OZNER 浩泽

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2014)

ANNUAL REPORT 2019

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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 (Resigned on 11 May 2020)
Ms. Sui Wei (Appointed on 20 February 2019 and resigned on 14 April 2020)
Mr. He Sean Xing (Resigned on 20 February 2019)
Ms. Gui Songlei (Resigned on 21 May 2020)

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

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

Principal Place of Business in Hong Kong

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

Headquarters and Principal Place of Business and Head Office in China

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar

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

Stock Code

2014

Company's Website

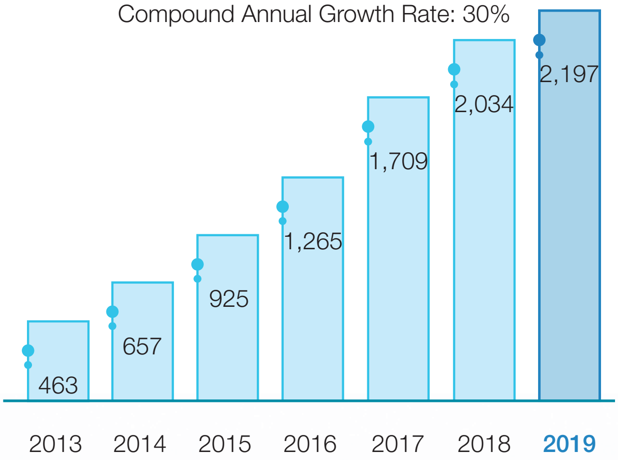
www.ozner.net

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(RMB in thousands)	Year ended 31 December 2019	2018
Total Revenue	**1,709,184**	1,644,914
Water purification services	**1,155,315**	1,149,169
Supply chain services	**452,129**	416,324
Air sanitization services and others	**101,740**	79,421
Gross Profit	**705,191**	760,641
(Loss)/profit for the year	**(970,220)**	134,270
Basic (loss)/earnings per share (RMB cents)	**(42.30)**	5.45

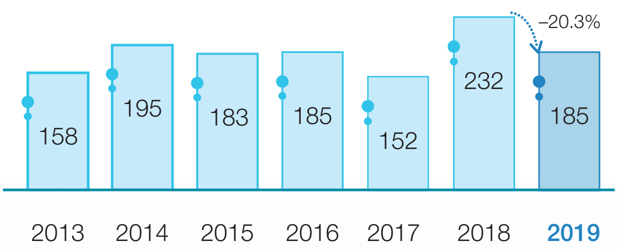
(RMB in thousands)	As at 31 December 2019	2018
Revenue-generating assets	**1,771,608**	1,789,034
Total assets	**6,773,558**	6,574,693
Total liabilities	**4,623,914**	3,263,887

Fast Enlarging Installation Base



Installation base (1,000 units)

Increase in Rental Model's Proportion

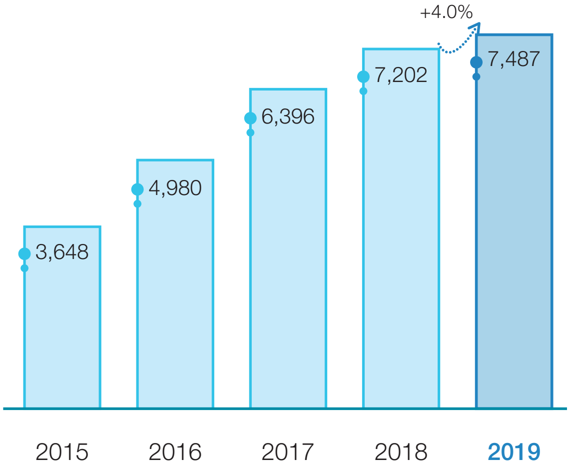


Rental Model New Installation (1,000 units)

Sustained High Renewal Rate

	2017	2018	2019
Corporate	94.7%	94.8%	**86.0%**
Household	97.2%	98.4%	**94.0%**

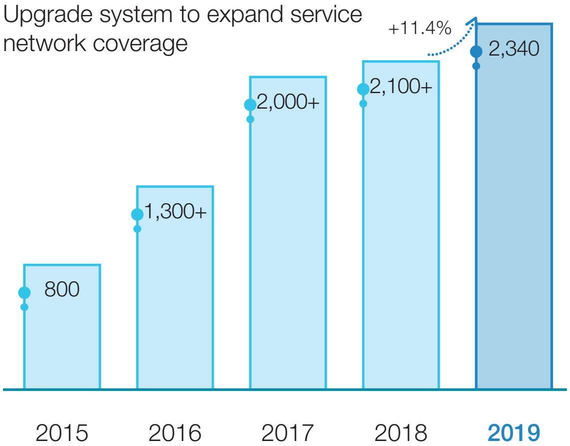
Number of Distributors



Number of distributors (unit)

Service Network Coverage

Upgrade system to expand service network coverage



Number of covered cities & counties (unit)

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

2019 was a challenging year for Chinese enterprises. With the complicated international situation and unexpected conflicts all over the world, the Sino-US trade negotiation made progress despite twists and turns, and finally, the two countries entered into the Phase-one Economic and Trade Agreement on 15 January 2020. It indicates that the two major economies in the world reached a temporary ceasefire after a trade war that lasted 18 months.

According to data from the National Bureau of Statistics of China, China's GDP recorded a growth of 6.1% in 2019, which was the lowest since 1990. Confronted by the complicated economic environment, the Chinese government strengthened the macro counter-cyclic adjustments, which realised steady progress in economic development, maintained reasonable economic operation, promoted high-quality development, and achieved growth. During the year, most small and medium enterprises faced great difficulties during transformation and great pressure in terms of cost and funds.

In terms of the water purifier industry, the reports released by AVC revealed that the market size of water purifiers was RMB13.83 billion as at the first half of 2019 with a year-on-year increase of 1.3%; the volume of retail sales was 5.02 million units with a year-on-year increase of 8.6%. According to the latest offline data from FEB, the overall retail sales of water purifiers reached RMB328.31 million in November 2019 with a year-on-year decrease of 17.8%, and the volume of retail sales was 87,000 units with a year-on-year decrease of 18.9%. Water purifiers entered into the bottleneck period after several years' development. The market experienced a growth bottleneck in the first and second-tier cities, and it still takes time to achieve growth in the third and fourth-tier cities. As the growth of the water purifier industry slowed down, the market entered into the phase of competing for existed market share. Therefore, water purifier enterprises have been going through market exploration and transformation. Despite slower growth, the water purifier market was still on the rise on the whole, and the market size is expected to realise continuous expansion.

The development of the water purification industry in China was divided into two phases in recent years. The first phase was the popularisation of the water purifier market, and the second phase still required the concerted efforts of all the participants in the water purifier industry.

The popularisation rate of water purifiers in China was much lower than that of some advanced countries due to lack of industry standards and consumers' consciousness of the safety of drinking water. In developed countries, the market penetration of household water purifiers exceeded 80%. For example, the market penetration of water purifiers reached 80% in Japan, 90% in US and 95% in Korea. On the contrary, the market penetration of household water purifiers in China was only about 20%, with only some first-tier cities having higher market penetration of over 30%. This disparity indicates that there is a significant gap between China and some advanced countries. In recent years, consumers have increasingly higher demands for water purifiers with the continuous improvement in living standard and power of consumption. In the future, the market penetration of water purifiers is expected to be on the rise.

In terms of the development of water purification enterprises, water purification enterprises need to seek solutions for various scenarios in order to break through the boundary of household water purification. In recent years, water purification enterprises mainly focus on upgrading terminal water purifiers. Under the backdrop of consumption upgrades and popularisation of healthy drinking awareness, consumers are paying more attention to health, quality and high-end functions when selecting water purifiers, and the traditional only one-terminal water purifier can no longer satisfy people's demands. This indicates that, in the future, in addition to upgrading terminal water purifiers, water purification enterprises shall also explore users' water consumption scenarios, provide solutions with several modes of installation for various scenarios and groups such as the Internet of Things ("IoT") and functional water, realise the purification transition from "drinking water" to "domestic water", and break through the limitations of water purification. At present, the continuous development of artificial intelligence, cloud technology, technology relating to the 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.

In addition to household use, water purifiers are also extensively applied in the commercial market. Commercial water purifiers are mainly targeted at the public drinking water market, including more than 20 million registered enterprises, more than 9,500 hospitals, over 1 million schools, over 200 airports, over 2,000 stations and more than 12,000 starred hotels, with huge market accommodation. Currently, 90% of drinking water sources in public places in China is bottled water. In 2018, the domestic production of bottled water exceeded 60 million tonnes, one-third of which was for the commercial drinking water. The demand for commercial drinking water exceeded 20 million tonnes. There is a huge development potential in the commercial water purification market in China.

Business Review

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 and solving the problems of various offices and living scenes and combining a diversified product portfolio with personalised 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 "24x365" 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 purified water provided by Ozner. In addition, Ozner further developed air purifiers, purified water dishwashers 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.

For the year ended 31 December 2019 ("2019" or the "Year"), revenue increased by approximately 3.9% from approximately RMB1,644.9 million for the year ended 31 December 2018 ("2018" or the "Previous Year") to approximately RMB1,709.2 million in 2019, of which revenue from the water purification business increased by 0.5%. The Group's gross profit decreased by approximately 7.3% from approximately RMB760.6 million in 2018 to RMB705.2 million in 2019, while the Group's net profit decreased by approximately 822.4% from approximately RMB134.3 million in profit in 2018 to approximately RMB970.2 million in loss in 2019. The increase in revenue was mainly attributable to the health growth of the Group's water purification business. However, confronted with the deteriorated business environment, the associate companies invested by the Group and the distributors failed to realise the expected performance, which resulted in the Group recording losses for the first time.

During the Year, the Group proactively implemented the formulated annual plan: (1) further occupy the market; (2) launch new products; (3) strengthen brand benefits; and (4) realise new sci-tech development.

(1) Market share

The Group has been devoted to expanding the market and enlarging the market share. It has occupied the largest market share in the domestic commercial water purification field for several consecutive years. In 2019, the Group's sales channels covered 2,340 towns, up by approximately 7.1% as compared to 2,185 towns in the Previous Year. This shall be attributed to efforts made by the Group to create the win-win collaborative management and maintenance model with its distributors, continuously establish network platforms, set up full-crew marketing system, increase and strengthen the business operators and their efforts, accentuate assessment for the merchant sales team, support and enhance operators and distributors' capability on developing new clients in all aspects. In the first and second-tier markets, the Group focused on increasing market share and developed more new clients with the help of distributors. In the third and fourth-tier markets, the Group mainly developed new channels and further expanded its business in regions such as the Northwest China and Northeast China. Currently, there are great business opportunities in local areas.

In 2019, the Group added 285 new distributors, as compared to the addition of 806 in the same period of 2018.

During the Year, the Group launched the "bottle replacement" campaign, aiming to encourage new clients to replace bottled water with water purifiers. Water purifiers can save a lot of drinking water cost for end users as compared to bottled water. For instance, by using water purifiers, a corporate user with 30 members can reduce drinking water expenses for the enterprise by 56% over the span of ten years as compared to drinking bottled water. In other words, the service pattern can not only provide fresh, safe and healthy drinking water service for enterprise employees, but also greatly reduce the drinking water cost of enterprises. More importantly, the Group will continue to conduct full-process monitoring on the drinking water situation and demands of users based on IoT water purifiers. The Group can provide more considerate service for users with customised and personalised plans for service solution based on big data analysis. The Group explored the bottled water market on the basis of its platform resources, realised channel transformation with the help of perfect market development strategies, and finally replaced bottled water with direct drinking water purifiers.

(2) Launch new products

Since 2018, the Group has strengthened its superiority in the commercial water purifier market by adopting commercial leasing model as its major development strategy, aiming to induce recurring consumption by stable commercial customers and users with high renewal rates to acquire steady cash flow. During the Year, the Group recorded an increase in the accumulated number of installation of leased water purifiers from approximately 1,360,000 units as of 31 December 2018 to approximately 1,385,000 units as of 31 December 2019. The Group also had a total of approximately 185,000 units of new water purifiers for leasing during the Year. Among them, 159,000 commercial water purifiers for leasing were newly installed with a year-on-year decrease of 17.2%. The business segment recorded a revenue of approximately RMB701.3 million, representing a year-on-year increase of 13.0%. 26,000 household water purifiers were newly installed, and the business segment recorded a revenue of approximately RMB172.7 million, representing a year-on-year increase of 6.7%. The business segment recorded a revenue of approximately RMB1,155.3 million, representing a year-on-year increase of 0.5%. The growth under the deteriorated business environment was encouraging and indicated the market confidence in the brand of "Ozner Water".

The proportion of revenue from the business segment of commercial leasing model within the business as a whole increased from approximately 47.6% as at 31 December 2018 to approximately 51.1% as at 31 December 2019, demonstrating that the Group shifted its strategic focus to commercial leasing model. The Group expected that the strategy will further lower the selling expenses incurred from the expanding the household water purifier market and acquired more commercial leasing customers and users with stable renewal rates. This helped the Group link its clients and complete the strategic layout in the industry through the increasing adoption of an innovative and sharing business model.

In addition, the Group newly launched 18 commercial water purifier models and 9 household water purifier models in total, including stainless steel water purifiers of public 2G network, the enhanced version of vertical engine 1.5 for sterilization, vertical water purifiers with double hot plates and E-commerce quartz plates. The Group replaced the new products with new-generation quartz plates, enriched the varieties of online products and IoT products, updated and strengthened the sterilization capability based on a more complicated user environment, further ensuring users' safety when the products are in use. During the Year, the Group has also carried out the research and functional product development of artificial intelligence configurable modular water purification robots and new filter materials of science and technology.

(3) Strengthen brand benefits

During the Year, the Group continuously invested resources to strengthen brand benefits. It attended the 12th AQUATECH CHINA in Shanghai and promoted the safe drinking demonstration activities in thousands of schools all over the country. Meanwhile, the Group was also designated as the water purification service provider at Inclusive Finance Summit Forum in 2019, Expo Shanghai China, G20 Summit in Hangzhou, BRICS Summit in Xiamen, International University Sports Federation and the 7th Military World Games. It held the Thousand Merchants Summit in several places all over the country, publicising the brand of "Ozner" to the society through different activities. The Group also invested more resources in Intellectual Property co-branded water purifiers in order to better cater to young consumers' habits and increase the popularity of the products.

In addition, the Group has been recognised 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" at China Water Purification Brand Summit, the honorary titles of "Stable Qualified Products in National Quality Inspection" and "National Product and Service Quality Integrity Demonstration Enterprise" by China Quality Inspection Agency Water Purification Equipment Professional Committee and the award of "Top 10 Suppliers of Chinese Hospital Construction" by China Hospital Construction Committee. The Group also became a member of Special Committee for Education Equipment of China Association for Quality Promotion.

The Group will create effective publicity by integrating traditional media with new media in a bid to convey Ozner brand to the target clients in a more accurate manner. We have placed water purifiers in approximately 50 Chinese airports and high-speed railway stations in order to provide convenience for businesspersons and passengers, realizing publicity and offering experience to clients.

(4) Realise new sci-tech development

Firmly bearing the development mission in mind, and taking the innovative development as its own task, the Group has made contributions to the development of the water purifier industry and society. The emerging technologies, including artificial intelligence, blockchain and IoT, are continuously changing the type of water purifiers and ushering the water purification industry into a brand-new era. In response to changing technologies, the Group invested a lot of talents and funds in innovation of science and technology. It has formulated strategic scientific research projects, including the key project of Ozner robot, which aims to realize mobile and intelligent multifunctional service robots with mobile robots as carriers and in combination with intelligent household functional modules. It proposed a set of systematic product solutions for robot clusters in public application fields by adopting technologies such as intelligent perception, artificial intelligence and big data analysis.

Water purification safety has always been an important mission of the Group, which has been leading innovation in the industry. Pressure barrels and quartz plates equipped in traditional water purifiers are hotbeds for bacteria to breed. During the Year, the Group removed these two major pollution source components in the campus special (sterilization) water purifiers, greatly lowering the probability of bacteria breeding and reducing the risk of bacterial pollution from structural optimization. The massive water storage tank uses safe and clean ozone sterilization technology, and intelligently controls the regular delivery of quantitative ozone sterilization to ensure the timely storage of fresh water. Since the outlet nozzle is exposed to air, it is also a major problem for water pollution from water purifiers, for which we firstly applied the technology of timing thermal sterilization with intelligent control to ensure that the outlet nozzle is clean and pollution-free. Dynamic ozone directional internal cleaning of pipelines can prevent bacterial pollution caused by effluent flowing through dead corners of pipelines so as to ensure safe and pollution-free effluent flowing process. With intelligent collection of users' water usage habits, the water purifiers can automatically carry out the self-cleaning function inside the system real time, solve the odor problem caused by long-term unused water or power failure of the water purifiers, and provide users with safe and healthy purified water.

For upgrading technology reserve, during the Year, 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 31 December 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 the 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 31 December 2019, the Group owned 475 patents, among which were 388 patents of water purification services, 45 patents of air sanitization, 42 patents of intelligent products and dishwashers. In addition, the Group is applying for 70 patents, including 48 patents of water purification services, 17 patents of air sanitization and 5 patents of intelligent products and dishwashers.

Future Prospect

The outbreak of Coronavirus Disease 2019 ("COVID-19") in China since early 2020 have brought about uncertainties in China's economy. The Group believed that it will be challenging business environment in coming a few years. In order to differentiate our products and services from other competitors, 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, so as to make contribution to the sustainable development and further improvement of profitability of the Company.

Financial Review

Revenue

Our total revenue increased by 3.9% from RMB1,644.9 million for the year ended 31 December 2018 to RMB1,709.2 million for the year ended 31 December 2019, primarily attributable to the Group's success in diversifying its business and sustain its growth through new business development and acquisitions.

The revenue from water purification services increased by 0.5% from RMB1,149.2 million for the year ended 31 December 2018 to RMB1,155.3 million for the year ended 31 December 2019, which was primarily attributable to the Group's strategic adjustment on the segment of water purification service. The Group is more focused on the lease market, especially that of commercial water purification. The revenue from the leasing of water purifying machines still maintained a good growth rental income grew by 11.7% from RMB782.5 million for the year ended 31 December 2018 to RMB874.0 million for the year ended 31 December 2019 which is in line with the increase in the cumulative number of water purifying machines installed at end users premises during the Year. The share of revenue from leasing water purification machines in the total revenue of water purification business increased from 68.1% for the year ended 31 December 2018 to 75.7% for the year ended 31 December 2019. For the years ended 31 December 2019 and 2018, the Group leased and sold a total of approximately 323,000 and 373,000 units of water purification machines, respectively, of which the number of newly leased machines decreased from approximately 232,000 units for the year ended 31 December 2018 to approximately 185,000 units for the year ended 31 December 2019, with the accumulated total of water purification machines installed up from approximately 2,034,000 units as at 31 December 2018 to approximately 2,197,000 units as at 31 December 2019. Due to the change in strategy, the Group reduced to sell the household water purifying machines, the sales amounts decreased by 42.1% from RMB95.7 million for the year ended 31 December 2018 to RMB55.4 million for the year ended 31 December 2019.

Revenue generated from supply chain services increased by 8.6% from RMB416.3 million for the year ended 31 December 2018 to RMB452.1 million for the year ended 31 December 2019, which was mainly due to the stably increase in revenue from the sales of micro motor products by Foshan Lepuda Motor Co., Ltd ("Foshan Lepuda").

Revenue generated from others increased by 25.6% from RMB75.7 million for the year ended 31 December 2018 to RMB95.1 million for the year ended 31 December 2019, which was primarily due to the growth of factoring business. The loans to distributors increased from RMB327.7 million as at 31 December 2018 to RMB583.8 million as at 31 December 2019.

Gross Profit Margin

The gross profit margin of the Group decreased from 46.2% for the year ended 31 December 2018 to 41.3% for the year ended 31 December 2019, primarily attributable to the decrease in gross profit margin of water purification business.

Our gross profit margin of water purification business was 54.2% and 46.5% for the years ended 31 December 2018 and 2019, respectively. Such decrease of gross profit margin was attributable to decrease in sales of water purifying machines and the corresponding products which have a higher gross profit margin.

Our gross profit margin of supply chain services was 15.8% and 16.3% for the years ended 31 December 2018 and 2019, respectively, which remained stable.

Our gross profit margin of others services was 93.4% and 98.3% for the years ended 31 December 2018 and 2019, respectively, increase in gross profit margin of others services was primarily attributing to decease in costs of such business.

Other Income and Gains

Other income and gains amounted to RMB75.3 million and RMB56.8 million for the years ended 31 December 2018 and 2019, respectively. Such decrease was mainly attributable to the decrease in interest income, fair value gains on derivative financial instruments and technical service fee by RMB23.5 million, RMB18.7 million and RMB17.0 million, respectively, which partially offset by an increase in income from derivative component of convertible bonds by RMB20.6 million and an increase in tax refund of RMB7.3 million for the year ended 31 December 2019 as compared with the year ended 31 December 2018.

The interest income decreased by RMB23.5 million from RMB31.7 million for the year ended 31 December 2018 to RMB8.2 million for the year ended 31 December 2019, primarily attributing to a decrease in interest income from the loans and interest income from the funds managed by Shenzhen City William Financial Holding Limited ("SWF")* (深圳市威廉金融控股有限公司) (the "Funds"). For the details of the fund, please refer to the heading of "Strategic investments".

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 decreased by RMB18.7 million from RMB18.7 million for the year ended 31 December 2018 to nil for the year ended 31 December 2019, such a decrease was mainly in relation to the under-performance of the guarantors, as a result, the probabilities of the compensation to be obtained by the Group is remote. For the details, please refer to the heading of ''Strategic investments''.

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 decreased by RMB22.1 million from RMB46.5 million for the year ended 31 December 2018 to RMB24.4 million for the year ended 31 December 2019.

Selling and Distribution Expenses

For the years ended 31 December 2018 and 2019, our selling and distribution expenses were RMB171.0 million and RMB197.3 million, respectively, accounting for 10.4% and 11.5% of the revenue for the same periods. Our selling and distribution expenses increased by 15.4% or RMB26.3 million from the year ended 31 December 2018 to the year ended 31 December 2019. Such increase was primarily due to an increase of RMB44.6 million in relation to the marketing and promotion activities, which partially offset by a decrease in depreciation of RMB14.8 million in relation to the closure of public non-public bars and experience stores and costs saving of RMB5.9 million in relation to the Group outsourced parts of the sales support services.

Administrative Expenses

For the years ended 31 December 2018 and 2019, our administrative expenses were RMB211.7 million and RMB226.0 million, respectively, accounting for 12.9% and 13.2% of the revenue for the same periods. Our administrative expenses increased by 6.8% or RMB14.3 million from the year ended 31 December 2018 to the year ended 31 December 2019. Such increase was mainly attributable to an increase in personnel expenses and professional fee in relation to subscription of the new shares of the Company by the Haier Electronics Group Co., Ltd.

Other Expenses

For the years ended 31 December 2018 and 2019, our other expenses were RMB62.9 million and RMB1,056.9 million, respectively, accounting for 3.8% and 61.8% of the revenue for the same years. Our other expenses increased significantly by 15.8 times or RMB994.0 million from the year ended 31 December 2018 to the year ended 31 December 2019. Such increase was mainly attributable to the increase of loss on disposal and loss of water purifying machines, increase in impairment provision on financial assets, increase in impairment on goodwill and increase in impairment on other intangible assets.

Loss on disposal of revenue generating assets

The Group's management recognised loss on disposal of revenue generating assets of approximately RMB143.8 million, which increased 1,534.1% or RMB135.0 million from the year ended 31 December 2018 to the year ended 31 December 2019.

Loss on the loss of water purifying machines increased from RMB8.8 million for the year ended 31 December 2018 to RMB49.2 million for the year ended 31 December 2019. As the economic environments became worse and an increase in numbers of the purifying water machines returned from the end users, which were the indicators that there is a risk of loss of assets of the Group. As a result, the Group performed water purifying machines counting before 31 December 2019 and identified that 53,000 water purifying machines were lost.

The Group recognised a loss on disposal of water purifying machines of RMB94.6 million for the year ended 31 December 2019 as no such loss was incurred for the year ended 31 December 2018. In general, the Group renews the water purifying machines for further leasing. During the year ended 31 December 2019, the Group received 107,000 water purifying machines returned by the end customers due to the worsen economic environment or the damage of the machines. Due to the Group's focus to promote water purifying machines with IoT technology in 2020 and most of those water purifying machines were aged products, renew of those water purifying machines is not consistent with the future development strategy of the Group and costs and benefits. The Group decided to written-off 79,000 purifying water machines and recognized the loss on disposal.

Loss on disposal of inventories and provision/(reversal) for write-down of inventories

The Group recorded a loss of disposal of inventories and provision for write-down of inventories amounting RMB61.3 million and RMB13.4 million, respectively, for the year ended 31 December 2019, as compared with for the year ended 31 December 2018, a loss of disposal of inventories and reversal for write-down of inventories amounting nil and RMB7.3 million, respectively, for the year ended 31 December 2018. Such change was primarily attributing to these inventories were aged, defective or spares parts in relation to some outdated products. The Group has assessed the subsequent usage and realization of the inventories as at 31 December 2019 and made such provision and disposal accordingly.

Impairment on trade receivables and financial assets

		For the year ended 31 December	
		2019	2018
	Notes	**RMB'million**	RMB'million
Impairment on trade receivables	(i)	**112.6**	4.2
Impairment on financial assets			
— other receivables	(i)	**219.1**	—
— prepayments	(ii)	**17.8**	—
		236.9	—

(i) Impairment on trade and other receivables

(a) Impairment on trade and other receivables increased significantly by RMB170.3 million from RMB4.2 million for the year ended 31 December 2018 to RMB174.5 million the year ended 31 December 2019. The Group's management has assessed on the recoverability of trade and other receivables, and recognised impairment losses of trade and other receivables based on the expected credit loss model (IFRS 9). For the details of the credit control, please refer to the heading "Trade and Bills Receivables". Due to the worsening economic environments and the influence of COVID-19, the Group adjusted a higher expected credit loss rate for the year ended 31 December 2019 as compared with the last year.

(b) The impairment on other receivables also included impairment on the Funds of RMB157.2 million.

The Group recognised impairment on the Funds of RMB157.2 million for the year ended 31 December 2019 as no such loss incurred for the year ended 31 December 2018. Between February 2017 and June 2018, the Group invested an aggregate of HK$242.5 million in six funds managed by SWF, each of which was a "principal plus interest protection" fund with an annualised interest rate of 8%–12%, payable upon full redemption. As part of the full redemption of three of the funds and partial redemption of one of the funds, the Group received payments from SWF of HK$24.0 million, HK$25.0 million and HK$31.5 million in July 2017, August 2017 and February 2018, respectively, by way of repayment of principal, and HK$837,000, HK$228,000, HK$3.05 million, HK$1.7 million and HK$4.0 million in July 2017, August 2017, December 2017, February 2018 and September 2018, respectively, by way of payment of interest. As at 31 December 2019, the remaining principal in aggregate under the three outstanding funds (the "Outstanding Investment") remained outstanding HK$162.0 million (equivalent to RMB145.1 million), all of which amounts are due and payable but have not been paid to the Group. During the first half of 2019, it came to the attention of the Group that the controlling shareholder of the holding company of SWF (China Create Financial Holding Group Co., Ltd. ("China Create Financial"), Mr. Zhang Wei, had been arrested by the PRC authorities and an investigation was in progress. The Group's management has been in contact with China Create Capital Limited, an affiliate of China Create Financial and the nominee entity in the name of which is the investment account into which the Outstanding Investment was transferred pursuant to the subscription agreements, in relation to the repayment arrangement of the Outstanding Investment. As at 31 December 2019 and date of this report, the Group is unable to contact China Create Capital Limited. The Company also noticed that the office of the China Create Capital Limited has not been in operation. As such, the Group recorded an impairment of approximately RMB157.2 million on such investment loss in view of the above information. The Company has engaged a legal counsel to pursue legal actions available to the Company for recovering the Outstanding Investment.

(ii) Impairment on prepayments

The Group recognized impairment on prepayments of RMB17.8 million for the year ended 31 December 2019 as no such impairment incurred for the year ended 31 December 2018. In October 2018, the Group made a prepayment to a third party for a consulting service. After the service was terminated in 2019, the Group has requested for the repayment but the third party only repaid parts of prepaid amounts. Recently, the Group noted that third party was dissolved on 16 March 2020. The Group considered the recoverability of the repayment is remote and recognized the impairment loss.

For the details of the reversal of gains on fair value gains on derivative financial instruments come from contingent consideration, please refer to the heading of "Strategic investments".

Impairment on goodwill, other intangible assets and property, plant and equipment

The Group recognized impairment on goodwill, other intangible assets and property, plant and equipment of RMB223.8 million, RMB51.7 million and RMB58.4 million, respectively, for the year ended 31 December 2019 as no such impairments were incurred for the year ended 31 December 2018. The impairments were generated from two business segments, water and air purification service cash- generating unit ("Water CGU") and supply chain cash-generating unit ("Supply Chain CGU").

Water CGU

The goodwill generated from the Water CGU includes goodwill arising from the acquisition of Shanghai Haoze Environmental Technology Co. Ltd. in 2010 amounting to RMB0.5 million, goodwill arising from the acquisition of Park Wealth International Limited in 2012 amounting to RMB25.5 million, goodwill arising from the acquisition of Guangdong Bili Drinking Water Equipment Co., Ltd. (the "Guangdong Bili") in 2017 amounting to RMB119.5 million and goodwill arising from the acquisition of Shaanxi Ozner Noorey Environmental Technology Co., Ltd. in 2019 amounting to RMB2.3 million. They are engaged in the manufacture, leasing and sales of water purifying machines. The acquisitions were made as part of the Group's strategy to expand its market share of water purification business.

In determining the value-in-use of the Water CGU, the Directors applied the generally accepted business enterprise appraisal approach, namely the income approach, which estimated future cash flows expected to be derived from the Water CGU, discounted to its present value that reflected the current market assessments of the time value of money and the risks specific to the Water CGU and taken into consideration of the financial forecasts approved by the management of the Water CGU. The valuation approach has been consistently applied as at 31 December 2018 and 2019. The value-in-use of the Water CGU were determined based on a value in use calculation using cash flow projections based on financial forecasts period of 5 years for the years ended 31 December 2019 and 2018. The pre-tax discount rate applied to the cash flow projections was 16%.

The following table sets out the key assumptions for the CGUs that have significant goodwill allocated to them:

	For the years ended 31 December	
	2019	2018
Average revenue growth rate	**9%–14%**	10%–20%
Gross profit margin	**47%–52%**	53%
Long-term growth rate	**3%**	3%

During the year ended 31 December 2019, in light of (a) the challenging business environment in the Water CGU business owing to the competitive market in the PRC as mentioned above; and (b) the economic impacts under COVID-19 in the coming years, and hence the Group applied a lower growth rate in the cash flow projections for valuation of the goodwill of the Water CGU. Accordingly, the average growth rate and long-term growth rate were lowered to 9%–10% and 3%, respectively (2018: 10%–20% and 3%). The long-term growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. On the other hand, due to the keen competition, and the expected market development, the gross profit margin was lowered to 47%–52% (2018: 53%).

As a result, the Group made an one-off impairment provision for the goodwill amounting to RMB147.9 million.

Supply Chain CGU

The goodwill generated from the Supply Chain CGU is arising from acquisition of Foshan Lepuda in 2017 amounting to RMB74.5 million and goodwill arising from the acquisition of Foshan OTOI Industrial Technology Co., Ltd. amounting to RMB1.4 million. Foshan Lepuda is engaged in the manufacture and sales of micro motor products. The acquisition was made as part of the Group's strategy to expand its influence over supply chain services.

In determining the value-in-use of the Supply Chain CGU, the Directors applied the generally accepted business enterprise appraisal approach, namely the income approach, which estimated future cash flows expected to be derived from the Supply Chain CGU, discounted to its present value that reflected the current market assessments of the time value of money and the risks specific to the Supply Chain CGU and taken into consideration of the financial forecasts approved by the management of the Foshan Lepuda. The valuation approach has been consistently applied as at 31 December 2018 and 2019. The value-in-use of the Supply Chain CGU were determined based on a value in use calculation using cash flow projections based on financial forecasts period of 5 years for the years ended 31 December 2019 and 2018. Cash flows beyond the projected period have been extrapolated using a 3% long-term growth rate. Such growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The following table sets out the key assumptions for the CGUs that have significant goodwill allocated to them:

	For the years ended 31 December	
	2019	2018
Average revenue growth rate	**–2%–10%**	10%–35%
Gross profit margin	**16%–17%**	17%
Long-term growth rate	**3%**	3%
Pre-tax discount rate	**16%**	16%

During the year ended 31 December 2019, in light of (a) the demand from a major customer in the PRC and overseas customers are decreased; and (b) the economic impacts under COVID-19 in the coming years, and hence the Group applied a lower growth rate in the cash flow projections for valuation of the goodwill of the Supply Chain CGU. Accordingly, the average growth rate was lowered to –2%–10% (2018: 10%–35%). The pre-tax discount rate applied to the cash flow projection was 16% for the year ended 31 December 2018 and 2019.

As a result, the Group made an one-off impairment provision for the goodwill amounting to RMB75.9 million. However, the recoverable amounts of the Supply Chain CGU is lower than the carrying amount of goodwill arising from the Supply Chain CGU. Therefore, the Group made a further impairment on the other intangible assets and property, plant and equipment under the Supply Chain CGU amounting to RMB51.7 million and RMB57.0 million, respectively, in accordance with the accounting standards.

Impairment on investments in associates

The Group recognised impairment on investments in associates of RMB81.0 million for the year ended 31 December 2019 as no such loss incurred for the year ended 31 December 2018. Such loss is arising from the recoverable amounts of investments in associates is lower than the carrying amounts of investments in associates. For the details, please refer to the heading of "Strategic investments".

Finance Costs

Finance costs mainly represented the finance expenses in relation to convertible bonds and interest-bearing bank and other borrowings. Finance costs increased by 66.5% or RMB113.1 million from RMB170.0 million for the year ended 31 December 2018 to RMB283.1 million for the year ended 31 December 2019, which was mainly due to the increase of debt balance.

Share of losses of associates

The share of losses of associates mainly represented the share of performance of the associates and impairment of intangible assets arising from the acquisition. For the years ended 31 December 2018 and 2019, our share of losses of associates were RMB24.2 million and RMB92.6 million, respectively, accounting for 1.5% and 5.4% of the revenue for the same periods. An increase in share of losses of associate was primarily attribute to impairment of intangible assets arising from the acquisition amounting to RMB59.0 million for the year ended 31 December 2019 as compared with that was nil for the year ended 31 December 2018. For the details of impairment of intangible assets arising from the acquisition, please refer to the heading of "Strategic investment".

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 2018 to 2020 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; (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; and (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 recorded a tax credit of RMB123.7 million for the year ended 31 December 2019 as compared with an income tax expense of RMB61.7 million for the year ended 31 December 2018. Such change was primarily attributing to an increase of credit of deferred tax of RMB166.0 million to RMB182.9 million for the year ended 31 December 2019, which partially offset by a decrease of income tax expenses of RMB19.4 million to RMB59.2 million for the year ended 31 December 2019. An increase in the credit of deferred tax was primarily attributing to the non-recurring and one-off transaction items, such as impairment loss in trade and other receivables, were incurred for the year ended 31 December 2019. A decrease in the tax expense was primarily attributing to a decrease in assessable profits of certain operating subsidiaries as the Group recorded a loss before tax for the year ended 31 December 2019. The effective tax rate (calculated by income tax expense dividing by profit before tax) was 31.5% and 11.3% for the years ended 31 December 2018 and 2019, respectively.

(Loss)/Profit for the Year

The Group recorded a loss of RMB970.2 million for the year ended 31 December 2019 as compared with a profit of RMB134.3 million for the year ended 31 December 2018.

Non-GAAP Financial Measures

To supplement the audited consolidated results of the Group prepared in accordance with IFRS, certain additional non-GAAP financial measures (in terms of profit for the year) have been presented in this report. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and non-recurring and one-off transactions.

Non-IFRS adjusted (loss)/profit

The following tables set forth the reconciliations of the Group's non-IFRS adjusted (loss)/profit for the years ended 31 December 2019 and 2018:

	2019 RMB'000	2018 RMB'000
(Loss)/profit for the year	**(970,220)**	134,270
Adjusted items:		
— Share-based payments	**31,989**	40,315
— Fair value gains on derivative component of the Bonds	**(22,148)**	(1,524)
— Fair value change on derivative financial instruments	**18,726**	(15,473)
— Amortised costs of liability component of convertible bonds(1)	**43,605**	22,786
— Amortization of intangible assets resulting from business acquisitions	**19,858**	19,215
— Exchange difference in relation to capital nature	**5,375**	10,805
— Impairment on financial assets	**349,450**	—
— Impairment on long-term investments	**470,862**	—
— Adjusted for tax effects on non-GAAP adjustments	**(52,194)**	—
Non-IFRS adjusted (loss)/profit for the year	**(104,697)**	210,394

Note:

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

EBITDA

EBITDA is calculated as profit before taxation less non-cash share-based payment, fair value gains and exchange difference in relation to capital nature, and adding back impairment provision, depreciation of the property, plant and equipment, revenue generated assets and amortization of intangible assets.

The following tables reconciles the (loss)/profit before taxation to EBITDA for the years ended 31 December 2019 and 2018:

	2019 RMB'000	2018 RMB'000
(Loss)/profit before taxation	**(970,220)**	134,270
Adjusted items:		
— Share-based payments	**31,989**	40,315
— Fair value gains on derivative component of the Bonds	**(22,148)**	(1,524)
— Fair value change on derivative financial instruments	**18,726**	(15,473)
— Exchange difference in relation to capital nature	**5,375**	10,805
— Impairment on financial assets	**349,450**	—
— Impairment on long-term investments	**470,862**	—
Income tax	**(123,701)**	61,746
Finance costs	**283,146**	170,046
Depreciation and amortisation expenses	**366,316**	329,361
EBITDA	**409,795**	729,546

Liquidity and Financial Resources

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

Cash Positions

As at 31 December 2019, the Group's bank balances and cash together with short-term investments (bank time deposit) was RMB118.9 million (31 December 2018: RMB398.3 million), representing a decrease of 70.1% as compared to that as at 31 December 2018. Such decrease was primarily attributing to increase in pledged deposits of RMB60.1 million and payment for the purchase of plants and machinery and construction of industrial park. For the surplus cash, we intend to deposit the cash into short-term demand deposits/or money market instruments. As at 31 December 2019, cash equivalents were denominated mainly in RMB and Hong Kong dollars.

Strategic Investments

As at 31 December 2019, the Group held significant strategies investments, including investments in associates, equity investments designated at fair value through other comprehensive income, derivative financial instruments and short-term investments (the "Strategic Investments"). Aggregated amounts of the Strategic Investments were RMB418.3 million and RMB847.1 million as at 31 December 2019 and 2018, respectively, accounting for 6.2% and 12.9% of the total assets as at the same year ended. The following tables set forth a breakdown of the Strategic Investments as a the years specified:

		As at 31 December	
		2019	2018
	Notes	**RMB'000**	RMB'000
Investments in associates	(i)	**245,140**	270,314
Equity investments designated at fair value through other comprehensive income	(ii)	**173,157**	418,068
Short-term investments	(iii)	**—**	139,942
Derivative financial instruments	(ii)	**—**	18,726
		418,297	847,050

(i) Investments in associates

Since 2017, the Group has established an investment strategy and aimed to invest in some potential companies which can diversify the products of the Group and have a synergic effect with the Group's business. As at 31 December 2019, the Group invested 6 associated companies, which mainly involved in sales and manufacturing of dishwasher, air purifier, reverse osmosis membrane businesses and after-sales services. Besides, the Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Investments in associates decreased from RMB270.3 million as at 31 December 2018 to RMB245.1 million as at 31 December 2019, which was primarily attributable to an increase in investments in associate with amounts of RMB150.0 million in relation to setup a fund with reference to the announcements dated 1 September 2019, which partially offset by (i) shares of the loss for the year of RMB92.6 million, and (ii) impairment loss of RMB81.0 million.

For the establishment or acquisition of an associate, details of the works have been performed by the Directors before investment in the associate are as follows: (i) due diligence was performed for the associate, including the financial, operation, legality and detail of customers; (ii) background search on the associate; (iii) independent business valuation performed by an independent professional; and (iv) site visit of the associate and communication with the management of the associate to understand the associate's operation.

The Group recognized an impairment loss of RMB140.0 million, which included an impairment loss in investments in associates of RMB81.0 million and an impairment loss on intangible assets rising from the acquisition of RMB59.0 million which recorded in share of losses of associates. The calculation of the impairment loss as at 31 December 2019 is the shortfall of the recoverable amount which falls below the carrying amount of the investments. The impairment was mainly attributable to the following factors:

- The business plan of the associates was further delayed and suspended with uncertainties, which affected the financial projected adopted;

- The capital invest plan was not carried out as planned;

- the market entered by the associates is in downside.

Based on the above reasons, the financial projections, in particular, the revenue project decreased as compared the valuation for the year ended 31 December 2019 with valuation for the year ended 31 December 2018. The management of the associates have then revised the financial forecast of the associates as at 31 December 2019 in arriving at a more conservative estimate which better reflect the industry outlook.

The Group has engaged an independent valuer, Asia-Pacific Consulting and Appraisal Limited (the "Valuer"), to perform the valuation report for the year ended 31 December 2019 for assessment of the valuation of the associates. In applying the income approach to arrive the fair value of the associates, the discounted cash flow ("DCF") methodology was used. The said valuation approach and methodology has not been changed from last year. The Valuer has referenced to IAS 36 and adopted income approach in valuing the fair value of the associates, in which seven-year financial forecasts were adopted in measuring the fair value of the associates as at 31 December 2019. Under the income approach, the Valuer has adopted the DCF method to discount all future cash flows into present value.

(ii) Equity investments designated at fair value through other comprehensive income

Equity investments designated at fair value through other comprehensive income mainly represents investments in entities set up with top dealers and investment in a microfinance company.

Investments in entities set up with top dealers — The Group entered investments agreements with the first-tier distributors to established 21 distribution companies (the "Distribution Companies") in 2017 and 2018. The Group invested aggregated amounts of RMB349.0 million to hold 9.09% equity interests in each of the Distribution Companies. The principal activities of the Distribution Companies are sales and distribution of water purifying machines. The strategic objective of the Group to make such investments were mainly to (i) the Group can build a more close relationship with the first-tier distributors through the co-operation and can implement certain local sales policies; (ii) the Group can provide more resources and direct support to explore the potential markets, including to provide sales representatives or management staff to the Distribution Companies; (iii) to enhance the management skill of the Distribution Companies and distributorship network; and (iv) to strength and build up a direct communication channel and a close relationship with the sub-distributors.

For the establishment of the Distribution Companies, details of the works have been performed by the Directors before investment in the Distribution Companies are as follows: (i) due diligence was performed, including the financial, operation, legality and detail of customers; (ii) background search on the first-tier distributors; (iii) assessments on the business valuation; and (iv) site visit of the first-tier distributors and communication with the management of the first-tier distributors Distribution Companies for a feasible study.

Equity investments designated at fair value through other comprehensive income decreased from RMB418.1 million as at 31 December 2018 to RMB173.2 million as at 31 December 2019. Such decrease was primarily attributing to recognition of the fair value change loss of RMB259.5 million. The decrease in fair value was mainly attributable to the following factors:

- The business plan of the Distribution Companies was further delayed and suspended with uncertainties, which affected the financial projected adopted;
- The capital invest plan was not carried out as planned;
- The poorer economic environment and more keen competition in the market.

Based on the above reasons, the financial forecast, in particular, the revenue project decreased as compared the valuation for the year ended 31 December 2019 with valuation for the year ended 31 December 2018. The management of the Distribution Companies (the "Distribution Managements") have then revised the financial forecast of the associate as at 31 December 2018 in arriving at a more conservative estimate which better reflect the industry outlook.

The Group has engaged the Valuer to perform the valuation report for the years ended 31 December 2019 and 2018 for assessment of the valuation of the Distribution Companies. In applying the income approach to arrive the fair value of the Distribution Companies, the DCF methodology was used. The said valuation approach and methodology has not been changed from last year. The Valuer has referenced to IAS 36 and adopted income approach in valuing the fair value of the Distribution Companies, in which ten-year financial forecasts were adopted in measuring the fair value of the Distribution Companies as at 31 December 2019. Under the income approach, the Valuer has adopted the DCF method to discount all future cash flows into present value.

Pursuant to the sale and purchase agreement, the controlling shareholders of Distribution companies (the "Guarantors") undertakes to the Group that, if the accumulated installment quantities of water purifying machines have not arrived at the guaranteed amount from 2019 to 2021, the Distribution Companies shall pay a series of compensation in cash or shares equivalent as calculated below to the Company or other ways agreed by all parties.

Compensated cash flow = The adjusted investment amount – proportion of equity held by the investor in the target company after this investment × actual post investment valuation

Actual post investment valuation of this investment = adjusted post investment valuation × total actual installed quantities in performance commitment period (set)/minimum installed quantity (set in the purchase and sale agreement)

To avoid ambiguity, all parties confirm that the actual post investment valuation will not be adjusted due to the over completion of performance commitment.

Based on the Distribution Companies financial statements and the estimated installment quantities of 2020 and 2021, the Guarantors will compensate the Group under the adjustment mechanism. The Group recognized the derivative financial instruments, which is measured at fair value with changes into profit or loss, in relation to the performance guarantee amounting to RMB17.8 million and RMB nil as at 31 December 2018 and 2019, respectively. Such change is as a result of the under-performance of the Guarantors, the Group assessed that it is remote to obtain the compensation. The Group will continue to negotiate with the Guarantors for the compensation and will take legal action if necessary.

Investment in a microfinance company — The Company acquired 5.14% equity interests of a microfinance company amounting to RMB63.1 million in October 2018. The microfinance company owns a consumer finance license and its principal activity is to provide consumer credit in the western part of China. The strategic objective of such investment is mainly that the Group wants to combine water machine business with the consumer credit model through the platform of the microfinance company.

Investment in a microfinance company increased from RMB63.1 million as at 31 December 2018 to RMB80.1 million as at 31 December 2019, primarily attributable to change in fair value of the microfinance company. The Group has engaged the Valuer to perform the valuation report for the years ended 31 December 2019 and 2018 for assessment of the valuation of the microfinance company. The Group's management applied the Comparables Approach to arrive the fair value of the microfinance company.

(iii) Short-term investments

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

Trade and Bills Receivables

Trade and bills receivables increased from RMB462.0 million as at 31 December 2018 to RMB725.9 million as at 31 December 2019. The increase was mainly due to 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. The Group's average trade receivable turnover days were 89 days and 139 days for the years ended 31 December 2018 and 2019, respectively.

The impairment on trade and bills receivables increased by RMB112.6 million from RMB7.5 million as at 31 December 2018 to RMB120.1 million as at 31 December 2019, primarily due to a higher expected credit loss rate for the year ended 31 December 2019 as the concern of the worsening economic environments and the influence of COVID-19. The Group have implemented the credit policy to monitor the performance of its debtors, including to perform aging analysis, to communicate with the debtors, to monitor the subsequent settlements and historical transaction patterns. The provision policy for impairment of trade and bills receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of those receivables, including the creditworthiness and the past collection history of each customer. If the financial condition of the customers of our Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Group will strengthen the credit management to guard against the increased impairment and will take legal action if necessary.

Inventories

Inventories was remained stable at RMB345.6 million and RMB337.9 million as at 31 December 2018and 2019, respectively. Our average inventories turnover days were 130 days and 140 days for years ended 31 December 2018 and 2019, respectively.

Current Ratio and Gearing Ratio

The current ratio decreased from 1.05 as at 31 December 2018 to 0.60 as at 31 December 2019. It was mainly due to the increase in short term borrowings as well as the Group used the short-term resource to construct the industrial park and purchase of plant and machineries. The Group's gearing ratio, which was derived by dividing total debt by total equity, was 59.4% and 140.7% as at 31 December 2018 and 2019, respectively. Such change was due to the increase in the bank and other borrowings.

Capital Expenditure

For the year ended 31 December 2019, the Group's capital expenditure amounted to approximately RMB797.5 million, which was mainly used for acquisition of property, plant and equipment as well as production of water purification machines. During the year, the increased amount of the Group was mainly invested in renovation and construction of Shaanxi manufacturing facility, amounting to approximately RMB352.4 million and new water purification machines amounting to RMB393.4 million.

Borrowings and Charges on the Group's Assets

As at 31 December 2019, the Group's interest-bearing bank and other borrowings, lease liabilities and the liability component of convertible bonds amounted to approximately RMB2,490.2 million (31 December 2018: RMB1,458.5 million), and approximately RMB560.2 million (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. Amongst interest-bearing bank and other borrowings, lease liabilities approximately RMB341.1 million will be repayable in the second to fifth years, and others will be repayable within one year and the fixed interest rates are ranged from 3.0% to 24.0% per annum.

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

During the Year, the Group entered into several finance lease agreements (the "Finance Lease Agreements") for the sale and leaseback of 6,943 units water purifiers of the Group to obtain borrowings. As at 31 December 2019, the carrying amount of 678,165 units water purifiers, which were subject to the sale and leaseback arrangements under the Finance Lease Agreements and were treated as secured assets in essence, was approximately RMB596.0 million.

As at 31 December 2019, the Group pledged deposits amounting to RMB132.7 million as securities for issuance of bank acceptance notes and bank loan (as at 31 December 2018: RMB72.6 million).

As at 31 December 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 right-of-use assets amounting to RMB18.6 million (31 December 2018: RMB19.4 million).

Save as disclosed above, the Group did not have any charges on the assets as at 31 December 2019 (as at 31 December 2018: Nil).

Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

Commitments

As at 31 December 2019, the Group had capital expenditure of RMB142.1 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 31 December 2019, the Group had unpaid annual lease payments of RMB440.4 million which were not yet recognized as rental revenue (as at 31 December 2018: RMB405.6 million).

As at 31 December 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 administrative expenses for the Hong Kong office that are denominated in Hong Kong dollars.

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

Employees and Remuneration Policy

As at 31 December 2018 and 2019, the Group had 3,078 and 2,554 employees, respectively, including 867 employees from after-sale services team. Total staff costs for the year ended 31 December 2019 were RMB190.7 million, as compared to RMB145.0 million for the year ended 31 December 2018. Apart from salary payments, other employee benefits including social insurance and housing provident fund are in amounts equal to pre-determined percentages of the salaries, bonuses and certain allowances of our employees.

On 23 March 2018, the Group granted 65,000,000 share options to the grantees entitling them to subscribe for a total of 65,000,000 new Shares under the share option scheme. The exercise price of share options granted was HK$2.45, and the closing price of the Shares on the date of grant was HK$2.02. The 65,000,000 share options were granted to the following five Directors, among which, the grant of share options to Mr. Xiao Shu was approved at the extraordinary general meeting of the Company held on 29 June 2018, the details of which are as follows:

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

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

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

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

As at 31 December 2019, RSUs representing a total of 27,316,454 Shares were granted, of which (i) RSUs representing 15,212,362 Shares were vested; and (ii) RSUs representing 12,104,092 Shares were outstanding and held by the RSU Trustee. 27,719,854 Shares are currently held by the RSU Trustee for future grant of RSUs.

For the year ended 31 December 2019, the total expense of the Schemes was RMB32.0 million (for the year ended 31 December 2018: RMB40.3 million).

Material Acquisitions

Save as disclosed in this report, the Group did not conduct any material acquisitions or disposals during the year ended 31 December 2019.

Final Dividend

The Board did not propose any dividend for the year ended 31 December 2019 to the shareholders of the Company.

Major Subsequent Events

(i) The outbreak of COVID-19 in China since early 2020 has brought about uncertainties in the Group's operating environment. A number of provinces in the PRC have taken emergency public health measures and various actions to prevent the spread of the COVID-19.

To the best of the Directors' knowledge and belief, the outbreak of the COVID-19 has caused, among others, (i) temporary suspension of work in the production facilities of the Group due to the shortage of workforce; (ii) delay in delivery of raw materials to the Group due to the disruption to the local logistics network; and (iii) extensive disruption to the normal operation of the businesses in the PRC, including most of our end customers and distributors, and thereby may affect the Group's income which is mainly generated from offline services, and customers are widely covered in schools, office buildings, commercial chains, transportation hubs, hotels, medical institutions, commercial stores and living houses. The Group will closely monitor the development of the epidemic situation, timely evaluate and actively respond to the impact of the epidemic situation to the Group's business operations and financial conditions. If the impact is subsequently predicted to be significant and may affect the financial results and operation of the Group, a further announcement will be published in due course.

(ii) With effect from 14 April 2020, 11 May 2020 and 21 May 2020, Ms. SUI Wei, Mr. WANG Duo and Ms. GUI Songlei, respectively, has resigned as non-executive directors of the Company. Details of their resignation are set out in the Company's announcement dated 16 April 2020, 14 May 2020 and 22 May 2020, respectively.

Save as disclosed above, there are no other major subsequent events to 31 December 2019 which would materially affect the Group's operating and financial performance as of the date of this report.

Appreciation

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, and they are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from its shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to meet its business objectives for 2020 and realise higher values for its shareholders and other stakeholders.

XIAO Shu
Chairman and Chief Executive Officer

Hong Kong, 23 June 2020

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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

During the year ended 31 December 2019, the Company has complied with all the applicable code provisions as set out in the CG Code, save and except for the following deviation:

Code provision A.2.1

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

The Board

Responsibilities

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

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

Board Composition

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

Executive Directors

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

Non-executive Directors

Mr. Wang Duo (Resigned on 11 May 2020)
Ms. Sui Wei (Appointed on 20 February 2019 and resigned on 14 April 2020)
Ms. Gui Songlei (Resigned on 21 May 2020)

Independent non-executive Directors

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

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

During the year ended 31 December 2019 and up to the date of this annual report, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

None of the Directors has any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

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

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

Induction and Continuous Professional Development

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

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

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

Appointment and Re-election of Directors

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

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

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

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

Board Meetings

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

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

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

During the year ended 31 December 2019, four Board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

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

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Specific enquiry of all the Directors has been made and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2019.

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

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

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

Remuneration of Directors

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors. The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of each of the Directors for the year ended 31 December 2019 are set out in note 9 to the consolidated financial statements. Apart from the executive Directors, the Group does not have any other members of senior management.

Directors' Liability Insurance

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

Board Committees

Nomination Committee

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

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

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

During the year ended 31 December 2019, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

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

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

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process as set out in the Nomination Policy:

(i) the Nomination Committee will, after giving consideration to the needs of the Company and the current composition, diversity and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort on suitable candidates;

(ii) the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from Shareholders with due consideration given to the criteria set out in the Nomination Policy;

(iii) the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as conducting interviews, background checks, presentations and third-party reference checks;

(iv) upon deciding on a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to approve the recommendation to the Board for appointment;

(v) the Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and

(vi) the Board will have the final authority in determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director.

Board Diversity Policy

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

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

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

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

Remuneration Committee

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

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

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

During the year ended 31 December 2019, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

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

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

Audit Committee

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

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

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

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

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

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

During the year ended 31 December 2019, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

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

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

During the year, the Audit Committee also reviewed the audited consolidated annual results of the Company and its subsidiaries for the year ended 31 December 2018 and the unaudited interim results of the Company and its subsidiaries for the period ended 30 June 2019 as well as the report prepared by the external auditor relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control and other matters.

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2019 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 64 to 65 of this annual report.

Internal Control and Risk Management

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

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

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

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

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

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

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

For the year ended 31 December 2019, the Board, through the Audit Committee, conducted an annual review of the effectiveness of the financial reporting, internal control and risk management of the Company including the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting, internal audit and financial reporting functions and considered these systems as effective and adequate.

Auditor's Remuneration

For the year ended 31 December 2019, the total remuneration paid or payable to the Company's auditor, Ernst & Young, for audit and audit related services was RMB4.3 million.

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

Items of auditor's services	Amount RMB'000
Audit service	2,828
Review service	1,480
Total	4,308

Company Secretary

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

For the year ended 31 December 2019, Mr. Tan has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

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

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

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

During the year, the Company held an annual general meeting on 28 June 2019 ("2019 AGM") and below is the attendance of each Director.

Name of Director	Attended/ Eligible to attend 2019 AGM
Mr. Xiao Shu	1/1
Mr. Zhou Guanxuan	1/1
Mr. Tan Jibin	1/1
Mr. Li Honggao	1/1
Mr. Wang Yonghui	1/1
Ms. Sui Wei	1/1
Ms. Gui Songlei	1/1
Mr. Wang Duo	1/1
Dr. Chan Yuk Sing Gilbert	1/1
Mr. Lau Tze Cheung Stanley	1/1
Dr. Bao Jiming	1/1
Mr. Gu Jiuchuan	1/1

The Chairman of the Board, the Chairman of the Board committee (or other members of the Board committee) and the external auditor of the Company were all present at the 2019 AGM to answer shareholders' questions.

Dividend Policy

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

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

Shareholders' Rights

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

Convening of Extraordinary General Meeting and Putting Forward Proposals

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

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

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

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

Enquiries to the Board

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

Constitutional Documents

There has not been any change in the Memorandum and Articles of Association of the Company during the year ended 31 December 2019 and up to the date of this annual report.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. XIAO Shu (肖述), aged 46, is the Chairman of the Board, an executive Director and our chief executive officer. He was appointed as the Director on 19 November 2013 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Xiao has more than 15 years of experience in technology development, sales and marketing and strategic management. Mr. Xiao founded our business in October 2005, when he established Shanghai Haoze Comfort Environment & Service Co., Ltd. ("Shanghai Comfort"), a company which the Group acquired in 2012, and has remained as the management of Shanghai Comfort since then until he joined Shanghai Haoze Environmental Technology Co., Ltd. in January 2011. Mr. Xiao held his interests in Shanghai Comfort through Shanghai Comfort Products Technology Co., Ltd., a company which was engaging in the sales of air purification products and drinking water machines and which was established by Mr. Xiao as one of the founders in 2003. Mr. Xiao is the inventor of several patented water and air purification technologies owned by the Group. Prior to establishing our business via the establishment of Shanghai Comfort, Mr. Xiao worked at Sinorate Enterprises Limited, a company specializing in the production of electronic goods and components, between April 1993 and April 1999 where he sequentially served as product engineer, quality control manager and director of the production department. Between June 2001 and June 2002, he worked at Shanghai Oasun Environment High Technology Company Limited (上海歐臣環境高科技有限公司) ("Shanghai Oasun"), a company engaging in the business of providing water purification solutions, and was in charge of research and development and production management. Mr. Xiao received a bachelor's degree in agriculture (soilless cultivation) from Northwest A&F University (西北農林科技大學) (Shaanxi, PRC), which is formerly known as Northwest Agricultural Institute (西北農學院), in July 1992. Mr. Xiao is also accredited as an Internal Quality Auditor following the completion of an internal quality auditor course and the passage of the national internal quality auditor examination administered by the National Educational Center for Conformity Assessment in December 2001.

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

Mr. ZHOU Guanxuan (周貫煊), aged 61, is an executive Director. He was appointed to our Board as an independent non-executive Director on 26 May 2014 and has been re-designated as an executive Director on 28 March 2017. After the re-designation, Mr. Zhou is responsible for the management of the Group's supply chain. Mr. Zhou has more than 30 years of experience in household appliances manufacturing and operations management. From 1975 to September 1999, Mr. Zhou worked at the Midea Group Co., Ltd (SZE: 000333), a company listed on the Shenzhen Stock Exchange and engaging in the business of manufacturing of household electrical appliances, and assumed office in the technology and production department before he was promoted as the general manager of Midea Redian Group Co., Ltd, an affiliate of Midea Group Co., Ltd. From 2000 to 2007, Mr. Zhou was the president of Foshan Shunde District Beijiao Town Weigao Electronics Industry Company Limited (佛山市順德區北滘鎮偉高電器實業有限公司), a company engaging in the business of research and development, manufacturing and sale of electronic appliances. From 2011 to 2013, he was the director and general manager of Jiangxi Jingdezhen Saide Ceramics Co., Ltd. (江西景德鎮賽德陶瓷有限公司), a company engaging in the business of manufacturing, development and sale of ceramics decoration materials.

Mr. TAN Jibin (譚濟濱), aged 38, is an executive Director. He joined our Group on 6 April 2011 as the financial controller and vice president of Shanghai Haoze Water Purification Technology Development Co., Ltd. and was appointed as the Director on 19 November 2013. Mr. Tan is primarily responsible for overseeing the overall financial and administrative affairs of the Group. Mr. Tan has more than 10 years of experience in accounting and finance. Prior to joining the Group, Mr. Tan served as a senior auditor in Deloitte Touche Tohmatsu, an accounting firm, from July 2004 to April 2009 and as an associate finance manager in China Aoyuan Property Group Limited (HKSE: 3883), a Chinese property company listed on the Stock Exchange, from May 2009 to March 2011. He obtained a bachelor's degree in international finance from Guangdong University of Foreign Studies (廣東外語外貿大學) (Guangdong, PRC) in June 2004.

Mr. LI Honggao (李紅高), aged 38, has been appointed as an executive Director of the Company with effect from 28 March 2017. Mr. Li joined our Group on 1 June 2006 and currently serves as senior vice president of the Group and president of the public water purification business group of the Group. Mr. Li is primarily responsible for the sales, management and operation of the public and commercial water purification business of the Group. Mr. Li has over 10 years of sales and marketing experience in water purification business. Mr. Li has also served as sales director, marketing and operation director and general manager of the business department of the Group consecutively prior to his current position. Mr. Li is currently a master of business administration candidate at Fudan University (復旦大學), the PRC.

Mr. WANG Yonghui (王永暉), aged 43, has been appointed as an executive Director of the Company with effect from 28 March 2017. He joined our Group on 15 September 2014 and currently serves as vice president and investment director of the Group. Mr. Wang is responsible for capital markets related work and investments of the Group. Mr. Wang has extensive financial and capital markets related work experience. Before joining the Group, Mr. Wang has served various positions at the headquarter of Bank of China, the investment banking division of Banc of America Securities (now merged into Bank of America Merrill Lynch), and SOHO China Limited. Mr. Wang obtained a bachelor's degree in economics from the University of International Business and Economics (對外經濟貿易大學), the PRC, in July 1999 and his master of business administration degree from Emory University, the United States of America, in May 2006.

Independent Non-Executive Directors

Mr. LAU Tze Cheung Stanley (劉子祥), aged 57, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. He has over 20 years of experience in accounting and finance, management consulting and corporate finance. Mr. Lau served as the chief financial officer and company secretary of Asia Fashion Holdings Limited (亞洲時尚控股有限公司) (SGX: AFH), a company listed on the Singapore Stock Exchange, from January 2008 to August 2012 and the chief financial officer of China Kangda Food Company Limited (中國康大食品有限公司) (HKSE: 834, SGX: CKANG), a company listed on both the Stock Exchange and the Singapore Stock Exchange, from December 2005 to December 2007. Before that, Mr. Lau worked at Messrs. Lo Hung Yan, Certified Public Accountant and provided management consulting, auditing and corporate secretarial services and advice to his clients since April 1993.

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

Dr. BAO Jiming (包季鳴), aged 67, has been appointed as an independent non-executive director of the Company, the chairman of the Remuneration Committee and a member of the Audit Committee with effect from 28 March 2017. He is currently a professor of the School of Management of Fudan University (復旦大學), with years of research experience in corporate management. Dr. Bao is also the vice chairman of Shanghai Management Science Society (上海市管理科學學會) and the associate director of the Shanghai Services Development Research Institute (上海現代服務業發展研究院). Before these positions, Dr. Bao has served various positions at Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司) from May 1995 to January 2009, including the deputy office general manager, office general manager, general manager of the overseas business division, general manager of the corporate management division, assistant vice president of the group, vice president of the group and president of its overseas subsidiaries, and executive director of the group and chairman of its overseas subsidiaries. From February 1995 to May 1995, Dr. Bao served as deputy manager (副處長) of the Science Section of Shanghai Municipal Education Commission (上海教育委員會科技處), and from September 1985 to February 1995, Dr. Bao served various positions at the School of Management of Fudan University, including the deputy director of the training department, assistant to the dean of the School of Management, researcher and secretary general of the Fudan Development Institute (復旦發展研究院), lecturer, associate professor and tutor for students pursuing master studies.

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

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

Dr. CHAN Yuk Sing Gilbert (陳玉成), aged 61, is an independent non-executive Director. He was appointed to our Board on 26 May 2014. Dr. Chan is an assistant professor in the department of applied biology and chemical technology of the Hong Kong Polytechnic University. His recent research focus is on the application of ozone technology. He is the chairman of the Sino Ozone Association of the PRC. Over the years, Dr. Chan has made various publications and speeches on the topic of healthy water and ozone.

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

Mr. GU Jiuchuan (顧久傳), aged 71, is an independent non-executive Director. He was appointed to our Board on 26 May 2014 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Gu has extensive experience and knowledge in the water purification industry. Before working at Wuxi Haide Membrane Technology Co., Ltd. (無錫市海德膜技術有限公司), a company engaging in the water purification business, from 1999 to 2010 as technical director, Mr. Gu worked at China Huajing Electronics Group Co., Ltd. (中國華晶電子集團公司), a company specialized in the research and development and manufacturing of semi-conductor equipment. In November 2013, Mr. Gu became the vice chairman of the China Desalination Association (中國水利企業協會脱鹽分會) and in October 2013, Mr. Gu was appointed as the managing member of the technology certification committee of water purification products of the China General Certification Center (北京鑒衡認證中心淨水產品認證技術委員會主任委員). He has been the honorary chairman of AnHui Water Purification Association (安徽省淨水行業協會) and the member of the expert guidance panel of the Fund for Drinking Water Safety and Health established by the China Health Promotion Foundation (中國健康促進基金會飲水安全與健康專項基金) since 2012, an expert member of the advisory panel of the Drinking Water Industry Committee established by the National Development and Reform Commission Public Nutrition and Development Center (國家發改委公眾營養與發展中心飲用水產業委員會) since 2011. He also served as the chief secretary of the Wuxi Water Purification Association (無錫市淨水行業協會) and the secretary of the Purified Water Industry Committee of China Private Economy Research Association (中國民(私)營經濟研究會淨水行業委員會). Mr. Gu has participated in the drafting of various national industry standards concerning water purification systems and has made numerous publications on the topic of water purification. Currently, Mr. Gu is the honorary chief editor of the magazine "中國直飲水" and the special consultant, member of the think tank and editor of the magazine "直飲水時代".

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

Senior Management

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

Company Secretary

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

REPORT OF THE DIRECTORS

Principal Activities

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

Results and Dividends

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 66 to 177.

The Board did not propose any dividend for the year ended 31 December 2019 to the shareholders of the Company.

Business and Financial Review

The business and financial review of the Group for the year ended 31 December 2019 and a discussion on the Group's future development are set out in the section headed "Chairman's Statement and Management Discussion and Analysis" on pages 6 to 28 of this annual report.

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

Principal Risks and Uncertainties

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

Business risk

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

Liquidity risk

As of 31 December 2019, the Group recorded net current liabilities of RMB1,687,314,000, which was primarily attributable to the increase and structure change of borrowings; and the increase in installation of new water purification machines when the Group invested huge internal resources to manufacturing of commutation for leasing purpose.

Exchange rate risk

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

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

Financial instruments risk

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

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

Financial Summary Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 178. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Revenue-Generating Assets

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

Share Capital

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

Pre-emptive Rights

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

Emolument Policy

The Group values its employees and places great emphasis on attracting, cultivating and retaining talent through the combination of competitive salary incentives, on-job training and opportunities for development. In general, the Group determine employee salaries based on each employee's qualifications, experience, position and seniority. The Directors believe the salaries and benefits that the Group's employees receive are competitive with market standards in each geographic location where the Group conducts business. In addition, the Company has adopted the Pre-IPO Share Option Scheme and the Share Option Scheme which provide incentive to better motivate its employees.

Employee Benefits

Particulars of the employee benefits of the Group are set out in Note 34 to the consolidated financial statements.

Purchase, Redemption or Sale of Listed Securities of the Company

There was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2019.

Closure of Register of Members

The Company will hold an AGM on 31 July 2020.

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 28 July 2020 to 31 July 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 27 July 2020, being the business day before the first day of closure of the register of members of the Company.

Reserves

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

Distributable Reserves

As at 31 December 2019, the Company's reserves available for distribution to Shareholders amounted to RMB1,142.9 million.

Charitable Contributions

During the year, the Group made charitable contributions totaling RMB2,200,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 32.5% of the total sales for the year and sales to the largest customer included therein amounted to 10.1%. Purchases from the Group's five largest suppliers accounted for 18.8% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 6.9%.

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

Key Relationships with Employees, Customers and Suppliers

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

The Group places great emphasis on end user satisfaction in the operation of our business. The end users' loyalty to our products and services is demonstrated by strong renewal rates as approximately over 88.2%. The Group maintains a good relationship with our distributors, clients and end customers.

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

Directors

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

Executive Directors

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

Non-Executive Directors

Ms. Gui Songlei (Resigned on 21 May 2020)
Mr. Wang Duo (Resigned on 11 May 2020)
Ms. Sui Wei (Appointed on 20 February 2019 and resigned on 14 April 2020)
Mr. He Sean Xing (Resigned on 20 February 2019)

Independent Non-Executive Directors

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

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

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

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

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 42 to 45 of the annual report.

Permitted Indemnity Provisions

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

Directors' Service Contracts

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

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

Directors' Interests in Transactions, Arrangements or Contracts

No Director and/or any of his/her connected entity had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisted at the end of the year or at anytime during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long/short positions in ordinary shares of the Company

Name of director	Long/short positions	Nature of Interest	Note	Number of ordinary shares	Percentage of the Company's issued share capital as at 31 December 2019[d]
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	—	385,900	0.02%
Mr. LI Honggao	Long Position	Beneficial owner	—	420,096	0.02%
Mr. WANG Yonghui	Long Position	Beneficial owner	—	416,472	0.02%
Mr. WANG Duo	Long position	Interest of spouse	(c)	859,000	0.04%
Mr. ZHOU Guanxuan	Long position	Beneficial owner	—	38,388	0.00%

(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, 62,182,000 Shares and 382,831,950 Shares held by each of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.

(b) These 107,284,706 Shares include 4,198,000 Shares which Mr. Xiao is interested in as beneficial owner and options granted under the Pre-IPO Share Option Scheme entitling Mr. Xiao to subscribe for 103,086,706 Shares.

(c) Mr. WANG Duo resigned as the non-executive Director on 11 May 2020.

(d) As at 31 December 2019, the Company had 2,132,331,950 ordinary Shares in issue.

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

Name of Director	Number of options /restricted share units directly beneficially owned	Approximate percentage of shareholding as at 31 December 2019[2]
Mr. XIAO Shu	103,086,706	4.83%
M. ZHOU Guanxuan	3,063,370	0.14%
Mr. TAN Jibin	12,306,298	0.58%
Mr. LI Honggao	8,043,035	0.38%
Mr. WANG Yonghui	3,247,968	0.15%
	129,747,377	6.08%[1]

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

(2) As at 31 December 2019, the Company had 2,132,331,950 ordinary Shares in issue.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share Incentive Schemes

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

Pre-IPO Share Option Scheme

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

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

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

	Number of share options					
Name or category of participant	As at 1 January 2019	Exercised during the Year	Lapsed during the Year	Forfeited during the Year	As at 31 December 2019	Approximate percentage of shareholding as at 31 December 2019*
Directors						
Mr. XIAO Shu	51,086,706	—	—	—	51,086,706	2.40%
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	2.95%
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	0.11%
Other employees						
In aggregate	89,879,589	—	135,746	—	89,743,843	4.21%
Total	155,173,906	—	135,746	—	155,038,160	7.27%

* As at 31 December 2019, the Company had 2,132,331,950 ordinary Shares in issue.

As at 31 December 2019, the maximum number of shares that may be issued pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme was 155,038,160 shares (31 December 2018: 155,173,906 Shares), representing approximately 7.27% (31 December 2018: approximately 7.26% of the issued share capital of the Company as at 31 December 2018) both as at 31 December 2019 and as at the date of this annual report. For the year ended 31 December 2019, the total share option expense was RMB32.0 million (for the year ended 31 December 2018: RMB40.3 million).

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

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

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

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

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

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

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

Share Option Scheme

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

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

			Number of share options							
Name of participant	Date of Grant	Exercise price per share	As at 1 January 2019	Granted during the Year	Exercised during the Year	Lapsed during the Year	Forfeited during the Year	As at 31 December 2019	Exercise period	Closing price of the Shares immediately before the date of grant
Directors										
Mr. XIAO Shu	23 March 2018	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		

The Board may grant options under Share Option Scheme to (i) employees (whether full time or part-time) or a director of a member of our Group or associated companies of the Company; and (ii) a distributor or a full-time employee of any distributor of the Group or associated companies the Company, to incentive and reward them for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Group. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the listing date (i.e.17 June 2014) and has a remaining period of approximately 4 years as at the date of this annual report.

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

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

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

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

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

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

(iii) the nominal value of the shares.

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

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

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

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

Restricted Share Unit Scheme

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

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

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

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. The Company may (i) direct and procure the trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the RSUs upon exercise and/or (ii) allot and issue Shares to the trustee to be held by the trustee and which will be used to satisfy the RSUs upon exercise.

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 years as at the date of this report.

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

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

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

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

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

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

Details of the RSUs granted under the RSU Scheme for the year ended 31 December 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 Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Number of Shares represented by RSUs at 31 December 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	—	(116,552)	—	—	174,829
		121,897[(4)]	19 June 2018	—	(48,758)	—	—	73,139
Mr. Li Honggao	Executive Director	1,039,364[(2)]	21 July 2017	—	(415,745)	—	—	623,619
		365,692[(4)]	19 June 2018	—	(146,276)	—	—	219,416
Mr. Tan Jibin	Executive Director	777,015[(2)]	21 July 2017	—	(310,806)	—	—	466,209
		487,590[(4)]	19 June 2018	—	(195,036)	—	—	292,554
Mr. Zhou Guanxuan	Executive Director	105,616[(4)]	19 June 2018	—	(42,246)	—	—	63,370
Subtotal		3,548,327		—	(1,635,191)	—	—	1,913,136
Employees and distributors of the Group		64,759[(1)]	13 July 2016	—	(51,807)	(12,952)	—	—
		9,040,492[(2)]	21 July 2017	—	(5,989,891)	(759,503)	—	2,291,098
		2,201,543[(3)]	25 August 2017	—	(880,614)	—	—	1,320,929
		14,655,919[(4)]	19 June 2018	—	(5,575,644)	(1,422,131)	—	7,658,144
Subtotal		25,962,713		—	(12,497,956)	(2,194,586)	—	11,270,171
Total		424,531[(1)]	13 July 2016	—	(411,579)	(12,952)	—	—
		11,148,252[(2)]	21 July 2017	—	(6,832,994)	(759,503)	—	3,555,755
		2,201,543[(3)]	25 August 2017	—	(880,614)	—	—	1,320,929
		15,736,714[(4)]	19 June 2018	—	(6,007,960)	(1,422,131)	—	8,306,623
		29,511,040		—	(14,133,147)	(2,194,586)	—	13,183,307

Notes:

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

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

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

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

Save as disclosed above, none of the Grantees of the RSUs is a director, chief executive or substantial shareholder of the Company or associate (as defined in the Listing Rules) of any of them. The grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs.

The newly granted RSUs shall vest as follows:

(i) as to 40% of the RSUs on the date ending 12 months after the date of grant of the RSUs;

(ii) as to an additional 30% of the RSUs on the date ending 24 months after the date of grant of the RSUs; and

(iii) as to the remaining 30% of the RSUs on the date ending 36 months after the date of grant of the RSUs.

The RSU Scheme involves granting of RSUs over the existing Shares underlying the RSUs under the RSU Scheme which were held by Computershare Hong Kong Trustees Limited (the "RSU Trustee") as trustee for the benefit of the relevant participants in the RSU Scheme. Since the adoption of the RSU Scheme, the RSU Trustee has purchased a total number of 41,853,000 Shares on the market at an average price of approximately HK$1.78 per Share and a total consideration of approximately HK$74,494,000.

As at 31 December 2019, RSUs representing a total of 27,316,454 Shares have been granted, of which (i) RSUs representing 15,212,362 Shares have been vested; and (ii) RSUs representing 12,104,092 Shares are outstanding and held by the RSU Trustee. 27,719,854 Shares are held by the RSU Trustee for future grant of RSUs.

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

Rights to Acquire the Company's Securities

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

Equity-linked Agreements

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

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

As at 31 December 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 31 December 2019[i]
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%
Haier Electronics Group Co., Ltd.	Long Position		Beneficial owner	1,599,248,963	75.00%
Haier Group Corporation	Long Position		Interest in a controlled corporation	1,599,248,963	75.00%
Haier Smart Home Co., Ltd.	Long Position		Interest in a controlled corporation	1,599,248,963	75.00%

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 31 December 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 31 December 2019, the Company had 2,132,331,950 ordinary Shares in issue.

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

Continuing Disclosure Pursuant to Rule 13.21 of the Listing Rules

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

Sufficiency of Public Float

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

Directors' Interests in a Competing Business

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

Events after the Reporting Period

Saved as disclosed under the section headed "Major Subsequent Events" of this annual report, there was no subsequent events between the end of reporting period and the date of this annual report that would cause material impact on the Group.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2019, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Environmental Protection

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

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

Corporate Governance

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 29 to 41 of this annual report.

Review by Audit Committee

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

The Audit Committee had reviewed together with the management and external auditor of the Company the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended 31 December 2019.

Auditor

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

BY ORDER OF THE BOARD

XIAO Shu (肖述)
Chairman and Chief Executive Officer

Hong Kong
23 June 2020

INDEPENDENT AUDITOR'S REPORT

安永

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

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

Disclaimer of Opinion

We have audited the consolidated financial statements of Ozner Water International Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 177, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in note 2.1 to the consolidated financial statements, the Group incurred a net loss of RMB970,220,000 for the year ended 31 December 2019. As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB1,687,314,000.

In addition, the Group's bank and other borrowings and convertible bonds amounted to RMB3,023,812,000 as at 31 December 2019, out of which RMB289,694,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements. The overdue amount further increased to RMB1,203,598,000 as of the date of this report. The above defaults had caused cross-default of certain other borrowings amounting to RMB160,421,000 (note 31) as at 31 December 2019.

These conditions, together with other matters disclosed in note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.1 to the consolidated financial statements. The validity of the going concern assumptions on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including i) successfully negotiating with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings with principal and interests in default, including those with cross-default terms; (ii) successfully negotiating with financial institutions and other lenders for the renewal of or extension for repayments of all borrowings, including those that are overdue as at the date of this report and those that will fall due before 31 December 2020; (iii) successfully negotiating with the convertible bonds holders for the extension of repayment dates, including those that are overdue as at the date of this report and those that will fall due before 31 December 2020; and (iv) successfully obtaining new sources of financing or strategic capital investments.

Basis for Disclaimer of Opinion (Continued)

Multiple Uncertainties Relating to Going Concern (Continued)

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditor's report. We report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

Ernst & Young
Certified Public Accountants
Hong Kong
23 June 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	6	**1,709,184**	1,644,914
Cost of sales		**(1,003,993)**	(884,273)
Gross profit		**705,191**	760,641
Other income and gains	6	**56,847**	75,257
Selling and distribution expenses		**(197,310)**	(171,017)
Administrative expenses		**(226,024)**	(211,745)
Other expenses		**(1,056,883)**	(62,852)
Finance costs	8	**(283,146)**	(170,046)
Share of profits and losses of associates		**(92,596)**	(24,222)
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	**(1,093,921)**	196,016
Income tax credit/(expense)	11	**123,701**	(61,746)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**(970,220)**	134,270
Attributable to:			
Owners of the parent		**(888,667)**	112,960
Non-controlling interests		**(81,553)**	21,310
		(970,220)	134,270
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic (RMB cents)		**(42.30)**	5.45
Diluted (RMB cents)		**(42.30)**	5.45

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

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(9,369)**	(3,323)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(9,369)**	(3,323)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive (loss)/income		**(242,421)**	3,528
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods		**(242,421)**	3,528
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(251,790)**	205
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(1,222,010)**	134,475
Attributable to:			
Owners of the parent		**(1,140,457)**	113,165
Non-controlling interests		**(81,553)**	21,310
		(1,222,010)	134,475

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Revenue-generating assets	14	**1,771,608**	1,789,034
Property, plant and equipment	15	**1,064,138**	833,285
Prepaid land lease payments	16(a)	**—**	114,499
Other intangible assets	17	**137,477**	212,207
Goodwill	18	**—**	220,041
Investments in associates	19	**245,140**	270,314
Equity investments designated at fair value through other comprehensive income	20	**173,157**	418,068
Prepayments, other receivables and other assets	24	**411,399**	252,277
Deferred tax assets	21	**267,692**	101,472
Right-of-use assets	16(b)	**140,515**	—
TOTAL NON-CURRENT ASSETS		**4,211,126**	4,211,197
CURRENT ASSETS			
Inventories	22	**337,917**	345,568
Prepaid land lease payments	16(a)	**—**	2,990
Trade and bills receivables	23	**725,905**	462,019
Prepayments, other receivables and other assets	24	**1,104,625**	937,978
Amount due from related parties	39	**142,327**	125,364
Derivative financial instruments	25	**—**	18,726
Short-term investments	26	**—**	139,942
Pledged deposits	26	**132,742**	72,600
Cash and cash equivalents	26	**118,916**	258,309
TOTAL CURRENT ASSETS		**2,562,432**	2,363,496
CURRENT LIABILITIES			
Trade and bills payables	27	**368,015**	339,757
Other payables, advances from customers and accruals	28	**812,562**	559,299
Amount due to related parties	39	**54,370**	40,160
Deferred revenue	29	**17,205**	16,129
Interest-bearing bank and other borrowings	31	**2,131,585**	713,362
Income tax payable		**288,331**	246,164
Liability component of convertible bonds	30	**560,247**	—
Derivative component of convertible bonds	30	**—**	46,525
Lease liabilities	16(c)	**17,431**	280,612
TOTAL CURRENT LIABILITIES		**4,249,746**	2,242,008
NET CURRENT (LIABILITIES)/ASSETS		**(1,687,314)**	121,488
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,523,812**	4,332,685

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	30	—	507,694
Interest-bearing bank and other borrowings	31	**331,980**	295,000
Deferred tax liabilities	21	**33,029**	49,696
Lease liabilities	16(c)	**9,159**	169,489
TOTAL NON-CURRENT LIABILITIES		**374,168**	1,021,879
NET ASSETS		**2,149,644**	3,310,806
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	33	**17,255**	17,284
Share premium	33	**1,546,345**	1,552,017
Treasury shares	33	**(36,396)**	(63,148)
Equity component of convertible bonds	30	**78,995**	52,321
Reserves	33	**453,480**	1,583,231
		2,059,679	3,141,705
Non-controlling interests		**89,965**	169,101
TOTAL EQUITY		**2,149,644**	3,310,806

Xiao Shu
Director

Zhou Guanxuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the parent												
	Share capital (Note 33) RMB'000	Share premium (Note 33) RMB'000	Treasury shares (Note 33) RMB'000	Equity component of convertible bonds (Note 30) RMB'000	Share-based payment reserve (Note 33) RMB'000	Fair value reserve (Note 33) RMB'000	Retained earnings RMB'000	Merger reserve (Note 33) RMB'000	Foreign currency translation reserve (Note 33) RMB'000	Other reserves (Note 33) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity (Note 33) RMB'000
At 1 January 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
Loss for the year	—	—	—	—	—	—	(888,667)	—	—	—	(888,667)	(81,553)	(970,220)
Other comprehensive loss for the year:													
Change in fair value of equity investments at fair value through other comprehensive loss, net of tax	—	—	—	—	—	(242,421)	—	—	—	—	(242,421)	—	(242,421)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(9,369)	—	(9,369)	—	(9,369)
Total comprehensive loss for the year	—	—	—	—	—	(242,421)	(888,667)	—	(9,369)	—	(1,140,457)	(81,553)	(1,222,010)
Share-based payments (Note 34)	—	—	—	—	31,989	—	—	—	—	—	31,989	—	31,989
Transfer from retained earnings	—	—	—	—	—	—	(13,768)	—	—	13,768	—	—	—
Reclassify of convertible bonds	—	—	—	26,674	—	—	—	—	—	—	26,674	—	26,674
Repurchase of shares	—	—	(232)	—	—	—	—	—	—	—	(232)	—	(232)
Cancellation of repurchased shares	(29)	(5,672)	5,701	—	—	—	—	—	—	—	—	—	—
Contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	2,417	2,417
Equity-settled share option arrangements	—	—	21,283	—	(21,283)	—	—	—	—	—	—	—	—
At 31 December 2019	17,255	1,546,345	(36,396)	78,995	191,930*	(238,893)*	(101,553)*	56,018*	(25,420)*	571,398*	2,059,679	89,965	2,149,644

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

	Attributable to owners of the parent												
	Share capital (Note 33) RMB'000	Share premium (Note 33) RMB'000	Treasury shares (Note 33) RMB'000	Equity component of convertible bonds (Note 30) RMB'000	Share-based payment reserve (Note 33) RMB'000	Fair value reserve (Note 33) RMB'000	Retained earnings RMB'000	Merger reserve (Note 33) RMB'000	Foreign currency translation reserve (Note 33) RMB'000	Other reserves (Note 33) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity (Note 33) RMB'000
At 1 January 2018	16,554	1,407,728	(26,429)	52,321	140,909	—	775,651	56,018	(12,728)	522,987	2,933,011	147,791	3,080,802
Profit for the year	—	—	—	—	—	—	112,960	—	—	—	112,960	21,310	134,270
Other comprehensive income for the year:													
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	3,528	—	—	—	—	3,528	—	3,528
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(3,323)	—	(3,323)	—	(3,323)
Total comprehensive income for the year	—	—	—	—	—	3,528	112,960	—	(3,323)	—	113,165	21,310	134,475
Share-based payments (Note 34)	—	—	—	—	40,315	—	—	—	—	—	40,315	—	40,315
Transfer from retained earnings	—	—	—	—	—	—	(34,643)	—	—	34,643	—	—	—
Repurchase of shares	—	—	(36,719)	—	—	—	—	—	—	—	(36,719)	—	(36,719)
Issuance of ordinary shares	730	144,289	—	—	—	—	—	—	—	—	145,019	—	145,019
Final dividend declared	—	—	—	—	—	—	(53,086)	—	—	—	(53,086)	—	(53,086)
													—
At 31 December 2018	17,284	1,552,017	(63,148)	52,321	181,224*	3,528*	800,882*	56,018*	(16,051)*	557,630*	3,141,705	169,101	3,310,806

* These reserve amounts comprise the consolidated reserves of RMB453,480,000 (2018: RMB1,583,231,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(1,093,921)**	196,016
Adjustments for:			
Depreciation of revenue-generating assets	14	**266,934**	233,420
Depreciation of property, plant and equipment	7	**66,994**	78,991
Impairment of property, plant and equipment	7	**58,402**	—
Share of profits and losses of associates	7	**92,596**	24,222
Depreciation of right-of-use assets	7	**15,294**	—
Recognition of prepaid land lease payments		**—**	515
Amortization of other intangible assets	7	**17,094**	16,435
Impairment of other intangible asset	7	**51,674**	—
Amortization of other non-current assets		**4,520**	524
Share-based payments	34	**31,989**	40,315
Unrealized exchange gains		**(5,347)**	(11,188)
Loss on disposal of items of property, plant and equipment	15	**2,420**	1,590
Loss on disposal of revenue-generating assets	14	**143,844**	8,789
Fair value change on derivative financial instruments	7	**18,726**	(15,473)
Fair value gains on derivative component of convertible bonds	7	**(22,148)**	(1,524)
Disposal gains on equity investments at fair value through other comprehensive income		**(3,140)**	—
Impairment of investments in associates	7	**80,969**	—
Provision/(reversal) for write-down of inventories	7	**74,687**	(7,300)
Impairment of trade receivables	7	**112,553**	4,239
Impairment of financial assets included in prepayments, other receivables and other assets	7	**236,897**	—
Finance costs	8	**283,146**	170,046
Impairment of goodwill	7	**223,765**	—
		657,948	739,617
Increase in inventories		**(58,985)**	(29,487)
Increase in trade and bills receivables		**(372,661)**	(112,071)
Increase in prepayments, other receivables and other assets		**(354,137)**	(110,622)
Increase in amounts due from related parties		**(2,753)**	(117,704)
Increase/(decrease) in trade and bills payables		**23,533**	(58,179)
Increase in other payables, advances from customers and accruals		**104,176**	56,812
Decrease in pledged deposits		**29,894**	37,164
Increase/(decrease) in deferred revenue		**1,076**	(45,129)
Cash generated from operations		**28,091**	360,401
Income tax paid		**(17,019)**	(42,830)
Net cash flows from operating activities		**11,072**	317,571

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in pledged deposits		—	(40,000)
Purchases of revenue-generating assets		**(337,046)**	(385,514)
Purchases of items of property, plant and equipment		**(458,007)**	(169,809)
Purchases of other intangible assets		**(2,731)**	(6,542)
Purchases of associates		**(172,187)**	(3,400)
Payment for deposit of land use right		—	(4,283)
Addition of short-term investments		—	(343,598)
Repayment in short-term investments		**139,942**	551,490
Acquisition of subsidiaries, net of cash received	35	**(1,263)**	(67,271)
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		**5,630**	—
Purchases of equity investments at fair value through other comprehensive income/available-for-sale investments		—	(198,979)
Investment down payment		—	(80,000)
Net cash flows used in investing activities		**(825,662)**	(747,906)
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank and other borrowings		**2,659,215**	1,059,059
Proceeds from issue of shares		—	145,019
Proceeds from issue of convertible bonds		—	183,187
Increase in pledged deposits		**(90,036)**	—
Repayment of interest-bearing bank and other borrowings		**(1,657,823)**	(700,882)
Contribution from non-controlling interests		**950**	—
Interest paid		**(216,674)**	(138,071)
Shares repurchased		**(232)**	(36,719)
Principal portion of lease payments		**(20,221)**	—
Dividends paid		—	(53,086)
Net cash flows from financing activities		**675,179**	458,507
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(139,411)**	28,172
Cash and cash equivalents at beginning of year	26	**258,309**	205,995
Effect of foreign exchange rate changes, net		**18**	24,142
CASH AND CASH EQUIVALENTS AT END OF YEAR		**118,916**	258,309
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**251,658**	330,909
Less: Pledged deposits	26	**(132,742)**	(72,600)
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	26	**118,916**	258,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate and Group Information

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

Information about subsidiaries

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

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

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

Name of company	Notes	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Shaanxi Haoze Environmental Technology Development Co., Ltd. ("Shaanxi Haoze Environmental Technology")	2	Mainland China 7 March 2012	RMB350,000,000	—	100%	Water purifying services
Shanghai Haoze Comfort Environment and Science Co., Ltd. ("Shanghai Comfort")	1	Mainland China 23 September 2005	RMB54,815,300	—	100%	Development and manufacture of water purification and air sanitisation products
Haoze (Shanghai) Environment and Science Co., Ltd. ("Haoze")	1	Mainland China 14 October 2014	RMB3,000,000	—	100%	Development and sale of air and water purification machines
Small Dragon (Shanghai) Lease & Finance Co., Ltd. ("Lease & Finance")	1	Mainland China 2 June 2015	RMB500,000,000	—	100%	Finance leasing/ leasing/factoring
Guangdong Bili Drinking Water Equipment Co., Ltd. ("Guangdong Bili")	2	Mainland China 5 November 2001	RMB20,428,600	—	51%	Manufacture and sale of water purification machines
Foshan Lepuda Motor Co., Ltd. ("Foshan Lepuda")	2	Mainland China 4 March 2008	RMB30,000,000	—	51%	Research and development, manufacture and sale of micro motor products
Shaanxi Haoze Water Purification Technology Development Co., Ltd. ("Shaanxi Haoze Water Purification")	2	Mainland China 22 November 2018	RMB100,000,000	—	100%	Development and assembly of air/ water purification machines
Shaanxi Haoze Comfort Environment and Science Co., Ltd. ("Shaanxi Haoze Comfort")	2	Mainland China 23 November 2018	RMB100,000,000	—	100%	Development and sales of air purification machines

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

Name of company	Notes	Place and date of incorporation/ registration and place of business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Shaanxi Haoze Water Purification Service Co., Ltd. ("Shaanxi Haoze Service")	2	Mainland China 30 November 2018	RMB100,000,000	—	100%	Water purifying services
Shaanxi Haoze Environmental Technology Group Co., Ltd. ("Shaanxi Group")	2	Mainland China 16 November 2018	RMB200,000,000	—	100%	Development and sale of air and water purification machines and investment
Shaanxi Ozner Noorey Environmental Technolody Co., Ltd. ("Shaanxi Ozner Noorey")	2	Mainland China 25 December 2018	RMB70,050,000	—	100%	Development and sales of air purification machines
Shaanxi Ozner Noorey Air Purification Technology Co., Ltd. ("Shaanxi Ozner Noorey Air")	2	Mainland China 10 January 2019	RMB335,000,000	—	72.8%	Development and sales of air purification machines

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

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

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

2.1 Basis of Preparation

These financial statements have been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments designated at fair value through other comprehensive income and convertible bonds measured at fair value. These financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Basis of Preparation (Continued)

Going concern basis

The Group incurred a net loss of RMB970,220,000 for the year ended 31 December 2019. As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB1,687,314,000. In addition, the Group's bank and other borrowings and convertible bonds amounted to RMB3,023,812,000 as at 31 December 2019, out of which RMB289,694,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements. The overdue amount further increased to RMB1,203,598,000 as of the date of approval of these financial statements.

As stipulated in the subscription agreement of the Group's certain convertible bonds, any default of the Group's borrowings may result in cross-default of these borrowings. As a result of certain defaults as at 31 December 2019, convertible bonds of RMB160,421,000 with original contractual repayment date beyond 31 December 2020 was considered as cross-default and have been reclassified as current liabilities as at 31 December 2019.

All of the conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of these circumstances, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but are not limited to, the following:

(i) Subsequent to 31 December 2019 and up to the date of approval of these financial statements, the Group obtained new loans amounted to RMB286,780,000 from several financial institutions and other lenders;

(ii) Subsequent to 31 December 2019 and up to the date of approval of these financial statements, the Group entered into extension agreements with one financial institution, pursuant to which the due date of bank loans in aggregate to RMB23,000,000 as at 31 December 2019, have been extended to September 2020;

(iii) Subsequent to 31 December 2019 and up to the date of approval of these financial statements, the Group entered into extension agreements with three lenders pursuant to which the due date of bank and other borrowings in aggregate to RMB62,205,000 as at 31 December 2019, have been extended beyond 31 December 2020;

(iv) The Group is actively negotiating with existing convertible bonds holders to seek for extension of repayment terms of the convertible bonds;

(v) The Group is actively negotiating with other existing financial institutions and creditors to seek for extension of repayment terms of bank and other borrowings and to obtain new credit facilities; and

(vi) The Group is actively negotiating with external parties to obtain new sources of financing or strategic capital investments to finance the Group's working capital and improve the liquidity position.

2.1 Basis of Preparation (Continued)

Going concern basis (continued)

The directors of the Company, including members of the audit committee, have reviewed the Group's cash flow forecast prepared by management. The cash flow forecast covers a period of twelve months from the end of the reporting period. The directors are of the opinion that, taking into account the above mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis for the year ended 31 December 2019.

Notwithstanding the above, significant uncertainties exist as to whether management of the Group will be able to implement the abovementioned plans and measures. Whether the Group will be able to continue as a going concern will depend upon the Group's ability to generate adequate financial and operating cash flows through the following:

(i) successfully negotiating with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings with principal and interests in default, including those with cross-default terms;

(ii) successfully negotiating with financial institutions and other lenders for the renewal of or extension for repayments of all borrowings, including those that are overdue as at the date of approval of these financial statements and those that will fall due before 31 December 2020; and

(iii) successfully obtaining new sources of financing or strategic capital investments within next twelve months as and when needed.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

2.2 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3.1 Changes in Accounting Policies and Disclosures

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

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 to 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and Annual Improvements to IFRSs 2015–2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) 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 continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

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.

3.1 Changes in Accounting Policies and Disclosures (Continued)

(a) (Continued)

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 land, property, machinery, motor 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

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

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

- Applying a single discount rate to a portfolio of leases with reason similar characteristic.

As a lessee — Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under IAS 17.

3.1 Changes in Accounting Policies and Disclosures (Continued)

(a) (Continued)

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

Financial impact at 1 January 2019

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

	Increase/(decrease) RMB'000
Assets	
Increase in right-of-use assets	133,845
Decrease in prepaid land lease payments	(117,489)
Decrease in prepayments, other receivables and other assets	(1,833)
Increase in total assets	14,523
Liabilities	
Increase in interest-bearing bank and other borrowings	469,283
Decrease in finance lease payables	(450,101)
Decrease in other payables and accruals	(4,659)
Increase in total liabilities	14,523
Decrease in retained earnings	—

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

	RMB'000
Operating lease commitments as at 31 December 2018	24,164
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(2,396)
	21,768
Weighted average incremental borrowing rate as at 1 January 2019	5.72%
Discounted operating lease commitments as at 1 January 2019	19,182
Lease liabilities as at 1 January 2019	19,182

3.1 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.

3.2 Issued But Not Yet Effective IFRSs

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

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

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

3.2 Issued But Not Yet Effective IFRSs (Continued)

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

4.1 Summary of Significant Accounting Policies

Investments in associates

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

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

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate. The Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

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

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

Fair value measurement

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

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

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Intangible assets (other than goodwill)

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

Patents and trademarks

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

4.1 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill) (Continued)

Software

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

Customer relationships

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

Research and development costs

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

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

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

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

4.1 Summary of Significant Accounting Policies (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40 to 50 years
Plant and machinery	2 to 5 years
Motor vehicles	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) 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 its incremental borrowing rate at the lease commencement date because 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 the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

4.1 Summary of Significant Accounting Policies (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Leases (applicable before 1 January 2019)

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

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

4.1 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would wise be required or a reclassification of a fair asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

4.1 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings, the derivative component of convertible bonds and the liability component of convertible bonds.

Subsequent measurement

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

4.1 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Financial guarantee contracts

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

4.1 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Convertible bonds

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

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

4.1 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

4.1 Summary of Significant Accounting Policies (Continued)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of goods

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

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

(i) Rights of return

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

4.1 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(b) Training services

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

Revenue from other sources

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

Other income

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

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

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

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

(c) The costs are expected to be recovered.

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

4.1 Summary of Significant Accounting Policies (Continued)

Share-based payments

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

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

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

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

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

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

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

Other employee benefits

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

4.1 Summary of Significant Accounting Policies (Continued)

Borrowing costs

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

Dividends

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

Foreign currencies

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

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

4.2 Significant Accounting Judgements, Estimates and Assumptions

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

Judgements

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

Property lease classification — Group as lessor

The Group has entered into commercial leases on its water purification machines. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these machines and has accounted for the contracts as operating leases.

Estimations uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was nil (2018: RMB220,041,000). Further details are given in note 18 to the financial statements.

Provision for expected credit losses on trade receivables

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

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

4.2 Significant Accounting Judgements, Estimates and Assumptions (Continued)

Estimations uncertainty (Continued)

Provision for expected credit losses on trade receivables (Continued)

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

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

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

Estimation of fair value of the derivative component of convertible bonds

The derivative component of convertible bonds has been valued based on a valuation technique of the binomial model that incorporates various market inputs including the risk-free rate, volatility, liquidity discount and risky discount rate, and hence they are subject to uncertainty. The fair values of the derivative component of convertible bonds at 2 November 2019 was RMB50,025,000.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was RMB80,497,000 (2018: nil). The amount of unrecognised tax losses at 31 December 2019 was RMB8,887,000 (2018: RMB15,573,000). Further details are contained in note 21 to the financial statements.

4.2 Significant Accounting Judgements, Estimates and Assumptions (Continued)

Estimations uncertainty (Continued)

Fair value of unlisted equity investments

The majority of unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics as detailed in note 41 to the financial statements. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was RMB173,157,000 (2018: RMB418,068,000). Further details are included in note 20 to the financial statements.

Net realisable value of inventories

Net realisable value of inventories is based on the ageing of the inventories, the subsequent selling or rental price or estimated selling or rental price, and the forecasted market demand. It could change significantly as a result of changes in market conditions. Management reassesses these estimates semi-annually. The carrying values of inventories provision were RMB20,849,000 and RMB20,505,000 as at 31 December 2019 and 2018, respectively. Further details are disclosed in note 22.

5. Operating Segment Information

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

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

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

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

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

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

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

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

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

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

Revenue of approximately 10%, 10%, 7%, and 15%, 13%, 11% was derived from sales by the water purification segment to three customers for each of the years ended 31 December 2018 and 2019, respectively.

5. Operating Segment Information (Continued)

Operating segments

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

Year ended 31 December 2019	Water purification RMB'000	Air sanitisation RMB'000	Supply chain RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	1,155,315	6,643	452,129	95,097	1,709,184
Segment cost of revenue					
Sales to external customers	617,668	6,298	378,440	1,587	1,003,993
Segment results	(185,665)	(106,619)	(104,036)	(147,216)	(543,536)
Reconciliations:					
Share-based payments					(31,989)
Exchange loss					(5,375)
Corporate and other unallocated expenses					(229,875)
Finance costs					(283,146)
Profit before tax					(1,093,921)
Segment assets	4,751,306	210,635	321,319	592,930	5,876,190
Reconciliations:					
Corporate and other unallocated assets					897,368
Total assets					6,773,558
Segment liabilities	3,062,361	138,336	313,063	14,282	3,528,042
Reconciliations:					
Convertible bonds					560,247
Corporate and other unallocated liabilities					535,625
Total liabilities					4,623,914
Other segment information					
Share of losses of associates	51,064	41,419	113	—	92,596
Depreciation and amortisation	364,345	3	1,963	5	366,316
Impairment or provision losses recognised in the statement of profit or loss	190,925	60,238	130,189	233,830	615,182
Investments in associates	226,583	18,557	—	—	245,140
Capital expenditure*	759,843	197	36,849	603	797,492

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

5. Operating Segment Information (Continued)

Operating segments (Continued)

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

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

6. Revenue, Other Income and Gains

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

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**740,043**	786,730
Revenue from other sources		
Gross rental income	**874,044**	782,517
Interest income from financing services	**95,097**	75,667
	1,709,184	1,644,914

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

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	**262,666**	**6,643**	**452,129**	**721,438**
Training services	**18,605**	**—**	**—**	**18,605**
Total revenue from contracts with customers	**281,271**	**6,643**	**452,129**	**740,043**
Timing of revenue recognition				
Goods transferred at a point in time	**262,666**	**6,643**	**452,129**	**721,438**
Services transferred over time	**18,605**	**—**	**—**	**18,605**
Total revenue from contracts with customers	**281,271**	**6,643**	**452,129**	**740,043**

6. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2018

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

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

For the year ended 31 December 2019

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	**281,271**	**6,643**	**452,129**	**—**	**740,043**
Revenue from other sources					
External customers	**874,044**	**—**	**—**	**95,097**	**969,141**
	1,155,315	**6,643**	**452,129**	**95,097**	**1,709,184**

6. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2018

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

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**55,353**	19,839

(ii) Performance obligations

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

Sale of goods

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

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.

6. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

An analysis of other income and gains is as follows:

	2019 RMB'000	2018 RMB'000
Other income		
Gain on disposal of an equity investment designated at fair value through other comprehensive income	**3,140**	—
Interest income	**8,193**	31,688
Government grants*	**5,281**	2,343
Disposal of scraps	**9,322**	2,717
Super deduction of VAT input	**7,322**	—
Dividend income	**1,231**	—
Technical service fee	**—**	16,981
Others	**210**	1,278
	34,699	55,007
Gains		
Fair value gains, net:		
Derivative financial instruments	**—**	18,726
Derivative component of convertible bonds	**22,148**	1,524
	22,148	20,250
	56,847	75,257

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

7. Profit Before Tax

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**536,379**	547,640
Cost of services provided		**1,932**	4,997
Depreciation of revenue-generating assets	14	**266,934**	233,420
Depreciation of property, plant and equipment	15	**109,845**	117,919
Less: Amount capitalized in revenue-generating assets		**(42,851)**	(38,928)
		66,994	78,991
Amortization of other intangible assets	17	**24,640**	24,170
Less: Amount capitalized in revenue-generating assets		**(7,546)**	(7,735)
		17,094	16,435
Depreciation of right-of-use assets (2018: amortization of land lease payments)	16	**20,959**	2,719
Less: Amount capitalized in revenue-generating assets		**(5,665)**	(2,204)
		15,294	515
Research and development costs		**35,738**	38,752
Auditors' remuneration		**4,308**	5,125
Employee benefit expense (including directors' remuneration (note 9)):			
Total wages and salaries		**167,450**	132,941
Less: Amount capitalized in revenue-generating assets		**(58,064)**	(33,193)
		109,386	99,748
Total pension scheme contributions		**23,247**	12,090
Less: Amount capitalized in revenue-generating assets		**(20,377)**	(6,925)
		2,870	5,165
Operating lease expenses		**—**	15,062
Less: Amount capitalized in revenue-generating assets		**—**	(2,346)
		—	12,716
Share-based payments	34	**31,989**	40,315
Foreign exchange differences, net		**5,375**	10,805
Bank interest income		**(3,782)**	(6,305)
Impairment of goodwill	18	**223,765**	—
Impairment of investments in associates	19	**80,969**	—
Impairment of trade receivables	23	**112,553**	4,239
Impairment of financial assets included in prepayments, other receivables and other assets	24	**236,897**	—
Impairment of property, plant and equipment	15	**58,402**	—
Impairment of other intangible assets	17	**51,674**	—
Provision/(reversal) for write-down of inventories		**74,687**	(7,300)
Fair value gains on derivative component of convertible bonds	30	**(22,148)**	(1,524)
Loss on disposal of revenue-generating assets	14	**143,844**	8,789
Loss on disposal of items of property, plant and equipment	15	**2,420**	1,590
Shares of profits or losses of associates	19	**92,596**	24,222
Fair value change on derivative financial instruments	25	**18,726**	(15,473)

8. Finance Costs

An analysis of finance costs is as follows:

	2019/12/31 RMB'000	2018/12/31 RMB'000
Interest on interest-bearing bank and other borrowings	**209,203**	55,331
Interest on finance lease payables*	**—**	71,942
Interest on lease liabilities	**1,756**	—
Interest on convertible bonds	**72,187**	42,773
	283,146	170,046

* As disclosed in Note 32, finance lease payables as at 31 December 2019 represent the borrowings under a financing arrangement entered into by the Group with third-party leasing companies, in the form of a sale and leaseback transaction with a repurchase option. The subjects sold and leased back under the financing arrangement are the water purifying machines owned by the Group. As the repurchase prices are set at RMB100 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods of one to three 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 collateralized borrowings at amortized cost using the effective interest method.

Upon adoption of IFRS 16, finance lease payables were reclassified to interest-bearing bank and other borrowings and related interest amounted to RMB35,386,000 (2018: RMB71,942,000) are disclosed in interest on interest-bearing bank and other borrowings.

9. Directors' and Chief Executive's Remuneration

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

	2019 RMB'000	2018 RMB'000
Fees	**716**	700
Salaries, allowances and benefits in kind	**7,593**	11,028
Pension scheme contributions	**50**	35
Share-based payments	**21,184**	23,224
	29,543	34,987

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

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

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

2019

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:					
Mr. Xiao Shu**	—	1,299	—	15,926	17,225
Mr. Tan Jibin	—	1,688	7	1,462	3,157
Mr. Li Honggao	—	2,206	19	1,751	3,976
Mr. Wang Yonghui	—	1,200	23	1,085	2,308
Mr. Zhou Guanxuan	—	1,200	1	960	2,161
	—	7,593	50	21,184	28,827
Non-executive directors:					
Mr. He Sean Xing*	—	—	—	—	—
Ms. Gui Songlei*	—	—	—	—	—
Ms. Sui Wei*	—	—	—	—	—
Mr. Wang Duo*	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Dr. Bao Jiming	179	—	—	—	179
Mr. Gu Jiuchuan	179	—	—	—	179
Dr. Chan Yuk Sing Gilbert	179	—	—	—	179
Mr. Lau Tze Cheung Stanley	179	—	—	—	179
	716	—	—	—	716
	716	7,593	50	21,184	29,543

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

* Mr. He Sean Xing has resigned as the Non-executive directors on 20 February 2019;
Ms. Sui Wei has resigned as the Non-executive directors on 14 April 2020;
Mr. Wang Duo has resigned as the Non-executive directors on 11 May 2020;
Ms. Gui Songlei has resigned as the Non-executive directors on 21 May 2020

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

2018

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

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

10. Five Highest Paid Employees

The five highest paid employees during the year included five executive directors (2018: five executive directors), details of whose remuneration are set out in note 9 above.

11. Income Tax

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

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

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, subsidiaries including Shanghai Haoze Water Purification Technology, Shanghai Comfort, 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 the tax authorities in charge, one of the Group's subsidiaries, Foshan Lepuda, qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2019 to 2021.

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, the Group's subsidiaries including Shaanxi Haoze Environmental Technology, Shaanxi Haoze Water Purification, Shaanxi Haoze Comfort, Shaanxi Haoze Service and Shaanxi Group are entitled to the preferential tax rate of 15% from 2012 to 2020.

Pursuant to the document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB2,854,000 for the year ended 31 December 2019 (2018: RMB4,389,000), relating to the additional deduction of research and development costs.

11. Income Tax (Continued)

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 RMB'000	2018 RMB'000
Current tax	**59,186**	78,612
Deferred tax (note 21)	**(182,887)**	(16,866)
Income tax (credit)/expense reported in profit or loss	**(123,701)**	61,746

Reconciliation of the tax (credit)/expense and the accounting profit multiplied by the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled for 2019 and 2018:

	2019 RMB'000	2018 RMB'000
(Loss)/profit before tax	**(1,093,921)**	196,016
Tax at the statutory tax rate	**(273,480)**	49,004
Lower tax rates for specific provinces or enacted by local authority	**150,508**	(2,595)
Expenses not deductible for tax	**46,875**	4,153
Tax losses not recognised	**8,887**	15,573
Current and deferred tax rate differences	**(53,637)**	—
Additional deduction of research and development costs	**(2,854)**	(4,389)
Tax at the effective income tax rate	**(123,701)**	61,746

12. Dividends

	2019 RMB'000	2018 RMB'000
Proposed final dividend of nil (2018: RMB1.09 cents) per ordinary share	**—**	23,242

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

13. (Loss)/Earnings Per Share ("EPS")

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,100,736,249 (2018: 2,073,866,286) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds and fair value gains on the derivative component of convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2019 RMB'000	2018 RMB'000
Earnings:		
(Loss)/profit attributable to owners of the parent, used in the basic EPS calculation	**(888,667)**	112,960
Interest on convertible bonds (Note 30)	**72,187**	42,773
Less: Fair value gains on derivative component of convertible bonds	**(22,148)**	(1,524)
(Loss)/profit attributable to owners of the parent, before the effect of convertible bonds	**(838,628)**	154,209

	Number of shares	
Shares:		
Weighted average number of ordinary shares for basic EPS	**2,100,736,249**	2,073,866,286
Effect of dilution — weighted average number of ordinary shares: Convertible bonds	**364,188,252**	255,465,130
	2,464,924,501	2,329,331,416
Basic EPS (RMB cents)	**(42.30)**	5.45
Diluted EPS (RMB cents)*	**(42.30)**	5.45

* No adjustment has been made to the basic EPS amount presented for the year ended 31 December 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 amount presented.

14. Revenue-Generating Assets

	RMB'000
At 1 January 2018:	
Cost	2,284,853
Accumulated depreciation	(689,154)
Net carrying amount	1,595,699
At 1 January 2018, net of accumulated depreciation	1,595,699
Additions	434,379
Transfers from property, plant and equipment	1,165
Disposals	(8,789)
Depreciation provided during the year	(233,420)
At 31 December 2018, net of accumulated depreciation	1,789,034
At 31 December 2018	
Cost	2,686,755)
Accumulated depreciation	(897,721)
	1,789,034
At 1 January 2019, net of accumulated depreciation	**1,789,034**
Additions	**393,107**
Transfers from property, plant and equipment	**245**
Disposals	**(143,844)**
Depreciation provided during the year	**(266,934)**
At 31 December 2019, net of accumulated depreciation	**1,771,608**
At 31 December 2019:	
Cost	**2,800,684**
Accumulated depreciation	**(1,029,076)**
Net carrying amount	**1,711,608**

At 31 December 2019, certain of the Group's revenue-generating assets with a net carrying amount of approximately RMB753,638,000 (2018:RMB757,859,000) were pledged to obtain collagenized interest-bearing bank and other borrowings to the Group (note 31).

15. Property, Plant and Equipment

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

15. Property, Plant and Equipment (Continued)

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019:						
Cost	153,342	927,389	132,198	21,751	6,725	1,241,405
Accumulated depreciation	(82,642)	(214,602)	(96,386)	(14,490)	—	(408,120)
Net carrying amount	70,700	712,787	35,812	7,261	6,725	833,285
At 1 January 2019, net of accumulated depreciation	70,700	712,787	35,812	7,261	6,725	833,285
Additions	9,888	285,995	385	810	19,155	316,233
Depreciation provided during the year	(39,128)	(61,834)	(5,790)	(3,093)	—	(109,845)
Acquisition of subsidiaries (note 35)	—	1,236	180	—	84,116	85,532
Transfers to revenue-generating assets	—	(245)	—	—	—	(245)
Disposals	—	(357)	(2,041)	(22)	—	(2,420)
Impairment	—	(58,402)	—	—	—	(58,402)
At 31 December 2019, net of accumulated depreciation and impairment	41,460	879,180	28,546	4,956	109,996	1,064,138
At 31 December 2019:						
Cost	163,231	1,214,272	91,968	22,357	109,996	1,601,824
Accumulated depreciation	(121,771)	(276,690)	(63,422)	(17,401)	—	(479,284)
Impairment	—	(58,402)	—	—	—	(58,402)
Net carrying amount	41,460	879,180	28,546	4,956	109,996	1,064,138

At 31 December 2019, certain of the Group's buildings with a net carrying amount of approximately RMB659,002,000 (2018: RMB82,662,000) and machinery with a net carrying amount of approximately RMB92,504,000 (2018: 49,601,000) were pledged to obtain collagenized interest-bearing bank and other borrowings to the Group (note 31).

16. Leases

The Group as a lessee

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery generally have lease terms between 1 and 4 years, while motor vehicles generally have lease terms of 8 years. Other equipment generally has lease terms of 12 months or less and is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments

	2018 RMB'000
Carrying amount at 1 January	114,913
Addition	5,295
Amortised during the year	(2,719)
Carrying amount at 31 December	117,489
Current portion	(2,990)
Non-current portion	114,499

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Plant and machinery RMB'000	**Motor vehicles** RMB'000	**Sub-total** RMB'000	**Prepaid land lease payments** RMB'000	**Total** RMB'000
As at 1 January 2019	15,868	488	16,356	117,489	133,845
Additions	27,629	—	27,629	—	27,629
Depreciation charge	(17,877)	(92)	(17,969)	(2,990)	(20,959)
As at 31 December 2019	25,620	396	26,016	114,499	140,515

At 31 December 2019, certain of the Group's prepaid land lease payments with a net carrying amount of approximately RMB114,499,000 (2018: RMB19,432,000) were pledged to secure general banking facilities granted to the Group (note 31).

16. Leases (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 Lease liabilities RMB'000	2018 Finance lease payables
Carrying amount at 1 January	**19,182**	779,138
New leases	**27,629**	44,470
Accretion of interest recognised during the year	**1,756**	71,942
Payments	**(21,977)**	(445,449)
Carrying amount at 31 December	**26,590**	450,101
Analysed into:		
Current portion	**17,431**	280,612
Non-current portion	**9,159**	169,489

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 42 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	**1,756**
Depreciation charge of right-of-use assets	**20,959**
Expense related to short-term lease and other lease with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	**2,396**
Less: Amount capitalized in revenue-generated assets	**(5,665)**
Total amount recognised in profit or loss	**19,446**

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 36(c) and 38, respectively, to the financial statements.

16. Leases (Continued)

The Group as a lessor

The Group leases its water purification machines under operating lease arrangements, with leases negotiated for term of one year. Rental income recognised by the Group during the year was RMB874,044,000 (2018: RMB782,517,000), details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**440,403**	405,582

17. Other Intangible Assets

	Patents RMB'000	Trademarks RMB'000	Customer relationships RMB'000	Software RMB'000	Total RMB'000
At 1 January 2018:					
Cost	43,155	83,439	102,700	55,792	285,086
Accumulated amortisation	(19,051)	(11,039)	(3,214)	(21,947)	(55,251)
Net carrying amount	24,104	72,400	99,486	33,845	229,835
At 1 January 2018, net of accumulated amortisation	24,104	72,400	99,486	33,845	229,835
Addition	—	—	—	6,542	6,542
Amortisation provided during the year	(3,681)	(8,297)	(6,429)	(5,763)	(24,170)
At 31 December 2018, net of accumulated amortisation	20,423	64,103	93,057	34,624	212,207
At 31 December 2018:					
Cost	43,131	83,432	102,700	62,181	291,444
Accumulated amortisation	(22,708)	(19,329)	(9,643)	(27,557)	(79,237)
Net carrying amount	20,423	64,103	93,057	34,624	212,207
At 1 January 2019, net of accumulated amortisation	**20,423**	**64,103**	**93,057**	**34,624**	**212,207**
Addition	**218**	**—**	**—**	**2,401**	**2,619**
Disposal	**—**	**—**	**—**	**(1,035)**	**(1,035)**
Amortisation provided during the year	**(4,705)**	**(7,163)**	**(6,580)**	**(6,192)**	**(24,640)**
Impairment during the year	**—**	**(13,995)**	**(37,679)**	**—**	**(51,674)**
At 31 December 2019, net of accumulated amortisation	**15,936**	**42,945**	**48,798**	**29,798**	**137,477**
At 31 December 2019:					
Cost	**43,349**	**83,432**	**102,700**	**63,239**	**292,720**
Accumulated amortisation	**(27,413)**	**(26,492)**	**(16,223)**	**(33,441)**	**(103,569)**
Impairment	**—**	**(13,995)**	**(37,679)**	**—**	**(51,674)**
Net carrying amount	**15,936**	**42,945**	**48,798**	**29,798**	**137,477**

During the year ended 31 December 2019, impairment losses of RMB51,674,000 (2018: nil) on other intangible assets were charged to the consolidated statement of profit or loss under "other expenses," resulting from revisions of financial/business outlook and changes in the market environment for the underlying business.

18. Goodwill

2019	**Opening RMB'000**	**Addition RMB'000**	**Impairment RMB'000**	**Closing RMB'000**
Water purification and air sanitization	**145,568**	**2,315**	**(147,883)**	**—**
Supply chain	**74,473**	**1,409**	**(75,882)**	**—**
	220,041	**3,724**	**(223,765)**	**—**

2018	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Closing RMB'000
Water purification and air sanitization	145,568	—	—	145,568
Supply chain	74,473	—	—	74,473
	220,041	—	—	220,041

In 2019, the recoverable amounts of the water purification services and air sanitization CGU and the supply chain CGU were determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% (2018: 16%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3% (2018: 3%) which was less than the long term average growth rate of the water purification industry and supply chain industry. Management determined budgeted growth rates based on past performance and its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Water purification and air sanitization		**Supply chain**		**Total**	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Carrying amount of goodwill	**—**	145,568	**—**	74,473	**—**	220,041

18. Goodwill (Continued)

Assumptions were used in the value in use calculation of the water purification services CGU and the supply chain CGU for 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue — Management determined the forecast revenue based on the approved financial budgets and also bench-marked against a range of water purification growth rate published by various reputable industry organizations. The forecast volumes of water purification and micro motor products were based on management's production plan.

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

Operating expenses and capital expenditures — Management determined the forecast operating costs and capital expenditures based on its financial budget and business plan. The values assigned to the key assumptions reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

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

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

19. Investments in Associates

	2019 **RMB'000**	2018 RMB'000
Share of net assets	**209,870**	152,213
Goodwill on acquisition	**116,239**	118,101
Less: impairment	**(80,969)**	—
	245,140	270,314

The loan from an associate included in the Group's non-current liabilities totaling RMB300,000,000 (2018: nil) is unsecured, at an interest rate of 6.25% per annum and repayable in year 2024.

19. Investments in Associates (Continued)

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

	2019 RMB'000	2018 RMB'000
At 1 January	**270,314**	86,135
Additions	**172,187**	208,401
Decrease (Note 35)	**(23,796)**	—
Share of results	**(92,596)**	(24,222)
Impairment	**(80,969)**	—
At 31 December	**245,140**	270,314

As disclosed in note 35, the Group obtained controls over certain associates, which led to a decrease in the balance of investments in associates.

During the year ended 31 December 2019, an impairment loss on investments in associates of approximately RMB80,969,000 (2018: nil) was recognised in the Group's consolidated statement of profit or loss. The decline in the recoverable amount, which was below the carrying amount, resulted from adverse changes in the market in which the associates operated. For the purpose of impairment testing, the recoverable amount of investments in associates have been determined based on a value in use calculation. The calculation use cash flow projections based on financial budgets prepared by the management of the Group covering a five-year period, and discount rate of 16%. The cash flow beyond the five-year period are extrapolated using a 3% growth rate. Other key assumptions for value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue from and marketing and promotion expenses, such estimation is based on the past performance of the associates and the expected market developments by the management.

Particulars of the material associates are as follows:

Name	Place of registration and business	Percentage of equity interest attributable to the Group 2019	2018	Principal activity
Shaanxi Younuo Investment Partnership (Limited Partnership) ("Shaanxi Younuo")	Mainland China	**50.15%**	—	Investment holding
Shanghai Haoyou Informational Technology Co., Ltd. ("Shanghai Haoyou")	Mainland China	**31.50%**	31.50%	Water purification services
Shanghai Ozner Noorey Environment Technology Co., Ltd. ("Shanghai Noorey")	Mainland China	**46.70%**	46.70%	Sales of air sanitization products

19. Investments in Associates (Continued)

The following table illustrates the summarised financial information of Shaanxi Younuo, Shanghai Haoyou and Shanghai Noorey extracted from there financial statements, reconciled to the carrying amount in the consolidated financial statements:

2019

	Shaanxi Younuo RMB'000	Shanghai Haoyou RMB'000	Shanghai Noorey RMB'000
Current assets	—	254,867	141,759
Non-current assents	299,106	103,261	27,731
Current liabilities, excluding goodwill on acquisition	—	(325,741)	(43,758)
Non-current liabilities	—	(17,857)	(18,850)
Non-controlling interest	—	—	10,807
Net assets, excluding goodwill on acquisition	299,106	14,530	106,881
Proportion of the Group's ownership	50.15%	31.50%	46.70%
Group's share of net assets of the associate, excluding goodwill	150,000	4,577	54,960
Goodwill on acquisition	—	65,262	19,191
Carrying amount of the investment	150,000	69,839	74,151
Impairment	—	—	(55,593)
Net carrying amount of the investment	150,000	69,839	18,558
Revenue	—	189,724	44,262
Loss for the year	—	(6,045)	(96,060)
Total comprehensive loss for the year	—	(6,045)	(96,060)

19. Investments in Associates (Continued)

The following table illustrates the summarised financial information of Shaanxi Younuo, Shanghai Haoyou and Shanghai Noorey extracted from there financial statements, reconciled to the carrying amount in the consolidated financial statements: (Continued)

2018

	Shanghai Haoyou RMB'000	Shanghai Noorey RMB'000
Current assets	145,427	151,680
Non-current assents	80,718	97,817
Current liabilities, excluding goodwill on acquisition	(186,721)	(26,129)
Non-current liabilities	(18,849)	(20,427)
Non-controlling interest	—	3,439
Net assets, excluding goodwill on acquisition	20,575	206,380
Proportion of the Group's ownership	31.50%	46.70%
Group's share of net assets of the associate, excluding goodwill	6,481	96,379
Goodwill on acquisition	65,262	19,191
Net carrying amount of the investment	71,743	115,570
Revenue	140,412	93,671
Loss for the year	(45,691)	(16,366)
Total comprehensive loss for the year	(45,691)	(16,366)

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

	2019 RMB'000	2018 RMB'000
Share of the associates' loss for the year	**(48,372)**	(2,899)
Share of the associates' total comprehensive loss	**(48,372)**	(2,899)
Aggregate carrying amount of the Group's investments in the associates	**6,743**	83,001

20. Equity Investments Designated at Fair Value through other Comprehensive Income

Equity investments designated at fair value through other comprehensive income

Unlisted equity investments, at fair value	note	2019 RMB'000	2018 RMB'000
Investments in entities set up with top dealers	(a)	**93,057**	352,507
Microfinance company	(b)	**80,100**	63,071
Other		**—**	2,490
Total		**173,157**	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.

21. Deferred Tax Assets/Liabilities

Deferred tax relates to the following:

Deferred tax assets:

	Elimination of unrealised profits RMB'000	Accruals RMB'000	Provisions RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2018	1,329	71,247	4,836	—	77,412
Deferred tax credited/(charged) to profit or loss during the year (note 11)	475	24,837	(1,252)	—	24,060
At 31 December 2018 and 1 January 2019	1,804	96,084	3,584	—	101,472
Deferred tax credited to profit or loss during the year (note 11)	6,833	37,173	41,717	80,497	166,220
At 31 December 2019	**8,637**	**133,257**	**45,301**	**80,497**	**267,692**

21. Deferred Tax Assets/Liabilities (Continued)

Deferred tax liabilities:

	Accrued government grant RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Fair value adjustment of financial assets at fair value through profit or loss RMB'000	Elimination of unrealised losses RMB'000	Total RMB'000
At 1 January 2018	691	41,811	—	—	42,502
Deferred tax (credited)/charged to profit or loss during the year (note 11)	(196)	(3,481)	2,801	8,070	7,194
At 31 December 2018 and 1 January 2019	495	38,330	2,801	8,070	49,696
Deferred tax charged /(credited) to profit or loss during the year (note 11)	43	(13,697)	(2,801)	(212)	(16,667)
At 31 December 2019	**538**	**24,633**	**—**	**7,858**	**33,029**

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

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

At the end of each reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,167,283,000 and RMB1,222,667,000 as at 31 December 2018 and 2019, respectively.

22. Inventories

	2019 RMB'000	2018 RMB'000
Raw materials	**168,206**	104,148
Work in progress	**60,085**	74,478
Finished goods	**130,475**	187,447
Provision for write-down of Inventories	**(20,849)**	(20,505)
	337,917	345,568

At 31 December 2019, the Group's inventories with a carrying amount of RMB62,744,000 (2018: nil) were pledged as security for the Group's other loans, as further detailed in note 31 to the financial statements.

23. Trade and Bills Receivables

	2019 RMB'000	2018 RMB'000
Trade receivables	**837,246**	449,314
Bills receivable	**8,725**	20,218
	845,971	469,532
Impairment	**(120,066)**	(7,513)
Net trade and bills receivables	**725,905**	462,019

Trade and bills receivables mainly represent rental service receivables from distributors, receivables for air sanitisation services and receivables for sales of micro motor products. The Group usually requires a payment in advance before the installation of water purification machines or offering rental service from most of the distributors. The Group only grants a credit period to some distributors with long-term relationship and good credit history. The credit period is generally 6 months for the rental service. For sales of goods of water purification machines, the Group grants a credit term less than 90 days to the customers. For air sanitisation service receivables, the credit terms are stipulated in the relevant contracts. The credit period is generally three month with a retention period of one year. For sales of motor products, the Group grants a credit term of generally 3 to 4 months to the customers. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are unsecured and non-interest-bearing.

23. Trade and Bills Receivables (Continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**721,265**	460,266
Over 1 year and within 2 years	**4,123**	1,380
Over 2 years and within 3 years	**517**	373
	725,905	462,019

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

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
At beginning of year	**7,513**	3,274
Impairment losses, net	**112,553**	4,239
At end of year	**120,066**	7,513

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

23. Trade and Bills Receivables (Continued)

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

As at 31 December, 2019

	Current	Less than 1 year	Past due 1 to 2 years	Past due Over 2 years	Total
Expected credit loss rate	**5.53%**	**9.55%**	**99.24%**	**100.00%**	**14.19%**
Gross carrying amount (RMB'000)	**705,921**	**64,710**	**67,710**	**7,630**	**845,971**
Expected credit losses (RMB'000)	**39,066**	**6,177**	**67,193**	**7,630**	**120,066**

As at 31 December, 2018

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

At 31 December 2019, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB2,570,000 (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 year to which the suppliers have recourse was RMB2,570,000 (2018: RMB12,100,000) as at 31 December 2019.

24. Prepayments, Other Receivables and Other Assets

	2019 RMB'000	2018 RMB'000
Other receivables	**1,174,717**	764,163
Prepayments	**227,507**	233,773
Prepayment for purchase of property, plant and equipment	**331,382**	180,376
Deposits	**19,488**	10,962
Long-term prepayment	**1,803**	2,957
	1,754,897	1,192,231
Less: Non-current portion		
Long-term prepayment	**(1,803)**	(2,957)
Other receivables	**(71,264)**	(68,944)
Deposits	**(6,950)**	—
Prepayment for purchase of property, plant and equipment	**(331,382)**	(180,376)
	(411,399)	(252,277)
Impairment allowance	**(238,873)**	(1,976)
	1,104,625	937,978

Except for loan to distributors included in other receivable amounted to RMB623,718,000 (2018: RMB337,349,000) bearing interest rates arranging from 6% to 12% (2018: 6% to 12%). The above balances are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of deposits and other receivables approximate to their fair values.

Other receivables included Mainland China Value Added Tax ("VAT") receivable amounting to RMB168,363,000 and RMB88,451,000 as at 31 December 2019 and 2018, respectively. Input VAT on purchases can be deducted from output VAT payable. The VAT receivable is deductible input VAT which has not been claimed from the tax bureau.

Deposits mainly represent rental deposits and deposits with suppliers.

24. Prepayments, Other Receivables and Other Assets (Continued)

The movements in the loss allowance for impairment of prepayments other receivables and other assets are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**(1,976)**	(1,976)
Impairment losses (note 7)	**(236,897)**	—
At end of year	**(238,873)**	(1,976)

Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

25. Derivative Financial Instruments

	2019 RMB'000	2018 RMB'000
Contingent consideration receivable, at fair value	**—**	18,726

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

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

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**251,658**	290,909
Time deposits	—	179,942
Total cash and bank balances	**251,658**	470,851
Less: Pledged as collateral for issuance of bank acceptance notes	**(42,706)**	(32,600)
Pledged as collateral for issuance of bank loan	—	(40,000)
Pledged as collected for issuance of letter of credit	**(90,036)**	—
Short-term investments	—	(139,942)
Cash and cash equivalents	**118,916**	258,309
Denominated in RMB	**246,457**	334,731
Denominated in HK$	**1,787**	134,529
Denominated in US$	**3,414**	1,591
Total cash and bank balances	**251,658**	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 1 week to 3 months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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

27. Trade and Bills Payables

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

	2019 RMB'000	2018 RMB'000
Within 90 days	**328,971**	196,683
Over 90 days and within 180 days	**7,273**	82,508
Over 180 days and within 1 year	**13,381**	45,980
Over 1 year and within 2 years	**11,864**	4,357
Over 2 year and within 3 years	**1,822**	5,246
Over 3 years	**4,704**	4,983
	368,015	339,757

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

28. Other Payables, Advances from Customers and Accruals

	note	2019 RMB'000	2018 RMB'000
Other payables		**589,707**	418,256
Advances from customers	(a)	**193,471**	117,883
Accruals		**29,384**	23,160
		812,562	559,299

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

(a) Contract liabilities included in the advance from customers as at 31 December 2019 is amounted to RMB58,718,000 (2018: RMB55,353,000). The increase in the contract liabilities is due to increase in the business scale.

29. Deferred Revenue

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

30. Convertible Bonds

On 6 November 2015, the Company issued HK$ 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 HK$1.91 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.

30. 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	**41,546**	**—**	**41,546**
Interest paid	**(10,414)**	**—**	**(10,414)**
Currency translation differences	**(1,669)**	**—**	**(1,669)**
At 31 December 2019	**399,826**	**52,321**	**452,147**

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 "2019 Price Adjustment"). The adjustment was made on 2 November 2019, which adjusted the price to HK$1.84 per share.

30. 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 2019 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 Asian Pacific China Property Valuation 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	Equity component of 2018 Convertible Bonds RMB'000	Total RMB'000
At 2 November 2018	136,155	48,556	—	184,711
Interest expense	4,690	—	—	4,690
Interest paid	(2,087)	—	—	(2,087)
Fair value adjustment	—	(1,524)	—	(1,524)
Currency translation difference	(1,427)	(507)	—	(1,934)
At 31 December 2018	137,331	46,525	—	183,856
At 1 January 2019	**137,331**	**46,525**	**—**	**183,856**
Interest expense	**30,641**	**—**	**—**	**30,641**
Interest paid	**(10,962)**	**—**	**—**	**(10,962)**
Fair value adjustment	**—**	**(22,148)**	**—**	**(22,148)**
Currency translation differences	**3,411**	**2,297**	**—**	**5,708**
	160,421	**26,674**	**—**	**187,095**
Reclassification	**—**	**(26,674)**	**26,674**	**—**
At 31 December 2019	**160,421**	**—**	**26,674**	**187,095**

31. Interest-Bearing Bank and Other Borrowings

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Lease liabilities (notes 16(c))	**3.3–7.5**	**2020**	**17,431**	5,598	—	—	—
Bank loan — unsecured	**6.76**	**On demand**	**149,845**	—	—	—	—
Other loan — unsecured	**12–15**	**On demand**	**57,678**	—	—	—	—
Other loan — secured	**8.9–14.7**	**On demand**	**57,171**	—	—	—	—
Other loan — secured	**24**	**On demand**	**25,000**	—	—	—	—
Bank loan — unsecured	**4.35–6.76**	**2020**	**212,000**	100,100	5.50–6.5	2019	100,100
5.72% USD 25,000,000 unsecured bank loan	**LIBOR+3%**	**2020**	**175,779**	171,932	LIBOR+3%	2019	171,932
Bank loans — secured	**4.35–6**	**2020**	**257,420**	38,420	5.13–6.50	2019	38,420
Other loans — unsecured	**9.8–15**	**2020**	**715,373**	182,300	10.00	2019	182,300
Other loans — secured	**8.50–29.5**	**2020**	**186,319**	286,612	8.5	2019	6,000
Current portion of long term bank loans — unsecured	**—**	**—**	**—**	26,910	5.70	2019	26,910
Current portion of long term other loans — unsecured	**9.25**	**2020**	**295,000**	187,700	9.00	2019	187,700
			2,131,585	993,974			713,362
2015 Convertible Bonds (note 30)	**10.87**	**2020**	**399,826**	—	—	—	—
2018 Convertible Bonds (note 30)	**22.57**	**On demand**	**160,421**	—	—	—	—
			560,247	—			—
Non-current							
Lease liabilities (notes 16(c))	**3.3–7.5**	**2021–2022**	**9,159**	13,584	—	—	—
Other loan — unsecured	**6.25**	**2024**	**300,000**	—	—	—	—
Other loan — secured	**12.55–29.51**	**2021–2022**	**31,980**	464,489	9.25	2019	295,000
			331,980	464,489			295,000
2015 Convertible Bonds (note 30)	**—**	**—**	**—**	370,363	10.87	2020	370,363
2018 Convertible Bonds (note 30)	**—**	**—**	**—**	137,331	22.57	2021	137,331
			—	507,694			507,694

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

	2019 RMB'000	2018 RMB'000
Analysed into		
Bank loans and other borrowing repayable:		
Within one year or on demand	**2,131,585**	675,862
In the second year	**26,565**	295,000
In the third to fifth years, inclusive	**305,415**	—
	2,463,565	970,862
Lease liabilities:		
Within one year or on demand	**17,431**	—
In the second year	**5,769**	—
In the third to fifth years, inclusive	**3,390**	—
	26,590	—
Convertible bond:		
Within one year or on demand	**560,247**	104,571
In the second year	**—**	356,068
In the third to fifth years, inclusive	**—**	47,055
	560,247	507,694
Factoring repayable:		
Within one year	**—**	37,500
	3,050,402	1,516,056

As at 31 December 2019, certain borrowings of the Group of RMB289,694,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements. As stipulated in the subscription agreement of the Group's certain convertible bonds, any default of the Group's borrowings may result in cross-default of these borrowings. As a result of certain defaults as at 31 December 2019, convertible bonds of RMB160,421,000 with original contractual repayment date beyond 31 December 2020 was considered as cross-default and have been reclassified as current liabilities as at 31 December 2019.

As at 31 December 2019, several lenders have demanded repayment for the overdue principal of borrowings through commencing legal proceedings, as further detailed in note 37 to the consolidated financial statements.

As disclosed in note 2.1, the directors are continuing to negotiate with the financial institutions and other lenders for the renewal of or extension for repayments of all borrowings.

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

Notes:

(a) The Group's loan facilities amounted to RMB2,876,015,000 (2018: RMB597,012,000), of which RMB2,384,606,000 (2018: RMB588,833,000) had been utilized as at the end of the reporting period.

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

(i) the pledge of Foshan Lepuda's account receivable right of RMB4,581,000 (2018: RMB10,392,000);

(ii) mortgages over Guangdong Bili's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB34,145,000 (2018: RMB36,380,000), and Guangdong Bili's land, which had an aggregate carrying value at the end of the reporting period of approximately RMB8,844,000 (2018: RMB9,011,000);

(iii) mortgages over the Foshan Lepuda's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB43,675,000 (2018: RMB46,282,000), and Foshan Lepuda's land, which had an aggregate carrying value at the end of the reporting period of approximately RMB9,858,000 (2018: RMB10,421,000);

(iv) the pledge of the Group's shares in Foshan Lepuda, Guangdong Bili, Guangdong Haoxi, Shanghai Haoning, Shenzhen Haozeqingshui, Beijing Haozeqingmiao, Guangzhou Qinxuan.

(v) mortgages over the Group's inventories, which had an aggregate carrying value at the end of the reporting period of approximately RMB753,638,000 (2018:RMB757,859,000).

(vi) mortgages over the Group's inventories, which had an aggregate carrying value at the end of the reporting period of approximately RMB62,744,000 (2018:Nil).

(vii) mortgages over the Group's machine, which had an aggregate carrying value at the end of the reporting period of approximately RMB92,504,000 (2018:RMB49,601,000).

(viii) mortgages over the Shaanxi Haoze Environmental Technology's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB581,182,000 (2018: Nil), and land, which had an aggregate carrying value at the end of the reporting period of approximately RMB95,797,000 (2018: Nil);

(c) Except for the 5.72% bank loan amounted to RMB175,799,000 as at 31 December 2019 (2018: RMB171,932,000) which is denominated in United States dollars and 12% bank loan amounted to RMB6,968,000 as at 31 December 2019 (2018: nil) which is dominated in HK dollars, all borrowings are in RMB.

32. Finance Lease Payables

Finance lease payables as at 31 December 2019 and 2018 represent the borrowings under financing arrangements entered into by the Group with third-party leasing companies, in the form of a sale and leaseback transaction which results in finance lease with a repurchase option. The subjects sold and leased back under the financing arrangement are the water purifying machines and machineries 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 one to three 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 leases certain of its plant and machinery and revenue-generating assets. These leases were classified as finance leases prior to IFRS 16 becoming effective on 1 January 2019 and had remaining lease terms ranging from one to three years.

At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follow:

	Minimum lease payments 2018 RMB'000	**Present value of minimum lease payments** 2018 RMB'000
Amounts payable:		
Within one year	313,624	280,612
In the second year	159,658	151,154
In the third to fifth years	18,676	18,335
Total minimum finance lease payments	491,958	450,101
Future finance charges	(41,857)	
Total net finance lease payables	450,101	
Portion classified as current liabilities	(280,612)	
Non-current portion	169,489	

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

Ordinary shares issued and fully paid

	Number of shares in issue	Share capital
At 1 January 2018	2,045,981,950	16,554
Issue of shares	90,000,000	730
At 31 December 2018	2,135,981,950	17,284
Cancellation of repurchased shares	(3,650,000)	(29)
At 31 December 2019	2,132,331,950	17,255

Share premium

	RMB'000
At 1 January 2018	1,407,728
Issue of shares	144,289
At 31 December 2018	1,552,017
Cancellation of repurchased shares	(5,672)
At 31 December 2019	1,546,345

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

During the year ended 31 December 2019, the Company purchased a total of 1,310,000 (2018: 21,832,000) ordinary shares of HK$0.01 each in the capital of the Company at an aggregate price of approximately RMB232,000 (2018: RMB36,719,000) on the Hong Kong Stock Exchange. 3,650,000 purchased shares were cancelled during the year.

As at 31 December 2019, treasury shares of RMB36,396,000 (2018: RMB63,148,000) consisted of remaining repurchased ordinary shares of 27,719,854 (2018: 38,612,719) without cancellation at the end of the reporting period.

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

Reserves

(a) Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, dealers of the Company or its subsidiaries for their contribution to the Group.

(b) Merger reserve

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

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

(c) Foreign currency translation reserve

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

(d) Fair value reserve

The change in fair value of equity investments at fair value through other comprehensive income is recognised in other comprehensive income and accumulated to the fair value reserve.

(e) Other reserves

Other reserves represent the statutory reserve fund which comprises:

(i) Reserve fund

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

(ii) Statutory surplus reserve

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

34. Share-Based Payments

Pre-IPO Share Option Scheme

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

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

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

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

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

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

34. Share-Based Payments (Continued)

Pre-IPO Share Option Scheme (Continued)

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

	2019 RMB'000	2018 RMB'000
Total expense arising from equity-settled share-based payment transactions	**31,989**	40,315

There were no cancellations of or modifications to the awards in 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 31 December 2019
Directors						
Mr. Xiao Shu	51,086,706	—	—	—	—	51,086,706
Mr. Tan Jibin	8,547,535	—	—	—	—	8,547,535
Mr. Li Honggao	3,200,000	—	—	—	—	3,200,000
Other employees						
In aggregate	92,339,665	—	—	—	—	92,339,665
	155,173,906	—	—	—	—	155,173,906
Exercisable at the end of the year	155,173,906	—	—	—	—	155,173,906

34. Share-Based Payments (Continued)

Pre-IPO Share Option Scheme (Continued)

	Outstanding at 1 January 2018	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 2018
Directors						
Mr. Xiao Shu	51,086,706	—	—	—	—	51,086,706
Mr. Tan Jibin	8,547,535	—	—	—	—	8,547,535
Mr. Li Honggao	3,200,000	—	—	—	—	3,200,000
Other employees						
In aggregate	93,484,605	—	(1,144,940)	—	—	92,339,665
	156,318,846	—	(1,144,940)	—	—	155,173,906
Exercisable at the end of the year	156,318,846	—	—	—	—	155,173,906

The weighted average remaining contractual life of the share options outstanding as at 31 December 2019 was 4.5 years. The weighted average fair value of the options granted under the Pre-IPO Share Option Scheme was HK$1.07 (RMB0.85).

Share Option Scheme

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

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

34. Share-Based Payments (Continued)

Share Option Scheme (Continued)

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

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

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

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

Xiao Shu

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

Other directors

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

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

34. Share-Based Payments (Continued)

Share Option Scheme (Continued)

The share option expense recognised for employee services received during the year was RMB19,767,000.

There were no cancellations of or modifications to the awards during the year ended 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 31 December 2019
Directors						
Mr. Xiao Shu	52,000,000	—	—	—	—	52,000,000
Mr. Tan Jibin	3,000,000	—	—	—	—	3,000,000
Mr. Zhou Guanxuan	3,000,000	—	—	—	—	3,000,000
Mr. Li Honggao	4,000,000	—	—	—	—	4,000,000
Mr. Wang Yonghui	3,000,000	—	—	—	—	3,000,000
	65,000,000	—	—	—	—	65,000,000
Exercisable at the end of the period	—	—	—	—	—	—

The weighted average remaining contractual life of the share options outstanding as at 31 December 2019 was 8 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 maximum number of restricted share units that may be granted under this restricted share unit scheme in aggregate (excluding restricted share units that have lapsed or been cancelled in accordance with the restricted share unit scheme) shall be such number of shares of the Company held by the trustee of the restricted share unit scheme for the purpose of this restricted share unit scheme from time to time.

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

No restricted share units (31 December 2018: 15,839,250 restricted share units) were granted under the restricted share unit scheme during the year ended 2019. The expense recognised for employee services received during the year was RMB12,222,000.

34. Share-Based Payments (Continued)

Restricted Share Unit Scheme (Continued)

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

	Outstanding at 1 January 2019	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 2019
Directors						
Mr. Tan Jibin	**1,264,605**	—	—	**(505,842)**	—	**758,763**
Mr. Li Honggao	**1,405,056**	—	—	**(562,021)**	—	**843,035**
Mr. Wang Yonghui	**773,050**	—	—	**(525,082)**	—	**247,968**
Mr. Zhou Guanxuan	**105,616**	—	—	**(42,246)**	—	**63,370**
Other employees						
In aggregate	**15,910,977**	—	**(2,136,075)**	**(8,477,273)**	—	**5,297,629**
Distributors in aggregate	**10,051,736**	—	**(58,511)**	**(4,020,683)**	—	**5,972,542**
	29,511,040	—	**(2,194,586)**	**(14,133,147)**	—	**13,183,307**
Exercisable at the end of the year	**5,638,126**	—	—	—	—	**1,079,215**

35. Business Combination

(a) Acquisition of subsidiaries accounted for as business combinations not under common control

On 26 November 2019 (the "Acquisition Date"), Shaanxi Ozner Noorey Environmental Technology Co., Ltd. ("Shaanxi Ozner Noorey") repurchased and cancelled all shares held by Xianyang Qindu State-owned Investment Company and Shanghai Zaiqi Enterprise Management Consulting Co., Ltd., which accounted for 40% and 31.98% in Shaanxi Ozner Noorey, respectively. Before the Acquisition Date, the Group held a 28.02% equity interest in Shaanxi Ozner Noorey and accounted for as investment in an associate for its ability to exercise significant influence. Upon the completion of shares cancellation, the Group became the sole shareholder in Shaanxi Ozner Noorey and considered it has power to control Shaanxi Ozner Noorey. The acquisition was undertaken to further develop the business in Shaanxi Province.

35. Business Combination (Continued)

(a) Acquisition of subsidiaries accounted for as business combinations not under common control (Continued)

As at 31 December 2018, the Group held a 40% equity interest in Foshan OTOI Industrial Technology Co., Ltd. ("Foshan OTOI") and Foshan OTOI was accounted for as an associate of the Group. On 11 December 2019, the Group acquired additional 22% equity interest in Foshan OTOI at a total payment of the consideration of RMB1,560,000. As a result, the Group has a total of 66% equity interest in Foshan OTOI and Foshan OTOI has been consolidated into the Group since then. The acquisition was undertaken to further develop the business under supply chain segment of the Group.

The Group has elected to measure the non-controlling interests in all the subsidiaries acquired during the period at the non-controlling interest's proportionate share of the acquired subsidiary's identifiable net assets.

The fair values of the identifiable assets and liabilities of all the subsidiaries acquired during the year were as follows:

	Notes	2019 Fair value recognised on acquisition RMB'000
Property, plant and equipment	15	**85,532**
Cash and bank balances		**297**
Trade and notes receivables		**3,778**
Prepayments, other receivables and other assets		**35,173**
Inventories		**8,051**
Trade and notes payables		**(4,725)**
Accrued liabilities and other payables		**(101,297)**
Interest-bearing bank and other borrowings		**(3,710)**
Total identifiable net assets at fair value		**23,099**
Non-controlling interest		**(1,467)**
Total net assets acquired		**21,632**
Goodwill on acquisition	18	**3,724**
		25,356
Satisfied by:		
Cash		**1,560**
Investment in an associate		**23,796**
		25,356

35. Business Combination (Continued)

(a) Acquisition of subsidiaries accounted for as business combinations not under common control (Continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB3,778,000 and RMB10,244,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB3,778,000 and RMB10,244,000, respectively.

The related transaction costs of these business combinations were not material to the Group's consolidated financial statements.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The revenue and the results contributed by these acquired subsidiaries for the period since respective acquisition date were insignificant to the Group. The Group's revenue and results for the year would not be materially different if these acquisitions had occurred on 1 January 2019.

(b) An analysis of the cash flows in respect of the acquisition of subsidiaries

	RMB'000
Cash consideration	**(1,560)**
Cash and bank balances acquired	**297**
Net outflow if cash and cash equivalents included in cash flows from investing activities	**(1,263)**

36. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB27,629,000 and RMB27,629,000 (2018: Nil).

36. Notes to the Consolidated Statement of Cash Flows (Continued)

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings RMB'000	Finance lease payables RMB'000	Convertible bonds RMB'000
At 1 January 2019	**1,008,362**	**450,101**	**507,694**
Effect of adoption of IFRS 16	**450,101**	**(430,919)**	
At 1 January 2019 (restated)	**1,458,463**	**19,182**	**507,694**
Changes from financing cash flows	**1,001,392**	**(20,221)**	**—**
New lease	**—**	**27,629**	**—**
Foreign exchange movement	**—**	**—**	**1,742**
Interest expense	**35,386**	**1,756**	**72,187**
Interest paid	**(35,386)**	**(1,756)**	**(21,376)**
Increase arising from acquisition of subsidiaries	**3,710**	**—**	**—**
At 31 December 2019	**2,463,565**	**26,590**	**560,247**

2018

	Bank and other borrowings RMB'000	Finance lease payables RMB'000	Convertible bonds RMB'000
At 1 January 2018	321,148	779,138	335,581
Changes from financing cash flows	687,214	(373,507)	183,187
Equity component of convertible bonds	—	—	(46,525)
New finance lease	—	44,470	—
Foreign exchange movement	—	—	14,752
Interest expense	—	—	42,773
Interest paid	—	—	(22,074)
At 31 December 2018	1,008,362	450,101	507,694

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Interest paid	**1,756**
Principal portion of lease payments	**20,221**
Within financing activities	**21,977**

37. Contingent Liabilities

In the ordinary course of business, the Group may from time to time be involved in legal litigations matters relating to borrowings, creditors and employee matters among others. As disclosed in note 31, with respect to the Group's legal matters, based on the Company's current knowledge and management estimation, the Group records a liability provision when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. However, the eventual outcome of such legal matters is inherently unpredictable and subject to significant uncertainties. For contingencies other than the legal matters, the Group evaluates the potential financial impact and believes that the amount or range of reasonably possible loss will not have a material effect on the Group's operations and financial position.

38. Commitments

(a) The Group had the following capital commitments at the reporting date:

	2019 **RMB'000**	2018 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**142,057**	363,773

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its plant and machinery, motor vehicles and office equipment under operating lease arrangements. Leases for plant and machinery were negotiated for terms ranging from three to five years, and those for motor vehicles were for terms ranging between two and six years. Leases for office equipment were with terms of 12 months or less.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	9,264
In the second to fifth years, inclusive	14,900
	24,164

39. Related Party Transactions and Balances

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2019 RMB$'000	2018 RMB$'000
Associates:			
Sales of products	(i)	**20,030**	5,635
Purchases of products	(ii)	**203,062**	132,718

Notes:

(i) The sales to the associates were made according to the published prices and conditions offered to the major customers of the Group.

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

(b) Outstanding balances with related parties:

(i) Amount due to related parties

	2019 RMB'000	2018 RMB'000
Shanghai Noorey	**(40,029)**	(32,258)
Shanghai Haoyou	**(7,332)**	—
Shanghai Ozoup Environment Technology Co., Ltd. ("Shanghai Ozoup")	**(3,232)**	(3,977)
Shanghai Hoyo Environmental Technology Co., Ltd. ("Shanghai Hoyo")	**(2,109)**	—
Guangdong Hax Appliance Technology Co., Ltd. ("Guangdong Hax")	**(1,668)**	(132)
Shanghai Ozner Noorey Air Purification Technology Co., Ltd. ("Shanghai Noorey Air")	**—**	(5)
Suzhou Core Clean Purification Technology Co., Ltd. ("Suzhou Core Clean")	**—**	(3,788)
Total amount due to related parties	**(54,370)**	(40,160)

The trade payables are non-interest-bearing.

39. Related Party Transactions and Balances (Continued)

(b) (Continued)

(ii) Amount due from related parties

	2019 RMB'000	2018 RMB'000
Suzhou Core Clean	**70,610**	63,768
Shanghai Haoyou	**66,058**	41,692
Shanghai Noorey	**2,197**	2,672
Shanghai Hoyo	**2,095**	3,684
Shanghai Ozoup	**844**	1,179
Shanghai Noorey Air	**325**	—
Guangdong Hax	**105**	1,049
Shanghai Ozner Noorey Air Purification Equipment Co., Ltd. ("Shanghai Noorey Equip")	**93**	—
Shaanxi Ozner Noorey	**—**	9,040
Foshan OTOI	**—**	2,280
Total amount due from related parties	**142,327**	125,364

(c) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short term employee benefits	**8,309**	11,728
Pension scheme contributions	**50**	35
Share-based payments	**21,184**	23,224
Total compensation paid to key management personnel	**29,543**	34,987

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

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

40. Financial Instruments by Category

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

2019

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income	—	173,157	—	173,157
Trade and bills receivable	—	—	725,905	725,905
Amount due from related parties	—	—	142,327	142,327
Financial assets included in prepayments, other receivables and other assets	—	—	786,969	786,969
Pledged deposits	—	—	132,742	132,742
Cash and cash equivalents	—	—	118,916	118,916
	—	173,157	1,906,859	2,080,016

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	368,015
Financial liabilities included in other payables and accruals	323,742
Amount due to related parties	54,370
Interest-bearing bank and other borrowings	2,463,565
Liability component of convertible bonds	560,247
	3,769,939

40. Financial Instrument By Category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2018

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income	—	418,068	—	418,068
Derivative financial instruments	18,726	—	—	18,726
Short-term investments	—	—	139,942	139,942
Trade and bills receivable	—	—	462,019	462,019
Amount due from related parties	—	—	125,364	125,364
Financial assets included in prepayments, other receivables and other assets	—	—	684,698	684,698
Pledged deposits	—	—	72,600	72,600
Cash and cash equivalents	—	—	258,309	258,309
	18,726	418,068	1,742,932	2,179,726

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	339,757	339,757
Financial liabilities included in other payables and accruals	—	197,736	197,736
Derivative financial instruments	46,525	—	46,525
Amount due to related parties	—	40,160	40,160
Interest-bearing bank and other borrowings	—	1,008,362	1,008,362
Liability component of convertible bonds	—	507,694	507,694
	46,525	2,093,709	2,140,234

41. Fair Value and Fair Value Hierarchy of Financial Instruments

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

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**173,157**	418,068	**173,157**	418,068
Derivative financial instruments	**—**	18,726	**—**	18,726
	173,157	436,794	**173,157**	436,794

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Derivative component of convertible bonds	**—**	46,525	**—**	46,525
Interest-bearing bank borrowings	**795,044**	337,362	**795,044**	337,362
Other borrowings (other than lease liabilities)	**1,668,521**	671,000	**1,668,521**	672,394
Liability component of convertible bonds	**560,247**	507,694	**584,826**	518,400
	3,023,812	1,562,581	**3,048,391**	1,574,681

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

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 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.

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a discounted cash flow valuation model or a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares or determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable companies by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The derivative component of the convertible bonds and financial assets at fair value through profit or loss are measured at fair value as at the end of the reporting period. The derivative component of the convertible bonds is valued by using the binomial tree model that incorporates the risk-free rate, volatility and risky rate. Financial assets at fair value through profit or loss are valued by using the Monte Carlo model that incorporates the entire range of results for given assumptions and displays the likelihood of achieving each of them. The expected value of the outcomes is then determined as the probability weighted mean.

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
2019				
Equity investments designated at fair value through other comprehensive income	Discounted cash flow method	Weighted-average cost of capital (WACC)	2019: 16% (2018: 16%)	1% (2018: 1%) increase/decrease in WACC discount would result in decrease in fair value by RMB6,290,000 (2018: RMB35,170,000)/increase in fair value by RMB7,390,000 (2018: RMB41,850,000)
		Long-term growth rate for cash flows	2019: 3% (2018: 3%)	1% (2018: 1%) increase/decrease in growth rate would result in increase in fair value by RMB3,040,000 (2018: RMB10,630,000)/decrease in fair value by RMB2,610,000 (2018: RMB10,630,000)
		Discount for lack of control	2019: 15% (2018: 25%)	5% (2018: 5%) increase/decrease in discount would result in decrease/ increase in fair value by RMB5,470,000 (2018: RMB23,500,000)
		Discount for lack of marketability	2019: 15% (2018: 25%)	5% (2018: 5%) increase/decrease in discount would result in decrease in fair value by RMB10,470,000 (2018: RMB23,500,000)/increase in fair value by RMB10,570,000 (2018: RMB23,500,000)
Derivative component of convertible bonds	Binomial tree model	Risk-free rate	2019: 1.72% (2018: 1.82%)	1% (1%) increase/decrease in risk-free rate would result in decrease/ increase in fair value by RMB287,000 (2018: RMB696,000)
		Volatility	2019: 42.31% (2018: 35.98%)	10% (10%) increase/decrease in volatility would result in increase in fair value by RMB1,150,000 (2018: RMB5,127,000)/ decrease in fair value by RMB3,750,000 (2018: RMB5,127,000)
		Risky rate	2019: 20.00% (2018: 20.26%)	1% (1%) increase/decrease in risky rate would result in decrease in fair value by RMB1,160,000 (2018: RMB910,000)/ increase in fair value by RMB1,190,000 (2018: RMB910,000)
2018				
Equity investments designated at fair value through other comprehensive income	Valuation multiples	Discount for lack of marketability	2018: 25%	5% increase/decrease in discount would result in decrease/ increase in fair value by RMB4,200,000
Financial assets at fair value through profit or loss	Monte Carlo method	WACC	2018: 16%	1% increase/decrease in WACC would result in decrease/increase in fair value by RMB455,000
		Volatility	2018:11%–12%	10% increase/decrease in volatility would result in increase/decrease in fair value by RMB13,085,000

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	—	—	**173,157**	**173,157**
Financial assets at fair value through profit or loss	—	—	—	—
	—	—	**173,157**	**173,157**

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

	2019 RMB'000	2018 RMB'000
Equity investments at fair value through other comprehensive income		
At 1 January	**418,068**	152,491
Total (loss)/gains recognised in other comprehensive income	**(242,421)**	3,528
Purchases	—	262,049
Disposals	**(2,490)**	—
	173,157	418,068

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2019 (Continued)

	2019 RMB'000	2018 RMB'000
Financial assets at fair value through profit or loss		
At 1 January	**18,726**	—
Total loss recognised in profit or loss	**(18,726)**	—
Addition	**—**	18,726
At 31 December	**—**	18,726

Liabilities measured at fair value:

As at 31 December 2018

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

The Group did not have any financial liabilities measured at fair value as at 31 December 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

41. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	795,044	—	795,044
Other borrowings	—	1,668,521	—	1,668,521
Liability component of convertible bonds	—	—	584,826	584,826
	—	2,463,565	584,826	3,048,931

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	337,362	—	337,362
Other borrowings	—	672,394	—	672,394
Liability component of convertible bonds	—	—	518,400	518,400
	—	1,009,756	518,400	1,528,156

42. Financial Risk Management Objectives and Policies

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

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

Foreign currency risk

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

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

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

	Increase/ (decrease) in HK$ rate	Increase/ (decrease) in profit before tax
2018		
If HK$ weakens against RMB	–5%	54,136
If HK$ strengthens against RMB	+5%	(54,136)
If USD weakens against RMB	–5%	8,515
If USD strengthens against RMB	+5%	(8,515)
2019		
If HK$ weakens against RMB	**–5%**	**59,565**
If HK$ strengthens against RMB	**+5%**	**(59,565)**
If USD weakens against RMB	**–5%**	**(20)**
If USD strengthens against RMB	**+5%**	**20**

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

42. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	845,971	845,971
Financial assets included in prepayments, other receivables and other assets					
— Normal**	149,645	—	—	—	149,645
— Doubtful**	—	685,695	190,502	—	876,197
Pledged deposits					
— Not yet past due	132,742	—	—	—	132,742
Cash and cash equivalents					
— Not yet past due	118,916	—	—	—	118,916
	401,303	685,695	190,502	845,971	2,123,471

42. Financial Risk Management Objectives and Policies (Continued)

Credit risk (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	449,314	—	—	449,314
Financial assets included in prepayments, other receivables and other assets					
— Normal**	686,674	—	—	—	686,674
Pledged deposits					
— Not yet past due	72,600	—	—	—	72,600
Cash and cash equivalents					
— Not yet past due	258,309	—	—	—	258,309
	1,017,583	449,314	—	—	1,466,897

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 23 and 25 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

Liquidity risk

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

42. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

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

31 December 2019

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	**221,872**	**437,374**	**—**	**659,246**
Lease liabilities	**—**	**21,248**	**11,970**	**33,218**
Trade and bills payables	**—**	**368,015**	**—**	**368,015**
Interest-bearing bank and other borrowings (excluding lease liabilities)	**288,339**	**1,972,157**	**427,769**	**2,688,265**
Financial liabilities included in other payables and accruals	**323,742**	**—**	**—**	**323,742**
	833,953	**2,798,794**	**439,739**	**4,072,486**

31 December 2018

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	33,182	651,227	684,409
Trade and bills payables	—	339,757	—	339,757
Financial lease payables	—	313,624	178,334	491,958
Interest-bearing bank and other borrowings	—	784,082	335,734	1,119,816
Financial liabilities included in other payables and accruals	197,736	—	—	197,736
	197,736	1,470,645	1,165,295	2,833,676

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

42. Financial Risk Management Objectives and Policies (Continued)

Capital management (Continued)

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

	2019 RMB'000	2018 RMB'000
Trade and bills payables	**368,015**	339,757
Other payables and accruals	**619,091**	441,417
Financial lease payables	**—**	450,101
Short-term borrowings	**2,131,585**	713,362
Interest-bearing bank and other borrowings	**331,980**	295,000
Less: Cash and cash equivalents	**(118,916)**	(258,309)
Net debt	**3,331,755**	1,981,328
Liability component of convertible bonds	**560,247**	507,694
Equity attributable to owners of the parent	**2,059,679**	3,141,705
Adjusted capital	**2,619,926**	3,649,399
Adjusted capital and net debt	**5,951,681**	5,630,727
Gearing ratio	**56%**	35%

43. Events After the Reporting Period

Subsequent to the balance sheet date, the outbreaks of novel coronavirus ("COVID-19") has inevitably caused certain impact on both the overall industry markets and the business performance of the Group, mainly due to travel restrictions and other precautionary measures imposed by relevant local authorities to contain the spreading of COVID-19 outbreak that resulted in delays in commencement for work and temporary closure for business of suppliers.

The Group estimates that the degree of COVID-19 impact would be dependent on the outcome of various preventive measures and the duration of the epidemic. The Group is closely monitoring the market development and continuously evaluating the financial impact of the COVID-19 situation on the Group's operational and financial performance. Given the dynamic circumstances and uncertainties surrounding the epidemic, the Group's 2020 financial performance would inevitably be affected by the COVID-19 situation, and the overall financial impact, which will be reflected in the Group's 2020 interim and annual financial statements, could not be reasonably and accurately estimated at this stage.

44. Statement of Financial Position of the Company

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

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Due from subsidiaries	**1,817,631**	1,805,871
Investments in subsidiaries	**213,815**	181,826
Equity investments designated at fair value through other comprehensive income	**80,100**	63,070
TOTAL NON-CURRENT ASSETS	**2,111,546**	2,050,767
CURRENT ASSETS		
Other receivables	**50,246**	202,861
Cash and cash equivalents	**239**	65
TOTAL CURRENT ASSETS	**50,485**	202,926
CURRENT LIABILITIES		
Other payables	**28,969**	4,627
Interest-bearing bank and other borrowings	**6,987**	—
Derivative component of convertible bonds	**—**	46,525
Liability component of convertible bonds	**560,247**	—
Due to subsidiaries	**24,797**	24,797
TOTAL CURRENT LIABILITIES	**621,000**	75,949
NET CURRENT (LIABILITIES)/ASSETS	**(570,515)**	126,977
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,541,031**	2,177,744
NON-CURRENT LIABILITIES		
Liability component of convertible bonds	**—**	507,694
NET ASSETS	**1,541,031**	1,670,050
EQUITY		
Share capital	**17,255**	17,284
Share premium (note)	**1,546,345**	1,552,017
Treasury shares (note)	**(36,396)**	(63,148)
Equity component of convertible bonds	**78,995**	52,321
Reserves (note)	**(65,168)**	111,576
TOTAL EQUITY	**1,541,031**	1,670,050

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

Note:

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

	Share premium RMB'000	Retained earnings RMB'000	Other comprehensive income	Equity component of convertible bonds RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Treasury shares RMB'000	Total RMB'000
At 1 January 2018	1,407,728	(71,532)	—	52,321	23,753	140,909	(26,429)	1,526,750
Total comprehensive income for the year	—	(43,623)	—	—	—	—	—	(43,623)
Other comprehensive income	—	—	—	—	74,840	—	—	74,840
Dividends paid	—	(53,086)	—	—	—	—	—	(53,086)
Issuance of ordinary shares	144,289	—	—	—	—	—	—	144,289
Repurchase of shares	—	—	—	—	—	—	(36,719)	(36,719)
Equity-settled share option arrangements	—	—	—	—	—	40,315	—	40,315
At 31 December 2018 and 1 January 2019	**1,552,017**	**(168,241)**	**—**	**52,321**	**98,593**	**181,224**	**(63,148)**	**1,652,766**
Total comprehensive income for the year	**—**	**(235,204)**	**—**	**—**	**—**	**—**	**—**	**(235,204)**
Other comprehensive income	**—**	**—**	**17,030**	**—**	**30,724**	**—**	**—**	**47,754**
Reclassify of convertible bonds	**—**	**—**	**—**	**26,674**	**—**	**—**	**—**	**26,674**
Share-based payments	**—**	**—**	**—**	**—**	**—**	**31,989**	**—**	**31,989**
Cancellation of repurchased shares	**(5,672)**	**—**	**—**	**—**	**—**	**—**	**5,701**	**29**
Repurchase of shares	**—**	**—**	**—**	**—**	**—**	**—**	**(232)**	**(232)**
Equity-settled share option arrangements	**—**	**—**	**—**	**—**	**—**	**(21,283)**	**21,283**	**—**
At 31 December 2019	**1,546,345**	**(403,445)**	**17,030**	**78,995**	**129,317**	**191,930**	**(36,396)**	**1,523,776**

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

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 June 2020.

FINANCIAL SUMMARY

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
Water purification services	**1,155,315**	1,149,169	1,169,417	854,202	679,388
Air sanitization services	**6,643**	3,754	133,729	54,553	63,626
Supply chain services	**452,129**	416,324	214,412	—	—
Other	**95,097**	75,667	31,469	12,011	2,385
	1,709,184	1,644,914	1,549,027	920,766	745,399
Gross Profit	**705,191**	760,641	715,689	502,093	438,945
Gross Profit Margin	**41.3%**	46.2%	46.2%	54.5%	58.9%
(Loss)/profit for the year	**(970,220)**	134,270	240,880	228,655	28,061
Net Profit Margin	**–56.8%**	8.2%	15.6%	24.8%	3.8%

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue-generating assets	**1,771,608**	1,789,034	1,595,699	1,484,409	1,245,364
Total assets	**6,773,558**	6,574,693	5,786,600	3,688,522	3,309,395
Total liabilities	**4,623,914**	3,263,887	2,705,798	1,464,876	1,357,626
Total equities	**2,149,644**	3,310,806	3,080,802	2,223,646	1,951,769