component of convertible bonds	507,694	335,581
NET ASSETS	1,670,050	1,543,306
EQUITY		
Share capital	17,284	16,554
Share premium (note)	1,552,017	1,407,728
Treasury shares (note)	(63,148)	(26,429)
Equity component of convertible bonds	52,321	52,321
Reserves (note)	111,576	93,132
TOTAL EQUITY	1,670,050	1,543,306

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

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

Note:

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

	Share premium RMB'000	Retained earnings RMB'000	Equity component of convertible bonds RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Treasury shares RMB'000	Total RMB'000
At 1 January 2017	935,408	(24,726)	52,321	124,309	127,707	(10,895)	1,204,124
Total comprehensive income for the year	—	(46,806)	—	—	—	—	(46,806)
Other comprehensive income	—	—	—	(100,556)	—	—	(100,556)
Share-based payments	—	—	—	—	—	—	—
Issuance of ordinary shares	472,320	—	—	—	—	—	472,320
Repurchase of shares	—	—	—	—	—	(15,534)	(15,534)
Equity-settled share option arrangements	—	—	—	—	13,204	—	—
At 31 December 2017 and 1 January 2018	**1,407,728**	**(71,532)**	**52,321**	**23,753**	**140,911**	**(26,429)**	**1,526,752**
Total comprehensive income for the year	**—**	**(43,623)**	**—**	**—**	**—**	**—**	**(43,623)**
Other comprehensive income	**—**	**—**	**—**	**74,838**	**—**	**—**	**74,838**
Share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Dividends paid	**—**	**(53,086)**	**—**	**—**	**—**	**—**	**(53,086)**
Issuance of ordinary shares	**144,289**	**—**	**—**	**—**	**—**	**—**	**144,289**
Repurchase of shares	**—**	**—**	**—**	**—**	**—**	**(36,719)**	**(36,719)**
Equity-settled share option arrangements	**—**	**—**	**—**	**—**	**40,315**	**—**	**40,315**
At 31 December 2018	**1,552,017**	**(168,241)**	**52,321**	**98,591**	**181,226**	**(63,148)**	**1,652,766**

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

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

FINANCIAL SUMMARY

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
Water purification services	**1,149,169**	1,169,417	854,202	679,388	411,267
Air sanitization services	**3,754**	133,729	54,553	63,626	100,444
Supply chain services	**416,324**	214,412	—	—	—
Other	**75,667**	31,469	12,011	2,385	—
	1,644,914	1,549,027	920,766	745,399	511,711
Gross Profit	**760,641**	715,689	502,093	438,945	334,715
Gross Profit Margin	**46.2%**	46.2%	54.5%	58.9%	65.4%
Profit for the year	**134,270**	240,880	228,655	28,061	123,902
Net Profit Margin	**8.2%**	15.6%	24.8%	3.8%	24.2%

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue-generating assets	**1,789,034**	1,595,699	1,484,409	1,245,364	941,668
Total assets	**6,574,693**	5,786,600	3,688,522	3,309,395	2,450,033
Total liabilities	**3,263,887**	2,705,798	1,464,876	1,357,626	554,213
Total equities	**3,310,806**	3,080,802	2,223,646	1,951,769	1,895,820

Note:

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