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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- Revenue for the six months ended 30 June 2020 amounted to approximately RMB444.4 million, representing a decrease of approximately 48.5% as compared to the six months ended 30 June 2019.

- Gross loss for the six months ended 30 June 2020 amounted to approximately RMB618.8 million, representing a decrease of approximately 253.2% as compared to the gross profit for the six months ended 30 June 2019.

- Loss for the Period attributable to owners of the parent amounted to approximately RMB1,472.1 million for the six months ended 30 June 2020, representing a decrease of approximately 1,663.1% as compared to the profit for the six months ended 30 June 2019.

- The number of new water purification machines installed was approximately 95,000 units for the six months ended 30 June 2020, including approximately 54,000 units newly leased machines and approximately 41,000 units sold machines. Accumulated installation base for lease was approximately 1,080,000 units as at 30 June 2020.

The board (the "Board") of directors (the "Directors") of Ozner Water International Holding Limited (the "Company" or "Ozner" or "Ozner Water") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group" or "Ozner Group") for the six months ended 30 June 2020 (the "Period"), together with the comparative figures for the six months ended 30 June 2019. The interim results have been reviewed by the audit committee of the Company (the "Audit Committee").

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

For the six months ended 30 June

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

	Notes	2020 *RMB'000* (Unaudited)	2019 *RMB'000* (Unaudited)
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic (RMB cents)	*7*	**(69.95)**	4.51
Diluted (RMB cents)	*7*	**(69.95)**	4.51
(LOSS)/PROFIT FOR THE PERIOD		**(1,472,167)**	100,630
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**4,123**	(1,478)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**4,123**	(1,478)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive loss:		**(27,130)**	(63,005)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		**(27,130)**	(63,005)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(23,007)**	(64,483)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(1,495,174)**	36,147
Attributable to:			
Owners of the parent		**(1,495,141)**	29,698
Non-controlling interests		**(33)**	6,449
		(1,495,174)	36,147

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2020** *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Revenue generating assets	*8*	**893,687**	1,771,608
Property, plant and equipment	*9*	**1,015,934**	1,064,138
Right-of-use assets		**130,815**	140,515
Other intangible assets	*10*	**127,739**	137,477
Goodwill		**–**	–
Investments in associates		**242,383**	245,140
Equity investments designated at fair value through other comprehensive income		**146,027**	173,157
Prepayments, other receivables and other assets		**322,066**	411,399
Deferred tax assets		**530,099**	267,692
TOTAL NON-CURRENT ASSETS		**3,408,750**	4,211,126
CURRENT ASSETS			
Inventories		**324,306**	337,917
Trade and bills receivables	*11*	**620,835**	725,905
Prepayments, other receivables and other assets		**833,372**	1,104,625
Amount due from related parties		**112,126**	142,327
Pledged deposits		**35,924**	132,742
Cash and cash equivalents		**50,689**	118,916
TOTAL CURRENT ASSETS		**1,977,252**	2,562,432
CURRENT LIABILITIES			
Trade and bills payables	*12*	**339,276**	368,015
Other payables, advances from customers and accruals		**864,097**	812,562
Amount due to related parties		**46,097**	54,370
Deferred revenue		**17,234**	17,205
Interest-bearing bank and other borrowings		**2,085,247**	2,131,585
Income tax payable		**271,721**	288,331
Liability component of convertible bonds		**593,404**	560,247
Lease liabilities		**13,356**	17,431
TOTAL CURRENT LIABILITIES		**4,230,432**	4,249,746
NET CURRENT LIABILITIES		**(2,253,180)**	(1,687,314)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,155,570**	2,523,812

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Ozner Water International Holding Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 15 November 2013. The registered office of the Company is situated at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Company is an investment holding company. During the six months ended 30 June 2020, the Company's subsidiaries were involved in the following principal activities in the People's Republic of China (the "PRC" or "China"):

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

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

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

Basis of preparation

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

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

These interim condensed consolidated financial statements have not been audited.

Going concern basis

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

As stipulated in the subscription agreement of the Group's certain convertible bonds, any default of the Group's borrowings may result in cross-default of these borrowings. As a result of certain defaults as at 30 June 2020, convertible bonds of RMB174,142,000 with original contractual repayment date beyond 30 June 2021 were considered as cross-default and have been reclassified as current liabilities as at 30 June 2020.

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

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

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

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

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

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

The directors of the Company, including members of the audit committee, have reviewed the Group's cash flow forecast prepared by management. The cash flow forecast covers a period of twelve months from the end of the reporting period. The directors are of the opinion that, taking into account the above mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors are satisfied that it is appropriate to prepare the interim condensed consolidated financial statements of the Group on a going concern basis for the six months ended 30 June 2020.

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

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

(ii) successfully negotiating with financial institutions and other lenders for the renewal of or extension of repayments of all borrowings, including those that are overdue as at the date of approval of these financial statements and those that will fall due before 30 June 2021; and

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

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

Changes in Accounting Policies and Disclosures

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

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

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

A Change in Accounting Estimates

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

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

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

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

Revenue from contracts with customers

(i) Disaggregated revenue information

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

For the six months ended 30 June 2020
(unaudited)

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

For the six months ended 30 June 2019
(unaudited)

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

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

For the six months ended 30 June 2020
(unaudited)

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

For the six months ended 30 June 2019
(unaudited)

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

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

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

(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.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2020 are as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Within one year	**82,582**	41,567

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

An analysis of other income and gains is as follows:

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

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

5. (LOSS)/PROFIT BEFORE TAX

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

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

6. 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 stated below, PRC enterprise income tax has been provided at the rate of 25% (2019: 25%) on the taxable income.

Pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, subsidiaries including Shanghai Haoze Water Purification Technology Development Co., Ltd., Shanghai Haoze Comfort Environment and Science Co., Ltd. and Guangdong Bili Drinking Water Equipment Co., Ltd., qualified as a High and New Technology Enterprise, were entitled to the preferential tax rate of 15% for three years from 2018 to 2020.

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

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

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

The breakdown of income tax expense is as follows:

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

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

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

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

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

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

* No adjustment has been made to the basic (LPS)/EPS amounts presented for the period ended 30 June 2020 and 2019 in respect of a dilution as the impact of the convertible bonds outstanding, share options and restricted share units had an anti-dilutive effect on the basic (LPS)/EPS amount presented.

8. REVENUE GENERATING ASSETS

Acquisitions and disposals

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

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

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

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

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

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

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

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

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

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

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

10. OTHER INTANGIBLE ASSETS

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

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

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

11. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

Transferred financial assets that are not derecognised in their entirety

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

12. TRADE AND BILLS PAYABLES

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

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

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

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

14. COMMITMENTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

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

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

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

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

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

BUSINESS REVIEW

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

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

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

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

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

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

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

Innovating the online sales model to strengthen brand benefits

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

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

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

Promoting the application of IoT modules and accelerate the intelligent layout

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

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

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

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

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

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

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

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

Future Prospect

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

Gross Profit Margin

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

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

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

Other Income and Gains

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

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

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

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

Loss on disposal of revenue generating assets

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

Impairment on trade and other receivables

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

Finance Costs

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

Income Tax Expense

Pursuant to the relevant laws, rules and regulations in the PRC and with the approval from competent taxation authority, our water purifier business and supply chain business are entitled to certain preferential tax treatments, including (i) the entitlement of a preferential tax rate of 15% for the three years from 2018 to 2020 by Shanghai Haoze Water Purification Technology Development Co., Ltd., Shanghai Haoze Comfort Environment & Science Co., Ltd. and Guangdong Bili Drinking Water Equipment Co, Ltd. qualified as a High and New Technology Enterprise; (ii) the entitlement of a preferential tax rate of 15% for the three years from 2019 to 2021 by Foshan Lepuda qualified as a High and New Technology Enterprise; (iii) the entitlement of a preferential tax rate of 15% from 2012 to 2020 by Shaanxi Haoze Environmental Technology Development Co., Ltd., Shaanxi Haoze Water Purification Service Co., Ltd., Shannxi Haoze Comfort Environment and Science Co., Ltd. and Shaanxi Haoze Water Purification Technology Development Co., Ltd. qualified as an enterprise engaged in an encouraged industry in the China's Western Development as approved by a local competent taxation authority.

The Group recorded a tax credit of RMB244.4 million and an income tax expenses of RMB26.7 million for the six months ended 30 June 2020 and 2019, respectively. Such change was mainly attributable to the operating loss incurred for the six months ended 30 June 2020. The effective tax rate (calculated by income tax expense dividing by profit before tax) was 21.0% and 14.2% for the six months ended 30 June 2019 and 30 June 2020, respectively.

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

Cash Positions

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

Trade and Bills Receivables

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

The impairment on trade and bills receivables increased by RMB169.2 million from RMB120.1 million as at 31 December 2019 to RMB289.3 million as at 30 June 2020, primarily due to late settlement from our customers under the impact of the worsening economic environment and the influence of COVID-19 pandemic. The Group has implemented the credit policy to monitor the performance of its debtors, including to perform aging analysis, to communicate with the debtors, to monitor the subsequent settlements and historical transaction patterns. The provision policy for impairment of trade and bills receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial condition of the customers of our Group continued to deteriorate, resulting in an impairment of their abilities to make payments, additional allowances may be required. The Group will strengthen the credit management to guard against the increased impairment and will take legal action if necessary.

Inventories

Inventories remained stable at RMB358.8 million and RMB358.8 million as at 31 December 2019 and 30 June 2020, respectively. Our average inventories turnover days increased from 140 days for the year ended 31 December 2019 to 170 days for the six months ended 30 June 2020. Such increase was a result of sales activities affected by the pandemic.

Current Ratio and Gearing Ratio

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

Capital Expenditure

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

Borrowings and Charges on the Group's Assets

As at 30 June 2020, the Group's interest-bearing bank and other borrowings, lease liabilities and the liability component of convertible bonds amounted to approximately RMB2,579.1 million (as at 31 December 2019: RMB2,490.2 million) and approximately RMB593.4 million (as at 31 December 2019: RMB560.2 million), respectively. The 2015 Convertible Bonds and 2018 Convertible Bonds will mature on 6 November 2020 and on 2 November 2021, respectively, and their interest rates are 5.0% per annum and 6.8% per annum, respectively. Amongst interest-bearing bank and other borrowings, lease liabilities, approximately RMB480.5 million (as at 31 December 2019: RMB341.1 million) will be repayable within 5 years, and others will be repayable within one year and the fixed interest rate is ranged from 3% to 24% per annum. The interest-bearing bank and other borrowings were denominated in RMB and USD, while the convertible bonds were denominated in Hong Kong dollars.

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

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

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

Contingent Liabilities

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

Commitments

As at 30 June 2020, the Group had capital expenditure of RMB84.9 million contracted for but not provided in the consolidated financial statements in relation to the acquisition of property, plant and equipment (as at 31 December 2019: RMB142.1 million).

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

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

Exchange Rate Risk

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

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019 and 30 June 2020, the Group had 2,554 and 2,475 employees, respectively, including an after-sales service team of 884. Total staff costs (including Directors' emoluments, share options and restricted share unit scheme expenses) for the six months ended 30 June 2020 were RMB70.9 million, as compared to RMB190.7 million for the year ended 31 December 2019. Apart from salaries, other employee benefits including social insurance and housing provident fund were in amounts equal to pre-determined percentages of the salaries, bonuses and certain allowances of our employees.

MATERIAL ACQUISITIONS AND FUTURE PLANS FOR MAJOR INVESTMENT

During the six months ended 30 June 2020, the Group had not conducted any material acquisitions or disposals. In addition, the Group currently has no specific plan for acquisition of major assets or other businesses.

SUBSEQUENT EVENTS AFTER THE INTERIM PERIOD

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

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

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

There was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries during the six months ended 30 June 2020.

CORPORATE GOVERNANCE CODE

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

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

Code Provision A.2.1 of the CG Code

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

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

EXTRACT OF REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Company engaged an independent certified public accountant firm (the "Accountant") to conduct a review of the interim condensed consolidated financial statements of the Group in accordance with Hong Kong Standard on Review Engagements 2400 (Revised) "Engagements to Review Historical Financial Statements" ("HKSRE 2400") issued by the Hong Kong Institute of Certified Public Accountants. The Accountant has qualified the report on review of the Company's interim condensed consolidated financial statements for the six months ended 30 June 2020, an extract of which is as follows:

Basis for Disclaimer of Conclusion

Multiple Uncertainties Relating to Going Concern

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

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

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

The Directors have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2 to the interim condensed consolidated financial statements. The validity of the going concern assumptions on which the interim condensed consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully negotiating with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings with principal and interests in default, including those with cross-default terms; (ii) successfully negotiating with financial institutions and other lenders for the renewal of or extension for repayments of all borrowings, including those that are overdue as at the date of this report and those that will fall due before 30 June 2021; (iii) successfully negotiating with the convertible bonds holders for the extension of repayment dates, including those that are overdue as at the date of this report and those that will fall due before 30 June 2021; and (iv) successfully obtaining new sources of financing or strategic capital investments.

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

Disclaimer of Conclusion

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

PUBLICATION OF THE INTERIM RESULTS AND 2020 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.ozner.net), and the 2020 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 31 August 2020

Certain amounts and percentage figures set out in this announcement have been subject to rounding adjustments.

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