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)

2020 Interim Report

Drink
For
Health

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Xiao Shu *(Chairman and Chief Executive Officer)*
Mr. Zhou Guanxuan *(Vice Chairman)*
Mr. Tan Jibin
Mr. Li Honggao
Mr. Wang Yonghui (Resigned on 30 June 2020)

Non-Executive Directors

Mr. Wang Duo (Resigned on 11 May 2020)
Ms. Sui Wei (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

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS

As to Hong Kong law:

Chungs Lawyers
(in assocation with DeHeng Law Offices)

As to PRC law:

Shu Jin Law Firm

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
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KY1-9005
Cayman Islands

HONG KONG SHARE REGISTRAR

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Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

2014

COMPANY'S WEBSITE

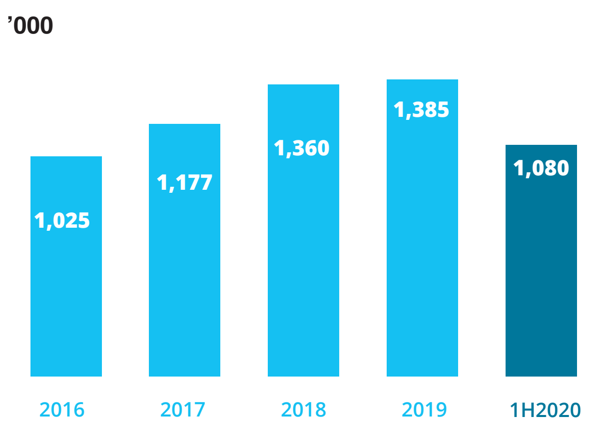
www.ozner.net

Financial and Operational Highlights

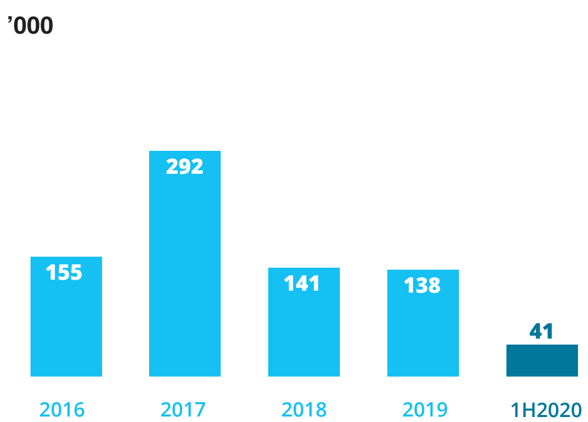
	Six months ended 30 June	
(RMB in thousand)	2020 (Unaudited)	2019 (Unaudited)
Revenue		
Water purification services	227,758	563,132
Supply chain services	216,179	240,367
Other services	475	59,710
Gross (Loss)/Profit	(618,839)	403,860
Gross Profit Margin	(139.2%)	46.8%
Net (Loss)/Profit	(1,472,167)	100,630
Net Profit Margin	(331.3%)	11.7%
Basic (loss)/earnings per share (RMB cents)	(69.95)	4.51

(RMB in thousand)	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Revenue generating assets	893,687	1,771,608
Total assets	5,386,002	6,773,558
Total liabilities	4,742,536	4,623,914

Accumulated Installation of Water Purifiers under Lease Model



New Installation of Water Purifiers under Buyout Model



INDUSTRY REVIEW

In 2020, the whole world, including China encountered the unprecedented COVID-19 pandemic. With the implementation of the lockdown and travel restriction measures, commercial activities were severely influenced and the economy of different countries was also taking a hit. The gross domestic product ("**GDP**") of the PRC shrank by 6.8% in the first quarter, being its first negative growth since record. As the pandemic was brought to control in Mainland China and its operation gradually resumes, the PRC's GDP reversed its downturn and increased by 3.2% during the second quarter.

The home appliance industry also took a hard hit because of the pandemic. The Report on the Home Appliance Market of the PRC in the First Half of 2020 published by China Center for Information Industry Development showed that the retail sales of the home appliance market in the PRC during the first half of 2020 amounted to approximately RMB369 billion, representing a decrease of 14.13% as compared with the corresponding period of last year. As impacted by the macro environment, the water purification market is not immune to the situation, and its overall sales declined along with the home appliance market. According to the statistics provided by All View Cloud ("**AVC**"), the sales and sales volume of the overall water purifier market during the first half of 2020 amounted to RMB9.15 billion and 4.267 million units, respectively, representing a year-on-year decrease of 33.8% and 15.1%, respectively.

In terms of the sales modes, offline sales plummeted due to the impact of the pandemic. Long-term stimulus from enterprises is still required for the recovery of the offline market. According to the statistics provided by AVC, the sales and sales volume of the offline market during the first half of 2020 were RMB5.23 billion and 1.314 million units, respectively, representing a year-on-year decrease of 48.8% and 51.5%, respectively. In light of this, enterprises must change the traditional offline sales mode, and utilise online sales platforms or live commerce to attract more online and stay-home customers. According to the statistics provided by AVC, the sales volume of online water purification market during the first half of 2020 reached 2.953 million units with a year-on-year increase of 27.5%, representing 69.2% of the entire water purification market and an increase of 21% as compared to last year's market share.

Although the pandemic has affected the short term consumption pattern and sales volume, it has strengthened consumers' health awareness in the long run, including the awareness towards the safety of drinking water. Since more and more enterprises are willing to build a healthy working environment for their employees, health products with purifying, cleaning and sterialising functions and technology may be able to seize business opportunities under the pandemic, and the commercial water purification market may recover after resumption of business activities. According to a report released by Frost & Sullivan, drinking water consumption in the commercial area of the PRC rose from 325.5 billion litres in 2014 to 350.0 billion litres in 2018, representing a compound annual growth rate of approximately 1.8%. Among which, water treated by water purifiers increased from 45.4 billion litres to 95.3 billion litres, with a compound annual growth rate as high as 20.4%. Such growth is mainly attributable to the relatively lower market penetration rate of commercial water purifiers as well as the huge demand of drinking water consumption, especially in public facilities which place high value on the safety of drinking water such as large hospitals, schools, airports etc., its high visitor traffic has great drinking water demand. Together with the public emphasis on the safety of drinking water, it is expected that the consumption of water treated by water purifiers will maintain a double-digit growth in the future and reach 171.5 billion litres in 2024.

Packaged drinking water and boiled water are the major components of commercial drinking water. Firstly, major venues such as commercial institutions, public organisations and government authorities are usually equipped with boiled water supply areas, which has long served as a source of drinking water supply. In addition, due to the convenience of packaged drinking water and the popularisation of drinking water machines, barreled water has become a major consumption channel of commercial drinking water. Yet, with the rising public awareness towards the safety of drinking water and water quality together with the application of the leasing model, there is a potential for water purifiers to replace boiled water and barreled water in commercial areas, which will become the major trend of development in the future.

BUSINESS REVIEW

Due to the impact of the pandemic, the Group's operation has encountered unprecedented difficulties and challenges during the first half of 2020. Almost all revenue from the water purification business is generated from offline services, with customers widely covered in schools, office buildings, commercial chains, transportation hubs, hotels, medical institutions, commercial stores and living houses, while the supply chain business is mainly targeted at electrical manufacturers. With the impact of the pandemic control measures implemented by the PRC government, the Group's business such as daily maintenance, inspection and repair, rental fee collection, new machine installation and logistics services of the supply chain operation were nearly suspended, the Group's business operation was thus severely affected. Accordingly, during the six months ended 30 June 2020 (the "**Period**"), the revenue of the Group recorded a decrease of 48.5% to RMB444.4 million as compared with the corresponding period of last year, and the profit of RMB100.6 million in the corresponding period of last year turned to a loss of RMB1,472.2 million.

The accumulated total number of installation of leased water purifiers decreased from approximately 1,385,000 units as of 31 December 2019 to approximately 1,080,000 units as of 30 June 2020, with a total of 95,000 units of water purifiers newly installed during the Period.

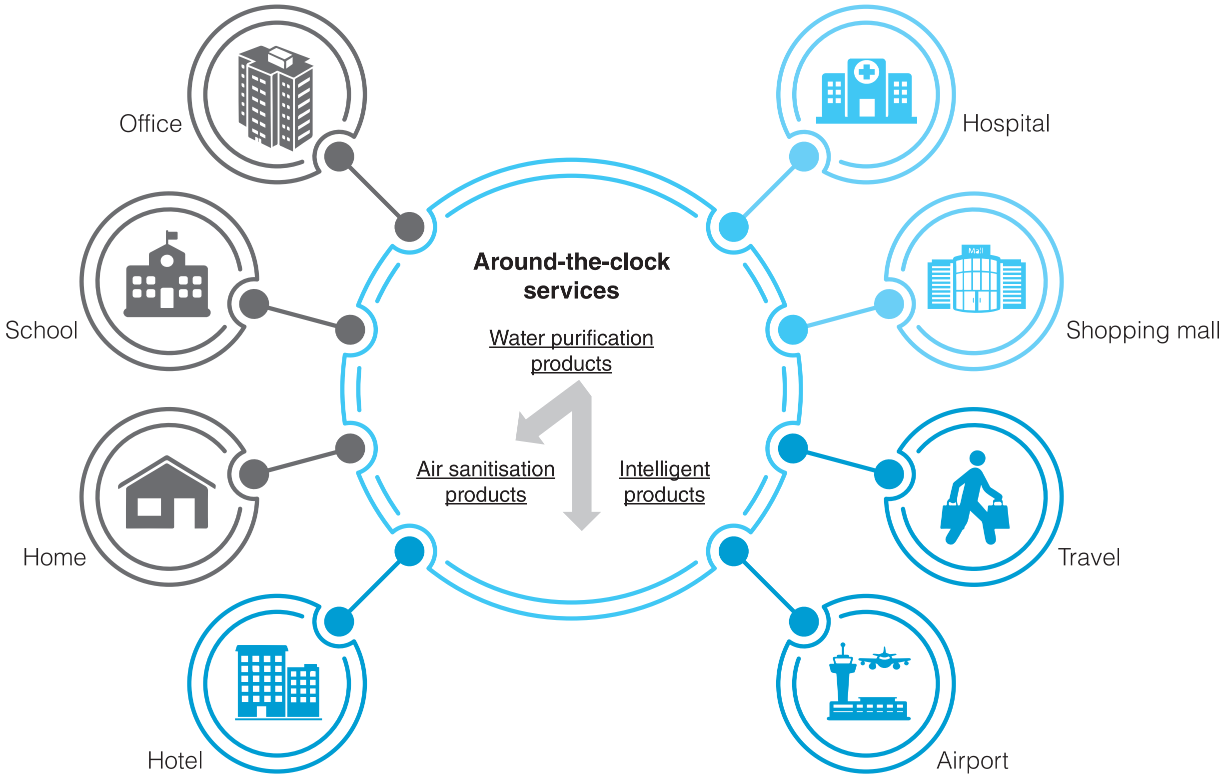
In face of the challenges brought about by the pandemic, the Group will strive hard and make active response, among others, (1) strengthening the leading status in commercial water purification and expanding the product line to the household water purification; (2) innovating the online sales model to strengthen brand benefits; (3) promoting the application of Internet of Things ("**IoT**") modules and accelerating the intelligent layout; (4) keeping up research and development with the needs under the pandemic and planning to launch various sterilisation products; and (5) strengthening internal control to tackle the impacts of the pandemic to the Group.

Strengthening the leading status in commercial water purification and expanding the product line to household water purification

Being the core business of the Group, the commercial water purification business has always been our advantage, and enabled us to occupy the largest share in the commercial water purification market of Mainland China for several consecutive years. During the Period, the Group's sales channels covered 2,440 towns, which increased by approximately 4.3% as compared to 2,340 towns in the corresponding period of previous year.

The Group has been promoting the leasing model throughout the years, so as to allow commercial customers to enjoy safe drinking water with a relatively lower price. In order to strengthen the Group's leading status in commercial water purification, facing increasingly diversified needs, the Group keeps on exerting its strong capabilities in marketing and after-sales, and relies on a rich product line to enable customers to customise differentiated solutions for drinking water covering different price ranges, design styles and number of users covered, and strengthen its strategic layout in the production chain.

Positioned as a service provider of around-the-clock solutions for drinking water, the Group actively expands its product line to the provision of one-stop service for family water purification by providing a full-set and whole-house solutions for water purification. Starting from the municipal tap water entering a household, it is filtered by layers and used according to its classification. While ensuring water safety as our priority, we strive to minimise energy consumption and wastage, and to enable customers to enjoy pure water through Ozner's unique APO+ safe water purification technology.



Innovating the online sales model to strengthen brand benefits

The COVID-19 pandemic in the beginning of 2020 was referred to as a typical "Black Swan" incident. The pandemic aroused consumers' demands for health products, with water purifiers as the foremost example. However, the traditional offline sales model faced great difficulties. As at 30 June 2020, the total number of distributors was stable at 7,494.

During the outbreak of the pandemic, as the majority of consumers avoided going out and companies reduced business visits, the Group actively addressed the changes and turned to the online platform to attract traffic and orders. By making use of donating water purifiers to medical-related institutions during the outbreak as a promotion opportunity, the Group organised a series of online webcasts and large-scale conferences such as the spring investment conference for distributors and the Lunar New Year celebration gathering, to which thousands of distributors were attracted to participate. Meanwhile, the Group initiated consumer-oriented live content in the major sales areas, including introduction of scientific facts of water purification, ozone sterilisation talks, water purifier selection guides and even live commerce activities, which attracted approximately 300,000 viewers and brought in numerous sales orders.

For commercial customers, after the first contact online, as the pandemic control restrictions gradually slackened, the Group directed the customers to water purification city exhibition halls throughout the country and further understood customers' needs through offline physical visits and experimental experiences for the purpose of realising customised solutions. Through the "Browse Online + Experiential Experience Offline" model, the market was further expanded to stimulate consumption and bring about lucrative returns.

Promoting the application of IoT modules and accelerate the intelligent layout

In order to respond to the equipment management issues brought by the leasing model, the Group has always focused on promoting the adoption of IoT modules. During the outbreak this year, it became difficult to carry out on-site maintenance for all areas. However, to reassure consumers to use Ozner's water purifiers, the modules for IoT systems installed in the water purifying products of the Group has minimised the situation of overdue maintenance, either through remote instructions for customers to carry out maintenance on their own or by monitoring the operation status of the customers' machines with computer systems. Due to the pandemic outbreak and the Lunar New Year holiday, many commercial customers left their purifiers unused for a long time. Nonetheless, the IoT systems are able to realise remote monitoring and operation to avoid wastage and possible breakdowns. Being in tune with the age of 5G, Ozner will also initiate the refreshment of the layout modules within the year so as to enrich the management content and enhance stability.

Under the increasing user demand for smart products, the Group has been actively creating intelligent layout and exploring the development potentials of new technologies such as artificial intelligence, blockchain and IoT in the water purification industry.

Keeping up research and development with the needs under the pandemic and planning to launch various sterilisation products

The outbreak of the COVID-19 pandemic in the beginning of 2020 further raised the health consciousness of consumers and facilitated home appliances with sterilisation and sanitising functions to become the continuous growth driver of the home appliance market. After the outbreak, the research and development team of the Group promptly responded by combining the existing production lines, targeting the sterilisation market and launching various upgraded sanitising and sterilisation products, including air sanitisation equipment catering to different scenarios and Ozner's Guardians – an integrated channel for defense and sterilisation. The latter is capable of one-time completion of body temperature check and screening as well as essential sterilisation, which significantly reduces the required manpower and resources.

Moreover, in order to address the issue regarding the relatively large size of existing sterilisation products, the Group carried out research and development and launched "the six magical phials for sterilisation（「小六消毒魔瓶」）" in the same period and sterilisation water can be made using ozone hydrolysis technology without any additives, which provides an easy and quick solution. Under the current pandemic, more emergent and stringent needs for sterilising in a healthy manner have arisen and the solution provided by the portable phials for sterilisation has brought consumers a safer and more reliable personalised solution of sterilisation water. At the current stage, trial runs for the first batch of prototypes have been completed and the relevant national industry certification is in progress. The certification process is expected to be completed by the end of August, and it is planned to launch the first batch of products in the market in September.

Strengthening internal control to tackle the impacts of the pandemic to the Group

In response to the pandemic and the downside risks faced by the industry, the Group strengthened its internal control measures. During the outbreak, the Group addressed the risk of customer loss by adopting a series of cost control measures, including: (1) speeding up technical renovation and selecting more cost-effective materials; (2) optimising process flow to improve labor productivity, reduce defective rate and inventory; and (3) optimising organisation structure and performance appraisal program to reduce management costs. Taking into account of the pandemic and risks of the industry environment, the Group made provisions on the basis of the accounting prudence principle. After considering the time required for downstream distributors to resume operation under the impact of the pandemic and the extension of the time for payment collection from distributors, the Company adjusted the impairment provisions of receivables accordingly.

In addition, the Group acknowledges that improvement of internal management is an issue which every enterprise needs to continuously address. In the first half of 2020, with the decrease of business volume as compared to the corresponding period of last year, the Group decided to make use of this opportunity to improve its internal management. Apart from further improving the existing service, the Group also commenced intensive staff training through online channels, which encompassed all the business lines and functions of the Company and enhanced the level of the skills of the staff and quality of businesses. Moreover, the Group devoted efforts in driving online remote office work process, and emerging means of office work such as video conference and electronic signing were adopted on a large scale so as to establish a solid foundation for the potential organisational reform in the future.

Future Prospect

In the long run, the COVID-19 pandemic has nurtured the health consciousness of consumers and brought about changes to long-term consumption habits. With increasing health and hygiene consciousness, water purifiers are frequently used. As the consciousness of consumers continues to rise, the penetration of water purifiers is expected to increase on an on-going basis, bringing new opportunities for the industry and the Group.

Currently, the demands of household consumers for safe drinking water are already much higher than their sensitivity to prices. The stress of operation for small-to-medium-sized brands will further increase and it is expected that industry shuffle will continue for some time. Nonetheless, with the rise of health consciousness, people are no longer satisfied with healthy drinking water being only available at home. They wish to enjoy healthy drinking water at work, outdoors and even anytime, anywhere. Therefore, commercial water purifiers are launched following household water purifiers and it is expected that their growth will accelerate in the future.

According to the report released by Frost & Sullivan, the total sales of the commercial water purifier market amounted to approximately RMB20.8 billion in 2018. In the commercial water purifier segment, the top-ten commercial water purifier companies contributed approximately 19.8% of the market share, with the total sales of RMB4.12 billion. The Group possesses an absolute leading position in the commercial water purifier segment with its commercial water purifiers taking 9.0% of the market share. The leasing model showed that the Group has kept a large number of users. The Group will make use of its existing advantages, actively optimise both the online and offline sales network by disversifying its sales model (e.g. leases to purchase model etc.), and allocate more resources in exploring large corporate customers as well as expansion to public spaces such as airports, hospitals and schools.

In addition, the Group has arranged its layout in a forward-looking manner and carried out research and development of new sterilisation and disinfection products in response to the demands under the pandemic, which will successively be launched in the market and are expected to be the new growth driver of the Group. In the future, the Group will still continue to enhance its research and development abilities and accelerate the intelligent layout while strengthening internal control so as to realise sustainable development of the Company and increase profitability.

FINANCIAL REVIEW

Revenue

Our total revenue decreased by 48.5% from RMB863.2 million for the six months ended 30 June 2019 to RMB444.4 million for the six months ended 30 June 2020, primarily attributable to a significant decrease in revenue from water purification services.

For the six months ended 30 June 2019 and 2020, the revenue from water purification services amounted to RMB563.1 million and RMB227.8 million, respectively, with a decrease of 59.6%, due to the decrease in the accumulated number of water purification machines installed and rent concessions of RMB271.8 million provided to customers who were affected by the COVID-19 pandemic in the first half of the year. As a result, rental income decreased by 68.9% from RMB442.7 million for the six months ended 30 June 2019 to RMB137.6 million for the six months ended 30 June 2020. The share of revenue from leasing water purification machines in the total revenue of water purification business decreased from 78.6% for the six months ended 30 June 2019 to 60.4% for the six months ended 30 June 2020. Under the challenge of overall economic environment, the Group leased and sold a total of approximately 95,000 units of water purification machines, of which number of newly leased machines was approximately 54,000 units with the accumulated installation base for lease decreased from approximately 1,385,000 units as at 31 December 2019 to approximately 1,080,000 units as at 30 June 2020.

Revenue generated from supply chain service amounted to RMB216.2 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB240.4 million) was mainly attributable to the sales of micro motor products by Foshan Lepuda Motor Co., Ltd. ("**Foshan Lepuda**").

Gross Profit Margin

The gross profit margin of the Group changed from 46.8% for the six months ended 30 June 2019 to -139.2% for the six months ended 30 June 2020, primarily attributable to the change in useful life of the revenue generating assets.

Our gross profit margin of water purification business was 53.3% and -279.9% for the six months ended 30 June 2019 and 2020, respectively. Such change in gross profit margin was attributable to the re-estimation of the useful life and residual value of the revenue-generating assets from 10 years and 5% in previous financial years to 5 years and 0%, respectively, in the current financial year, which in turn accelerated the depreciation of the existing revenue-generating assets and increased the depreciation expenses to RMB610.2 million for the six months ended 30 June 2020. The Company considered that such change can ensure the estimated useful lives of the revenue-generating assets are in better alignment with their actual usage conditions, as well as to better reflect the introduction of new technology and to more closely align our accounting estimates with those of our peers and common industry practice.

Our gross profit margin of supply chain services was 18.8% and 8.6% for the six months ended 30 June 2019 and 2020, respectively. Such decrease was mainly due to the slight decrease in unit price under the competition in the market and increase in unit fix cost allocation, which were in line with the sales decease affected by the COVID-19 pandemic.

Other Income and Gains

Other income and gains amounted to RMB103.6 million and RMB17.9 million for the six months ended 30 June 2019 and 2020, respectively. Such decrease was mainly attributable to a decrease in the fair value gains on derivative financial instruments and derivative component of convertible bonds.

Fair value gains on derivative financial instruments come from the contingent consideration of the Valuation Adjustment Mechanism regarding the 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 from RMB67.8 million for the six months ended 30 June 2019 to RMB nil for the six months ended 30 June 2020. Such decrease was mainly due to the under-performance of the guarantors. The management of the Group has discussed with the guarantors and made assessment of the financial position of the guarantors. The Group concluded that it was unlikely to obtain such significant compensation from the guarantors after the expiry of the guaranteed periods due to the impact of the COVID-19 pandemic. The Group will negotiate with the guarantors for the compensation from time-to-time and take legal action if necessary.

Fair value gains on derivative component of convertible bonds represented the change in the fair value of the derivative component between the date of issue and the end of the 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 from RMB21.8 million for the six months ended 30 June 2019 to RMB nil for the six months ended 30 June 2020. Such decrease was primarily because the derivative component of convertible bonds has been fully capitalised in the second half year of 2019.

Selling and Distribution Expenses

For the six months ended 30 June 2019 and 2020, our selling and distribution expenses were RMB55.2 million and RMB105.2 million, respectively, accounting for 6.4% and 23.7% of the revenue for the same period. Our selling and distribution expenses increased by 90.6% or RMB50.0 million from the six months ended 30 June 2019 to the six months ended 30 June 2020. Such increase was primarily because the Group increased its marketing and promotion activities to attract customers after the lockdown and travel restriction measures were released.

Administrative Expenses

For the six months ended 30 June 2019 and 2020, our administrative expenses were RMB111.0 million and RMB101.0 million, respectively, accounting for 12.9% and 22.7% of the revenue for the same period. Our administrative expenses decreased by 9.1% or RMB10.0 million from the six months ended 30 June 2019 to the six months ended 30 June 2020. Such decrease was mainly attributable to the decrease of the share-based payments of RMB13.3 million for the six months ended 30 June 2020 as compared with the corresponding period in last year.

Other Expenses

For the six months ended 30 June 2019 and 2020, our other expenses were RMB84.3 million and RMB771.1 million, respectively. Our other expenses increased significantly by 8.1 times or RMB686.8 million from the six months ended 30 June 2019 to the six months ended 30 June 2020. Such increase was mainly attributable to the increase of loss on loss of water purifying machines and the increase in impairment on trade and other receivables.

Loss on disposal of revenue generating assets

Loss on disposal of water purifying machines increased by 14.3 times or RMB222.7 million from RMB15.6 million for the six months ended 30 June 2019 to RMB238.3 million for the six months ended 30 June 2020. Such increase was mainly attributable to the worsening of the economic environment and the increase of loss on disposal of the water purifying machines since 2019, after the Group re-performed the water purifying machines counting and identified that 293,000 water purifying machines were disposed.

Impairment on trade receivables and financial assets

Impairment on trade receivables and financial assets including prepayments, other receivables and others assets increased significantly by RMB419.3 million from RMB29.6 million for the six months ended 30 June 2019 to RMB448.9 million for the six months ended 30 June 2020. The Group's management has assessed on the recoverability of trade receivables and financial assets, and recognised impairment losses of trade receivables and financial assets based on the expected credit loss model (IFRS 9). For details of the credit control, please refer to the heading "Trade and Bills Receivables". Due to the worsening economic environment and the influence of the COVID-19 pandemic, most of the customers settled payments late, which in turn led to an increase in the overdue balance.

Finance Costs

Finance costs mainly represented the finance expenses of the Bonds, loans in relation to sales and leaseback arrangements, other liquidity and merger and acquisition loans. Finance costs grew by 16.4% or RMB19.1 million from RMB116.3 million for the six months ended 30 June 2019 to RMB135.4 million for the six months ended 30 June 2020. Such growth primarily came from the increase in financing and loans.

Income Tax Expense

Pursuant to the relevant laws, rules and regulations in the PRC and with the approval from competent taxation authority, our 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., Shanghai Haoze Comfort Environment & Science Co., Ltd. and Guangdong Bili Drinking Water Equipment Co, Ltd. qualified as a High and New Technology Enterprise; (ii) the entitlement of a preferential tax rate of 15% for the three years from 2019 to 2021 by Foshan Lepuda qualified as a High and New Technology Enterprise; (iii) the entitlement of a preferential tax rate of 15% from 2012 to 2020 by Shaanxi Haoze Environmental Technology Development Co., Ltd., Shaanxi Haoze Water Purification Service Co., Ltd., Shannxi Haoze Comfort Environment and Science Co., Ltd. and Shaanxi Haoze Water Purification Technology Development Co., Ltd. qualified 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 RMB244.4 million and an income tax expenses of RMB26.7 million for the six months ended 30 June 2020 and 2019, respectively. Such change was mainly attributable to the operating loss incurred for the six months ended 30 June 2020. The effective tax rate (calculated by income tax expense dividing by profit before tax) was 21.0% and 14.2% for the six months ended 30 June 2019 and 30 June 2020, respectively.

(Loss)/Profit for the Period and Net Profit Margin

The Group changed from a profit of RMB100.6 million for the six months ended 30 June 2019 to a loss of RMB1,472.2 million for the six months ended 30 June 2020. Such change was mainly attributable to the gross loss and an increase in other expenses for the six months ended 30 June 2020. Net profit margin changed from 11.7% for the six months ended 30 June 2019 to -331.3% for the six months ended 30 June 2020. The factors contributed to the change mentioned above.

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

As at 30 June 2020, the Group's current liabilities exceeded its current assets by RMB2,253,180,000. In addition, the Group's bank and other borrowings and convertible bonds amounted to RMB3,154,158,000 as at 30 June 2020, out of which RMB1,175,455,000 was overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements. The overdue amount was RMB1,150,118,000 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 30 June 2020, convertible bonds of RMB174,142,000 with original contractual repayment date beyond 30 June 2021 were considered as cross-default and have been reclassified as current liabilities as at 30 June 2020.

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 of the Company 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, please refer to notes 2 to the interim condensed consolidated financial states for the details.

Cash Positions

As at 30 June 2020, the Group's bank balances and cash amounted to RMB50.7 million (31 December 2019: RMB118.9 million), representing a decrease of 57.4% from that of 31 December 2019. We intend to invest the surplus cash as short-term demand deposits and/or monetary market products. As at 30 June 2020, all cash equivalents were denominated mainly in RMB and Hong Kong dollars.

Trade and Bills Receivables

Trade and bills receivables decreased from RMB725.9 million as at 31 December 2019 to RMB620.8 million as at 30 June 2020. The decrease was primarily due to (i) rent concessions provided by the Group to its customers; and (ii) an increase in impairment on trade and bills receivables due to the delay in settlement of the receivable, as most of our customers were affected by the COVID-19 pandemic for the six months ended 30 June 2020. Our average trade receivable turnover days were 125 days and 273 days for the year ended 31 December 2019 and for the six months ended 30 June 2020, respectively.

The impairment on trade and bills receivables increased by RMB169.2 million from RMB120.1 million as at 31 December 2019 to RMB289.3 million as at 30 June 2020, primarily due to late settlement from our customers under the impact of the worsening economic environment and the influence of the COVID-19 pandemic. The Group has 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 realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial condition of the customers of our Group continued to deteriorate, resulting in an impairment of their abilities 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 remained stable at RMB358.8 million and RMB358.8 million as at 31 December 2019 and 30 June 2020, respectively. Our average inventories turnover days increased from 140 days for the year ended 31 December 2019 to 170 days for the six months ended 30 June 2020. Such increase was a result of sales activities affected by the pandemic.

Current Ratio and Gearing Ratio

Our current ratio was 0.47 as at 30 June 2020 as the Group was in net current liabilities position of RMB2,253.2 million. It was mainly due to the decrease of RMB585.2 million in current assets as the Group provided rent concessions to our customers and increased to impair the trade and other receivables. Our gearing ratio, which was derived by dividing total debt by total equity, was 1.4 times and 4.9 times as at 31 December 2019 and 30 June 2020, respectively. Such change was due to the poor performance of the Group, and the decrease of the equity balance by RMB1,506.2 million as at 30 June 2020.

Capital Expenditure

For the six months ended 30 June 2020, the Group's capital expenditure amounted to RMB115.2 million, which was mainly used for the production of water purification machines amounting to RMB103.3 million.

Borrowings and Charges on the Group's Assets

As at 30 June 2020, the Group's interest-bearing bank and other borrowings, lease liabilities and the liability component of convertible bonds amounted to approximately RMB2,579.1 million (as at 31 December 2019: RMB2,490.2 million) and approximately RMB593.4 million (as at 31 December 2019: RMB560.2 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 RMB480.5 million (as at 31 December 2019: RMB341.1 million) will be repayable within 5 years, and others will be repayable within one year and the fixed interest rate ranges from 3% to 24% per annum. The interest-bearing bank and other borrowings were denominated in RMB and USD, while the convertible bonds were denominated in Hong Kong dollars.

As at 30 June 2020, the carrying amount of 567,838 units of water purifiers, which were subject to the sale and leaseback arrangements under the finance lease agreements and were deemed as secured assets in essence, was approximately RMB128.8 million.

As at 30 June 2020, the Group pledged deposits amounting to RMB35.9 million as securities for issuance of bank acceptance notes and bank loan (as at 31 December 2019: RMB132.7 million).

As at 30 June 2020, certain bank loans of the Group were secured by the pledge of certain property, plant and equipment of the Group, which amounted to RMB63.6 million (31 December 2019: RMB77.8 million) and prepaid land lease payments amounting to RMB18.2 million (31 December 2019: RMB18.6 million).

Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

Commitments

As at 30 June 2020, the Group had capital expenditure of RMB84.9 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 2019: RMB142.1 million).

As at 30 June 2020, the Group had unpaid annual lease payments of RMB343.1 million which were not yet recognised as rental revenue (as at 31 December 2019: RMB440.4 million).

As at 30 June 2020, the Group had no other capital commitments save as disclosed above.

Exchange Rate Risk

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

As RMB is not freely convertible, there is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends declared if such dividends are to be exchanged or converted into foreign currency. The Group has not entered into any hedging transactions to manage the potential risk of fluctuation in foreign currency. The Group considers that there has been no significant exposure to the risk of fluctuation in the exchange rate for the conversion of Hong Kong dollar into RMB.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019 and 30 June 2020, the Group had 2,554 and 2,475 employees, respectively, including an after-sales service team of 884. Total staff costs (including Directors' emoluments, share options and restricted share unit scheme expenses) for the six months ended 30 June 2020 were RMB70.9 million, as compared to RMB114.1 million for the six months ended 30 June 2019. Apart from salaries, other employee benefits including social insurance and housing provident fund were in amounts equal to pre-determined percentages of the salaries, bonuses and certain allowances of our employees. The training programs for the employees of our Group were implemented continuously according to the policies disclosed in the Group's environmental, social and governance report for the year ended 31 December 2019 and no change has been made during the six months ended 30 June 2020.

SIGNIFICANT INVESTMENTS HELD

The Group had no significant investment held as at 30 June 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group currently has no specific plan for material investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2020, the Group had not conducted any material acquisitions or disposals of subsidiaries, associates and joint ventures.

MATERIAL EVENTS AFTER THE PERIOD

The Group has the following material event taking place after the interim period ended 30 June 2020:

On 14 August 2020 (after trading hours), Shanghai Haoze Water Purification Technology Development Co., Ltd. (a wholly-owned subsidiary of the Company), Foshan Lepuda (an indirect non-wholly owned subsidiary of the Company), Gongqing City Lehui Investment Center (Limited Partnership) and Mr. Peng Dongkun (a connected person of the Company at the subsidiary level) entered into the capital injection agreement, which constitutes a disclosable and connected transaction of the Company under Chapters 14 and 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). For more details, please refer to the Company's announcement dated 14 August 2020.

CONTINUING DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

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

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

INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF THE 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 six months ended 30 June 2020.

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

As at 30 June 2020, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, were as follows:

Long/short positions in ordinary shares of the Company:

Name of director	Long/short positions	Nature of interest	Notes	Number of ordinary Shares	Approximate percentage of shareholding as at 30 June 2020[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	(c)	416,472	0.02%
Mr. Zhou Guanxuan	Long position	Beneficial owner	–	38,388	0.00%

Notes:

(a) These 786,850,150 Shares are held as to 341,820,000 Shares by Baida Holdings Limited, 62,182,200 Shares by Lion Rise Holdings Limited and 382,847,950 Shares by Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited are wholly-owned by Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited under the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. XIAO Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, Mr. XIAO Shu is deemed to be interested in the 341,820,000 Shares, 62,182,200 Shares and 382,847,950 Shares held by each of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.

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

(c) Mr. WANG Yonghui resigned as the executive Director on 30 June 2020.

(d) As at 30 June 2020, 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 beneficially owned	Approximate percentage of shareholding as at 30 June 2020[1]
Mr. XIAO Shu	103,086,706	4.83%
Mr. 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]	2,347,968	0.11%
	128,847,377	6.04%[2]

Notes:

(1) As at 30 June 2020, the Company had 2,132,331,950 ordinary Shares in issue.

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

(3) Mr. WANG Yonghui resigned as the executive Director on 30 June 2020.

Save as disclosed above, as of 30 June 2020, none of the directors nor the chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE INCENTIVE SCHEMES

The Company operates the Pre-IPO Share Option Scheme, the Share Option Scheme and Restricted Share Unit Scheme (collectively, the "**Schemes**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Schemes are disclosed in note 20 to the interim condensed consolidated financial statements.

Pre-IPO Share Option Scheme

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

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

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

	Number of share options						
Name or category of participant	As at 1 January 2020	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	As at 30 June 2020	Approximate percentage of shareholding as at 30 June 2020*
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	89,743,843	–	–	–	–	89,743,843	4.21%
Total	155,038,160	–	–	–	–	155,038,160	7.27%

* As at 30 June 2020, the Company had 2,132,331,950 ordinary Shares in issue.

As at 30 June 2020, the maximum number of shares that may be issued pursuant to options granted and outstanding under the Pre-IPO Share Option Scheme is 155,038,160 shares (31 December 2019: 155,038,160 Shares), representing approximately 7.27% of the issued share capital of the Company both as at 30 June 2020 and as at the date of this interim report (31 December 2019: approximately 7.27% of the issued share capital of the Company as at 31 December 2019).

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

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

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

Share Option Scheme

The Share Option Scheme was approved and adopted on 26 May 2014 with implementation conditional on the listing of the Company. At the AGM of the Company held on 27 May 2016, the Shareholders approved the refreshment of the scheme mandate limit for the Share Option Scheme and any other share option schemes of the Company to 10% of the shares in issue as at the date of the AGM (the "**Refreshed Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. As at 30 June 2020, the Company may grant options under the Share Option Scheme entitling the holders thereof to subscribe for up to 107,968,200 shares (31 December 2019: 107,968,200 shares), representing approximately 5.06% of the issued share capital of the Company as at 30 June 2020 and as at the date of this interim report (31 December 2019: approximately 5.06% of the issued share capital as at the date of the 2019 annual report of the Company).

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

			Number of share options							
Name of participant	Date of Grant	Exercise price per share	As at 1 January 2020	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	As at 30 June 2020	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	23 March 2018-22 March 2028	HK$2.03
Mr. ZHOU Guanxuan	23 March 2018	HK$2.45	3,000,000	–	–	–	–	3,000,000	23 March 2018-22 March 2028	HK$2.03
Mr. TAN Jibin	23 March 2018	HK$2.45	3,000,000	–	–	–	–	3,000,000	23 March 2018-22 March 2028	HK$2.03
Mr. LI Honggao	23 March 2018	HK$2.45	4,000,000	–	–	–	–	4,000,000	23 March 2018-22 March 2028	HK$2.03
Mr. WANG Yonghui(1)	23 March 2018	HK$2.45	3,000,000	–	–	(900,000)	–	2,100,000	23 March 2018-22 March 2028	HK$2.03
Total:			65,000,000	–	–	(900,000)	–	64,100,000		

Note (1): Mr. WANG Yonghui resigned as the executive Director on 30 June 2020.

The Board 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 the Company, to incentive and reward them for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Group. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date.

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

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

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

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

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

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

(iii) the nominal value of the shares.

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

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

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

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

RESTRICTED SHARE UNIT SCHEME

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

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

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

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

Unless terminated earlier in accordance with the RSU Scheme rules, the RSU Scheme will be valid and effective for a period of ten (10) years commencing from 7 December 2015 and has a remaining period of approximately 4.5 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,

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

Details of the RSUs granted under the RSU Scheme for the Period were as follows:

Name of the grantee	Position held with the Group	Number of Shares represented by RSUs at 1 January 2020	Date of grant	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	Number of Shares represented by RSUs at 30 June 2020
Directors, chief executive or substantial shareholder of the Company or associate of any of them								
Mr. Wang Yonghui[4]	Executive Director	174,829[1]	21 July 2017	–	–	(87,414)	–	87,415
		73,139[3]	19 June 2018	–	–	(36,569)	–	36,570
Mr. Li Honggao	Executive Director	623,619[1]	21 July 2017	–	–	–	–	623,619
		219,416[3]	19 June 2018	–	–	–	–	219,416
Mr. Tan Jibin	Executive Director	466,209[1]	21 July 2017	–	–	–	–	466,209
		292,554[3]	19 June 2018	–	–	–	–	292,554
Mr. Zhou Guanxuan	Executive Director	63,370[3]	19 June 2018	–	–	–	–	63,370
Subtotal		1,913,136		–	–	(123,983)	–	1,789,153
Employees and distributors of the Group		2,291,098[1]	21 July 2017	–	–	(255,347)	–	2,035,751
		1,320,929[2]	25 August 2017	–	–	–	–	1,320,929
		7,658,144[3]	19 June 2018	–	–	(251,745)	–	7,406,399
Subtotal		11,270,171		–	–	(507,092)	–	10,763,079
Total		3,555,755[1]	21 July 2017	–	–	(342,761)	–	3,212,994
		1,320,929[2]	25 August 2017	–	–	–	–	1,320,929
		8,306,623[3]	19 June 2018	–	–	(288,314)	–	8,018,309
		13,183,307		–	–	(631,075)	–	12,552,232

Notes:

(1) The closing price of the Shares on the Stock Exchange as at 20 July 2017, being the date immediately before the date on which the RSUs were granted, was HK$1.87 per Share.

(2) The closing price of the Shares on the Stock Exchange as at 24 August 2017, being the date immediately before the date on which the RSUs were granted, was HK$2.02 per Share.

(3) The closing price of the shares on the Stock Exchange as at 15 June 2018, being the date immediately before the date on which the RSUs were granted, was HK$1.98 per Share.

(4) Mr. WANG Yonghui resigned as the executive Director on 30 June 2020.

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$74.5 million.

As of 30 June 2020, RSUs representing a total of 27,518,298 Shares have been granted, of which (i) RSUs representing 19,797,017 Shares have been vested; and (ii) RSUs representing 7,721,281 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 section headed "Share Incentive Schemes" above, at no time during the Period or at the end of the Period was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined under the SFO or to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

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

As at 30 June 2020, the following persons (other than the directors and chief executive of the Company) have the following interests and short positions in the shares or underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long/short positions in ordinary shares of the Company

Name	Long/Short Positions	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as at 30 June 2020[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%
TCL Technology Group Corporation	Long Position	(d)	Interest in a controlled corporation	517,079,988	24.25%
Zhong Hai Sheng Feng (Beijing) Capital Management Company Limited (中海晟豐(北京)資本管理有限公司)	Long Position	(d)	Interest in a controlled corporation	517,079,988	24.25%
Chongqing Innovative Investment Co., Ltd.	Long position	(d)	Beneficial owner	80,894,000	3.79%
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	141,467,200	6.63%
Ren Shouyong	Long Position	–	Interest in a controlled corporation	300,000,000	14.07%
Fuzhou Kuntai Investment Management Co., Ltd.	Long Position	–	Person having a security interest in shares	300,000,000	14.07%
Zhongrong PT Finance Limited	Long Position	–	Person having a security interest in shares	135,000,000	6.33%

Notes:

(a) Standard Chartered Trust (Singapore) Limited, the trustee of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust, holds the entire issued share capital of Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited through SCTS Capital Pte. Ltd. (as nominee for Standard Chartered Trust (Singapore) Limited). Baida Capital Limited, Lion Rise Capital Limited and Glorious Shine Capital Limited in turn hold the entire issued share capital of Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively. Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited hold 341,820,000 Shares, 62,182,200 Shares and 382,847,950 Shares, respectively. Each of the Xiao Family I Trust, the Xiao Family II Trust and the Xiao Family III Trust is a discretionary trust established by Mr. XIAO Shu (as the settlor) and the discretionary beneficiaries of which include Mr. XIAO Shu and certain of his family members. Accordingly, each of Mr. XIAO Shu, Standard Chartered Trust (Singapore) Limited and SCTS Capital Pte. Ltd. is deemed to be interested in the aggregate number of 786,850,150 Shares held by Baida Holdings Limited, Lion Rise Holdings Limited and Glorious Shine Holdings Limited, respectively.

(b) The entire issued share capital of Baida Holdings Limited is held by Baida Capital Limited. Accordingly, Baida Capital Limited is deemed to be interested in the 341,820,000 Shares held by Baida Holdings Limited.

(c) SAIF Partners IV L.P. is a limited partnership fund established in the Cayman Islands whose sole general partner is SAIF IV GP, L.P., a limited partnership established in the Cayman Islands. The sole general partner of SAIF IV GP, L.P. is SAIF IV GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands, which is wholly-owned and controlled by Mr. Andrew Yan YAN. Accordingly, each of SAIF IV GP, L.P., SAIF IV GP Capital Ltd. and Mr. Andrew Yan YAN is deemed to be interested in the 334,857,000 Shares held by SAIF Partners IV L.P..

(d) These 517,079,988 Shares consist of (i) 247,329,788 Shares in which Chongqing Zhongxinrongbang Investment Centre (Limited partnership) is interested (representing the maximum number of Shares which may be issued by the Company based on the adjusted conversion price of HK$1.88 per Share for the 5% convertible bonds due 2020 in an aggregate principal amount of HK$465,000,000 issued by the Company (the "**Bonds**"), where no Bonds have been converted into Shares as of 30 June 2020), (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 40.80% by Beijing Zhonghaijiacheng Capital Management Co., Ltd. and 49% by TCL Technology Group Corporation. Beijing Zhonghaijiacheng Capital Management Co., Ltd. is owned as to 90% and 10% by Zhong Hai Sheng Feng (Beijing) Capital Management Company Limited (中海晟豐（北京）資本管理有限公司) and Mr. XIE Zhikun, respectively. Zhong Hai Sheng Feng (Beijing) Capital Management Company Limited is wholly-owned 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, Zhong Hai Sheng Feng (Beijing) Capital Management Company Limited, TCL Technology Group Corporation, 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 2,460,400 Shares held by Goldman Sachs International.

(h) The entire issued share capital of the Glorious Shine Holdings Limited is held by Glorious Shine Capital Limited. By virtue of the SFO, Glorious Shine Capital Limited is deemed to be interested in the 382,847,950 Shares held by the Glorious Shine Holdings Limited.

(i) As at 30 June 2020, the Company had 2,132,331,950 ordinary Shares in issue.

Save as disclosed above, as at 30 June 2020, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE CODE

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

During the six months ended 30 June 2020, the Company has complied with all the principles and the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules with the exception of code provision A.2.1 of the CG Code which is explained in further details below. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance requirements.

Code Provision A.2.1 of the CG Code

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

The Audit Committee has discussed with the management and reviewed the accounting principles and policies adopted by the Group as well as the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020.

CHANGES IN DIRECTORS' AND CHIEF EXECUTIVE'S INFORMATION

Ms. Sui Wei, Mr. Wang Duo and Ms. Gui Songlei has resigned as a non-executive Director with effect from 14 April 2020, 11 May 2020 and 21 May 2020, respectively. Mr. Wang Yonghui has resigned as an executive Director with effect from 30 June 2020. For more details, please refer to the announcements of the Company dated 16 April 2020, 14 May 2020, 22 May 2020 and 30 June 2020, respectively.

Save as disclosed herein, there had been no changes to the Directors' and chief executive's information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the period from 1 January 2020 to 30 June 2020.

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT PRACTITIONER'S REVIEW REPORT TO THE BOARD OF DIRECTORS OF OZNER WATER INTERNATIONAL HOLDING LIMITED

We were engaged to review the interim condensed consolidated financial statements of Ozner Water International Holding Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 32 to 76, which comprise the interim condensed consolidated statement of financial position of the Group as of 30 June 2020 and the related interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months period then ended, and certain explanatory notes.

Directors' Responsibility for the Interim Condensed Consolidated Financial Statements

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS 34"). The directors of the Company are responsible for the preparation and fair presentation of this interim condensed consolidated financial statements in accordance with IAS 34, and for such internal control as directors determine is necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on this interim financial information based on our review in accordance with Hong Kong Standard on Review Engagements 2400 (Revised) "*Engagement to Review Historical Financial Statements*" ("HKSRE 2400") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Because of the matter described in the Basis for Disclaimer of Conclusion paragraph, however, we were not able to obtain sufficient appropriate evidence as a basis for expressing a conclusion on the interim condensed consolidated financial statements.

Basis for Disclaimer of Conclusion

Multiple Uncertainties Relating to Going Concern

As set out in note 2 to the interim condensed consolidated financial statements, the Group incurred a net loss of RMB1,472,167,000 for the six months period ended 30 June 2020. As at 30 June 2020, the Group's current liabilities exceeded its current assets by RMB2,253,180,000.

In addition, the Group's bank and other borrowings and convertible bonds amounted to RMB3,154,158,000 as at 30 June 2020, out of which RMB1,175,455,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements. The above defaults had caused cross-default of certain other borrowings amounting to RMB174,142,000 as at 30 June 2020.

These conditions, together with other matters disclosed in note 2 to the interim condensed 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 to the interim condensed consolidated financial statements. The validity of the going concern assumptions on which the interim condensed 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 30 June 2021; (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 30 June 2021; and (iv) successfully obtaining new sources of financing or strategic capital investments.

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 the interim condensed consolidated financial statements.

Disclaimer of Conclusion

Because of the significance of the matters described in the Basis for Disclaimer of Conclusion paragraphs, we were unable to obtain sufficient appropriate evidence to form a conclusion on the interim condensed consolidated financial statements. Accordingly, we do not express a conclusion on this interim condensed consolidated financial statements.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong
31 August 2020

10/F., 8 Observatory Road
Tsim Sha Tsui
Kowloon, Hong Kong

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

For the six months ended 30 June

	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	444,412	863,209
Cost of sales		(1,063,251)	(459,349)
Gross (loss)/profit		(618,839)	403,860
Other income and gains	4	17,850	103,582
Selling and distribution expenses		(105,241)	(55,208)
Administrative expenses		(100,970)	(111,048)
Other expenses	5	(771,144)	(84,302)
Finance costs		(135,444)	(116,345)
Shares of profits and losses of associates		(2,757)	(13,231)
(LOSS)/PROFIT BEFORE TAX	6	(1,716,545)	127,308
Income tax credit/(expense)	7	244,378	(26,678)
(LOSS)/PROFIT FOR THE PERIOD		(1,472,167)	100,630
Attributable to:			
Owners of the parent		(1,472,134)	94,181
Non-controlling interests		(33)	6,449
		(1,472,167)	100,630
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic (RMB cents)	8	(69.95)	4.51
Diluted (RMB cents)	8	(69.95)	4.51

	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
(LOSS)/PROFIT FOR THE PERIOD		(1,472,167)	100,630
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		4,123	(1,478)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		4,123	(1,478)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive loss		(27,130)	(63,005)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(27,130)	(63,005)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(23,007)	(64,483)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(1,495,174)	36,147
Attributable to:			
Owners of the parent		(1,495,141)	29,698
Non-controlling interests		(33)	6,449
		(1,495,174)	36,147

The Board did not declare any interim dividend for the six months ended 30 June 2019 and 2020.

Interim Condensed Consolidated Statement of Financial Position

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Revenue generating assets	9	893,687	1,771,608
Property, plant and equipment	10	1,015,934	1,064,138
Right-of-use assets		130,815	140,515
Other intangible assets	11	127,739	137,477
Goodwill		–	–
Investments in associates		242,383	245,140
Equity investments designated at fair value through other comprehensive income	12	146,027	173,157
Prepayments, other receivables and other assets		322,066	411,399
Deferred tax assets		530,099	267,692
TOTAL NON-CURRENT ASSETS		3,408,750	4,211,126
CURRENT ASSETS			
Inventories	13	324,306	337,917
Trade and bills receivables	14	620,835	725,905
Prepayments, other receivables and other assets		833,372	1,104,625
Amount due from related parties		112,126	142,327
Pledged deposits	15	35,924	132,742
Cash and cash equivalents	15	50,689	118,916
TOTAL CURRENT ASSETS		1,977,252	2,562,432
CURRENT LIABILITIES			
Trade and bills payables	16	339,276	368,015
Other payables, advances from customers and accruals		864,097	812,562
Amount due to related parties		46,097	54,370
Deferred revenue		17,234	17,205
Interest-bearing bank and other borrowings	17	2,085,247	2,131,585
Income tax payable		271,721	288,331
Liability component of convertible bonds	18	593,404	560,247
Lease liabilities		13,356	17,431
TOTAL CURRENT LIABILITIES		4,230,432	4,249,746
NET CURRENT LIABILITIES		(2,253,180)	(1,687,314)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,155,570	2,523,812

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	475,507	331,980
Lease liabilities		4,949	9,159
Deferred tax liabilities		31,648	33,029
TOTAL NON-CURRENT LIABILITIES		512,104	374,168
NET ASSETS		643,466	2,149,644
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	19	17,255	17,255
Share premium	19	1,546,345	1,546,345
Treasury shares		(36,396)	(36,396)
Equity component of convertible bonds	18	78,995	78,995
Reserves		(1,052,665)	453,480
		553,534	2,059,679
Non-controlling interests		89,932	89,965
TOTAL EQUITY		643,466	2,149,644

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the parent												
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Sharebased payment reserve RMB'000	Fair value reserve RMB'000	Retained earnings RMB'000	Merger reserve RMB'000	Foreign currency translation reserve RMB'000	Other reserves RMB'000	Total RMB'000	Non-Controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	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
Loss for the Period	–	–	–	–	–	–	(1,472,134)	–	–	–	(1,472,134)	(33)	(1,472,167)
Other comprehensive (loss)/income for the Period:													
Change in fair value of equity investments at fair value through other comprehensive loss, net of tax	–	–	–	–	–	(27,130)	–	–	–	–	(27,130)	–	(27,130)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	4,123	–	4,123	–	4,123
Total comprehensive (loss)/income for the Period	–	–	–	–	–	(27,130)	(1,472,134)	–	4,123	–	(1,495,141)	(33)	(1,495,174)
Share-based payments	–	–	–	–	8,596	–	–	–	–	–	8,596	–	8,596
Dividend paid	–	–	–	–	–	–	(19,600)	–	–	–	(19,600)	–	(19,600)
Lapsed of equity-settled share option	–	–	–	–	(1,442)	–	1,442	–	–	–	–	–	–
At 30 June 2020 (unaudited)	17,255	1,546,345	(36,396)	78,995	199,084*	(266,023)*	(1,591,845)*	56,018*	(21,297)*	571,398*	553,534	89,932	643,466

* These reserve accounts comprise the consolidated reserves of RMB-1,052,665 (unaudited) in the interim condensed consolidated statement of financial position as at 30 June 2020.

For the six months ended 30 June 2019

	Attributable to owners of the parent												
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Sharebased payment reserve RMB'000	Fair value reserve RMB'000	Retained earnings RMB'000	Merger reserve RMB'000	Foreign currency translation reserve RMB'000	Other reserves RMB'000	Total RMB'000	Non-Controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	17,284	1,552,017	(63,148)	52,321	181,224	3,528	800,882	56,018	(16,051)	557,630	3,141,705	169,101	3,310,806
Profit for the Period	–	–	–	–	–	–	94,181	–	–	–	94,181	6,449	100,630
Other comprehensive (loss)/income for the Period:													
Change in fair value of equity investments at fair value through other comprehensive loss, net of tax	–	–	–	–	–	(63,005)	–	–	–	–	(63,005)	–	(63,005)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(1,478)	–	(1,478)	–	(1,478)
Total comprehensive (loss)/income for the Period	–	–	–	–	–	(63,005)	94,181	–	(1,478)	–	29,698	6,449	36,147
Share-based payments	–	–	–	–	21,928	–	–	–	–	–	21,928	–	21,928
Transfer from retained earnings	–	–	–	–	–	–	(10,231)	–	–	10,231	–	–	–
Repurchase of shares	–	–	(1,214)	–	–	–	–	–	–	–	(1,214)	–	(1,214)
Cancellation of repurchased shares	(27)	(5,271)	5,298	–	–	–	–	–	–	–	–	–	–
At 30 June 2019 (unaudited)	17,257	1,546,746	(59,064)	52,321	203,152	(59,477)	884,832	56,018	(17,529)	567,861	3,192,117	175,550	3,367,667

Interim Consolidated Statement of Cash Flows

For the six months ended 30 June

	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax		(1,716,545)	127,308
Adjustments for:			
Depreciation of revenue generating assets	9	746,734	128,910
Depreciation of property, plant and equipment	6	21,985	30,632
Share of profits and losses of associates		2,757	13,231
Amortisation of other intangible assets	6	7,782	8,565
Amortisation of prepaid land lease payments		–	398
Share-based payments	20	8,596	21,929
Unrealised exchange loss		18,790	223
Loss on disposal of items of property, plant and equipment	10	9	210
Loss on disposal of revenue generating assets	9	238,291	15,638
Fair value adjustment of contingent consideration		–	(67,764)
Provision for write-down of inventories	13	13,626	15,768
Finance costs		135,444	116,345
Depreciation of right-of-use assets	6	8,988	5,912
Impairment of trade and bills receivables	14	169,237	8,177
Impairment of other receivables		279,683	21,410
Fair value gains on derivative component of convertible bonds		–	(21,781)
Amortisation of long-term prepayment		–	2,175
		(64,623)	427,286
Increase in inventories		(15)	(33,124)
Increase in trade and bills receivables		(64,167)	(106,312)
Decrease/(increase) in prepayments, deposits and other receivables		80,177	(302,497)
Increase in pledged deposits		–	(10,284)
Increase in due to/from related parties		21,928	28,290
(Decrease)/increase in trade and bills payables		(28,739)	85,179
Increase in other payables, advances from customers and accruals		2,918	74,272
Increase/(decrease) in deferred revenue		29	(5,949)
Cash (used in)/generated from operations		(52,492)	156,861
Income tax paid		(36,020)	(12,899)
Net cash flows (used in)/from operating activities		(88,512)	143,962

Interim Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June

	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of revenue generating assets		(64,577)	(136,457)
Purchases of items of property, plant and equipment		(11,837)	(173,610)
Purchases of intangible assets		–	(2,054)
Purchases of associates		–	(37,000)
Decrease in short-term investments		–	18
Addition of short-term investments		–	(1,294)
Net cash flows used in investing activities		(76,414)	(350,397)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing bank and other borrowings		375,492	728,658
Interest paid		(65,991)	(103,762)
Repayment of interest-bearing bank and other borrowings		(281,902)	(388,079)
Principal portion of lease payments		(8,125)	(5,623)
Decrease/(increase) in pledged deposits		96,818	(90,006)
Dividend paid to non-controlling interests		(19,600)	–
Repurchase of share capital		–	(1,214)
Net cash flows from financing activities		96,692	139,974
NET DECREASE IN CASH AND CASH EQUIVALENTS		(68,234)	(66,461)
Cash and cash equivalents at beginning of the Period	15	118,916	258,309
Effect of foreign exchange rate changes, net		7	198
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		50,689	192,046
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		86,613	372,236
Less: Pledged deposits	15	(35,924)	(180,190)
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	15	50,689	192,046

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 six months ended 30 June 2020, the Company's subsidiaries were involved in the following principal activities in the People's Republic of China (the "PRC" or "China"):

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

Through a group reorganisation as set out in the section headed "Our History and Reorganisation" 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 "Stock Exchange"), the Company became the holding company of the companies now comprising the Group.

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

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

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

These interim condensed consolidated financial statements have not been audited.

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

Going concern basis

The Group incurred a net loss of RMB1,472,167,000 for the six months ended 30 June 2020. As at 30 June 2020, the Group's current liabilities exceeded its current assets by RMB2,253,180,000. In addition, the Group's bank and other borrowings and convertible bonds amounted to RMB3,154,158,000 as at 30 June 2020, out of which RMB1,175,455,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements. The overdue amount was RMB1,150,118,000 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 30 June 2020, convertible bonds of RMB174,142,000 with original contractual repayment date beyond 30 June 2021 were considered as cross-default and have been reclassified as current liabilities as at 30 June 2020.

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 of the Company 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 30 June 2020 and up to the date of approval of these financial statements, the Group obtained new loans amounted to RMB320,700,000 from several financial institutions and other lenders;

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

(iii) 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

(iv) 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.

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 interim condensed consolidated financial statements of the Group on a going concern basis for the six months ended 30 June 2020.

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

Going concern basis (Continued)

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 of 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 30 June 2021; and

(iii) successfully obtaining new sources of financing or strategic capital investments within the 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 condensed consolidated financial statements.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2020.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

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

A Change in Accounting Estimates

With effect from 1 January 2020, the Group made a change in depreciation estimates as follows:

- Estimated residual value of revenue-generating assets-water purification machines changed from 5% to 0%

- Estimated useful life of revenue-generating assets-water purification machines changed from 10 years to 5 years

This constitutes a change in accounting estimates. In the opinion of the directors of the Company, based on the current business condition, the estimated residual value and useful lives of these revenue-generating assets-water purification machines are more appropriately reflected by the change.

The change has been applied prospectively and has resulted in an increase in depreciation of approximately RMB610,153,000 for the six months ended 30 June 2020.

3. OPERATING SEGMENT INFORMATION

The following table presents revenue, cost of revenue, (loss)/profit and certain asset, liability and expenditure information for the Group's operating segments for the six months ended 30 June 2020 and 2019, respectively:

Six months ended 30 June 2020 (unaudited)	**Water purification services RMB'000**	**Supply chain services RMB'000**	**Other services RMB'000**	**Total RMB'000**
Segment revenue				
Sales to external customers	**227,758**	**216,179**	**475**	**444,412**
Segment cost of revenue				
Sales to external customers	**865,214**	**197,529**	**508**	**1,063,251**
Segment results	**(1,290,983)**	**2,122**	**(236,779)**	**(1,525,640)**
Reconciliations:				
Share-based payments				**(8,596)**
Corporate and other unallocated expenses				**(54,250)**
Exchange gain				**7,385**
Finance costs				**(135,444)**
Loss before tax				**(1,716,545)**

Six months ended 30 June 2019 (unaudited)	Water purification services RMB'000	Supply chain services RMB'000	Other services RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	563,132	240,367	59,710	863,209
Segment cost of revenue				
Sales to external customers	263,137	195,107	1,105	459,349
Segment results	196,798	20,683	56,104	273,585
Reconciliations:				
Share-based payments				(21,929)
Corporate and other unallocated expenses				(8,074)
Exchange gain				71
Finance costs				(116,345)
Profit before tax				127,308

3. OPERATING SEGMENT INFORMATION (Continued)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2020 and 31 December 2019, respectively.

As at 30 June 2020 (unaudited)	Water purification services RMB'000	Supply chain services RMB'000	Others services RMB'000	Total RMB'000
Segment assets	3,569,555	474,800	362,251	4,406,606
Reconciliations:				
Corporate and other unallocated assets				979,396
Total assets				5,386,002
Segment liabilities	3,253,656	327,203	20,696	3,601,555
Reconciliations:				
Convertible bonds				593,404
Corporate and other unallocated liabilities				547,577
Total liabilities				4,742,536

As at 31 December 2019 (Audited)	Water purification services RMB'000	Air sanitisation RMB'000	Supply chain services RMB'000	Others services RMB'000	Total RMB'000
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

4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue from contracts with customers		
Sale of goods	305,155	350,562
Training services	1,205	10,216
Revenue from other sources		
Gross rental income	137,577	442,721
Interest income from financing services	475	59,710
	444,412	863,209

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

The disaggregation of the Group's revenue from contracts with customers, including construction contracting, properties sales and others, for the six months ended 30 June 2020 and 2019 are as follows:

For the six months ended 30 June 2020 (unaudited)

Segments	Water purification services RMB'000	Supply chain services RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	88,976	216,179	305,155
Training services	1,205	–	1,205
Total revenue from contracts with customers	90,181	216,179	306,360
Timing of revenue recognition			
Goods transferred at a point in time	88,976	216,179	305,155
Services transferred over time	1,205	–	1,205
Total revenue from contracts with customers	90,181	216,179	306,360

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(i) ***Disaggregated revenue information*** *(Continued)*

For the six months ended 30 June 2019 (unaudited)

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

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

For the six months ended 30 June 2020 (unaudited)

Segments	**Water purification services RMB'000**	**Supply chain services RMB'000**	**Other services RMB'000**	**Total RMB'000**
Revenue from contracts with customers				
External customers	**90,181**	**216,179**	**–**	**306,360**
Revenue from other sources				
External customers	**137,577**	**–**	**475**	**138,052**
	227,758	**216,179**	**475**	**444,412**

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

***(i) Disaggregated revenue information** (Continued)*

For the six months ended 30 June 2019 (unaudited)

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

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:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**58,718**	55,353

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(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.

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income		
Government grants	**3,741**	3,868
Interest income	**2,320**	3,556
Others	**4,404**	6,542
	10,465	13,966
Gains		
Exchange gain	**7,385**	71
Fair value gains, net:		
Derivative financial instruments	**–**	67,764
Derivative component of convertible bonds	**–**	21,781
	7,385	89,616
	17,850	103,582

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

5. OTHER EXPENSES

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment of trade receivables	**169,237**	8,177
Impairment of financial assets included in prepayments, other receivables and others assets	**279,683**	21,410
Written down of inventories to net realisable value	**13,626**	15,768
Loss on disposal of items of property plant and equipment	**9**	210
Loss on disposal of revenue generating assets	**238,291**	15,638
Loss on disposal of inventories	**58,067**	5,827
Others	**12,231**	17,272
	771,144	84,302

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cost of services provided		508	1,105
Cost of inventories sold		272,876	262,028
Depreciation of revenue generating assets	9	746,734	128,910
Depreciation of property, plant and equipment	10	60,881	59,916
Less: Amount capitalised in revenue generating assets		(38,896)	(29,284)
		21,985	30,632
Amortisation of intangible assets	11	9,560	12,267
Less: Amount capitalised in revenue generating assets		(1,778)	(3,702)
		7,782	8,565
Deprecation of right-of-use assets		11,512	7,011
Less: Amount capitalised in revenue generating assets		(2,524)	(1,099)
		8,988	5,912
Amortisation of prepaid land lease payments		–	1,528
Less: Amount capitalised in revenue generating assets		–	(1,130)
		–	398
Research and development costs		17,050	15,352
Auditor's remuneration		900	1,814
Employee benefit expense (including Directors' remuneration):			
Total wages and salaries		56,913	80,178
Less: Amount capitalised in revenue generating assets		(13,536)	(27,463)
		43,377	52,715
Total pension scheme contributions		5,414	12,034
Less: Amount capitalised in revenue generating assets		(956)	(9,538)
		4,458	2,496
Lease payments under short-term leases		–	1,628
Less: Amount capitalised in revenue generating assets		–	–
		–	1,628
Share-based payments	20	8,596	21,929
Foreign exchange differences, net		(7,385)	(71)
Impairment of trade and bills receivables	14	169,237	8,177
Impairment of prepayment, other receivables and other assets		279,683	21,410
Write down of inventories to net realisable value	13	13,626	15,768
Loss on disposal of items of property, plant and equipment	10	9	210
Loss on disposal of revenue generating assets	9	238,291	15,638
Loss on disposal of inventories		58,067	5,827
Fair value gains on derivative component of convertible bonds		–	(21,781)
Fair value change on derivative financial instruments		–	(67,764)
Share of profits and losses of associates		2,757	13,231

7. INCOME TAX

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

All of the Group's subsidiaries registered in the PRC and operating only in Mainland China are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Except for those further stated below, PRC enterprise income tax has been provided at the rate of 25% (2019: 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 Development Co., Ltd., Shanghai Haoze Comfort Environment and Science Co., Ltd. and Guangdong Bili Drinking Water Equipment Co., Ltd., qualified as a High and New Technology Enterprise, were 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 Motor Co., Ltd., 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 Development Co., Ltd., Shaanxi Haoze Water Purification Technology Development Co., Ltd., Shaanxi Haoze Comfort Environment and Science Co., Ltd., Shaanxi Haoze Water Purification Service Co., Ltd. and Shaanxi Haoze Environment Technology Group Co., Ltd., were entitled to the preferential tax rate of 15% from 2012 to 2020.

Pursuant to the document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB1,533,000 and RMB1,279,000 for the six months ended 30 June 2019 and 2020, respectively, relating to the additional deduction of research and development costs.

The breakdown of income tax expense is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax	**19,410**	47,023
Deferred tax	**(263,788)**	(20,345)
Income tax (credit)/expense reported in profit or loss	**(244,378)**	26,678

8. (LOSS)/EARNINGS PER SHARE ("(LPS)/EPS")

The basic (LPS)/EPS amount is calculated by dividing the (loss)/profit for the Period attributable to the owners of the parent by the weighted average number of ordinary shares in issue during the Period.

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

The following reflects the income and share data used in the basic and diluted (LPS)/EPS computations:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/earnings:		
(Loss)/profit attributable to owners of the parent, used in the basic and diluted (LPS)/EPS calculation:	**(1,472,134)**	94,181
Interest on convertible bonds	**39,211**	34,685
Less: Fair value gains on derivative component of convertible bonds	**–**	(21,781)
(Loss)/profit attributable to owners of the parent, before the effect of convertible bonds	**(1,432,923)**	107,085
Shares:		
Weighted average number of ordinary shares for basic (LPS)/EPS	**2,104,612,096**	2,090,162,786
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**364,188,252**	175,174,158
	2,468,800,348	2,265,336,944
Basic (LPS)/EPS (RMB cents)	**(69.95)**	4.51
Diluted (LPS)/EPS (RMB cents)*	**(69.95)**	4.51

* No adjustment has been made to the basic (LPS)/EPS amounts presented for the Period ended 30 June 2020 and 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 (LPS)/EPS amount presented.

9. REVENUE GENERATING ASSETS

Acquisitions and disposals

During the six months ended 30 June 2020, the Group produced revenue generating assets at a cost of RMB107,775,000 (six months ended 30 June 2019: RMB171,672,000).

Revenue generating assets with a net carrying value of RMBNil were transferred from property, plant and equipment by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB327,000).

Revenue generating assets with a net carrying value of RMB671,000 were transferred to property, plant and equipment by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil).

Depreciation for revenue generating assets was RMB746,734,000 during the Period (six months ended 30 June 2019: RMB128,910,000).

Revenue generating assets with a net carrying value of RMB238,291,000 were disposed of by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB15,638,000), resulting in a net loss on disposal of RMB238,291,000 (six months ended 30 June 2019: RMB15,638,000).

As at 30 June 2020, certain revenue generating assets of the Group with a net carrying value of approximately RMB128,843,000 were pledged to secure other borrowings in relation to the sales and leaseback.

10. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2020, the Group acquired assets at a cost of RMB2,055,000 (six months ended 30 June 2019: RMB169,370,000), excluding property under construction. Depreciation for items of property, plant and equipment was RMB60,881,000 during the Period (six months ended 30 June 2019: RMB59,916,000).

The construction in process totaling RMB119,778,000 as of 30 June 2020 (31 December 2019: RMB109,996,000), mainly represents the upgrade and renovation of construction projects.

During the six months ended 30 June 2020, the Group disposed assets amounted to RMB9,000 (six months ended 30 June 2019: RMB210,000). Property, plant and equipment with a net carrying value of RMBNil were transferred to revenue generating assets by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB327,000).

Property, plant and equipment with a net carrying value of RMB671,000 and RMB178,000 were transferred from revenue generating assets and other intangible assets, respectively, by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil and RMBNil respectively).

11. OTHER INTANGIBLE ASSETS

During the six months ended 30 June 2020, the Group acquired intangible assets at a cost of RMBNil (six months ended 30 June 2019: RMB1,941,000). Amortisation for intangible assets was RMB9,560,000 during the Period (six months ended 30 June 2019: RMB12,267,000).

Other intangible assets with a net carrying value of RMB178,000 were transferred to property, plant and equipment by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil).

There was no intangible assets disposed by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB1,035,000).

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

	Notes	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Unlisted equity investments, at fair value			
Investments in entities set up with top dealers	(a)	86,370	93,057
Microfinance company	(b)	59,657	80,100
Total		146,027	173,157

Notes:

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

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

13. INVENTORIES

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Raw materials	156,691	168,206
Work in progress	69,644	60,085
Finished goods	132,446	130,475
	358,781	358,766
Provision for write-down of Inventories	(34,475)	(20,849)
	324,306	337,917

14. TRADE AND BILLS RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	894,610	837,246
Bills receivable	15,528	8,725
	910,138	845,971
Impairment	(289,303)	(120,066)
Net trade and bills receivables	620,835	725,905

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

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 1 year	617,449	721,265
Over 1 year and within 2 years	3,386	4,123
Over 2 years and within 3 years	–	517
	620,835	725,905

14. TRADE AND BILLS RECEIVABLES (Continued)

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

	Six months ended 30 June 2020 RMB'000 (Unaudited)	Year ended 31 December 2019 RMB'000 (Audited)
As at 1 January	120,066	7,513
Impairment loss for trade receivables	169,237	112,553
As at 30 June/31 December	289,303	120,066

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

Transferred financial assets that are not derecognised in their entirety

As at 30 June 2020, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB2,700,000 (2019: RMB6,934,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the Period to which the suppliers have the right of recourse was RMB2,700,000 (2019: RMB6,934,000) as at 30 June 2020.

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Cash and bank balances	86,613	251,658
Less: Pledged as collateral for issuance of bank acceptance notes	–	(42,706)
Pledged as collateral for issuance of letter of credit	(35,924)	(90,036)
Cash and cash equivalents	50,689	118,916
Denominated in RMB	86,249	246,457
Denominated in HK$	332	1,787
Denominated in US$	32	3,414
Total cash and bank balances	86,613	251,658

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

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

16. TRADE AND BILLS PAYABLES

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 90 days	233,699	328,971
Over 90 days and within 180 days	32,327	7,273
Over 180 days and within 1 year	41,342	13,381
Over 1 year and within 2 years	14,396	11,864
Over 2 years and within 3 years	13,023	1,822
Over 3 years	4,489	4,704
	339,276	368,015

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

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020 (unaudited)			31 December 2019 (Audited)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	4.35-6.76	On demand	207,767	6.76	On demand	149,845
Bank loans — secured	4.69	On demand	100,000	–	–	–
Other loans — unsecured	7-15	On demand	499,497	12–15	On demand	57,678
Other loans — secured	4.45-29.51	On demand	168,951	8.9–14.7	On demand	57,171
Other loans — secured	24	On demand	20,000	24	On demand	25,000
5.72% USD 25,000,000 unsecured bank loan	LIBOR+3%	On demand	179,240	LIBOR+3%	2020	175,779
Bank loans — unsecured	4.78-5.65	2020-2021	149,090	4.35–6.76	2020	212,000
Bank loans — secured	5.1-6	2020-2021	95,420	4.35–6	2020	257,420
Other loans — unsecured	5-10	2020-2021	560,654	9.8–15	2020	715,373
Other loans — secured	8.5-29.5	2020-2021	104,628	8.50–29.5	2020	186,319
Current portion of long term other loans — unsecured	–	–	–	9.25	2020	295,000
			2,085,247			2,131,585
Non-current						
Bank loans — unsecured	6.76	2022	167,167	–	–	–
Other loans — unsecured	6.25	2024	300,000	6.25	2024	300,000
Other loans — secured	12.55-29.51	2021-2022	8,340	12.55–29.51	2021–2022	31,980
			475,507			331,980
			2,560,754			2,463,565

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

	2020 RMB'000	2019 RMB'000
Analyzed into		
Bank loans and other borrowing repayable:		
Within one year	2,085,247	2,131,585
In the second year	8,340	26,565
In the third to fifth year inclusive	467,167	305,415
	2,560,754	2,463,565

The Group's loan facilities amounted to RMB493,809,000, of which RMB474,350,000 had been utilized as at the end of the reporting period, are guaranteed by the Company's subsidiaries, Shaanxi Haoze Environmental Technology, Ozner Water International Holding Limited, Shanghai Haoze Water-Purification Technology, Guangdong Bili and Foshan Lepuda. As at 30 June 2020, certain of the Group's bank loans were secured by the pledge of certain of the Group's property, plant and equipment amounting to RMB63,566,000 (31 December 2019: RMB77,820,000), revenue generating assets amounting to RMB128,843,000 (31 December 2019: 753,638,000) and right-of-use assets amounting to RMB18,239,000 (31 December 2019: RMB18,702,000).

18. CONVERTIBLE BONDS

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

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

(a) convertible at the option of the bond holders into fully-paid ordinary shares of the Company at any time from 17 December 2015 to 28 October 2020 at a conversion price of HK$2.25 per share (subject to adjustments); While on 1 December 2016, the conversion price of the bonds was adjusted to HKD1.91 by the announcement, and

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

The 2015 Convertible Bonds will mature on 6 November 2020 with annual effective interest rate of 10.87%. The 2015 Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding; and (2) the interest accrued.

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

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

The proceeds from the issuance of the 2015 Convertible Bonds on 6 November 2015 of HK$465,000,000 have been split into liability and derivative components in the first year of the issuance date. On issuance of the 2015 Convertible Bonds, the fair value of the derivative component is determined using an option pricing model and this amount is carried as a derivative component until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issuance date and any subsequent changes in fair value of the derivative component as at the end of the 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.

18. 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 2019 (Audited)	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 (Audited)	399,826	52,321	452,147
At 1 January 2020 (Audited)	**399,826**	**52,321**	**452,147**
Interest expense	**21,967**	**–**	**21,967**
Interest payable	**(10,516)**	**–**	**(10,516)**
Currency translation differences	**7,985**	**–**	**7,985**
At 30 June 2020 (Unaudited)	**419,262**	**52,321**	**471,583**

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

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

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

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

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

Pursuant to the subscription agreement, the conversion price in effect shall be adjusted downward if it is greater than the average market price on the first anniversary on 2 November 2019 (the "**2018 Price Adjustment**").

18. 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 Period are recognised in profit or loss. Starting from the second year of the issuance date, upon the expiration of the 2018 Price Adjustment, the derivative component will be assigned as an equity component.

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

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

The movements of the liability component and the derivative component of the 2018 Convertible Bonds are as follows:

	Liability component of 2018 Convertible Bonds	Derivative component of 2018 Convertible Bonds	Equity component of 2018 Convertible Bonds	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019 (Audited)	137,331	46,525	–	183,856
Interest expense	30,641	–	–	30,641
Fair value adjustment	–	(22,148)	–	(22,148)
Interest paid	(10,962)	–	–	(10,962)
Currency translation differences	3,411	2,297	–	5,708
	160,421	26,674	–	187,095
Reclassification	–	(26,674)	26,674	–
At 31 December 2019 (Audited)	160,421	–	26,674	187,095
At 31 December 2019 (Audited)	**160,421**	**–**	**26,674**	**187,095**
Interest expense	**17,244**	**–**	**–**	**17,244**
Interest payable	**(6,613)**	**–**	**–**	**(6,613)**
Currency translation differences	**3,090**	**–**	**–**	**3,090**
At 30 June 2019 (Unaudited)	**174,142**	**–**	**26,674**	**200,816**

19. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

Ordinary shares issued and fully paid

	Number of shares in issue	Share capital
		RMB'000
At 1 January 2020 and 30 June 2020	2,132,331,950	17,255

Share premium

	RMB'000
At 1 January 2020 and 30 June 2020	1,546,345

20. 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.

20. SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Option Scheme (Continued)

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

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

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

There were no cancellations of or modifications to the awards during the six months ended 30 June 2020.

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

	Outstanding as at 1 January 2020 (Audited)	Granted during the Period (Unaudited)	Cancelled during the Period (Unaudited)	Exercised during the Period (Unaudited)	Lapsed during the Period (Unaudited)	Outstanding as at 30 June 2020 (Unaudited)
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	92,203,919	–	–	–	–	92,203,919
	155,038,160	–	–	–	–	155,038,160
Exercisable at the end of the Period	155,038,160	–	–	–	–	155,038,160

The weighted average remaining contractual life of the share options outstanding as at 30 June 2020 was 4 years. The weighted average fair value of the options granted under the Pre-IPO Share Option Scheme was HK$1.07 (RMB0.85).

20. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme

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

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

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

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

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

20. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

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

Xiao Shu

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

Other Directors

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

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

The share option expense recognised for employee services received during the Period is RMB4,717,000.

There were no cancellations of or modifications to the awards during the six months ended 30 June 2020.

20. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

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

	Outstanding as at 1 January 2020 (Audited)	Granted during the Period (Unaudited)	Cancelled during the Period (Unaudited)	Exercised during the Period (Unaudited)	Lapsed during the Period (Unaudited)	Outstanding as at 30 June 2020 (Unaudited)
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	–	–	–	(900,000)	2,100,000
	65,000,000	–	–	–	(900,000)	64,100,000
Exercisable at the end of the Period	26,000,000	–	–	–	–	45,500,000

The weighted average remaining contractual life of the share options outstanding as at 30 June 2020 was 7.5 years. The weighted average fair value of the options granted under the Share Option Scheme was HK$0.88 (RMB0.74) for Xiao Shu and HK$1.05 (RMB0.84) for other directors.

Restricted Share Unit Scheme

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

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

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

There is no restricted share unit (31 December 2018: 15,839,250 restricted share) was granted under the restricted share unit scheme during the six months ended 30 June 2020. The expense recognised for employee services received during the Period is RMB3,879,000.

20. SHARE-BASED PAYMENTS (Continued)

Restricted Share Unit Scheme (Continued)

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

	Outstanding as at 1 January 2020 (Audited)	Granted during the Period (Unaudited)	Cancelled during the Period (Unaudited)	Exercised during the Period (Unaudited)	Lapsed during the Period (Unaudited)	Outstanding as at 30 June 2020 (Unaudited)
Directors						
Mr. Tan Jibin	758,763	–	–	–	–	758,763
Mr. Li Honggao	843,035	–	–	–	–	843,035
Mr. Wang Yonghui	247,968	–	–	–	(123,983)	123,985
Mr. Zhou Guanxuan	63,370	–	–	–	–	63,370
Other employees						
In aggregate	5,297,629	–	–	–	(507,092)	4,790,537
Distributors in aggregate	5,972,542	–	–	–	–	5,972,542
	13,183,307	–	–	–	(631,075)	12,552,232
Exercisable at the end of the Period	1,079,215	–	–	–	–	5,447,945

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

	As at 30 June 2020 (Unaudited) RMB'000	As at 30 June 2019 (Unaudited) RMB'000
Total expense arising from equity-settled share-based payment transactions	**8,596**	21,929

21. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its water purification machines under operating lease arrangements, with leases negotiated for a term of one year.

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within one year	343,148	440,403

22. COMMITMENTS

The Group had the following capital commitments at the reporting date:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	84,934	142,057

23. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the Period:

		For the six months ended 30 June	
	Notes	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Associates:			
Sales of products	(i)	490	1,151
Purchases of products and services	(ii)	89,191	79,184
		89,681	80,335

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.

23. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

(i) Amount due to related parties

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Shanghai Ozner Noorey Environment Technology Co., Ltd. ("Shanghai Noorey")	(32,721)	(40,029)
Suzhou Core Clean Purification Technology Co., Ltd. ("Suzhou Core Clean")	(1,515)	–
Shanghai Ozoup Environment Technology Co., Ltd. ("Shanghai Ozoup")	(3,179)	(3,232)
Shanghai Haoyou Information Technology Co., Ltd. ("Shanghai Haoyou")	(6,591)	(7,332)
Guangdong Hax Appliance Technology Co., Ltd. ("Guangdong Hax")	(74)	(1,668)
Shanghai Hoyo Environmental Technology Co., Ltd. ("Shanghai Hoyo")	(1,954)	(2,109)
Shaanxi Hoyo Environmental Technology Co., Ltd. ("Shaanxi Hoyo")	(63)	–
Total amount due to related parties	(46,097)	(54,370)

The trade payables are non-interest-bearing.

23. RELATED PARTY TRANSACTIONS (Continued)

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

(ii) Amount due from related parties

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Shanghai Haoyou	34,120	66,058
Suzhou Core Clean	74,973	70,610
Shaanxi Hoyo	66	–
Shanghai Hoyo	1,870	2,095
Shanghai Noorey	4	2,197
Shanghai Ozoup	829	844
Guangdong Hax	171	105
Shanghai Ozner Noorey Air Purification Technology Co., Ltd.	–	325
Shanghai Ozner Noorey Air Purification Equipment Co., Ltd.	93	93
Total amount due from related parties	112,126	142,327

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

	Six months ended 30 June 2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Short term employee benefits	3,409	3,831
Pension scheme contributions	30	18
Share-based payments	5,098	13,981
Total compensation paid to key management personnel	8,537	17,830

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

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the interim condensed consolidated financial statements approximate their fair values.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a discounted cash flow valuation model or a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares or determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable companies by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Equity investments designated at fair value through other comprehensive income	Valuation multiples	Discount for lack of marketability	2020: 20%	5% increase/decrease in discount would result in decrease/increase in fair value by RMB7,654,000
	Discounted cash flow method	Weightedaverage cost of capital (WACC)	2020: 16%	1% increase/decrease in WACC would result in decrease in fair value by RMB5,380,000/ increase in fair value by RMB6,240,000
		Long-term growth rate for cash flows	2020: 3%	1% increase/decrease in growth rate would result in increase in fair value by RMB4,580,000/ decrease in fair value by RMB3,940,000
		Discount for lack of control	2020: 21%	5% increase/decrease in discount would result in decrease/increase in fair value by RMB6,930,000
		Discount for lack of marketability	2020: 16%	5% increase/decrease in discount would result in decrease/increase in fair value by RMB6,930,000

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

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	Total (Unaudited) RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	146,027	146,027

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Audited) RMB'000	Significant observable inputs (Level 2) (Audited) RMB'000	Significant unobservable inputs (Level 3) (Audited) RMB'000	Total (Audited) RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	173,157	173,157

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

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

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

	2020 (Unaudited) RMB'000	2019 (Audited) RMB'000
Equity investments at fair value through other comprehensive income		
At 1 January	173,157	418,068
Total losses recognised in other comprehensive income	(27,130)	(242,421)
Disposals	–	(2,490)
At 30 June/31 December	146,027	173,157

25. MATERIAL EVENTS AFTER THE REPORTING PERIOD

On 14 August 2020, Shanghai Haoze Water Purification Technology Development Co., Ltd. (a wholly-owned subsidiary of the Company), Foshan Lepuda (an indirect non-wholly owned subsidiary of the Company), Gongqing City Lehui Investment Center (Limited Partnership) and Mr. Peng Dongkun (a connected person of the Company at the subsidiary level) entered into the capital injection agreement, which constitutes a disclosable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules. For more details, please refer to the Company's announcement dated 14 August 2020.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 August 2020.