

OZNER 浩澤

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2014)

INTERIM REPORT 2019



24:00



DRINK FOR HEALTH

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Wang Duo
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

INVESTOR AND MEDIA RELATIONS CONSULTANT

DLK Advisory Limited

REGISTERED OFFICE

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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

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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

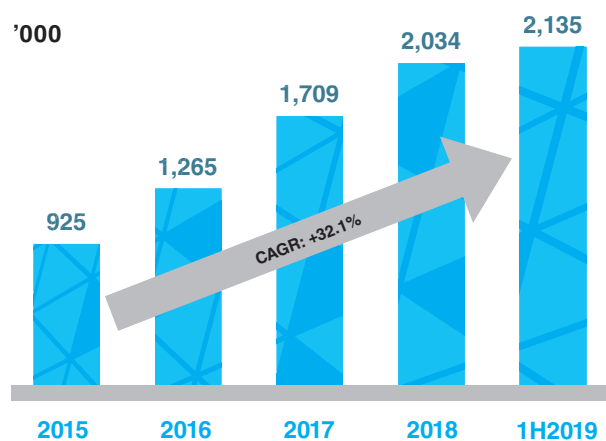
www.ozner.net

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(RMB in thousand)	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Revenue		
Water purification services	563,132	525,992
Air sanitization services and others	300,077	272,282
Gross Profit	403,860	341,861
<i>Gross Profit Margin</i>	46.8%	42.8%
Net Profit	100,630	90,503
<i>Net Profit Margin</i>	11.7%	11.3%
Basic earnings per share (RMB cents)	4.51	3.77

(RMB in thousand)	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
	Revenue generating assets	1,816,485
Total assets	7,254,921	6,574,693
Total liabilities	3,887,254	3,263,887

Continuous Growth in the Installation of Water Purifiers



CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY ANALYSIS

During the six months ended 30 June 2019 (the "Period"), China's economy sought steady growth amid challenges, adding downward pressure to the economy. In particular, under the backdrop of Sino-US economic and trade frictions, China was exposed to challenging external environment, and the overlapping of inadequacy and imbalances posed by self-development have made it more difficult for China to maintain growth and prevent risks. In the year after the global shock, China's economy is achieving growth by shifting the focus from high speed to high quality. During the Period, most of the small and medium-sized enterprises are experiencing difficulty in effecting transformation and are facing pressure on cost and capital.

The water purifier industry was affected by China's general economic conditions and has experienced a slowdown of its overall development during the Period. In 2019, China's water purifier enterprises has been choosing between market exploration and transformation. According to the statistics of Spearhead Acuity, a market research company, in terms of consumption structure in water purifiers of urban residents and rural residents, water purifier products were still used as sanitary equipment to eliminate residents' drinking water hazards. Further, urban residents were still willing to pay for clean drinking water. 56% of urban residents purchased intelligent water purification equipment to achieve the dual purposes of domestic usage and purified drinking water, and 45% of rural residents hoped to improve the drinking water environment at home. Going forward, as the urbanization rate and disposable income increase and consumption mindset changes, more and more Chinese consumers would prefer to choose intelligent technology products that are high-quality and high-performance and would pay more attention to drinking water quality. In addition, the trend of installing water purifier to raise the quality of life would remain unchanged.

Spearhead Acuity reported that, during the Period, the water purifier market in the PRC had recorded growth in the commercial water purifier segment. The growth of the commercial field were mainly driven by the low market penetration of the domestic market and the vast market potential. The commercial water purifier segment had begun to penetrate the original market share of household water purifiers. Currently, office building, hospital, campus, hotel and other buildings in PRC cities are increasingly concerned about the comprehensive treatment of drinking water. It is expected that the market share from sales of commercial water purification equipment would exceed 41% in 2022.

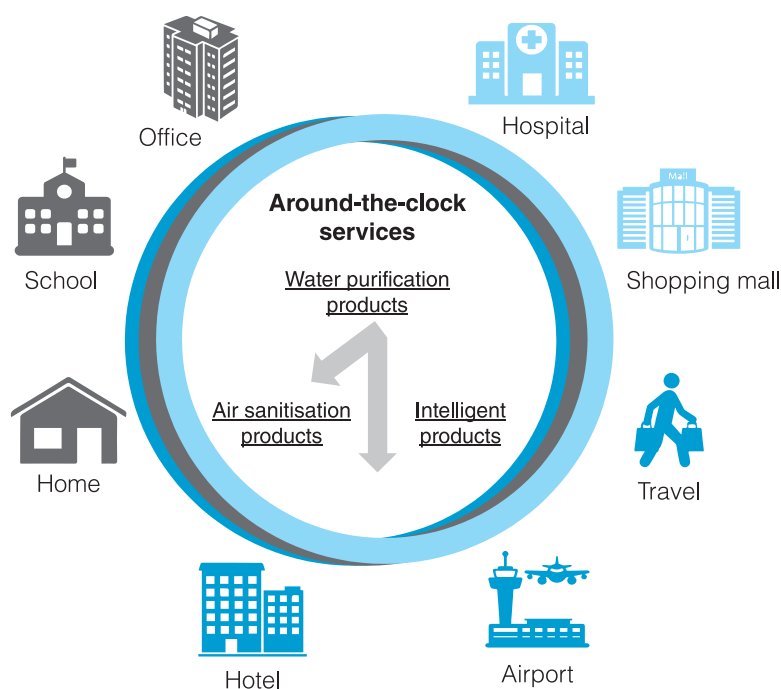
In terms of the market model of water purifiers, the emergence of the leasing model has created a business growth point for a group of water purification enterprises, and the recurring income from the leasing model has solved the pain points of poor customer loyalty and low retention rate that had long plagued the manufacturers of water purifiers. The concept and model of sharing water purifier with water dispensers have led to the transformation from traditional marketing model to water machine leasing business. In the report of Chinese Academy of Industry Economy Research, it was indicated that, in the next few years, the number of Chinese water purifier companies that engage in leasing model would further increase. It is expected that by 2020, the retail sales of water purifiers in the leasing model in the PRC market would reach RMB22.6 billion, representing a compound annual growth rate of approximately 24%.

In addition, the functional requirements of the water purifier consumption market has been further increased. At present, the continuous development of artificial intelligence, cloud technology, technology relating to the Internet of Things ("IoT") and big data technology indicates that people are recreating their home environment from a high-tech perspective. In particular, the younger generation in China is upgrading their home devices for better living at home.

Overall, despite the difficult operating environment in the first half of this year, the Group is still fully confident in the future development of the water purifier consumption market, particularly in the commercial water purification segment.

BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

As a service provider of around-the-clock solutions for safe drinking water, the Group continued to provide users with customised and professional solutions for drinking water by digging deep into the pain points of various offices and living scenes and combining a diversified product portfolio with personalized installation solutions. The Group's water purification services have covered many scenarios such as enterprises and institutions, medical systems, education systems, store and supermarket systems, catering systems and major transportation hubs. Meanwhile, Ozner's "24*365" all-day and year-round service system continued developing. Regardless of the time and location, from early morning to evening, be it living rooms, offices, schools, airports or hospitals, users can enjoy safe drinking water provided by Ozner. In addition, Ozner further developed air purifiers, purified water dishwasher and a series of intelligent ecological products from its water purification business and products. By building an intelligent water ecosystem which is applicable to all home appliances, Ozner continuously provides users with smart living solutions based on safe drinking water products.



During the Period, the Group (1) further strengthened the segmental strategy of commercial leasing model to enlarge the overall proportion of commercial leasing business in the Group's water purifying business, with the customer renewal rate of its commercial leasing business exceeding 95% for three consecutive years; (2) continued to advance IoT technology and has established a comprehensive IoT service system for product, service, operation and management end; (3) further extended its after-sales service system coverage, upgraded service platform "HoYo" and continued to invite platform engineers to join the Company to improve the quality and efficiency of after-sales service; (4) standardized the management of distributors, guided distributors about marketing and sales strategy and established Ozner Experience Centers; (5) strategically commenced research and development project of Ozner robot to enhance the innovation capability and technical reserve of the Group and released various new products; and (6) laid the foundation for Ozner environmental protection and intelligence industrial park, which became the first batch of key construction projects in Xianyang for the year.

The Group recorded steady growth in both revenue and gross profit for the Period as compared to the corresponding period of the previous year. Revenue grew by approximately 8.1% from approximately RMB798.3 million for the six months ended 30 June 2018 to approximately RMB863.2 million for the Period, of which revenue from the water purification business increased by 7.1%. The Group's gross profit increased by approximately 18.1% from approximately RMB341.9 million for the six months ended 30 June 2018 to RMB403.9 million for the Period, while the Group's net profit increased by approximately 11.2% from approximately RMB90.5 million for the six months ended 30 June 2018 to approximately RMB100.6 million for the Period. The increase in revenue, gross profit and net profit was mainly attributable to the healthy growth of the Group's water purification businesses.

The Group has recorded an increase in the accumulated number of water purifiers installed from approximately 2,034,000 units as at 31 December 2018 to approximately 2,135,000 units as at 30 June 2019 and a total of 151,000 units of new water purifiers during the Period.

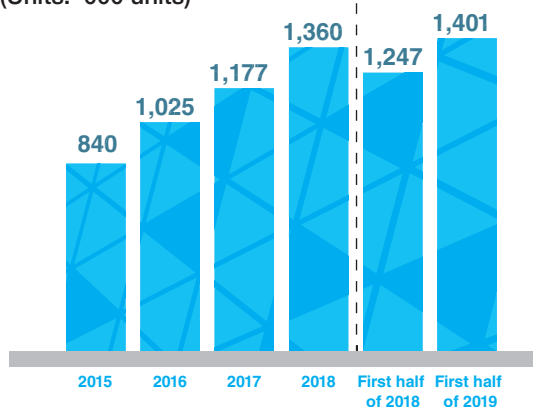
FURTHER STRENGTHENED THE SEGMENTAL STRATEGY OF COMMERCIAL LEASING MODEL WITH CUSTOMER RENEWAL RATE EXCEEDING 95% FOR THREE CONSECUTIVE YEARS

The Group further strengthened its segmental strategy of commercial leasing model aimed at recurring consumption by stable commercial customers and users with high renewal rates to acquire steady cash flow. During the Period, the Group recorded an increase in the accumulated number of installation of leased water purifiers from approximately 1,360,000 units as at 31 December 2018 to approximately 1,401,000 units as at 30 June 2019. The Group also had a total of approximately 92,000 units of new commercial water purifiers for leasing during the Period which stayed the same year-on-year and accounted for approximately RMB442.7 million of revenue from the business segment of leasing model, representing a year-on-year increase of 18.7%.

In addition, the Group has further enlarged the proportion of revenue from the business segment of commercial leasing model within the business as a whole from approximately 36.8% as at 30 June 2018 to approximately 41.1% as at 30 June 2019, demonstrating that the Group has shifted its strategic focus to further lowering selling expenses incurred as a result of expanding the household water purifier market and acquiring more commercial leasing customers and users with stable renewal rates. Such change shows that the Group continued to expand its market shares and completed strategic layout in the industry through the increasing adoption of an innovative and sharing business model. Such efforts are intended to enhance the sustainable development of the Group for the future.

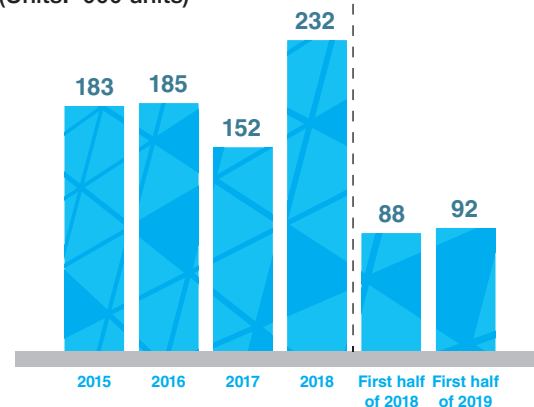
The total number of installation of commercial leased water purifiers

(Units: '000 units)



The incremental installation of commercial leased water purifiers

(Units: '000 units)



In addition, the Group continued to acquire high-quality and loyal commercial leasing customers, including those from schools, hospitals, hotels, supermarkets, banking and financial institutions, large state-owned enterprises and Fortune 500 companies. Renewal rates reached 96% of commercial leasing customers for the Period and exceeded 95% for three consecutive years.

ADVANCED IOT TECHNOLOGY AND ESTABLISHED A COMPREHENSIVE IOT SERVICE SYSTEM FOR PRODUCT, SERVICE, OPERATION AND MANAGEMENT END

During the Period, the Group continued to advance its IoT technology to produce intelligent home products that are user-friendly. The IoT strategy of Ozner does not simply focus on IoT hardware, but also establishes a comprehensive IoT service system on the product, service, operating and management ends.

On the product end, intelligent IoT system of Ozner could remotely monitor breakdowns of equipment, smartly prevent water and electricity leakage, control the automatic reminders for life of filter cartridges and place service order to assign after-sales engineers for on-site home service on a timely basis. On the service end, analysis on usage information of users has enabled a deep understanding of users' needs and helped prepare customised and personalised plans for service solution, while allowing for the continuous upgrading of products and optimising of services. On the operation end, the IoT system of Ozner, can supply data preparation for precise operation so as to carry out differentiated marketing that cater different users according to their own needs. In addition, by analysing different factors, including user portraits and district water quality, Ozner's IoT system can explore users' potential needs and create new profit growth points by stimulating users' needs.

On the management end, the "shared service" model of Ozner has created business advantages in the industry and brought more management conveniences. Specifically, the application of IoT technology upgrade across the management system of the enterprises has enabled the Group to charge an annual service fee for its water purification equipment, allowed the distance renewal by users through mobile App and empowered the Company to efficiently manage its assets with the use of intelligent IoT system. During the Period, after continuous upgrades and optimisation of IoT technology by the Group, its IoT system has been comprehensively applied to various systems including product, service, operating and management, and the unique IoT strategy of Ozner has also brought strong and powerful competitive edges to the Group.

During the Period, the Group has continued to invest in the research and development of the IoT key project. Various types and style of the Group's water purifiers, including the first and second generation models, wall-hanging, vertical standard, over-the-top and in-cabinet style for kitchen use and vertical air purifiers, have introduced and applied technology developed by the Group. In order to upgrade products and the large data service platform of the Group, trial production in bulk, software development and design and the construction and upgrade of technical platform have been conducted in different stages.

EXTENDED THE SERVICE SYSTEM COVERAGE OF THE GROUP, UPGRADED SERVICE PLATFORM "HOYO" AND CONTINUED TO INVITE PLATFORM ENGINEERS TO JOIN THE COMPANY

As at 30 June 2019, the Group's service network has covered nearly 2,344 cities, counties and towns throughout the country with 3,408 service system engineers, 32 provincial logistics warehouse centers and more than 500 cars in-service. During the Period, the Group continued to improve the professional skills of after-sales engineer and fuel their enthusiasm for training. The Group also expanded the service system team and continued to invite platform engineers to join the Company. During the Period, self-owned engineers and service platform engineers accounted for 24% and 76%, respectively, of the Group's total employees as compared to 31% and 69%, respectively, for the corresponding period of last year.

The Group's service platform, "HoYo", is continuously upgraded such that instant data connection and uploading for products are now possible, enabling personalised management with the use of devices. Products are automatically tied to mobile devices via "HoYo" service platform such that drinking water data is readily available to users. "HoYo" also automatically reminds users to replace filters for their water purifiers through cell phones and mobile devices. With intelligent after-sales services, users can be immediately informed of the products' status, whilst the function of "one-click repair" enables them to send data to the after-sales engineers platform of Ozner through which the engineers from the maintenance department can directly take up the orders and serve the users. During the Period, installation service efficiency within three days increased by 10.5% year-on-year, installation service efficiency within three to five days increased by 4.3% year-on-year, repair service efficiency within twenty four hours increased by 11.9% year-on-year, and repair service efficiency within one or two days decreased by 9.8% year-on-year. The Group will continue to enhance both service efficiency and service quality.

STANDARDIZED THE MANAGEMENT OF DISTRIBUTORS AND ENSURE TO GUIDE DISTRIBUTORS ABOUT MARKETING AND SALES STRATEGY

The Group continued to adopt its win-win collaborative management and maintenance model with its distributors, continuously established channel and network platforms, set up full-crew marketing system, increased and strengthened the efforts in expanding the business of operators, accentuated assessment for merchant sales team and supported and enhanced operators and distributors' capability on developing clients in all aspects. During the Period, the Group has established the Nationwide Ozner Sales Growth Ranking and Incentive Plan and a product and sales standard training scheme for distributors, which have both been carried out across the Group. By improving the urban operator development plan and building a learning platform for Ozner's distributors properly, the Group was able to provide its agents and distributor the necessary support and knowledge of Ozner's products, thereby strengthening the Group's ability in managing distributors. As at 30 June 2019, the Group added 192 new distributors, which brought the total number of distributors to over 7,394.

In respect of marketing and sales, during the Period, the Group advertised on the Company's own media platform, iFamily APP, and e-commerce platforms and conducted on-site marketing jointly with distributors. The Group focused on building Ozner Experience Centers in all regions across China which have functions such as brand show, product experience, conference activities and customers experience pavilion, with a view to enhance the brand awareness of Ozner in all regions of China.



STRATEGICALLY COMMENCED RESEARCH AND DEVELOPMENT PROJECT OF OZNER ROBOT TO ENHANCE THE INNOVATION CAPABILITY AND TECHNICAL RESERVE OF THE GROUP AND RELEASE VARIOUS NEW PRODUCTS

During the Period, the Group strategically commenced project research and development and invested in the research and development of Ozner robot intelligent water supply system of which comprises service end, robot and the main water supply machine. The intelligent water supply system of Ozner robot can walk for six hours non-stop with the capacity of reserving seven liters of hot water and seven liters of room temperature water, meaning that it can meet the water supply for one to two hundred people each hour and serve for up to six to eight hours through automation functions such as walking, service of water inlet and outlet, water outlet from refrigerator, heat preservation, heating and the auto-filling service. Currently, the prototype of Ozner robot has been completed and is under testing. The prototype is scheduled to undergo trial run in the second half of 2019 to carry out product and technology preparation for the Group's upgrade strategy.

In respect of new product launches, during the Period, the Group introduced e-commercial quartz plate, adding variety to online products and IoT products such as multimedia smart faucet with big and small screens and the enhanced version of vertical engine 1.5 for sterilization. The Group updated and strengthened the sterilization capability based on a more complicating user environment, further ensuring users' safety when the products are in use. As at 30 June 2019, the Group has conducted the development of 41 products for water purification service, 4 air sanitization products, 6 intelligent products and dishwashers.

For upgrading technology reserve, during the Period, the Group (1) raised the water efficiency level of household products and commercial products according to the requirement of new national standards; (2) completed the development proposal of new composite bacteriostatic filter; and (3) developed the micro combined sterilizer whose prototype is in the testing stage. As at 30 June 2019, the Group had 293 expert researchers and developers. The Group continuously enhanced its innovation capability and research and development capacity and has upgraded the leading technology of water purification, safe ozone sterilization and IoT industrial platform. For air sanitization products, a quadruple filtration system was built and technology of intelligent control through App was updated. For intelligent home products, the small and portable products in the category of intelligent AI drinking were developed and the functions of intelligent water purification and dishwasher have been improved. As at 30 June 2019, the Group owned 446 patents, among which there were 273 patents of water purification services, 35 patents of air sanitization, 138 patents of intelligent products and dishwashers. In addition, the Group is applying for 102 patents including 62 patents of water purification services, 8 patents of air sanitization and 32 patents of intelligent products and dishwashers.

LAI D FOUNDATION FOR OZNER ENVIRONMENTAL PROTECTION AND INTELLIGENCE INDUSTRIAL PARK, WHICH BECAME THE FIRST BATCH OF KEY CONSTRUCTION PROJECTS IN XIANYANG FOR THE YEAR

During the Period, the ground breaking ceremony of the Ozner environmental protection and intelligence industrial park was held by the Group in Ozner environmental protection and intelligence industrial park in Qindu District, Xianyang, which became the first batch of key construction projects in Xianyang for the year. Such key projects signalled the beginning of Xianyang's focus on construction. It also indicated that the Group has further taken a solid step in achieving the industrial layout goal in Shaanxi Province, China.

Ozner environmental protection and intelligence industrial park is another key industrial layout following the opening of Ozner environmental protection and production bases in Xianyang. With the characteristics of beautiful ecology, vivid industry, comprehensive facilities and high-end technology, the management believes that the construction of Ozner environmental protection and intelligence industrial park will play a positive role in strengthening many aspects of the Group's strategic synergy (including supply chain, logistics, production and sales) and profitability.

In addition, the Group proactively seeks for industrial strategic cooperation partners in Shaanxi Province and has signed strategic corporation agreements with China Telecom Shaanxi Company and New Day Electric Vehicle. Based on IoT technology, Ozner and China Telecom Shaanxi Company will promote cooperation in many aspects, including communications modules and product research and development for commercialisation. China Telecom Shaanxi Company and Ozner will launch channel marketing and promotion in all aspects under the cooperation of intelligent home appliances. The cooperation with New Day Electric Vehicle will further enhance the work efficiency of Ozner service team and enable a smoother operation of supply chain system.

OZNER BRAND WAS RECOGNIZED BY MANY AUTHORITIES AND THE QUALITY OF OZNER PRODUCTS IS WELL-KNOWN IN THE MARKET

During the Period, the Group has been recognized by many authorities for the quality of Ozner products and strict quality control. It was granted the award of "Top 10 Commercial Water Purification Enterprises in China" (中國商用淨水十強企業) at China Water Purification Brand Summit (中國淨水品牌峰會), the honorary titles of "Stable Qualified Products in National Quality Inspection" (全國質量檢驗穩定合格產品) and "National Product and Service Quality Integrity Demonstration Enterprise" (全國產品和服務質量誠信示範企業) 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) and the award of "Top 10 Suppliers of Chinese Hospital Construction" (中國醫院建設十佳供應商) by China Hospital Construction Committee (中國醫院建設組委會). The Group also became a member of Special Committee for Education Equipment of China Association for Quality Promotion (中國質量萬里行促進會教育裝備專業委員會) and was designated as the water purification service provider at Inclusive Finance Summit Forum in 2019 (二零一九年普惠金融高峰論壇), the Expo 2010 Shanghai China (上海世博會), G20 summit in Hangzhou (杭州G20峰會), BRIC summit in Xiamen (廈門金磚峰會) and International University Sports Federation (世界大學生運動會).

FUTURE STRATEGIES

In the future, the Group will continue to solidify its development strategy, which has the safety of water purification as its core and puts emphasise on commercial leasing business to further improve its development capacity of intelligent products and fully establish the IoT platform. The Group will continuously enhance Ozner's research and development capacity and the informatization level of the Group's management and focus on the planning and research of core water purification technologies, industry-leading technologies and international standards in relation to new filters, water saving and IoT technologies which are in line with the Group's strategy. It will also constantly enhance the management capability of distributors to attract more high-quality distributors and agents to join, further expand the coverage of service system, upgrade "HoYo" service platform and continue to invite the platform engineers to join the Company so as to make contribution to the sustainable development and further improvement of profitability of the Company.

FINANCIAL REVIEW

Revenue

The Group's total revenue increased by 8.1% from RMB798.3 million for the six months ended 30 June 2018 to RMB863.2 million for the six months ended 30 June 2019, primarily attributable to the healthy development of various business segments.

For the six months ended 30 June 2018 and 2019, the revenue from water purification services amounted to RMB526.0 million and RMB563.1 million, respectively, with a 7.1% increase, due to the increase in the accumulated number of water purification machines installed. In particular, rental income grew by 18.7% from RMB372.9 million for the six months ended 30 June 2018 to RMB442.7 million for the six months ended 30 June 2019, primarily attributable to the Group's continuing strengthening on the strategy of commercial leasing market segment. The share of revenue from leasing water purification machines in the total revenue of water purification business increased from 70.9% for the six months ended 30 June 2018 to 78.6% for the six months ended 30 June 2019. Under the challenging of overall trend of economic downturn, the Group kept the same growth pace of installation during the six months ended 30 June 2019 and 2018. For the six months ended 30 June 2019, the Group leased and sold a total of approximately 151,000 units of water purification machines, of which number of newly leased machines was approximately 92,000 units with the accumulated installation base for lease increased from approximately 1,360,000 units as at 31 December 2018 to approximately 1,401,000 units as at 30 June 2019.

Revenue generated from supply chain service amounted to RMB240.4 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB236.1 million) was mainly attributable to the sales of micro motor products by Foshan Lepuda Motor Co., Ltd ("Foshan Lepuda").

Gross Profit Margin

The gross profit margin of the Group increased from 42.8% for the six months ended 30 June 2018 to 46.8% for the six months ended 30 June 2019, primarily attributable to the increase in average gross profit of each segment.

The Group's gross profit margin of water purification business was 50.9% and 53.3% for the six months ended 30 June 2018 and 2019, respectively. Such increase of gross profit margin was attributable to the increased portion of leasing revenue with a relatively high gross profit margin.

The Group's gross profit margin of supply chain services was 18.2% and 18.8% for the six months ended 30 June 2018 and 2019, respectively. Such slight increase was mainly due to the efforts on expanding market channels and developing new high-tech products.

Other Income and Gains

Other income and gains amounted to RMB37.7 million and RMB103.6 million for the six months ended 30 June 2018 and 2019, respectively. Such increase was mainly attributable to the fair value gains on derivative financial instruments and derivative component of convertible bonds.

Fair value gains on derivative financial instruments come from contingent consideration of Valuation Adjustment Mechanism regarding on investments by using Monte Carlo valuation model to estimate the fair value of the profit guarantee agreed. The fair value gains on derivative financial instruments amounted to RMB67.8 million for the six months ended 30 June 2019, mainly in relation to the Group's equity investments in the distributors.

Fair value gains on derivative component of convertible bonds represented the change on the fair value of the derivative component between the date of issue and the end of the reporting period. The fair value of the derivative component was determined by using the applicable option pricing valuation model. The derivative component was in relation to the right of conversion conferred by the 6.8 per cent convertible bonds due in 2021 (the "Bonds") with an aggregate principal amount of HK\$215 million. The fair value gains on derivative component of convertible bonds amounted to RMB21.8 million for the six months ended 30 June 2019.

Selling and Distribution Expenses

For the six months ended 30 June 2018 and 2019, the Group's selling and distribution expenses were RMB82.2 million and RMB55.2 million, respectively, accounting for 10.3% and 6.4% of the revenue for the same period. The Group's selling and distribution expenses decreased by 32.9% or RMB27.0 million for the six months ended 30 June 2018 to the six months ended 30 June 2019. Such decrease was primarily due to the decrease of RMB24.1 million in salary, welfare, travel expenses and other personnel related expenses, which in turn was mainly because the Group strategically adjusted its structure of sales staff.

Administrative Expenses

For the six months ended 30 June 2018 and 2019, the Group's administrative expenses were RMB85.4 million and RMB111.0 million, respectively, accounting for 10.7% and 12.9% of the revenue for the same period. The Group's administrative expenses increased by 30.0% or RMB25.6 million for the six months ended 30 June 2018 to the six months ended 30 June 2019. Such increase was mainly attributable to the increase of share-based payments and personnel expenses.

Finance Costs

Finance costs mainly represented the finance expenses of the Bonds, loans in relation to sales and leaseback arrangements, other liquidity and merger and acquisition loans. Finance costs grew by 60.0% or RMB43.6 million from RMB72.7 million for the six months ended 30 June 2018 to RMB116.3 million for the six months ended 30 June 2019. Such growth primarily came from the increase in financing and loans.

Income Tax Expense

Pursuant to relevant laws, rules and regulations in the PRC and with the approval from competent taxation authority, the Group's water purifier business and supply chain business are entitled to certain preferential tax treatments, including (i) the entitlement of a preferential tax rate of 15% for the three years from 2018 to 2020 by Shanghai Haoze Water Purification Technology Development Co., Ltd. as qualified as a High and New Technology Enterprise; (ii) the entitlement of a preferential tax rate of 15% for the three years from 2017 to 2019 by Shanghai Haoze Comfort Environment & Science Co., Ltd. as qualified as a High and New Technology Enterprise; (iii) the entitlement of a preferential tax rate of 15% for the three years from 2016 to 2018 by Foshan Lepuda as qualified as a High and New Technology Enterprise, and the preferential treatment is under renewing in 2019 and is estimated to be approved before the end of the year; (iv) the entitlement of a preferential tax rate of 15% for the three years from 2018 to 2020 by Guangdong Bili Drinking Water Equipment Co., Ltd. as qualified as a High and New Technology Enterprise; and (v) the entitlement of a preferential tax rate of 15% from 2012 to 2020 by Shaanxi Haoze Environmental Technology Development Co., Ltd. as an enterprise engaged in an encouraged industry in the China's Western Development as approved by a local competent taxation authority; (vi) the entitlement of a preferential tax rate of 15% from 2019 to 2020 by Shaanxi Haoze Water Purification Service Co., Ltd. as an enterprise engaged in an encouraged industry in the China's Western Development as approved by a local competent taxation authority; (vii) the entitlement of a preferential tax rate of 15% from 2019 to 2020 by Shaanxi Haoze Water Purification Technology Development Co., Ltd. as an enterprise engaged in an encouraged industry in the China's Western Development as approved by a local competent taxation authority;

The Group's income tax expense amounted to RMB23.3 million and RMB26.7 million for the six months ended 30 June 2018 and 2019, respectively, which was mainly attributable to the preferential tax treatments the Group received in relation to its water purification service and supply chain service. The effective tax rate (calculated by income tax expense dividing by profit before tax) was 20.5% and 21.0% for the six months ended 30 June 2018 and 30 June 2019 respectively, which basically remained stable.

Profit for the Period and Net Profit Margin

Profit for the period increased by 11.2% from RMB90.5 million for the six months ended 30 June 2018 to RMB100.6 million for the six months ended 30 June 2019, which was mainly attributable to the fact that the increased gross profit and other income was offset by the increased finances costs and other expenses. Net profit margin increased from 11.3% for the six months ended 30 June 2018 to 11.7% for the six months ended 30 June 2019. The factors contributed to the increase as mentioned above.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations primarily through cash generated from the Group's operating activities as well as financing from financial institutions and the capital market. The Group intends to finance its expansion and business operations with internal resources and through organic and sustainable growth.

Cash Positions

As at 30 June 2019, the Group's bank balances and cash amounted to RMB326.0 million (31 December 2018: RMB398.3 million), representing a decrease of 18.2% from that of 31 December 2018. The Group intends to invest the surplus cash as short-term demand deposits and/or monetary market products. As at 30 June 2019, all cash equivalents were denominated mainly in RMB and Hong Kong dollars.

Trade and Bills Receivables

Trade and bills receivables increased from RMB462.0 million as at 31 December 2018 to RMB560.2 million as at 30 June 2019. The increase was due to (i) the Group's commitment to enhance long-term business cooperation with quality distributors which enjoys a certain credit period. In 2019, credit period that the Group provided for these quality distributors extended to six months; (ii) the receivables from supply chain services also increased from RMB181.7 million as at 31 December 2018 to RMB218.2 million as at 30 June 2019 due to the overall downward economic environment. The Group's average trade receivable turnover days were 89 days and 107 days for the year ended 31 December 2018 and for the six months ended 30 June 2019, respectively.

Inventories

Inventories increased from RMB345.6 million as at 31 December 2018 to RMB362.9 million as at 30 June 2019. The slight increase was due to the increase in inventory of raw materials and work-in-progress to fulfill the demands from customers in the peak season in summer.

Current Ratio and Gearing Ratio

The Group's current ratio was 0.89 as at 30 June 2019 as the Group was in net current liabilities position of RMB352.2 million. It was mainly due to the increase of short term borrowings, which the Group believes can be extended or replaced by new one's with longer facility term or repaid through operating cash flow. The Group's gearing ratio, which was derived by dividing total debt by total equity, was 59.4% and 69.1% as at 31 December 2018 and 30 June 2019, respectively. Such change was due to the increase in the bank and other borrowings.

Capital Expenditure

For the six months ended 30 June 2019, the Group's capital expenditure amounted to RMB354.5 million, which was mainly used for acquisition of property, plant and equipment as well as production of water purification machines. During the Period, the increased amount of the Group was mainly invested in renovation and construction of Shaanxi manufacturing facility, amounting to approximately RMB140.7 million and new water purification machines amounting to RMB152.8 million.

Borrowings and Charges on the Group's Assets

As at 30 June 2019, the Group's interest-bearing bank and other borrowings, finance lease payables and the liability component of convertible bonds amounted to approximately RMB1,484.6 million (as at 31 December 2018: RMB1,008.4 million), approximately RMB314.4 million (as at 31 December 2018: RMB450.1 million), approximately RMB527.8 million (as at 31 December 2018: RMB507.7 million), respectively. The 2015 Convertible Bonds and 2018 Convertible Bonds will mature on 6 November 2020 and on 2 November 2021, respectively, and their interest rates are 5.0% per annum and 6.8% per annum, respectively. The interest-bearing bank and other borrowings will be repayable within one year and the fixed interest rate is ranged from 4.35% to 10% per annum. Amongst other finance lease payables, approximately RMB253.3 million (as at 31 December 2018: RMB280.6 million) will be repayable within one year, and approximately RMB61.1 million (as at 31 December 2018: RMB169.5 million) will be repayable between one to two years and the fixed interest rate is ranged from 4.91% to 7.0% per annum. The interest-bearing bank and other borrowings were denominated in RMB and USD, while the convertible bonds were denominated in Hong Kong dollars.

During the Period, the Group entered into several finance lease agreements (the "Finance Lease Agreements") for the sale and leaseback of 183,556 units of water purifiers of the Group to obtain borrowings. As at 30 June 2019, the carrying amount of 841,355 units of water purifiers, which were subject to the sale and leaseback arrangements under the Finance Lease Agreements and were deemed as secured assets in essence, was approximately RMB851.7 million.

As at 30 June 2019, the Group pledged deposits amounting to RMB180.2 million as securities for issuance of bank acceptance notes and bank loan (as at 31 December 2018: RMB72.6 million).

As at 30 June 2019, certain of the Group's bank loans were secured by the pledge of certain of the Group's property, plant and equipment amounting to RMB77.8 million (31 December 2018: RMB82.7 million) and prepaid land lease payments amounting to RMB19.0 million (31 December 2018: RMB19.4 million).

Contingent Liabilities

As at 30 June 2019, the Group had no material contingent liabilities.

Commitments

As at 30 June 2019, the future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises amounted to RMB43.4 million (as at 31 December 2018: RMB 24.2 million).

As at 30 June 2019, the Group had capital expenditure of RMB283.3 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 2018: RMB363.8 million).

As at 30 June 2019, the Group had unpaid annual lease payments of RMB439.7 million which were not yet recognized as rental revenue (as at 31 December 2018: RMB405.6 million).

As at 30 June 2019, 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 the 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 declared if such dividends are 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 considers that there has been no significant exposure to the risk of fluctuation in the exchange rate for the conversion of Hong Kong dollar into RMB.

Use of Proceeds from 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 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 have been used for the general working capital of the Group as of the date of this Interim Report 30 June 2019.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018 and 30 June 2019, the Group had 3,078 and 3,319 employees, respectively, including an after-sales service team of 1,045. Total staff costs (including Directors' emoluments, share options and restricted share unit scheme expenses) for the six months ended 30 June 2019 were RMB114.1 million, as compared to RMB185.3 million for the year ended 31 December 2018. Apart from salaries, other employee benefits including social insurance and housing provident fund were in amounts equal to pre-determined percentages of the salaries, bonuses and certain allowances of the Group's employees.

MATERIAL ACQUISITIONS AND FUTURE PLANS FOR MAJOR INVESTMENT

During the six months ended 30 June 2019, the Group had not conducted any material acquisitions or disposals. In addition, the Group currently has no specific plan for acquisition of major assets or other businesses.

SUBSEQUENT EVENTS AFTER THE INTERIM PERIOD

The Group did not have any significant subsequent events after the interim period ended 30 June 2019.

CONTINUING DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 18 April 2018, Hong Kong Fresh Water International Group Limited, 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 outstanding loan amounts.

As at the date of this interim report, the Facility is still subsisting and the undertaking by Mr. Xiao Shu continues to exist.

INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

There was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries during the six months ended 30 June 2019.

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

As at 30 June 2019, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Long/short positions in ordinary shares of the Company:

Name of director	Long/short positions	Nature of interest	Note	Number of ordinary Shares	Approximate percentage of shareholding as at 30 June 2019 ^(c)
Mr. XIAO Shu	Long position	Founder of discretionary trusts	(a)	786,850,150	36.90%
		Beneficial owner	(b)	107,284,706	5.03%
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%

Notes:

- (a) These 786,850,150 Shares are held as to 341,820,000 Shares by Baida Holdings Limited, 62,182,200 Shares by Lion Rise Holdings Limited and 382,847,950 Shares by Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited are wholly-owned by Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited under the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. XIAO Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, Mr. XIAO Shu is deemed to be interested in the 341,820,000 Shares, 62,182,200 Shares and 382,847,950 Shares held by each of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.
- (b) These 107,284,706 Shares include 4,198,000 Shares which Mr. Xiao is interested in as beneficial owner and options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme entitling Mr. Xiao to subscribe for 103,086,706 Shares.
- (c) As at 30 June 2019, the Company had 2,132,331,950 ordinary Shares in issue.

OTHER INFORMATION (CONTINUED)

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

Name of Director	Number of options/restricted share units beneficially owned	Approximate percentage of shareholding as at 30 June 2019 ⁽¹⁾
Mr. XIAO Shu	103,086,706	4.83%
Mr. 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	6.11% ⁽²⁾

Notes:

(1) As at 30 June 2019, the Company had 2,132,331,950 ordinary Shares in issue.

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

Save as disclosed above, as of 30 June 2019, none of the directors nor the chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE INCENTIVE SCHEMES

The Company operates the Pre-IPO Share Option Scheme, the Share Option Scheme and Restricted Share Unit Scheme (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 21 to the interim condensed consolidated financial statements.

Pre-IPO Share Option Scheme

On 26 May 2014, the Pre-IPO Share Option Scheme was approved and adopted by the then sole Shareholder. The Pre-IPO Share Option Scheme was valid and effective for a period commencing from the date of its adoption and expiring on the listing date of the Company, being 17 June 2014 (the "Listing Date"), after which no further pre-IPO options shall be granted but the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any pre-IPO options granted prior thereto which are at that time or become thereafter capable of exercise under the Pre-IPO Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme. The pre-IPO share options which have been granted but not yet exercised shall continue to be exercisable in accordance with the Pre-IPO Share Option Scheme.

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

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

Name or category of participant	Number of share options				As at 30 June 2019	Approximate percentage of shareholding as at 30 June 2019*
	As at 1 January 2019	Exercised during the Period	Lapsed during the Period	Forfeited during the Period		
Directors						
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	0.05%
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	89,879,589	—	48,942	—	89,830,647	4.21%
Total	155,173,906	—	48,942	—	155,124,964	7.27%

* As at 30 June 2019, the Company had 2,132,331,950 ordinary Shares in issue.

As at 30 June 2019, the maximum number of shares that may be issued pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme is 155,124,964 shares (31 December 2018: 155,173,906 Shares), representing approximately 7.27% of the issued share capital of the Company both as at 30 June 2019 and as at the date of this interim report (31 December 2018: approximately 7.26% of the issued share capital of the Company as at 31 December 2018).

OTHER INFORMATION (CONTINUED)

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

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

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

Share Option Scheme

The Share Option Scheme was approved and adopted on 26 May 2014 with implementation conditional on the listing of the Company. At the AGM of the Company held on 27 May 2016, the Shareholders approved the refreshment of the scheme mandate limit for the Share Option Scheme and any other share option schemes of the Company to 10% of the shares in issue as at the date of the AGM (the "Refreshed Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. As at 30 June 2019, the Company may grant options under the Share Option Scheme entitling the holders thereof to subscribe for up to 107,968,200 shares (31 December 2018: 107,968,200 shares), representing approximately 5.06% (31 December 2018: approximately 5.05% of the issued share capital as at the date of the 2018 annual report of the Company) of the issued share capital of the Company as at 30 June 2019 and as at the date of this interim report.

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

Name of participant	Date of Grant	Exercise price per share	Number of share options					As at 30 June 2019	Exercise period	Closing price of the Shares immediately before the date of grant
			As at 1 January 2019	Granted during the Period	Exercised during the Period	Lapsed during the Period	Forfeited during the Period			
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 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 the Company, to incentive and reward them for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Group. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date.

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

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

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

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

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

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

- (i) as to 40% of the share options on the expiry of 12 months from the relevant date of grant;
- (ii) as to an additional 30% of the share options on the expiry of 24 months from the relevant date of grant; and
- (iii) as to an additional 30% of the share options on the expiry of 36 months from the relevant date of grant.

RESTRICTED SHARE UNIT SCHEME

On 7 December 2015, the Board approved the adoption of a restricted share unit scheme (the "RSU Scheme") to incentivize Directors, senior management and employees of the Company or its subsidiaries for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

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

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

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

Unless terminated earlier in accordance with the RSU Scheme rules, the RSU Scheme will be valid and effective for a period of ten (10) years commencing from 7 December 2015 and has a remaining period of approximately 5.5 years as at the date of this report.

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

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

- (i) an employee (whether full-time or part-time), a director (whether executive or non-executive, but excluding independent non-executive directors) or an officer of the Company or any of the Company’s subsidiaries or investee companies;
- (ii) any business or joint venture partner, distributor, supplier, service provider or agent of the Company or any of the Company’s subsidiaries or investee companies; or
- (iii) an employee (whether full-time or part-time) of any business or joint venture partner, distributor, supplier, service provider or agent of the Company or any of the Company’s subsidiaries or investee companies,

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

OTHER INFORMATION (CONTINUED)

Details of the RSUs granted under the RSU Scheme for the period ended 30 June 2019 were as follows:

Name of the grantee	Position held with the Group	Number of Shares represented by RSUs at 1 January 2019	Date of grant	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Number of Shares represented by RSUs at 30 June 2019
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
Mr. Li Honggao	Executive Director	121,897 ⁽⁴⁾	19 June 2018	—	—	—	—	121,897
		1,039,364 ⁽²⁾	21 July 2017	—	—	—	—	1,039,364
Mr. Tan Jibin	Executive Director	365,692 ⁽⁴⁾	19 June 2018	—	—	—	—	365,692
		777,015 ⁽²⁾	21 July 2017	—	—	—	—	777,015
Mr. Zhou Guanxuan	Executive Director	487,590 ⁽⁴⁾	19 June 2018	—	—	—	—	487,590
		105,616 ⁽⁴⁾	19 June 2018	—	—	—	—	105,616
Subtotal		3,548,327		—	—	—	—	3,548,327
Employees and distributors of the Group								
		64,759 ⁽¹⁾	13 July 2016	—	(12,952)	—	—	51,807
		9,040,492 ⁽²⁾	21 July 2017	—	(627,122)	—	—	8,413,370
		2,201,543 ⁽³⁾	25 August 2017	—	—	—	—	2,201,543
		14,655,919 ⁽⁴⁾	19 June 2018	—	(721,593)	—	—	13,934,326
Subtotal		25,962,713		—	(1,361,667)	—	—	24,601,046
Total								
		424,531 ⁽¹⁾	13 July 2016	—	(12,952)	—	—	411,579
		11,148,252 ⁽²⁾	21 July 2017	—	(627,122)	—	—	10,521,130
		2,201,543 ⁽³⁾	25 August 2017	—	—	—	—	2,201,543
		15,736,714 ⁽⁴⁾	19 June 2018	—	(721,593)	—	—	15,015,121
		29,511,040		—	(1,361,667)	—	—	28,149,373

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.

OTHER INFORMATION (CONTINUED)

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 41,251,000 Shares on the market at an average price of approximately HK\$1.79 per Share and a total consideration of approximately HK\$73.7 million.

As of 30 June 2019, RSUs representing a total of 28,149,373 Shares have been granted, of which (i) RSUs representing 11,585,747 Shares have been vested; and (ii) RSUs representing 16,563,626 Shares are outstanding and held by the RSU Trustee. 36,272,719 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 section headed “Share Incentive Schemes” above, at no time during the Period or at the end of the Period was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined under the SFO or to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

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

As at 30 June 2019, the following persons (other than the directors and chief executive of the Company) have the following interests and short positions in the shares or underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long/short positions in ordinary shares of the Company

Name	Long/ Short Positions	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as at 30 June 2019 ⁰
Standard Chartered Trust (Singapore) Limited	Long position	(a)	Trustee of a trust	786,850,150	36.90%
SCTS Capital Pte. Ltd.	Long position	(a)	Nominee for another person	786,850,150	36.90%
Glorious Shine Holdings Limited	Long position	(h)	Beneficial owner	382,847,950	17.95%
Glorious Shine Capital Limited	Long position	(h)	Interest in a controlled corporation	382,847,950	17.95%
Baida Holdings Limited	Long position	(b)	Beneficial owner	341,820,000	16.03%
Baida Capital Limited	Long position	(b)	Interest in a controlled corporation	341,820,000	16.03%
SAIF Partners IV L.P.	Long position	(c)	Beneficial owner	334,857,000	15.70%
SAIF IV GP, L.P.	Long position	(c)	Interest in a controlled corporation	334,857,000	15.70%
SAIF IV GP Capital Ltd.	Long position	(c)	Interest in a controlled corporation	334,857,000	15.70%
Mr. Andrew Yan YAN	Long position	(c)	Interest in a controlled corporation	334,857,000	15.70%
Mr. XIE Zhikun	Long position	(d)	Interest in a controlled corporation	517,079,988	24.25%
China Innovative Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	517,079,988	24.25%
Beijing Zhonghaijiacheng Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	517,079,988	24.25%
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	11.60%
Chongqing Zhongxinrongbang Investment Centre (Limited partnership)	Long position	(d)	Beneficial owner	247,329,788	11.60%
Shenzhen Qianhai China Innovative Capital Management Co., Ltd	Long position	(d)	Interest in a controlled corporation	188,856,200	8.86%
Hong Kong China Innovative Capital Management Co., Ltd	Long position	(d)	Beneficial owner	188,856,200	8.86%
Ares FW Holdings, L.P.	Long position	(e)	Beneficial owner	187,166,800	8.78%
ACOF Asia GP, Ltd.	Long position	(e)	Interest in a controlled corporation	187,166,800	8.78%
ACOF Asia Management, L.P.	Long position	(e)	Interest in a controlled corporation	187,166,800	8.78%
Ares Management (Cayman), Ltd.	Long position	(e)	Interest in a controlled corporation	187,166,800	8.78%
Watercube Holdings, L.L.C.	Long position	(f)	Beneficial owner	139,006,800	6.52%
GS Direct, L.L.C.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.52%
Goldman, Sachs & Co.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.52%
The Goldman, Sachs & Co. L.L.C.	Long position	(f)	Interest in a controlled corporation	139,006,800	6.52%
The Goldman Sachs Group, Inc.	Long position	(f) & (g)	Interest in a controlled corporation	151,604,800	7.11%

OTHER INFORMATION (CONTINUED)

Notes:

- (a) Standard Chartered Trust (Singapore) Limited, the trustee of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, holds the entire issued share capital of Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited through SCTS Capital Pte. Ltd. (as nominee for Standard Chartered Trust (Singapore) Limited). Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited in turn hold the entire issued share capital of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited hold 341,820,000 Shares, 62,182,200 Shares and 382,847,950 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 786,850,150 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 517,079,988 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 30 June 2019), (ii) 80,894,000 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 517,079,988 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 382,847,950 Shares held by the Glorious Shine Holdings Limited.
- (i) As at 30 June 2019, the Company had 2,132,331,950 ordinary Shares in issue.

Save as disclosed above, as at 30 June 2019, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE CODE

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

During the six months ended 30 June 2019, the Company complied with all the principles and the code provisions of the Corporate Governance Code (the “Corporate Governance Code”) contained in Appendix 14 to the Listing Rules with the deviation of code provision A.2.1 of the Corporate Governance Code which is explained in further details below. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance requirements.

Code Provision A.2.1 of the Corporate Governance Code

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

The Audit Committee has discussed with the management and external auditor the accounting principles and policies adopted by the Group, and reviewed the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2019.

CHANGES IN DIRECTORS’ AND CHIEF EXECUTIVE’S INFORMATION

Mr. HE Sean Xing has resigned as a non-executive Director with effect from 20 February 2019. On 20 February 2019, the Company has appointed Ms. SUI Wei as a non-executive Director. For more details, please refer to the announcements of the Company dated 20 February 2019 and 22 February 2019.

Save as disclosed herein, there had been no changes to the Directors’ and chief executive’s information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the period from 1 January 2019 to 30 June 2019.

INDEPENDENT REVIEW REPORT



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

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages 29 to 80, which comprises the condensed consolidated statement of financial position of Ozner Water International Holding Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2019 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants

Hong Kong
20 August 2019

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

For the six months ended 30 June 2019

	Notes	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue	4	863,209	798,274
Cost of sales		(459,349)	(456,413)
Gross profit		403,860	341,861
Other income and gains	5	103,582	37,670
Selling and distribution expenses		(55,208)	(82,226)
Administrative expenses		(111,048)	(85,384)
Other expenses		(84,302)	(10,768)
Finance costs		(116,345)	(72,676)
Share of profits and losses of associates		(13,231)	(14,655)
PROFIT BEFORE TAX	6	127,308	113,822
Income tax expense	7	(26,678)	(23,319)
PROFIT FOR THE PERIOD		100,630	90,503
Attributable to :			
Owners of the parent		94,181	77,645
Non-controlling interests		6,449	12,858
		100,630	90,503
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic (RMB cents)	8	4.51	3.77
Diluted (RMB cents)	8	4.51	3.77

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

For the six months ended 30 June 2019

Notes	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	100,630	90,503
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(1,478)	1,304
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(1,478)	1,304
Other comprehensive loss 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 loss	(63,005)	—
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(63,005)	—
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	(64,483)	1,304
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	36,147	91,807
Attributable to:		
Owners of the parent	29,698	78,949
Non-controlling interests	6,449	12,858
	36,147	91,807

The Board did not declare any interim dividend for the six months ended 30 June 2018 and 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Revenue generating assets	9	1,816,485	1,789,034
Property, plant and equipment	10	953,695	833,285
Right-of-use assets		38,054	—
Prepaid land lease payments-right-of-use assets		113,946	114,499
Other intangible assets	11	200,846	212,207
Goodwill		220,041	220,041
Investment in associates		294,082	270,314
Equity investments designated at fair value through other comprehensive income	12	355,064	418,068
Prepayments, other receivables and other assets		263,773	252,277
Deferred tax assets		117,655	101,472
TOTAL NON-CURRENT ASSETS		4,373,641	4,211,197
CURRENT ASSETS			
Inventories	13	362,924	345,568
Prepaid land lease payments-right-of-use assets		2,015	2,990
Trade and bills receivables	14	560,154	462,019
Prepayments, other receivables and other assets		1,203,726	937,978
Amount due from related parties		159,817	125,364
Derivative financial instruments		86,490	18,726
Short-term investments	15	133,918	139,942
Pledged deposits	15	180,190	72,600
Cash and cash equivalents	15	192,046	258,309
TOTAL CURRENT ASSETS		2,881,280	2,363,496
CURRENT LIABILITIES			
Trade and bills payables	16	424,936	339,757
Other payables, advances from customers and accruals		634,047	559,299
Amount due to related parties		102,903	40,160
Deferred revenue		10,180	16,129
Interest-bearing bank and other borrowings	17	1,484,600	713,362
Income tax payable		280,288	246,164
Finance lease payables	18	253,299	280,612
Derivative component of convertible bonds		24,884	46,525
Lease liabilities		18,331	—
TOTAL CURRENT LIABILITIES		3,233,468	2,242,008
NET CURRENT (LIABILITIES)/ASSETS		(352,188)	121,488
TOTAL ASSETS LESS CURRENT LIABILITIES		4,021,453	4,332,685

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Finance lease payables	18	61,143	169,489
Liability component of convertible bonds	19	527,830	507,694
Interest-bearing bank and other borrowings	17	—	295,000
Lease liabilities		19,278	—
Deferred tax liabilities		45,535	49,696
TOTAL NON-CURRENT LIABILITIES		653,786	1,021,879
NET ASSETS		3,367,667	3,310,806
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	20	17,257	17,284
Share premium	20	1,546,746	1,552,017
Treasury shares		(59,064)	(63,148)
Equity component of convertible bonds		52,321	52,321
Reserves		1,634,857	1,583,231
Non-controlling interests		3,192,117 175,550	3,141,705 169,101
TOTAL EQUITY		3,367,667	3,310,806

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the parent												
	Share capital	Share premium	Treasury shares	Equity component of convertible bonds	Share-based payment reserve	Fair value reserve	Retained earnings	Merger reserve	Foreign currency translation reserve	Other reserves	Total	Non-Controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	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
Profit for the period	–	–	–	–	–	–	94,181	–	–	–	94,181	6,449	100,630
Other comprehensive (loss)/income for the period:													
Change in fair value of equity investments at fair value through other comprehensive loss, net of tax	–	–	–	–	–	(63,005)	–	–	–	–	(63,005)	–	(63,005)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(1,478)	–	(1,478)	–	(1,478)
Total comprehensive (loss)/income for the period	–	–	–	–	–	(63,005)	94,181	–	(1,478)	–	29,698	6,449	36,147
Share-based payments	–	–	–	–	21,928	–	–	–	–	–	21,928	–	21,928
Transfer from retained earnings	–	–	–	–	–	–	(10,231)	–	–	10,231	–	–	–
Repurchase of shares	–	–	(1,214)	–	–	–	–	–	–	–	(1,214)	–	(1,214)
Cancellation of repurchased shares	(27)	(5,271)	5,298	–	–	–	–	–	–	–	–	–	–
At 30 June 2019 (unaudited)	17,257	1,546,746	(59,064)	52,321	203,152*	(59,477)*	884,832*	56,018*	(17,529)*	567,861*	3,192,117	175,550	3,367,667

* These reserve accounts comprise the consolidated reserves of RMB1,634,857,000 (unaudited) in the consolidated statement of financial position as at 30 June 2019.

For the six months ended 30 June 2018

	Attributable to owners of the parent											
	Share capital	Share premium	Treasury shares	Equity component of convertible bonds	Share-based payment reserve	Retained earnings	Merger reserve	Foreign currency translation reserve	Other reserves	Total	Non-Controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	16,554	1,407,728	(26,429)	52,321	140,909	775,651	56,018	(12,728)	522,987	2,933,011	147,791	3,080,802
Profit for the period	–	–	–	–	–	77,645	–	–	–	77,645	12,858	90,503
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	1,304	–	1,304	–	1,304
Total comprehensive income for the period	–	–	–	–	–	–	–	1,304	–	1,304	–	1,304
Transfer (from)/to reserve	–	–	–	–	–	(14,440)	–	–	14,440	–	–	–
Issue ordinary shares	730	144,289	–	–	–	–	–	–	–	145,019	–	145,019
Share-based payments	–	–	–	–	9,399	–	–	–	–	9,399	–	9,399
Dividend	–	–	–	–	–	(46,035)	–	–	–	(46,035)	–	(46,035)
Repurchase of shares	–	–	(23,350)	–	–	–	–	–	–	(23,350)	–	(23,350)
At 30 June 2018 (unaudited)	17,284	1,552,017	(49,779)	52,321	150,308	792,821	56,018	(11,424)	537,427	3,096,993	160,649	3,257,642

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	Notes	2019/6/30 (Unaudited) RMB'000	2018/6/30 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		127,308	113,822
Adjustments for:			
Depreciation of revenue generating assets	9	128,910	100,820
Depreciation of property, plant and equipment	6	30,632	22,125
Share of profits of associates		13,231	14,655
Amortisation of other intangible assets	6	8,565	7,958
Amortisation of prepaid land lease payments		398	744
Share-based payments	21	21,929	9,399
Unrealised exchange gain/(loss)		223	(1,907)
Loss on disposal of items of property, plant and equipment	10	210	937
Loss on disposal of revenue generating assets	9	15,638	7,110
Fair value adjustment of contingent consideration		(67,764)	96
Provision/(reversal) for write-down of inventories	13	15,768	(18,768)
Finance costs		116,345	72,676
Depreciation of right-of-use assets		5,912	—
Impairment of trade and bills receivables	14	8,177	137
Impairment of other receivables		21,410	—
Fair value gain on derivative component of convertible bonds		(21,781)	—
Amortisation of long-term prepayment		2,175	—
		427,286	329,804
Increase in inventories		(33,124)	(39,530)
(Increase)/decrease in trade and bills receivables		(106,312)	14,028
Increase in prepayments, deposits and other receivables		(302,497)	(74,940)
(Increase)/decrease in pledged deposits		(10,284)	23,350
Increase/(decrease) in due to/from related parties		28,290	(97,389)
Decrease/(increase) in trade and bills payables		85,179	(63,889)
Increase in other payables, advances from customers and accruals		74,272	34,458
Decrease in deferred revenue		(5,949)	(27,247)
Cash generated from operations		156,861	98,645
Income tax paid		(12,899)	(34,462)
Net cash flows from operating activities		143,962	64,183

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June

	Notes	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of revenue generating assets		(136,457)	(105,182)
Purchases of items of property, plant and equipment		(173,610)	(54,391)
Purchases of intangible assets		(2,054)	(1,606)
Prepayment for land lease payment		—	(911)
Acquisition of subsidiaries, net of cash received		—	(16,099)
Purchases of associates		(37,000)	(168,400)
Decrease in short-term investment		18	9,904
Addition of short-term investments		(1,294)	—
Increase of loans		—	(146,000)
Decrease of investment down payment		—	11,753
Net cash flows used in investing activities		(350,397)	(470,932)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank and other borrowings		728,658	744,208
Interest paid		(103,762)	(64,256)
Proceeds from issue of shares		—	145,019
Repayment of interest-bearing bank and other borrowings		(388,079)	(300,561)
Principal portion of lease payments		(5,623)	—
Increase in pledged deposits		(90,006)	—
Repurchase of share capital		(1,214)	(23,350)
Net cash flows from financing activities		139,974	501,060
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the period	15	258,309	205,995
Effect of foreign exchange rate changes, net		198	6,176
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		192,046	306,482
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		372,236	352,896
Less: Pledged deposits	15	(180,190)	(46,414)
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	15	192,046	306,482

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND THE GROUP INFORMATION

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

During the period ended 30 June 2019, the Company’s subsidiaries were involved in the following principal activities in the People’s Republic of China (the “PRC”):

- Water purification services
- Air sanitization services
- Supply chain services
- Other services

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

2.1 Basis of Preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

As at 30 June 2019, the group had net current liabilities of approximately RMB352,188,000. The directors of the Company believe that the Group has sufficient cash flows from the operations and will obtain new loans or investment to meet its liabilities as and when they fall due. Therefore, the interim condensed consolidated financial statements are prepared on a going concern basis.

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

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019.

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- IFRS 16 *Leases*
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*
- IFRIC-Int 23 *Uncertainty over Income Tax Treatments*
- Annual Improvements 2015–2017 Cycle *Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*

Other than as explained below regarding the impact of IFRS 16 *Leases*, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(a) Adoption of IFRS 16

IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases — Incentives* and SIC-Int 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 account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption by discounting the remaining lease payments as of the date of initial application of 1 January 2019 and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the implicit return rate at 1 January 2019.

The right-of-use assets were 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 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impacts on transition (Continued)

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) (Unaudited) RMB'000
Assets	
Increase in right-of-use assets	139,776
Decrease in prepaid land lease payments	(117,489)
Decrease in prepayments, other receivables and other assets	(1,833)
Increase in total assets	20,454
Liabilities	
Increase in interest-bearing bank and other borrowings	20,454
Increase in total liabilities	20,454

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	(Unaudited) RMB'000
Operating lease commitments as at 31 December 2018	24,164
Weighted average implicit return rate as at 1 January 2019	5.72%
Discounted operating lease commitments as at 1 January 2019	22,850
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(2,396)
Lease liabilities as at 1 January 2019	20,454

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the implicit return rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss. The carrying amounts of the Group's right-of-use assets and lease liabilities and the movement during the period are as follow:

	Right-of-use assets			Sub-total RMB'000	Lease liabilities RMB'000
	Plant and office RMB'000	Motor vehicles RMB'000	Land use right RMB'000		
As at 1 January 2019	21,799	488	117,489	139,776	20,454
Additions	22,778	—	—	22,778	22,778
Depreciation charge	(6,965)	(46)	(1,528)	(8,539)	—
Interest expense	—	—	—	—	919
Payments	—	—	—	—	(6,542)
As at 30 June 2019	37,612	442	115,961	154,015	37,609

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

- (c) 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. OPERATING SEGMENT INFORMATION

Six months ended 30 June 2019 (unaudited)	Water purification services RMB'000	Supply chain services RMB'000	Others services RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	563,132	240,367	59,710	863,209
Segment results	196,798	20,683	56,104	273,585
<i>Reconciliations:</i>				
Share-based payments				(21,929)
Corporate and other unallocated expenses				(8,074)
Exchange loss				71
Finance costs				(116,345)
Profit before tax				<u>127,308</u>

Six months ended 30 June 2018 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Supply chain services RMB'000	Others services RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	525,992	3,553	236,108	32,621	798,274
Segment results	161,817	(3,329)	25,270	30,617	214,375
<i>Reconciliations:</i>					
Share-based payments					(9,399)
Corporate and other unallocated expenses					(13,427)
Exchange loss					(5,051)
Finance costs					(72,676)
Profit before tax					<u>113,822</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. OPERATING SEGMENT INFORMATION (Continued)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2019 and 31 December 2018, respectively.

As at 30 June 2019 (unaudited)	Water purification services RMB'000	Supply chain services RMB'000	Others services RMB'000	Total RMB'000
Segment assets	5,092,714	523,636	438,917	6,055,267
<i>Reconciliations:</i>				
Corporate and other unallocated assets				1,199,654
Total assets				7,254,921
Segment liabilities	2,482,353	320,917	28,530	2,831,800
<i>Reconciliations:</i>				
Convertible bonds				552,714
Corporate and other unallocated liabilities				502,740
Total liabilities				3,887,254

As at 31 December 2018 (unaudited)	Water purification services RMB'000	Air sanitization services RMB'000	Supply chain services RMB'000	Others services RMB'000	Total RMB'000
Segment assets	4,566,869	70,511	465,116	339,618	5,442,114
<i>Reconciliations:</i>					
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
<i>Reconciliations:</i>					
Convertible bonds					554,219
Corporate and other unallocated liabilities					471,913
Total liabilities					3,263,887

4. REVENUE

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

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
<i>Revenue from contracts with customers</i>		
Sale of goods	350,562	366,170
Training services	10,216	26,584
<i>Revenue from other sources</i>		
Gross rental income	442,721	372,899
Interest income from financing services	59,710	32,621
	863,209	798,274

Revenue from contracts with customers

(i) **Disaggregated revenue information**

The disaggregation of the Group's revenue from contracts with customers, including construction contracting, properties sales and others, for the six months ended 30 June 2019 is as follows:

For the year ended 30 June 2019

Segments	Water purification services RMB'000	Supply chain services RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	110,195	240,367	350,562
Training services	10,216	—	10,216
Total revenue from contracts with customers	120,411	240,367	360,778
Timing of revenue recognition			
Goods transferred at a point in time	110,195	240,367	350,562
Services transferred over time	10,216	—	10,216
Total revenue from contracts with customers	120,411	240,367	360,778

4. REVENUE (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 30 June 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	126,509	3,553	236,108	366,170
Training services	26,584	—	—	26,584
Total revenue from contracts with customers	153,093	3,553	236,108	392,754
Timing of revenue recognition				
Goods transferred at a point in time	126,509	3,553	236,108	366,170
Services transferred over time	26,584	—	—	26,584
Total revenue from contracts with customers	153,093	3,553	236,108	392,754

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 30 June 2019

Segments	Water purification services RMB'000	Supply chain services RMB'000	Other services RMB'000	Total RMB'000
Revenue from contracts with customers				
External customers	120,411	240,367	—	360,778
Revenue from other sources				
External customers	442,721	—	59,710	502,431
	563,132	240,367	59,710	863,209

4. REVENUE (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 30 June 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	153,093	3,553	236,108	—	392,754
Revenue from other sources					
External customers	372,899	—	—	32,621	405,520
	525,992	3,553	236,108	32,621	798,274

(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.

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.

4. REVENUE (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2019 are as follows:

	As at 30 June 2019 RMB'000
Within one year	41,567

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

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Other income		
Government grants	3,868	3,806
Interest income	3,556	14,846
Technical service fee	—	16,981
Others	6,613	2,037
	14,037	37,670
Gains		
Fair value gains, net:		
Derivative financial instruments	67,764	—
Derivative component of convertible bonds	21,781	—
	89,545	—
	103,582	37,670

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Cost of services provided		1,105	1,044
Cost of inventories sold		262,028	276,433
Depreciation of revenue generating assets	9	128,910	100,820
Depreciation of property, plant and equipment	10	59,916	64,621
Less: Amount capitalised in revenue generating assets		(29,284)	(42,496)
		30,632	22,125
Amortisation of intangible assets	11	12,267	11,970
Less: Amount capitalised in revenue generating assets		(3,702)	(4,012)
		8,565	7,958
Depreciation of right-of-use assets		7,011	—
Less: Amount capitalised in revenue generating assets		(1,099)	—
		5,912	—
Amortisation of prepaid land lease payments		1,528	1,852
Less: Amount capitalised in revenue generating assets		(1,130)	(1,108)
		398	744
Research and development costs		15,352	23,408
Auditor's remuneration		1,814	1,805
Employee benefit expense (including directors' remuneration):			
Total wages and salaries		80,178	81,565
Less: Amount capitalised in revenue generating assets		(27,463)	(33,193)
		52,715	48,372
Total pension scheme contributions		12,034	7,393
Less: Amount capitalised in revenue generating assets		(9,538)	(6,925)
		2,496	468
Lease payments under short-term leases		1,628	19,341
Less: Amount capitalised in revenue generating assets		—	(14,554)
		1,628	4,787
Share-based payments	21	21,929	9,399
Foreign exchange differences, net		(71)	5,051
Impairment of trade and bills receivables	14	8,177	137
Impairment of Prepayments, other receivables and other assets		21,410	—
Write-down of/(reversal of provision for write-down of) inventories to net realisable value		15,768	(18,768)
Loss on disposal of items of property, plant and equipment	10	210	937
Loss on disposal of revenue generating assets	9	15,638	7,110
Loss on disposal of inventories		5,827	—
Fair value gain on derivative component of convertible bonds		(21,781)	—
Fair value change on derivative financial instruments		(67,764)	—
Share of losses of joint ventures and associates		13,231	14,655

7. INCOME TAX

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

All of the Group's subsidiaries registered in the PRC and operating only in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Except for those further explained below, PRC enterprise income tax has been provided at the rate of 25% (2018: 25%) on the taxable income.

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

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

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Foshan Lepuda Motor Co., Ltd. ("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, which is under renewing in 2019 and is estimated to be obtained before the end of the year.

Pursuant to the document "Shan Fa Gai Wai Zi (2013) No. 618" issued by the Development and Reform Commission of Shaanxi Province on 2 May 2013, one of the Group's subsidiaries, Shaanxi Haoze Environmental Technology Development Co., Ltd., is entitled to the preferential tax rate of 15% from 2012 to 2020. The other two subsidiaries, Shaanxi Haoze Water Purification Technology Development Co., Ltd. and Shaanxi Haoze Water Purification Service Co., Ltd., are entitled to the preferential tax rate of 15% from 2019 to 2020.

Pursuant to the document "Guo Shui Fa (2008) No.116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB1,447,000 and RMB1,533,000 for the six months ended 30 June 2018 and 2019, respectively, relating to the additional deduction of research and development costs.

The breakdown of income tax expense are as follow:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Current tax	47,023	39,400
Deferred tax	(20,345)	(16,081)
Income tax expense reported in profit or loss	26,678	23,319

7. INCOME TAX (Continued)

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

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Profit before tax	127,308	113,822
Tax at the statutory tax rate	31,827	28,455
Lower tax rates for specific provinces or enacted by local authorities	(14,897)	(12,061)
Tax exempted by local authorities	—	4,512
Expenses not deductible for tax	3,598	3,055
Unrecognised tax losses	7,568	835
Additional deduction of research and development costs	(1,533)	(1,447)
Tax adjustment utilised from previous periods	115	—
Tax at the effective income tax rate	26,678	23,319

8. EARNINGS PER SHARE (“EPS”)

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

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

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

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Earnings:		
Profit attributable to owners of the parent, used in the basic and diluted EPS calculation:	94,181	77,645
Interest on convertible bonds	34,685	12,858
Less: Fair value gains on derivative component of convertible bonds	(21,781)	—
Profit attributable to owners of the parent, before the effect of convertible bonds	107,085	90,503
Shares:		
Weighted average number of ordinary shares for basic EPS	2,090,162,786	2,058,293,950
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	175,174,158	243,455,497
	2,265,336,944	2,301,749,447
Basic EPS (RMB cents)	4.51	3.77
Diluted EPS (RMB cents)*	4.51	3.77

* No adjustment has been made to the basic EPS amounts presented for the period ended 30 June 2019 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 amounts presented.

9. REVENUE GENERATING ASSETS

Acquisitions and disposals

During the six months ended 30 June 2019, the Group produced revenue generating assets with a cost of RMB171,672,000 (six months ended 30 June 2018: RMB152,798,000). Revenue generating assets with a net book value of RMB327,000 were transferred from property, plant and equipment by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB4,821,000).

Depreciation for revenue generating assets was RMB128,910,000 during the period (six months ended 30 June 2018: RMB100,820,000).

Revenue generating assets with a net book value of RMB15,638,000 were disposed of by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB7,110,000), resulting in a net loss on disposal of RMB15,638,000 (six months ended 30 June 2018: RMB7,110,000).

As at 30 June 2019, certain of the Group's revenue generating assets with net carrying amount of approximately RMB879,997,000 were pledged to secure other borrowing in relation to the sales and leaseback.

10. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB169,370,000 (six months ended 30 June 2018: RMB26,968,000), excluding property under construction. Depreciation for items of property, plant and equipment was RMB59,916,000 during the period (six months ended 30 June 2018: RMB64,621,000). Property, plant and equipment with a net book value of RMB327,000 were transferred to revenue generating assets by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB4,821,000).

The construction in process is totaling to RMB18,218,000 as at 30 June 2019 (31 December 2018: RMB6,725,000) mainly represents the upgrade and renovation of construction projects.

During the six months ended 30 June 2019, the Group disposed assets amounted to RMB210,000 (six months ended 30 June 2018: RMB937,000). Property, plant and equipment with a net carrying value of RMB327,000 were transferred to revenue generating assets by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB4,821,000).

11. OTHER INTANGIBLE ASSETS

During the six months ended 30 June 2019, the Group acquired intangible assets with a cost of RMB1,941,000 (six months ended 30 June 2018: RMB1,606,000). Amortisation for intangible assets was RMB12,267,000 during the period (six months ended 30 June 2018: RMB11,970,000).

There is RMB1,035,000 intangible assets disposed by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

12. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Unlisted equity investments, at fair value			
Investments in entities set up with top dealers	(a)	277,603	352,507
Microfinance company	(b)	74,970	63,070
Other		2,491	2,491
Total		355,064	418,068

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

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

13. INVENTORIES

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Raw materials	133,762	104,148
Work in progress	86,840	74,478
Finished goods	178,595	187,447
	399,197	366,073
Provision for write-down of Inventories	(36,273)	(20,505)
	362,924	345,568

14. TRADE AND BILLS RECEIVABLES

	Note	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Trade receivables		551,703	449,314
Bills receivable		24,141	20,218
		575,844	469,532
Impairment		(15,690)	(7,513)
Net trade and bills receivables		560,154	462,019

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

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

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Within 90 days	493,620	390,309
Over 90 days and within 180 days	53,661	65,465
Over 180 days and within 1 year	11,765	4,492
Over 1 year and within 2 years	1,108	1,380
Over 2 years and within 3 years	—	373
	560,154	462,019

14. TRADE AND BILLS RECEIVABLES (Continued)

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

	Six months ended 30 June 2019 (Unaudited) RMB'000	Year ended 31 December 2018 (Audited) RMB'000
As at 1 January	7,513	3,274
Impairment for trade receivables	8,177	4,239
As at 30 June/31 December	15,690	7,513

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

Transferred financial assets that are not derecognised in their entities

As at 30 June 2019, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB6,934,000(31 December 2018: RMB12,100,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the period to which the suppliers have recourse was RMB6,934,000 as at 30 June 2019 (31 December 2018: RMB12,100,000).

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Cash and bank balances	324,936	290,909
Time deposits	181,218	179,942
Total cash and bank balances	506,154	470,851
Less: Pledged as collateral for issuance of bank acceptance notes	(50,184)	(32,600)
Pledged as collateral for issuance of bank loan	(130,006)	(40,000)
Short-term investment	(133,918)	(139,942)
Cash and cash equivalents	192,046	258,309
Denominated in RMB	369,490	334,731
Denominated in HK\$	136,453	134,529
Denominated in US\$	211	1,591
Total cash and bank balances	506,154	470,851

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

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

16. TRADE AND BILLS PAYABLES

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

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Within 90 days	333,093	196,683
Over 90 days and within 180 days	56,210	82,508
Over 180 days and within 1 year	15,378	45,980
Over 1 year and within 2 years	12,549	4,357
Over 2 year and within 3 years	3,039	5,246
Over 3 years	4,667	4,983
	424,936	339,757

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

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	4.35~10.00	2019/2020	210,000	5.50~6.50	2019	100,100
5.72% USD25,000,000 unsecured bank loan	LIBOR+3%	2020	172,611	LIBOR+3%	2019	171,932
Bank loans — secured	4.42~6.00	2019/2020	253,979	5.13~6.50	2019	38,420
Current portion of long term bank loans — unsecured	5.70	2019	26,910	5.70	2019	26,910
other loans — unsecured	9.00	2019	187,700	9.00	2019	187,700
other loans — secured	9.25	2020	295,000	—	—	—
Other loans — unsecured	10.00	2019	330,400	10.00	2019	182,300
Other loans — secured	8.50	2020	8,000	8.50	2019	6,000
			1,484,600			713,362
Non-current						
Other loans — secured	—	—	—	9.25	2020	295,000
			—			295,000
			1,484,600			1,008,362

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

	2019 RMB'000	2018 RMB'000
Analyzed into		
Bank loans repayable:		
Within one year	1,484,600	675,862
In the second year	—	295,000
	1,484,600	970,862
Factoring and entrusted loan repayable		
Within one year	—	37,500
	1,484,600	1,008,362

Group's loan facilities amounting to RMB599,611,284, of which RMB551,321,284 had been utilized as at the end of the reporting period, are guaranteed by the Company's subsidiaries, Shaanxi Haoze Environmental Technology, Ozner Water International Holding Limited, Shanghai Haoze Water-Purification Technology, Guangdong Bili and Foshan Lepuda. As at 30 June 2019, certain of the Group's bank loans were secured by the pledge of certain of the Group's property, plant and equipment amounting to RMB77,812,000 (31 December 2018: RMB82,662,000), revenue generating assets amounting to RMB176,844,000 (31 December 2018: nil) and prepaid land lease payments amounting to RMB19,044,000 (31 December 2018: RMB19,432,000).

18. FINANCE LEASE PAYABLES

Finance lease payables as at 31 December 2018 and 30 June 2019 represents the borrowings under a financing arrangements entered into by the Group with a third-party leasing company, in the form of a sale and leaseback transaction which results in a finance lease and bear a repurchase option. The subjects sold and leased back under the financing arrangements are the water purifying machines owned by the Group. As the repurchase prices are set at RMB100 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods of two years and the Group is certain that it will exercise the repurchase option, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralised borrowings at amortised cost using the effective interest method.

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

	Minimum lease payments As at 30 June 2019 RMB'000	Minimum lease payments As at 31 December 2018 RMB'000	Present value of minimum lease payments As at 30 June 2019 RMB'000	Present value of minimum lease payments As at 31 December 2018 RMB'000
Amounts payable:				
Within one year	273,452	313,624	253,299	280,612
In the second year	63,701	159,658	61,143	151,154
In the third to fifth years	—	18,676	—	18,335
Total minimum finance lease payments	337,153	491,958	314,442	450,101
Future finance charges	(22,711)	(41,857)		
Total net finance lease payables	314,442	450,101		
Portion classified as current liabilities	(253,299)	(280,612)		
Non-current portion	61,143	169,489		

19. CONVERTIBLE BONDS

On 6 November 2015, the Company issued HK\$ denominated HK\$ 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); While on 1 December 2016, the conversion price of the bonds was adjusted to HKD1.91 by the announcement, and
- (b) redeemable at the option of the bond holders upon the occurrence of any of the events of default as stipulated in the agreement.

The 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.

19. 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 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	422,684
At 1 January 2019	370,363	52,321	422,684
Interest expense	20,070	—	20,070
Interest paid	(10,226)	—	(10,226)
Currency translation differences	1,502	—	1,502
At 30 June 2019	381,709	52,321	434,030

On 2 November 2018, the Company issued HK\$ denominated HK\$ 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”).

19. 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
At 31 December 2018	137,331	46,525	183,856
Interest expense	14,615	—	14,615
Fair value adjustment	—	(21,781)	(21,781)
Interest paid	(6,396)	—	(6,396)
Currency translation differences	571	140	711
At 30 June 2019	146,121	24,884	171,005

20. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

Ordinary shares issued and fully paid

	Number of shares in issue	Share capital RMB'000
At 31 December 2018	2,135,981,950	17,284
Share cancellation	(3,384,000)	(27)
At 30 June 2019	2,132,597,950	17,257

Share premium

	RMB'000
At 31 December 2018	1,552,017
Shares cancellation	(5,271)
At 30 June 2019	1,546,746

21. SHARE-BASED PAYMENTS

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was approved and adopted on 26 May 2014 and expired on the listing date (i.e., 17 June 2014). 168,800,000 share options of the Company were approved to be granted to employees or directors of a member of the Group under the Pre-IPO Share Option Scheme on 26 May 2014. The exercise price of the options granted under the Pre-IPO Share Option Scheme was 85% of the Offer Price of HK\$2.70 (i.e., HK\$2.295). Exercise of the options granted under the Pre-IPO Share Option Scheme was conditional until the successful listing of the Company on 17 June 2014. The options granted under the Pre-IPO Share Option Scheme shall vest in accordance with the following schedules:

Vesting period	Exercise Period	Maximum cumulative percentage of options vested
Upon 12 months after the listing date	6/16/2015–6/17/2024	40%
Upon 24 months after the listing date	6/16/2016–6/17/2024	70%
Upon 36 months after the listing date	6/16/2017–6/17/2024	100%

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The contractual term of each option granted is ten years. There are no cash settlement alternatives.

21. SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Option Scheme (Continued)

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

Share price	HK\$2.70
Risk free rate of interest	1.96%
Dividend yield	—
Life of option	10 years
Volatility	35.29%
Exercise multiple	2 for key management and 1.5 for other employees
Forfeiture rate	5% for key management and 15% for other employees

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

There were no cancellations of or modifications to the awards during the six months ended 30 June 2019.

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 2019	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 30 June 2019
<i>Directors</i>						
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
<i>Other employees</i>						
In aggregate	92,339,665	—	(48,942)	—	—	92,290,723
	155,173,906	—	(48,942)	—	—	155,124,964
Exercisable at the end of the period	155,173,906	—	—	—	—	155,124,964

The weighted average remaining contractual life of the share options outstanding as at 30 June 2019 was 5 years. The weighted average fair value of the options granted under the Pre-IPO Share Option Scheme was HK\$1.07 (RMB0.85).

21. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme

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

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

Share option unit was granted under the share option scheme share during the six months ended 30 June 2019. 65,000,000 share options of the Company were approved to be granted to directors of a member of the Group under the Share Option Scheme on 29 June 2018 (for Xiao Shu) and 23 March 2018 (for other directors). The exercise price of the options granted under the Share Option Scheme was HK\$2.45. The options granted under the Share Option Scheme shall vest in accordance with the following schedules:

Vesting period	Exercise Period	Maximum cumulative percentage of options vested
Upon 12 months after the listing date	3/22/2019–3/22/2028	40%
Upon 24 months after the listing date	3/22/2020–3/22/2028	70%
Upon 36 months after the listing date	3/22/2021–3/22/2028	100%

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The contractual term of each option granted is ten years. There are no cash settlement alternatives.

21. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

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

Xiao Shu

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

Other directors

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

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

The share option expense recognised for employee services received during the period is RMB12,990,000.

There were no cancellations of or modifications to the awards during the six months ended 30 June 2019.

21. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

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

	Outstanding at 1 January 2019	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 30 June 2019
<i>Directors</i>						
Mr. Xiao Shu	52,000,000	—	—	—	—	52,000,000
Mr. Tan Jibin	3,000,000	—	—	—	—	3,000,000
Mr. Zhou Guanxuan	3,000,000	—	—	—	—	3,000,000
Mr. Li Honggao	4,000,000	—	—	—	—	4,000,000
Mr. Wang Yonghui	3,000,000	—	—	—	—	3,000,000
	65,000,000	—	—	—	—	65,000,000
Exercisable at the end of the period	—	—	—	—	—	—

The weighted average remaining contractual life of the share options outstanding as at 30 June 2019 was 8.5 years. The weighted average fair value of the options granted under the Share Option Scheme was HK\$0.88 (RMB0.74) for Xiao Shu and HK\$1.05 (RMB0.84) for other directors.

Restricted Share Unit Scheme

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

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

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

There is no restricted share unit (31 December 2018: 15,839,250 restricted share) was granted under the restricted share unit scheme during the six months ended 30 June 2019. The expense recognised for employee services received during the period is RMB8,939,000.

21. SHARE-BASED PAYMENTS (Continued)

Restricted Share Unit Scheme (Continued)

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

	Outstanding at 1 January 2019	Granted during the period	Forfeited during the period	Exercised during the period	Expired during the period	Outstanding at 30 June 2019
<i>Directors</i>						
Mr. Tan Jibin	1,264,605	—	—	—	—	1,264,605
Mr. Li Honggao	1,405,056	—	—	—	—	1,405,056
Mr. Wang Yonghui	773,050	—	—	—	—	773,050
Mr. Zhou Guanxuan	105,616	—	—	—	—	105,616
<i>Other employees</i>						
In aggregate	15,910,977	—	(1,361,667)	—	—	14,549,310
Distributors in aggregate	10,051,736	—	—	—	—	10,051,736
	29,511,040	—	(1,361,667)	—	—	28,149,373
Exercisable at the end of the period	5,638,126	—	—	—	—	11,585,747

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

	As at 30 June 2019 (Unaudited) RMB'000	As at 30 June 2018 (Unaudited) RMB'000
Total expense arising from equity-settled share-based payment transactions	21,929	9,399

22. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Within one year	439,652	405,582

23. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Contracted, but not provided for: Property, plant and equipment	283,286	363,773

24. RELATED PARTY TRANSACTIONS

- (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	For the six months ended 30 June	
		2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Associates:			
Sales of products	(i)	1,151	1,957
Purchases of products and services	(ii)	79,184	49,870
		80,335	51,827

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.

- (b) Outstanding balances with related parties:

- (i) Amount due to related parties

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Shaanxi Ozner Noorey Environmental Technology Co., Ltd. ("Shaanxi Noorey")	(60,894)	—
Shanghai Ozner Noorey Environment Technology Co., Ltd. ("Noorey")	(32,148)	(32,258)
Suzhou Core Clean Purification Technology Co., Ltd. ("Core Clean")	(3,772)	(3,788)
Shanghai Ozoup Environment Technology Co., Ltd. ("Ozoup")	(3,641)	(3,977)
Shanghai Hoyou Information Technology Co., Ltd. ("Haoyou")	(1,937)	—
Foshan OTOI Industrial Technology Co., Ltd.	(194)	—
Guangdong Hax Appliance Technology CO., Ltd. ("Hax")	(180)	(132)
Shanghai Hoyo Environmental Technology Co., Ltd.	(137)	—
Shanghai Ozner Noorey Air Purification Technology Co., Ltd. ("Noorey Air")	—	(5)
Total amount due to related parties	(102,903)	(40,160)

The trade payables are non-interest-bearing.

24. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties: (Continued)

(ii) Amount due from related parties

	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
Haoyou	76,739	41,692
Core Clean	68,267	63,768
Foshan OTOI Industrial Technology Co., Ltd	5,579	2,280
Shanghai Hoyo Environmental Technology Co., Ltd	4,435	3,684
Noorey	2,941	2,672
Ozoup	774	1,179
Hax	757	1,049
Noorey Air	325	—
Shaanxi Noorey	—	9,040
Total amount due from related parties	159,817	125,364

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

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Short term employee benefits	3,831	3,253
Pension scheme contributions	18	17
Share-based payments	13,981	2,939
Total compensation paid to key management personnel	17,830	6,209

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

25. 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:

	Carry Amount		Fair Value	
	2019/6/30 (Unaudited) RMB'000	2018/12/31 (Audited) RMB'000	2019/6/30 (Unaudited) RMB'000	2018/12/31 (Audited) RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	355,064	418,068	355,064	418,068
Derivative financial instruments	86,490	18,726	86,490	18,726
Subtotal	441,554	436,794	441,554	436,794
Financial liabilities				
Derivative financial instruments	24,884	46,525	24,884	46,525
Interest-bearing bank borrowings	663,500	337,362	663,500	337,362
Other borrowings	821,100	671,000	823,157	672,394
Convertible bonds	527,830	507,694	500,387	518,400
Subtotal	2,037,314	1,562,581	2,011,928	1,574,681

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:

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 30 June 2019 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.

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

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.

25. 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	2019: 25%	5% increase/decrease in discount would result in decrease/increase in fair value by RMB5,000,000
	Discounted cash flow method	Weighted-average cost of capital (WACC)	2019: 16%	1% increase/decrease in WACC would result in decrease in fair value by RMB24,470,000/ increase in fair value by RMB29,060,000
		Long-term growth rate for cash flows	2019: 3%	1% increase/decrease in growth rate would result in increase in fair value by RMB9,060,000/ decrease in fair value by RMB7,760,000
		Discount for lack of control	2019: 20%	5% increase/decrease in discount would result in decrease/increase in fair value by RMB17,350,000
	Discount for lack of marketability	2019: 20%	5% increase/decrease in discount would result in decrease/ increase in fair value by RMB17,350,000	
Derivative component of convertible bonds	Binomial tree model	Risk-free rate	2019: 1.57%	1% increase/decrease in risk-free rate would result in increase in fair value by RMB408,000/ decrease in fair value by RMB439,000

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative component of convertible bonds		Volatility	2019: 39.65%	10% increase/decrease in volatility would result in increase in fair value by RMB7,134,000/ decrease in fair value by RMB8,198,000
		Risky rate	2019: 20.26%	1% increase/decrease in risky rate would result in increase in fair value by RMB531,000/ decrease in fair value by RMB544,000
Financial assets at fair value through profit or loss	Monte Carlo method	WACC	2019: 16%	1% increase/decrease in WACC would result in decrease in fair value by RMB1,959,000/ increase in fair value by RMB2,023,000
		Volatility	2019: 11%–12%	1% increase/decrease in volatility would result in increase in fair value by RMB988,000/decrease in fair value by RMB934,000

25. 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 30 June 2019

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	
Equity investments designated at fair value through other comprehensive income	—	—	355,064	355,064
Financial assets at fair value through profit or loss	—	—	86,490	86,490
	—	—	441,554	441,554

As at 31 December 2018

	Fair value measurement using			Total (Audited) RMB'000
	Quoted prices in active markets (Level 1) (Audited) RMB'000	Significant observable inputs (Level 2) (Audited) RMB'000	Significant unobservable inputs (Level 3) (Audited) 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

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

The movements in fair value measurements within Level 3 during the period are as follows:

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Equity investments at fair value through other comprehensive income		
At 1 January	418,068	152,491
Total losses recognised in other comprehensive income	(63,004)	3,528
Purchases	—	262,049
At 30 June/31 December	355,064	418,068

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Financial assets at fair value through profit or loss		
At 1 January	18,726	—
Total gains recognised in profit or loss	67,764	—
Addition	—	18,726
At 30 June/31 December	86,490	18,726

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 30 June 2019

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	
Derivative component of convertible bonds	—	—	24,884	24,884

As at 31 December 2018

	Fair value measurement using			Total (Audited) RMB'000
	Quoted prices in active markets (Level 1) (Audited) RMB'000	Significant observable inputs (Level 2) (Audited) RMB'000	Significant unobservable inputs (Level 3) (Audited) RMB'000	
Derivative component of convertible bonds	—	—	46,525	46,525

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed:

As at 30 June 2019

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	
Interest-bearing bank borrowings	—	663,500	—	663,500
Other borrowings	—	823,157	—	823,157
Liability component of convertible bonds	—	—	500,387	500,387
	—	1,486,657	500,387	1,987,044

As at 31 December 2018

	Fair value measurement using			Total (Audited) RMB'000
	Quoted prices in active markets (Level 1) (Audited) RMB'000	Significant observable inputs (Level 2) (Audited) RMB'000	Significant unobservable inputs (Level 3) (Audited) 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

26. EVENTS AFTER THE REPORTING PERIOD

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

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 August 2019.