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)

UPDATE ON ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- Revenue for the year ended 31 December 2019 amounted to approximately RMB1,709.2 million, representing an increase of 3.9% as compared to that for the year ended 31 December 2018.
- Gross profit for the year ended 31 December 2019 amounted to approximately RMB705.2 million, representing a decrease of 7.3% as compared to that for the year ended 31 December 2018.
- Non-IFRSs adjusted (loss)/profit for the years ended 31 December 2019 and 2018 were a loss of approximately RMB104.7 million and a profit of RMB210.4 million, respectively.[1]
- EBITDA for the year ended 31 December 2019 amounting to approximately RMB409.8 million, representing a decrease of 43.8% as compared to that for the year ended 31 December 2018.[2]
- For the year ended 31 December 2019, basic loss per share amounted to RMB42.30 cents and diluted loss per share amounted to RMB42.30 cents.
- The number of new water purification machines increased by approximately 323,000 units for the year ended 31 December 2019, including approximately 185,000 units newly leased machines and approximately 138,000 units sold machines. Accumulated installation base for leased machines increased to approximately 1,385,000 units as at 31 December 2019.

(1) Non-IFRSs adjusted profit for the year was derived from the profit for the year excluding share-based payments, fair value gains on derivative component of convertible bonds, fair value gains on derivative financial instruments, amortised costs of liability component of convertible bonds, amortization of intangible assets resulting from business acquisitions, impairment of financial assets, impairment of long term investments and exchange difference in relation to capital in nature.

(2) EBITDA is defined as profit before tax, finance costs, depreciation, amortisation, share-based payments, fair value gains on derivative component of convertible bonds, fair value gains on derivative financial instruments, impairment of financial assets, impairment of long term investments and exchange difference in relation to capital in nature.

Reference is made to the announcement of Ozner Water International Holding Limited (the "Company" or "Ozner"), together with its subsidiaries, the "Group") dated 31 March 2020 in relation to, among other things, the unaudited annual results announcement (the "Unaudited Results Announcement") of the Group for the year ended 31 December 2019 ("2019" or the "Year").

AUDITED ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of the Company is pleased to announce that the auditing process for the consolidated annual results of the Group for the year ended 31 December 2019 has been completed. As certain adjustments have been made to the Group as contained in the Unaudited Results Announcement, the differences between the unaudited annual results and the audited annual results contained in this announcement are set out in the section headed "Material Differences between 2019 Unaudited and Audited Annual Results" in accordance with Rule 13.49(3)(ii)(b) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated annual results of the Group for 2019, together with the comparative audited figures for the year ended 31 December 2018 ("2018" or the "Previous Year") as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
Revenue	*5*	**1,709,184**	1,644,914
Cost of sales		**(1,003,993)**	(884,273)
Gross profit		**705,191**	760,641
Other income and gains	*5*	**56,847**	75,257
Selling and distribution expenses		**(197,310)**	(171,017)
Administrative expenses		**(226,024)**	(211,745)
Other expenses		**(1,056,883)**	(62,852)
Finance costs		**(283,146)**	(170,046)
Share of profits and losses of associates		**(92,596)**	(24,222)
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	*6*	**(1,093,921)**	196,016
Income tax credit/(expense)	*7*	**123,701**	(61,746)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**(970,220)**	134,270
Attributable to:			
Owners of the parent		**(888,667)**	112,960
Non-controlling interests		**(81,553)**	21,310
		(970,220)	134,270

	Notes	**2019** *RMB'000*	2018 *RMB'000*
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic (RMB cents)		**(42.30)**	5.45
Diluted (RMB cents)		**(42.30)**	5.45
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(9,369)**	(3,323)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(9,369)**	(3,323)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive (loss)/income		**(242,421)**	3,528
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods		**(242,421)**	3,528
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(251,790)**	205
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(1,222,010)**	134,475
Attributable to:			
Owners of the parent		**(1,140,457)**	113,165
Non-controlling interests		**(81,553)**	21,310
		(1,222,010)	134,475

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: nil).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Revenue generating assets	9	**1,771,608**	1,789,034
Property, plant and equipment		**1,064,138**	833,285
Prepaid land lease payments		**—**	114,499
Intangible assets		**137,477**	212,207
Goodwill		**—**	220,041
Investments in associates		**245,140**	270,314
Equity investments designated at fair value through other comprehensive income		**173,157**	418,068
Prepayments, other receivables and other assets		**411,399**	252,277
Deferred tax assets		**267,692**	101,472
Right-of-use assets		**140,515**	—
TOTAL NON-CURRENT ASSETS		**4,211,126**	4,211,197
CURRENT ASSETS			
Inventories		**337,917**	345,568
Prepaid land lease payments		**—**	2,990
Trade and bills receivables	10	**725,905**	462,019
Prepayments, other receivables and other assets		**1,104,625**	937,978
Amount due from related parties		**142,327**	125,364
Derivative financial instruments		**—**	18,726
Short-term investments		**—**	139,942
Pledged deposits		**132,742**	72,600
Cash and cash equivalents		**118,916**	258,309
TOTAL CURRENT ASSETS		**2,562,432**	2,363,496
CURRENT LIABILITIES			
Trade and bills payables	11	**368,015**	339,757
Other payables, advances from customers and accruals		**812,562**	559,299
Amount due to related parties		**54,370**	40,160
Deferred revenue		**17,205**	16,129
Interest-bearing bank and other borrowings		**2,131,585**	713,362
Income tax payable		**288,331**	246,164
Liability component of convertible bonds		**560,247**	—
Derivative component of convertible bonds	12	**—**	46,525
Lease liabilities		**17,431**	280,612
TOTAL CURRENT LIABILITIES		**4,249,746**	2,242,008
NET CURRENT (LIABILITIES)/ASSETS		**(1,687,314)**	121,488
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,523,812**	4,332,685

	Notes	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	*12*	**—**	507,694
Interest-bearing bank and other borrowings		**331,980**	295,000
Deferred tax liabilities		**33,029**	49,696
Lease liabilities		**9,159**	169,489
TOTAL NON-CURRENT LIABILITIES		**374,168**	1,021,879
NET ASSETS		**2,149,644**	3,310,806
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital		**17,255**	17,284
Share premium		**1,546,345**	1,552,017
Treasury shares		**(36,396)**	(63,148)
Equity component of convertible bonds		**78,995**	52,321
Reserves		**453,480**	1,583,231
		2,059,679	3,141,705
Non-controlling interests		**89,965**	169,101
TOTAL EQUITY		**2,149,644**	3,310,806

NOTES:

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 15 November 2013. The registered office of the Company is situated at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Company is an investment holding company. During the year ended 31 December 2019, the Company's subsidiaries were involved in the following principal activities in the People's Republic of China (the "PRC"):

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

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

2. BASIS OF PREPARATION

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

Going concern basis

The Group incurred a net loss of RMB970,220,000 for the year ended 31 December 2019. As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB1,687,314,000. In addition, the Group's interest-bearing bank and other borrowings and convertible bonds amounted to RMB2,691,832,000 as at 31 December 2019, out of which RMB289,694,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements. The overdue amount further increased to RMB1,203,598,000 as of the date of approval of these financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

New standards and interpretations effective as of 1 January 2019 include:

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

Other than as explained below regarding the impact of IFRS 16 *Leases*, the rest of the new and revised HKFRSs had no significant impact on the Group's consolidated financial information. The nature and impact of IFRS 16 are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases — Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

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

New definition of a lease

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

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of land, property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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

As a lessee — Leases previously classified as finance leases

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

Financial impact at 1 January 2019

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

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

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

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

Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

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

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

(c) IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's condensed consolidated financial information.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

Approximately 10%, 10%, 7% and 15%, 13%, 11% of the Group's revenue to top three largest customers, respectively, was derived from sales from the water purification segment for the years ended 31 December 2018 and 2019, respectively.

Operating segments

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

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

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

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**721,438**	740,074
Training services	**18,605**	46,654
	740,043	786,730
Revenue from other sources		
Gross rental income	**874,044**	782,517
Interest income from financing services	**95,097**	75,667
	1,709,184	1,644,914

Revenue from contracts with customers

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

For the year ended 31 December 2019

Segments	**Water purification services**	**Air sanitisation services**	**Supply chain services**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Type of goods or services				
Sale of goods	262,666	6,643	452,129	721,438
Training services	18,605	—	—	18,605
Total revenue from contracts with customers	281,271	6,643	452,129	740,043
Timing of revenue recognition				
Goods transferred at a point in time	262,666	6,643	452,129	721,438
Services transferred over time	18,605	—	—	18,605
Total revenue from contracts with customers	281,271	6,643	452,129	740,043

For the year ended 31 December 2018

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

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

For the year ended 31 December 2019

Segments	**Water purification services** *RMB'000*	**Air sanitisation services** *RMB'000*	**Supply chain services** *RMB'000*	**Other services** *RMB'000*	**Total** *RMB'000*
Revenue from contracts with customers					
External customers	281,271	6,643	452,129	—	740,043
Revenue from other sources					
External customers	874,044	—	—	95,097	969,141
	1,155,315	6,643	452,129	95,097	1,709,184

For the year ended 31 December 2018

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

(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.

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

	2019	2018
	RMB'000	*RMB'000*
Other income		
Interest income	**8,193**	31,688
Government grants	**5,281**	2,343
Technical service fee	**—**	16,981
Disposal of scraps	**9,322**	2,717
Dividend income	**4,371**	—
Tax refund	**7,322**	—
Others	**210**	1,278
	34,699	55,007
Gains		
Fair value gains, net:		
Derivative financial instruments	**—**	18,726
Derivative component of convertible bonds	**22,148**	1,524
	22,148	20,250
	56,847	75,257

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

6. (LOSS)/ PROFIT BEFORE TAX

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

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

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 year.

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

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

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

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Guangdong Bili Drinking Water Equipment Co., Ltd. ("Guangdong Bili"), qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for three years from 2018 to 2020.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Group's subsidiaries, Foshan Lepuda Motor Co., Ltd ("Foshan Lepuda"), qualified as a High and New Technology Enterprise, 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, one of the Group's subsidiaries, Shaanxi Haoze Environmental Technology Development Co. Ltd., is entitled to the preferential tax rate of 15% from 2012 to 2020. The other two subsidiaries, Shaanxi Haoze Water Purification Technology Development Co., Ltd. and Shaanxi Haoze Water Purification Service Co., Ltd. are entitled to the preferential tax rate of 15% from 2019 to 2020.

Pursuant to the document "Guo Shui Fa (2008) No. 116" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 10 December 2008, the Group was entitled to an income tax credit of RMB4,311,000 for the year ended 31 December 2019 (2018: RMB4,389,000), relating to the additional deduction of research and development costs.

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

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

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

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

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

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

The diluted EPS amount is calculated by dividing the (loss)/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 year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2019	2018
	RMB'000	*RMB'000*
Earnings:		
(Loss)/profit attributable to owners of the parent, used in the basic EPS calculation:	**(888,667)**	112,960
Interest on convertible bonds	**72,187**	42,773
Less: Fair value gains on derivative component of convertible bonds	**(22,148)**	(1,524)
(Loss)/profit attributable to owners of the parent, before the effect of convertible bonds	**(838,628)**	154,209
Shares:	**Number of shares**	
Weighted average number of ordinary shares for basic EPS	**2,100,736,249**	2,073,866,286
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**364,188,252**	255,465,130
	2,464,924,501	2,329,331,416
Basic EPS (RMB cents)	**(42.30)**	5.45
Diluted EPS (RMB cents)*	**(42.30)**	5.45

* No adjustment has been made to the basic EPS amounts presented for the year ended 31 December 2019 in respect of a dilution as the impact of the convertible bonds outstanding, share options and restricted share units had an anti-dilutive effect on the basic EPS amounts presented.

9. REVENUE GENERATING ASSETS

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

At 31 December 2019, certain of the Group's revenue-generating assets with a net carrying amount of approximately RMB753,638,000 (2018: RMB757,859,000) were pledged to secure facilities or borrowings granted to the Group.

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

An ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2019	2018
	RMB'000	*RMB'000*
Neither past due nor impaired	**666,979**	442,189
Past due but not impaired		
Within 90 days past due	**51,395**	13,585
90 to 180 days past due	**2,891**	4,492
180 days to 1 year past due	**4,123**	1,380
1 to 2 years past due	**517**	373
	725,905	462,019

The balances of the trade and bills receivables of RMB58,926,000 and RMB19,830,000 as at 31 December 2019 and 2018, respectively, were past due. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 31 December 2019, trade receivables of an initial value of RMB120,066,000 (2018: RMB7,513,000) were impaired and fully provided for. The movements in the provision for impairment of receivables are as follows:

	Individually impaired
	RMB'000
At 1 January 2018	3,274
Charged for the year	4,239
At 31 December 2018	7,513
Charged for the year	112,553
At 31 December 2019	120,066

11. TRADE AND BILLS PAYABLES

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

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

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

12. CONVERTIBLE BONDS

On 2 November 2018, the Company issued HK$ denominated and settled 6.8% coupon convertible bonds due in 2021 in the principal amount of HK$215,000,000 (equivalent to RMB190,343,800) (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); 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 2018 Convertible Bonds bear interest at the rate of 6.8% per annum payable semi-annually in arrears on 2 May and 2 November in each year. The 2018 Convertible Bonds will mature on 2 November 2021. The 2018 Convertible Bonds will be redeemed on maturity at a price equal to 105% of its 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 of 2 November 2019 (the "2018 Convertible Bonds Price Adjustment"). The first adjustment was made on 2 November 2019, which adjusted the price to HK1.84 per share.

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 issuance date. Upon the issuance of the 2018 Convertible Bonds, the fair value of the derivative component is determined using an option pricing model and this amount is cancelled as a derivative component until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issue date and any subsequent changes in fair value as at the end of the reporting period are recognized in profit or loss. Starting from the second year of the issuance date, upon the expiration of the 2018 Convertible Bonds Price Adjustment, the derivative component with an amount of RMB26,674,000 as at 2 November 2019 was assigned as an equity component.

Save for the above-mentioned adjustment to the conversion price, all other terms and conditions of the 2018 Convertible Bonds remain unchanged.

13. 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 31 December 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Within one year	**440,403**	405,582

14. COMMITMENTS

(a) The Group had the following capital commitments at the reporting date:

	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**142,057**	363,773

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its plant and machinery, motor vehicles and office equipment under operating lease arrangements. Leases for plant and machinery were negotiated for terms ranging from three to five years, and those for motor vehicles were for terms ranging between two and six years. Leases for office equipment were with terms of 12 months or less.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	RMB'000
Within one year	9,264
In the second to fifth years, inclusive	14,900
	24,164

MATERIAL DIFFERENCES BETWEEN 2019 UNAUDITED AND AUDITED ANNUAL RESULTS

The auditing process for the annual results for 2019 had not been completed as at the date of publication of Unaudited Results Announcement. Since subsequent adjustments have been made to the unaudited annual results of the Group contained in the Unaudited Results Announcement upon the completion of audit, shareholders and potential investors of the Company are advised to pay attention to certain differences between the unaudited annual results of the Group contained in the Unaudited Results Announcement and the audited annual results of the Group in this announcement. Set out as below are principal details and reasons for the differences in such financial information in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules. The main details and reasons for the significant differences in the financial information are set out below.

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

For the year ended 31 December 2019

	Disclosure in this announcement	Disclosure in the Unaudited Results Announcement	Difference	
	RMB'000	*RMB'000*	*RMB'000*	*Notes*
Revenue	1,709,184	1,716,603	(7,419)	(1)
Cost of sales	(1,003,993)	(996,932)	(7,061)	(2)
Gross profit	705,191	719,671	(14,480)	
Other income and gains	56,847	166,349	(109,502)	(3)
Selling and distribution expenses	(197,310)	(191,099)	(6,211)	
Administrative expenses	(226,024)	(230,833)	4,809	
Other expenses	(1,056,883)	(803,068)	(253,815)	(4)
Finance costs	(283,146)	(244,856)	(38,290)	(5)
Share of losses of associates	(92,596)	(50,383)	(42,213)	(6)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	(1,093,921)	(634,219)	(459,702)	
Income tax credit	123,701	49,286	74,415	(7)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	(970,220)	(584,933)	(385,287)	

	Disclosure in this announcement RMB'000	Disclosure in the Unaudited Results Announcement RMB'000	Difference RMB'000	Notes
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic (RMB cents)	(42.30)	(26.75)	15.55	
Diluted (RMB cents)	(42.30)	(26.75)	15.55	
OTHER COMPREHENSIVE LOSS				
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	(9,369)	(9,774)	405	
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(9,369)	(9,774)	405	
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:				
Changes in fair value of equity investment designated at fair value through other comprehensive loss	(242,421)	(114,860)	(127,561)	(9)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(242,421)	(114,860)	(127,561)	
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(251,790)	(124,634)	(127,156)	
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(1,222,010)	(709,567)	(512,443)	
Attributable to:				
Owners of the parent	(1,140,457)	(686,635)	(453,822)	
Non-controlling interests	(81,553)	(22,932)	(58,621)	
	(1,222,010)	(709,567)	(512,443)	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Disclosure in this announcement *RMB'000*	Disclosure in the Unaudited Results Announcement *RMB'000*	Difference *RMB'000*	*Notes*
NON-CURRENT ASSETS				
Revenue generating assets	1,771,608	1,790,392	(18,784)	
Property, plant and equipment	1,064,138	1,126,896	(62,758)	
Right-of-use assets	140,515	26,081	114,434	(8)
Prepaid land lease payments	—	112,419	(112,419)	(8)
Intangible assets	137,477	132,530	(4,947)	
Goodwill	—	219,554	(219,554)	(4)
Investments in associates	245,140	279,387	(34,247)	(6)
Equity investments designated at fair value through other comprehensive income	173,157	300,718	(127,561)	(9)
Prepayments, other receivables and other assets	411,399	411,303	96	
Deferred tax assets	267,692	188,782	78,910	
TOTAL NON-CURRENT ASSETS	4,211,126	4,588,062	(376,936)	
CURRENT ASSETS				
Inventories	337,917	345,161	(7,244)	
Prepaid land lease payments	—	2,015	(2,015)	(8)
Trade and bills receivables	725,905	737,368	(11,463)	
Prepayments, other receivables and other assets	1,104,625	1,129,988	(25,363)	
Amount due from related parties	142,327	145,241	(2,914)	
Derivative financial instruments	—	126,576	(126,576)	(3)
Pledged deposits	132,742	131,736	1,006	
Cash and cash equivalents	118,916	119,855	(939)	
TOTAL CURRENT ASSETS	2,562,432	2,737,940	(175,508)	
CURRENT LIABILITIES				
Trade and bills payables	368,015	365,308	2,707	
Other payables, advances from customers and accruals	812,562	843,720	(31,158)	
Amount due to related parties	54,370	56,706	(2,336)	
Deferred revenue	17,205	25,923	(8,718)	
Interest-bearing bank and other borrowings	2,131,585	1,916,740	214,845	(10)
Income tax payable	288,331	273,754	14,577	
Liability component of convertible bonds	560,247	399,826	160,421	(11)
Derivative component of convertible bonds	—	—	—	
Finance lease payables	—	219,432	(219,432)	(10)
Lease liabilities	17,431	17,431	—	
TOTAL CURRENT LIABILITIES	4,249,746	4,118,840	130,906	
NET CURRENT LIABILITIES	(1,687,314)	(1,380,900)	(306,414)	
TOTAL ASSETS LESS CURRENT LIABILITIES	2,523,812	3,207,162	(683,350)	

	Disclosure in this announcement RMB'000	Disclosure in the Unaudited Results Announcement RMB'000	Difference RMB'000	Notes
NON-CURRENT LIABILITIES				
Finance lease payables	—	31,980	(31,980)	(10)
Liability component of convertible bonds	—	160,421	(160,421)	(11)
Interest-bearing bank and other borrowings	331,980	300,000	31,980	(10)
Lease liabilities	9,159	9,159	—	
Deferred tax liabilities	33,029	43,112	(10,083)	
TOTAL NON-CURRENT LIABILITIES	374,168	544,672	(170,504)	
NET ASSETS	2,149,644	2,662,490	(512,846)	
EQUITY				
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT				
Share capital	17,255	17,257	(2)	
Share premium	1,546,345	1,525,465	20,880	
Treasury shares	(36,396)	(36,396)	—	
Equity component of convertible bonds	78,995	78,995	—	
Reserves	453,480	928,583	(475,103)	
	2,059,679	2,513,904	(454,225)	
Non-controlling interests	89,965	148,586	(58,621)	
TOTAL EQUITY	3,149,644	2,662,490	(512,846)	

Notes:

1. Such difference is mainly attributable to (i) recognition of revenue from the air sanitisation business amounting to RMB5.9 million and (ii) derecognition of revenue from the return of water purification machine amounting to RMB13.3 million.

2. Such difference is mainly attributable to the recognition of costs of good sold from the air sanitisation business amounting to RMB5.9 million.

3. Being the fair value gains on derivative financial instruments amounting to RMB107.9 million was not recognized.

4. Such difference is mainly attributable to an increase in the impairment loss on goodwill according to the latest valuation report obtained.

5. Being the under-provision of finance cost of interest-bearing bank and other borrowings.

6. Such difference is mainly attributable to (i) an increase in the impairment loss on the investments in associates amounting to RMB33.4 million and (ii) an increase in share of loss from the investment in associates amounting to RMB8.8 million.

7. Being an adjustment of the taxation in relation to the adjustments described in note (1) to (6).

8. Mainly being a reclassification from "Prepaid land lease payments" to "Right-of-use assets" under IFRS 16.

9. Being a decrease in fair value of derivative financial instruments according to the latest valuation report obtained.

10. Mainly being a reclassification of "Finance lease payables" to "Interest-bearing bank and other borrowings".

11. Being a reclassification of "Liability component of convertible bonds — non-current" to "Liability component of convertible bonds — current".

EXTRACT OF INDEPENDENT AUDITORS' REPORT OPINION

The below sections set out an extract of the report by Ernst & Young, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2019:

Disclaimer of Opinion

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

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

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

In addition, the Group's bank and other borrowings amounted to RMB2,691,832,000 as at 31 December 2019, out of which RMB289,694,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements. The overdue amount further increased to RMB1,203,598,000 as of the date of this report. The above defaults had caused cross-default of certain other borrowings amounting to RMB160,421,000 as at 31 December 2019.

These conditions, together with other matters disclosed in note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2 to the consolidated financial statements. The validity of the going concern assumptions on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including i) successfully negotiating with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings with principal and interests in default, including those with cross-default terms; (ii) successfully negotiating with financial institutions and other lenders for the renewal of or extension for repayments of all borrowings, including those that are overdue as at the date of this report and those that will fall due before 31 December 2020; (iii) successfully negotiating with the convertible bonds holders for the extension of repayment dates, including those that are overdue as at the date of this report and those that will fall due before 31 December 2020; and (iv) successfully obtaining new sources of financing or strategic capital investments.

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

THE COMPANY'S VIEW AND THE PLAN TO ADDRESS THE DISCLAIMER OF OPINION IN THE INDEPENDENT AUDITOR'S REPORT

In order to address the uncertainties which may cast doubt regarding the Group's ability to continue as a going concern, and with a view to removing the Audit Qualification, the Company has taken and intends to continue to implement the measures, including but not limited to:

i. The Group is taking measures to tighten cost control over various costs with an aim to attain profitable and positive cash flow operations;

ii. The Group has drawn down new loans of RMB286.8 million and obtained an extension from the lenders for the current portion of interest-bearing bank and other borrowings of RMB85.2 million, among which RMB241.3 million will be due beyond next twelve months from the end of the reporting period;

iii. The Group is actively negotiating with existing convertible bonds holders to seek for extension of repayment terms of the convertible bonds;

iv. The Group is in the process of negotiating with its bankers and financial institutions for renewal and extension of bank and other borrowings and credit facilities to meet the Group's working capital and financial requirements in the near future; and

v. The Company are considering of taking various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, seek new investment and business opportunities, private placements, open offers or rights issue of new shares of the Company.

In light of the measures and arrangements as described above and with reference to a cash flow forecast in relation to the current business and financing plans of the Group, the Directors have concluded that the Group will have sufficient working capital to meet its financial obligations as and when they fall due. Accordingly, the Directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Despite the effort made by the Company to address the concern, the Auditor issued the disclaimer of opinion. The management of the Company has considered the Auditor's rationale and understood their consideration in arriving the disclaimer of opinion.

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The members of the Audit Committee had critically reviewed the basis for disclaimer of opinion, the management's position concerning the basis for disclaimer of opinion and measures taken by the Company for addressing the basis for disclaimer of opinion. The Audit Committee agreed with the management's position based on the reasons above. Moreover, the Audit Committee requested the management to take all necessary actions to address the effect on the basis for disclaimer of opinion to procure no such disclaimer of opinion to be made in the next financial year. The Audit Committee had also discussed with the Auditor regarding the financial position of the Group, measures taken and to be taken by the Company, and considered the Auditor's rationale and understood their consideration in arriving the disclaimer of opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

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

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

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

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

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

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

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

Business Review

As a service provider of around-the-clock solutions for safe drinking water, the Group continued to provide users with customised and professional solutions for drinking water by digging deep into and solving the problems of various offices and living scenes and combining a diversified product portfolio with personalised installation solutions. The Group's water purification services have covered many scenarios such as enterprises and institutions, medical systems, education systems, store and supermarket systems, catering systems and major transportation hubs. Meanwhile, Ozner's "24x365" all-day and year-round service system continued developing. Regardless of the time and location, from early morning to evening, be it living rooms, offices, schools, airports or hospitals, users can enjoy safe purified water provided by Ozner. In addition, Ozner further developed air purifiers, purified water dishwashers and a series of intelligent ecological products from its water purification business and products. By building an intelligent water ecosystem which is applicable to all home appliances, Ozner continuously provides users with smart living solutions based on safe drinking water products.

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

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

(1) *Market share*

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

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

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

(2) *Launch new products*

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

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

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

(3) *Strengthen brand benefits*

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

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

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

(4) ***Realise new sci-tech development***

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

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

For upgrading technology reserve, during the Year, the Group (1) raised the water efficiency level of household products and commercial products according to the requirement of new national standards; (2) completed the development proposal of new composite bacteriostatic filter; and (3) developed the micro combined sterilizer whose prototype is in the testing stage. As at 31 December 2019, the Group had 293 expert researchers and developers. The Group continuously enhanced its innovation capability and research and development capacity and has upgraded the leading technology of water purification, safe ozone sterilization and IoT industrial platform. For air sanitization products, a quadruple filtration system was built and the technology of intelligent control through App was updated. For intelligent home products, the small and portable products in the category of intelligent AI drinking were developed and the functions of intelligent water purification and dishwasher have been improved. As at 31 December 2019, the Group owned 475 patents, among which were 388 patents of water purification services, 45 patents of air sanitization, 42 patents of intelligent products and dishwashers. In addition, the Group is applying for 70 patents, including 48 patents of water purification services, 17 patents of air sanitization and 5 patents of intelligent products and dishwashers.

FUTURE PROSPECT

The outbreak of Coronavirus Disease 2019 ("COVID-19") in China since early 2020 have brought about uncertainties in China's economy. The Group believed that it will be a challenging business environment in coming a few years. In order to differentiate our products and services from other competitors, the Group will continue to solidify its development strategy, which has the safety of water purification as its core and puts emphasise on commercial leasing business to further improve its development capacity of intelligent products and fully establish the IoT platform. The Group will continuously enhance Ozner's research and development capacity and the informatization level of the Group's management and focus on the planning and research of core water purification technologies, industry-leading technologies and international standards in relation to new filters, water saving and IoT technologies which are in line with the Group's strategy. It will also constantly enhance the management capability of distributors to attract more high-quality distributors and agents to join, further expand the coverage of service system, so as to make contribution to the sustainable development and further improvement of profitability of the Company.

FINANCIAL REVIEW

Revenue

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

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

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

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

Gross Profit Margin

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

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

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

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

Other Income and Gains

Other income and gains amounted to RMB75.3 million and RMB56.8 million for the years ended 31 December 2018 and 2019, respectively. Such decrease was mainly attributable to the decrease in interest income, fair value gains on derivative financial instruments and technical service fee by RMB23.5 million, RMB18.7 million and RMB17.0 million, respectively, which partially offset by an increase in income from derivative component of convertible bonds by RMB20.6 million and an increase in tax refund of RMB7.3 million and dividend income of RMB4.4 million for the year ended 31 December 2019 as compared with the year ended 31 December 2018.

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

Fair value gains on derivative financial instruments come from contingent consideration of Valuation Adjustment Mechanism regarding on investments by using Monte Carlo valuation model to estimate the fair value of the profit guarantee agreed. The fair value gains on derivative financial instruments decreased by RMB18.7 million from RMB18.7 million for the year ended 31 December 2018 to nil for the year ended 31 December 2019, such a decrease was mainly in relation to the under-performance of the guarantors, as a result, the probabilities of the compensation to be obtained by the Group is remote. For the details, please refer to the heading of "Strategic investments".

Fair value gains on derivative component of convertible bonds represented the change on the fair value of the derivative component between the date of issue and the end of the reporting period. The fair value of the derivative component was determined by using the applicable option pricing valuation model. The derivative component was in relation to the right of conversion conferred by the 6.8 per cent convertible bonds due in 2021 (the "Bonds") with an aggregate principal amount of HK$215 million. The fair value gains on derivative component of convertible bonds decreased by RMB22.1 million from RMB46.5 million for the year ended 31 December 2018 to RMB24.4 million for the year ended 31 December 2019.

Selling and Distribution Expenses

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

Administrative Expenses

For the years ended 31 December 2018 and 2019, our administrative expenses were RMB211.7 million and RMB226.0 million, respectively, accounting for 12.9% and 13.2% of the revenue for the same periods. Our administrative expenses increased by 6.8% or RMB14.3 million from the year ended 31

December 2018 to the year ended 31 December 2019. Such increase was mainly attributable to an increase in personnel expenses and professional fee in relation to subscription of the new shares of the Company by the Haier Electronics Group Co., Ltd.

Other Expenses

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

Loss on disposal of revenue generating assets

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

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

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

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

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

Impairment on trade receivables and financial assets

		For the year ended 31 December	
		2019	2018
		RMB'million	*RMB'million*
Impairment on trade receivables	(i)	**112.6**	4.2
Impairment on financial assets			
— other receivables	(i)	**61.9**	—
— prepayments	(ii)	**17.8**	—
		79.7	—

(i) *Impairment on trade and other receivables*

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

(ii) *Impairment on prepayments*

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

Impairment on financial assets at fair value through profit or loss

The Group recognized impairment on financial assets at fair value through profit or loss of RMB175.9 million for the year ended 31 December 2019 as no such impairment incurred for the year ended 31 December 2018. The impairment on financial assets at fair value through profit or loss is included impairment on the Funds of RMB157.2 million and reversal of gains on fair value gains on derivative financial instruments come from contingent consideration of RMB18.7 million.

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

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

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

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

Water CGU

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

In determining the value-in-use of the Water CGU, the Directors applied the generally accepted business enterprise appraisal approach, namely the income approach, which estimated future cash flows expected to be derived from the Water CGU, discounted to its present value that reflected the current market assessments of the time value of money and the risks specific to the Water CGU and taken into consideration of the financial forecasts approved by the management of the Water CGU. The valuation approach has been consistently applied as at 31 December 2018 and 2019. The value-in-use of the Water CGU were determined based on a value in use calculation using cash flow projections based on financial forecasts period of 5 years and 6 years for the years ended 31 December 2019 and 2018, which is the remaining useful life of the revenue generated assets. The pre-tax discount rate applied to the cash flow projections was 16%.

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

	For the years ended 31 December	
	2019	2018
Average growth rate	**9% – 10%**	10% – 20%
Gross profit margin	**47% – 52%**	53%
Long-term growth rate	**3%**	4%

During the year ended 31 December 2019, in light of (a) the challenging business environment in the Water CGU business owing to the competitive market in the PRC as mentioned above; and (b) the economic impacts under COVID-19 in the coming years, and hence the Group applied a lower growth rate in the cash flow projections for valuation of the goodwill of the Water CGU. Accordingly, the average growth rate and long-term growth rate were lowered to 9% – 10% and 3%, respectively (2018: 10% – 20% and 4%). The long-term growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. On the other hand, due to the keen competition, and the expected market development, the gross profit margin was lowered to 47% – 52% (2018: 53%).

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

Supply Chain CGU

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

In determining the value-in-use of the Supply Chain CGU, the Directors applied the generally accepted business enterprise appraisal approach, namely the income approach, which estimated future cash flows expected to be derived from the Supply Chain CGU, discounted to its present value that reflected the current market assessments of the time value of money and the risks specific to the Supply Chain CGU and taken into consideration of the financial forecasts approved by the management of the Foshan Lepuda. The valuation approach has been consistently applied as at 31 December 2018 and 2019. The value-in-use of the Supply Chain CGU were determined based on a value in use calculation using cash flow projections based on financial forecasts period of 5 years and 7 years for the year ended 31 December 2019 and 2018. Cash flows beyond the projected period have been extrapolated using a 3% long-term growth rate. Such growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

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

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

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

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

Impairment on investments in associates

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

Finance Costs

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

Share of losses of associates

The share of losses of associates mainly represented the share of performance of the associates and impairment of intangible assets arising from the acquisition. For the years ended 31 December 2018 and 2019, our share of losses of associates were 24.2 million and RMB92.6 million, respectively, accounting for 1.5% and 5.4% of the revenue for the same periods. An increase in share of losses of associate was primarily attribute to impairment of intangible assets arising from the acquisition amounting to RMB59.0 million for the year ended 31 December 2019 as compared with that was nil for the year ended 31 December 2018. For the details of impairment of intangible assets arising from the acquisition, please refer to the heading of "Strategic investment".

Income Tax Expense

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

The Group recorded a tax credit of RMB123.7 million for the year ended 31 December 2019 as compared with an income tax expense of RMB61.7 million for the year ended 31 December 2018. Such change was primarily attributing to an increase of credit of deferred tax of RMB166.0 million to RMB182.9 million for the year ended 31 December 2019, which partially offset by a decrease of income tax expenses of RMB19.4 million to RMB59.2 million for the year ended 31 December 2019. An increase in the credit of deferred tax was primarily attributing to the non-recurring and one-off transaction items, such as impairment loss in trade and other receivables, were incurred for the year ended 31 December 2019. A decrease in the tax expense was primarily attributing to a decrease in assessable profits of certain operating subsidiaries as the Group recorded a loss before tax for the year ended 31 December 2019. The effective tax rate (calculated by income tax expense dividing by profit before tax) was 31.5% and –11.2% for the years ended 31 December 2018 and 2019, respectively. The negative effective tax rate for the year ended 31 December 2019 were primarily attributing to the loss before tax for the year.

(Loss)/Profit for the Year

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

Non-GAAP Financial Measures

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

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

Non-IFRS adjusted (loss)/profit

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

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

Note:

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

EBITDA

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

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

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

Liquidity and Financial Resources

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

Cash Positions

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

Strategic Investments

As at 31 December 2019, the Group held significant strategies investments, including investments in associates, equity investments designated at fair value through other comprehensive income, derivative financial instruments, investments in associates and short-term investments (the "Strategic Investments"). Aggregated amounts of the Strategic Investments were RMB418.3 million and

RMB847.1 million as at 31 December 2019 and 2018, respectively, accounting for 6.2% and 12.9% of the total assets as at the same year ended. The following tables set forth a breakdown of the Strategic Investments as a the years specified:

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

(i) ***Investments in associates***

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

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

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

The Group recognized an impairment loss of RMB140.0 million, which included an impairment loss in investments in associates of RMB81.0 million and an impairment loss on intangible assets rising from the acquisition of RMB59.0 million which recorded in share of losses of associates.

The calculation of the impairment loss as at 31 December 2019 is the shortfall of the recoverable amount which falls below the carrying amount of the investments. The impairment was mainly attributable to the following factors:

- The business plan of the associates was further delayed and suspended with uncertainties, which affected the financial projected adopted;
- The capital invest plan was not carried out as planned;
- the market entered by the associates is in downside.

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

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

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

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

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

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

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

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

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

- The poorer economic environment and more keen competition in the market.

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

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

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

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

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

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

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

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

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

(iii) ***Short-term investments***

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

Trade and Bills Receivables

Trade and bills receivables increased from RMB462.0 million as at 31 December 2018 to RMB725.9 million as at 31 December 2019. The increase was mainly due to the Group's commitment to enhance long-term business cooperation with quality distributors which enjoys a certain credit period. In 2019, credit period that the Group provided for these quality distributors extended to six months. The Group's average trade receivable turnover days were 89 days and 125 days for the years ended 31 December 2018 and 2019, respectively.

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

Inventories

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

Current Ratio and Gearing Ratio

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

Capital Expenditure

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

Borrowings and Charges on the Group's Assets

As at 31 December 2019, the Group's interest-bearing bank and other borrowings, lease liabilities and the liability component of convertible bonds amounted to approximately RMB2,490.2 million (31 December 2018: RMB1,458.5 million) and approximately RMB560.2 million (31 December 2018: RMB507.7 million), respectively. The 2015 Convertible Bonds and 2018 Convertible Bonds will mature on 6 November 2020 and on 2 November 2021, respectively, and their interest rates are 5.0%

per annum and 6.8% per annum, respectively. Amongst interest-bearing bank and other borrowings, lease liabilities, approximately RMB341.1 million will be repayable within 5 years, and others will be repayable within one year and the fixed interest rates are ranged from 3.0% to 24.0% per annum.

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

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

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

As at 31 December 2019, certain of the Group's bank loans were secured by the pledge of certain of the Group's property, plant and equipment amounting to RMB77.8 million (31 December 2018: RMB82.7 million) and right-of-use assets amounting to RMB18.6 million (31 December 2018: RMB19.4 million).

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

Contingent Liabilities

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

Commitments

As at 31 December 2019, the Group had capital expenditure of RMB142.1 million contracted for but not provided in the consolidated financial statements in relation to the acquisition of property, plant and equipment (as at 31 December 2018: RMB363.8 million).

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

As at 31 December 2019, the Group had no other capital commitments save as disclosed above.

Exchange Rate Risk

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

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

Employees and Remuneration Policy

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

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

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

On 19 June 2018, under the Group's restricted share unit ("RSUs") scheme, 15,839,250 ordinary shares of the Company with a par value of HK$0.01 each RSUs were granted to 266 selected persons, of which (i) RSUs representing 1,080,795 Shares were granted to four selected persons who are

Directors of the Company; (ii) RSUs representing 6,908,262 Shares were granted to 235 selected persons who were employees of the Group; and (iii) RSUs representing 7,850,193 Shares were granted to 27 selected persons who were distributors of the Group.

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

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

As at 31 December 2019, RSUs representing a total of 27,361,454 Shares were granted, of which (i) RSUs representing 15,212,355 Shares were vested; and (ii) RSUs representing 12,104,099 Shares were outstanding and held by the RSU Trustee. 27,719,854 Shares are currently held by the RSU Trustee for future grant of RSUs.

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

MATERIAL ACQUISITIONS

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

FINAL DIVIDEND

The Board did not propose any dividend for the year ended 31 December 2019 to the shareholders of the Company (2018: RMB1.09 cents).

CLOSURE OF REGISTER OF MEMBERS

The Company will hold an annual general meeting (the "AGM") on 31 July 2020.

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

MAJOR SUBSEQUENT EVENTS

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE PRACTICES

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

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

Code provision A.2.1

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

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

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

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

The Board, through the Audit Committee, conducted a review of the effectiveness of the internal control and risk management systems of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmers and budget and considered the internal control and risk management systems are effective and adequate.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated annual results for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group, and discussed the auditing, internal control and financial reporting matters as well as the audited consolidated financial statements for the year ended 31 December 2019 with the management and the auditor of the Company.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditors on the preliminary announcement.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2019 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (*www.hkexnews.hk*) and the Company (*www.ozner.net*) and the 2019 Annual Report containing all the information required by the Listing Rules is expected to be dispatched to the shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

By order of the Board
Ozner Water International Holding Limited
XIAO Shu
Chairman and Chief Executive Officer

Hong Kong, 23 June 2020

As at the date of this announcement, the executive Directors are XIAO Shu, ZHOU Guanxuan, TAN Jibin, LI Honggao and WANG Yonghui; and the independent non-executive Directors are LAU Tze Cheung Stanley, BAO Jiming, CHAN Yuk Sing Gilbert, and GU Jiuchuan.

* *For identification purposes only*