



GLAUCUS RESEARCH GROUP

格勞克斯研究

“It is easier to fool people than to convince them that they have been fooled.” - Mark Twain

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COMPANY: Ozner Water International Holding Limited | HK: 2014
INDUSTRY: Water Purification

Recommendation:
Strong Sell

Price:

HKD: 3.29

As of Close 2/13/2014

Market Cap:

HKD 5.91 bn

Daily Volume

5.9mm shares

(Avg. 3mo)

Auditor:

Ernst & Young

Price Target:

HKD: 0.27-0.85

[Ozner Water International Holding Ltd.](#) (2014.HK) (“Ozner” or the “Company”) manufactures and leases water purifiers to corporations and households. In this report, we present publicly available evidence, including SAIC filings, government tax records and independent brand rankings, which in our opinion, indicate that Ozner has made false and misleading representations and disclosures to the market regarding its financial and operational performance.

We believe that Ozner has a real working business, produces real products and leases such products to real customers. However, based on our review of the independent evidence presented in this report, we believe that Ozner's business is substantially smaller (in production and sales) and much less profitable than Ozner claims.

We estimate that Ozner is only worth between **HKD 0.27-0.85 per share, a downside of 76%-92% from today's trading price**. However, in our view, further downside pressure on Ozner's share price is likely given what would appear to be major breaches of Hong Kong listing rules and investor confidence.

1. **SAIC Filings Indicate Material Exaggeration of Sales, Production and Profit.** SAIC filings of Ozner's primary operating subsidiaries indicate, in our opinion, that Ozner's revenues, production and profitability are in reality a fraction of the figures reported to Hong Kong investors and regulators in its prospectus.

a. **SAIC Filings Indicate Real Production Figures are 90% Less than Reported.** According to the [prospectus](#), the cost of raw materials and components for the manufacture of water purification systems, which accounted for 70% of the total production costs, was **RMB 184 million and RMB 130 million** in 2012 and 2011, respectively. Because Ozner's subsidiary, Shangyu Haorun Environmental Technology Co., Ltd. (“[Shangyu Manufacturing](#)”), manufactured all of Ozner's water purification systems during this period, it should have incurred all such production costs. But SAIC filings show that Shangyu Manufacturing's production costs were only **RMB 7.5 million and RMB 12 million in 2012 and 2011, respectively, over 90% less** than the costs of raw materials and components reported in Ozner's prospectus. In our opinion, this indicates that Ozner materially exaggerated the scale of its production and business in its prospectus.

b. **Profitability and Revenues from Leasing Purifiers Much Less than Reported.** Annual rental fees from leasing water purifiers to corporations and households ostensibly accounted for ~70% of Ozner's reported revenue during the pre-IPO track-record period. However, SAIC filings of Shaanxi Haoze Environmental Technology (“[Shaanxi Haoze](#)”) and Shanghai Haoze Water Purification Technology Development Co., Ltd (“[Shanghai Haoze](#)”), Ozner's two operating subsidiaries that lease water purifiers to end users, indicate that Ozner's revenues from the leasing of water purifiers **were 54% less than reported** in Ozner's prospectus for 2012 and 2011, respectively. More importantly, SAIC filings show that rather than generate RMB 18 million in operating profit in 2011 and RMB 98 million in 2012 as Ozner claims, the leasing subsidiaries were in fact **unprofitable in 2011 (losing RMB 3 million) and only generated RMB 18 million in operating profit in 2012 (81% less than reported)**.

2. **Same Business, Different Result?** In 2009, Mr. Xiao, Ozner's chairman, CEO and founder, [sold](#) his water purification leasing business, including the Ozner-brand, to a Hong Kong listed company, Chaoyue Group Limited (“[CGL](#)”) (HK: 0147). From 2009 through 2012, [CGL reported that its water purifier leasing business lost RMB 195 million](#) (including write downs). CGL eventually [sold](#) the business to Ozner for HKD 78.5 mm in September 2012, after losses forced CGL to write off most of its value. This is disclosed in the public filings. Not disclosed in Ozner's prospectus is the degree of similarities between CGL's failed water machine leasing business, which it sold in September 2012, and Ozner's reportedly profitable business, which went public in 2014.

a. **Same Brand.** A PowerPoint [presentation](#) available online shows that CGL sold and leased **Ozner-branded** water purifiers.

b. **Similar Models using the Same Technology.** The same PowerPoint presentation shows that CGL sold the same (or very similar) models of Ozner-branded water purifiers (from 2010-2012), using what appears to be the same technology that Ozner employs today.

- c. **Same Management.** CGL's annual reports state that from [2009](#) through [2012](#), Ozner's CEO, founder and chairman, Mr. Xiao, served as the director of the CGL subsidiary in charge of leasing water purifiers. Moreover, the CGL PowerPoint [presentation](#) shows that CGL employed the exact same research and development team as Ozner (prior to its IPO).
- d. **Same Business Model.** CGL, like Ozner, rented machines to end users through a network of third party distributors.
- e. **Same Time.** In January 2011, CGL sublicensed the right (through an intermediary) to market and sell Ozner-branded water purifying machines to Ozner in all but 10 cities in China. From January 2011 through September 2012, both Ozner and CGL were marketing and leasing Ozner branded machines to end users in China – CGL retained the right to do so in the ten cities of its choice, and Ozner purchased the right to do so in the other regions. In other words, both CGL and Ozner appear to have been marketing the same models to Chinese consumers at the same time. Should not the result have been similar?
- f. **Different Result.** Between February 2009 and March 2012, CGL reported that its water purifying business **lost an aggregate of RMB 195 million**. By the time CGL sold the business to Ozner in 2012, liabilities significantly exceeded assets. How can a business, which was a small, unprofitable failure and sold after considerable losses in 2012, suddenly transform into a business with a HKD 6.2 billion market capitalization and 38% net margins for a 2014 IPO? We do not believe that a failed businesses can rise from the dead so quickly.
3. **Material Undisclosed Related Party Transactions.** According to its [prospectus](#), Ozner sublicensed the right to market and lease water purifying machines under the Ozner brand from a purportedly independent third party, Shanghai Haoyang Environmental Technology (“[Shanghai Haoyang](#)”) from January 2011 through September 2012, before acquiring the business outright from CGL. Ozner unequivocally stated in its prospectus that Shanghai Haoyang was an “**independent third party**” and went so far to say, in no uncertain terms, that “**none of Shanghai Haoyang or its directors or shareholders had any past or present relationship, including without limitation, employment or financing relationship with [Ozner] or our ... shareholders during the Track Record Period.**” We believe that this is a blatant misrepresentation, because PRC government records, [available to any investor online](#), show that an Ozner shareholder and director of one its operating subsidiary was in fact **the controlling shareholder of Shanghai Haoyang since 2010**. This undisclosed related party transaction is, in our view, a clear violation of the listing rules regarding a transaction and relationship critical to Ozner.
4. **PRC Government Tax Records Indicate Net Income a Fraction of Reported Figures.** The city of Shangyu (Zhejiang province) publishes annual tax rankings, [available to any investor online](#), recognizing the top tax paying businesses (including income tax and VAT) in its jurisdiction. If Ozner's reported financials are accurate, we calculate that its sole manufacturing subsidiary during the track-record period should have **paid approximately RMB 3.3mm, 8.7mm and 8.9mm in VAT in 2013, 2012 and 2011, respectively**. Yet the Shangyu city tax rankings state that Shangyu Manufacturing paid only RMB 2.27mm, 2.25mm and less than 1mm in total taxes (including VAT) in [2013](#), [2012](#) and [2011](#), respectively, suggesting, in our opinion, that Ozner's taxes paid (and thus net income) is at least 74% less than Ozner claims.
- a. **Why Does Ozner Not Pay Income Tax?** Despite reporting an aggregate of RMB 795 million in revenue and **RMB 277 million in net income from 2011 through 2013 (and accruing RMB 64 in income tax payables by FYE 2013)**, Ozner **paid less than RMB 3 million in total income taxes during the pre-IPO track-record period**. Ozner claims that it did not pay income taxes because it did not submit invoices to its principal distributors. But taxes are not due when customers are invoiced, but rather when revenue and profits are recognized, which is why we find Ozner's explanation ludicrous. After all, if this were true, then all companies could defer taxes on leased goods by simply not invoicing customers (even though they receive payments for such goods). We believe that Ozner did not pay meaningful income taxes because it was barely profitable, and that its explanation of an invoice-based tax exemption is not credible and further evidence that it has been exaggerating its reported profitability.
5. **Questionable Market Share**
- a. **Consumer Brand Ranking.** Ozner claims in its [prospectus](#) to be the third largest water purifier manufacturer in China and the market leader in commercial sales. Yet six different, independent rankings of top water purifying brands conducted by six different organizations in 2013 and 2014, do not list Ozner in the top 10, let alone the top three, of brands of water purifying machines in China. Each list includes Ozner's purported competitors, Midea and Qinyuan, in the top 10. These consumer surveys undermine the Company's claims regarding its market share, sales and brand awareness.
- b. **Taobao and Tmall.** Similarly, even when we limit the search parameters to water purifying machines which cost over RMB 2,000 (to account for Ozner's most popular models), a ranking of top water purifiers sold on Tmall and Taobao in the past 30 days shows that not only has Ozner failed to place any product in the top ten, but also that Ozner has only sold a limited number of purifiers over this time. Compare this to Midea and Qinyuan, which according to Taobao and Tmall have each sold **thousands** of machines priced at over RMB 2,000 over the same period.
6. **Accounting Shenanigans: Depreciation.** Ozner's most critical accounting assumption is that it assigns a 10-year useful life for water purification machines leased to end users. But this critical assumption appears unreasonable when compared to historical assumptions for Ozner-branded water purifiers. From 2009-2012, CGL [estimated the useful life](#) of the same machines at **5 years**. Using a 5-year useful life assumption instead of 10 years, we estimate that Ozner's 2013 earnings per share would have been **39% less than reported** (this is without even taking into consideration the evidence presented in this report which we believe shows that Ozner is significantly less profitable than it claims).
7. **Valuation.** We believe, based on the evidence presented in this report that Ozner's sales and profits are significantly less than reported. Although we believe that Ozner's business may be worth between **HKD 0.27-0.85 per share**, we expect further downside pressure on Ozner's share price as a result of what in our opinion were material misrepresentations during Ozner's listing process regarding its financial and operational performance.



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SAIC FILINGS SUGGEST MATERIAL MISREPRESENTATIONS

SAIC filings of Ozner's primary subsidiaries indicate that the Company's production, sales and profitability are a fraction of the figures reported to Hong Kong investors and regulators.

1) SAIC Filings Indicate Real Production Figures 90% Less than Reported

SAIC filings of Shangyu Haorun Environmental Technology Co., Ltd. ("Shangyu Manufacturing") indicate that Ozner massively overstated its production during the pre-IPO track-record period.

From 2011 through 2013, Ozner reported that its only manufacturing facility, responsible for the production of all of the Company's water purification machines during the track-record period, was owned and operated by its subsidiary Shangyu Manufacturing.¹

In addition, the average cost of raw materials and components of our first generation water purifying machines was approximately RMB1,100, RMB1,200 and RMB1,300 per machine in 2011, 2012 and 2013, respectively. The cost of raw materials and components contributed to more than 70% of the production cost. The production cost was recognized as revenue generating assets after the relevant water purifying machines are first installed and activated and subject to depreciation over the useful life of 10 years on a straight-line basis. As the

Source: Ozner Prospectus, p. 27.

Given that the Company disclosed the average cost of raw materials and components per machine (RMB 1,200 in 2012 and RMB 1,100 in 2011) as well the total number of machines produced for both years, we can calculate the total cost of such production inputs during the track-record period.

Production Cost Calculation

<i>Figures are in RMB and base unit definition</i>	2011	2012
Production Output		
• Production Capacity ¹ = A	170,000	170,000
• Utilization Rate ¹ = B	70%	90%
• Units Produced - C=A*B	118,660	153,340
Unit Costs of Production		
• Cost of Raw Material per Unit ² = D	1,100	1,200
Total cost of Raw Materials and Components - G=D*C	130,526,000	184,008,000

Source:

1. Prospectus p2

2. Prospectus p27

Ozner's COGS in its prospectus do not reflect production costs, because such costs are capitalized. Only the depreciation (1/10th of the production costs) appear as COGS on the consolidated income statement in the prospectus. However, because Shangyu Manufacturing does not maintain title to the water purifying machines, but transfers title to the machines to other subsidiaries for lease to end users, Shangyu Manufacturing does not keep the machines on its balance sheet. Accordingly, the manufacturing subsidiary's COGS in the SAIC filings should reflect not depreciation but the production costs of the machines disclosed in the prospectus.

¹ Ozner Prospectus, p. 108.

Put simply, as Ozner's sole manufacturing subsidiary, Shangyu Manufacturing should have incurred at least **RMB 184 million and RMB 130 million** in costs in 2012 and 2011, respectively, as this was the reported cost of raw materials and components purchased to produce water purifiers.

However, SAIC filings show that Shangyu Manufacturing's COGS were only **RMB 7.5mm and 11.9mm** in 2012 and 2011, respectively, which is 96% and 91% less than the Company's reported costs of raw materials and components in those years.

Production Cost Comparison

Figures are in RMB	2011	2012
HK Prospectus: Total Cost of Raw Materials and Components	130,526,000	184,008,000
SAIC Filings: Shangyu Manufacturing COGS	11,919,280	7,536,754
% Difference	-91%	-96%

Sources: Ozner Prospectus, Shangyu Manufacturing 2012 SAIC Filings

Name of enterprise:		利 润 表		Income Statement	
Shangyu Haorun Environmental Technology Co., Ltd.		2012年度		Unit: RMB	
企业名称: 上虞浩润环保技术有限公司		2012年度		单位: 人民币元	
项 目	行次	上年累计数 Last Year	本年累计数 Current Year		
一、主营业务收入 Sales revenue	1	13,614,121.78	11,154,093.33		
减: 主营业务成本 COGS	2	11,919,280.07	7,536,754.41		
主营业务税金及附加	3	55,065.61	292,245.48		
二、主营业务利润	4	1,639,776.10	3,325,093.44		
加: 其他业务利润	5	20,198.96	104,221.82		
减: 营业费用	6				
管理费用	7	3,164,211.60	3,372,301.46		
财务费用	8	1,560.00	2,420.02		
三、营业利润 Operating Profit	9	-1,505,798.52	54,593.78		
加: 投资收益	10				
补贴收入	11				
营业外收入	12		5,227.62		
减: 营业外支出	13	6,253.67	5,707.56		
四、利润总额	15	-1,512,052.25	54,113.84		
减: 所得税	16				
五、净利润 Net Profit	17	-1,512,052.25	54,113.84		

Source: 2012 Shangyu Manufacturing SAIC Filings – Income Statement

利润表

Income Statement

Name of enterprise:

Shangyu Haorun Environmental Technology Co., Ltd.

Unit: RMB

企业名称: 上虞浩润环保技术有限公司

2011年度

单位: 人民币元

项 目	行次	上年累计数 Last Year	本年累计数 Current Year
一、主营业务收入 Sales revenue	1	3,086,745.08	13,614,121.78
减: 主营业务成本 COGS	2	3,207,137.47	11,919,280.07
主营业务税金及附加	3	2,612.98	55,065.61
二、主营业务利润	4	-123,005.37	1,639,776.10
加: 其他业务利润	5	30,239.75	20,198.96
减: 营业费用	6		
管理费用	7	689,177.71	3,164,211.60
财务费用	8	466.21	1,562.04
三、营业利润 Operating Profit	11	-782,409.54	-1,505,798.58
加: 投资收益	12		
补贴收入	13		
营业外收入	14		
减: 营业外支出	15	7,530.91	6,253.67
四、利润总额	17	-789,940.45	-1,512,052.25
减: 所得税	18	1,525.66	
五、净利润 Net Income	19	-791,466.11	-1,512,052.25

Source: 2011 Shangyu Manufacturing SAIC Filings – Income Statement

The balance sheet from Shangyu Manufacturing's SAIC filings confirms that such production costs were not capitalized. The only increase in PP&E (where such capitalized costs would be recorded) was from RMB 2.8 million in 2011 to RMB 25 million in 2012. This increase was due to the expansion of the Shangyu manufacturing facility (a RMB 26 million increase in PP&E according to the prospectus).² The balances of PP&E on the SAIC balance sheets are simply too small to account for capitalized manufacturing costs, even if such an accounting practice were permitted under PRC GAAP.

Shangyu Manufacturing Balance Sheet - SAIC Filing

Figures are in RMB'000

	2011	2012
Cash	148	96
Account Receivable	25	-
Prepayment	38	5,802
Other Receivable	1,292	329
Inventory	9,047	8,666
Deferred expense	295	889
Total Current Asset	10,846	15,782
PP&E Gross	2,789	25,175
Accm. Depreciation	(102)	(1,116)
PP&E net	2,687	24,059
Construction in Progress	-	2
Long-term deferred expense	266	209
Total Non-current Asset	2,953	24,269
TOTAL ASSET	13,799	40,051
Account Payable	890	686
Advances	2,918	29,023
Other Payable	10,120	10,174
Wage Payable	-	-
Tax Payable	88	297
Accrued expenses	258	325
Current Liability	14,274	40,505
Long-term Payable	-	5
Long-term Liability	-	5
Total Liability	14,274	40,509
Paid in Capital	1,000	1,000
Retained Earnings	(1,475)	(1,458)
Total Shareholders equity	(475)	(458)
TOTAL L&SE	13,799	40,051

Source: 2012 Shangyu Manufacturing SAIC Filing

² Ozner Prospectus, p. 218.

Name of enterprise:

信用监管等级: A 监管项目:
Shangyu Haorun Environmental Technology Co., Ltd.

Balance Sheet

006

企业会计准则(旧版) - 资产负债表

Unit: RMB

编制单位: 上海浩润环保技术有限公司(盖章) 2012.12.31 2012年 12月 31日 单位: 元

资产	行次	期初数 Last Year	期末数 This Year	负债和股东权益	行次	期初数	期末数
流动资产				流动负债			
货币资金	1	148909.99	96245.09	短期借款	32	0.00	0.00
短期投资	2	0.00	0.00	应付票据	33	0.00	0.00
应收票据	3	0.00	0.00	Trade Payable 应付账款	34	890235.22	685524.39
应收账款	4	25450.00	0.00	预收账款	35	2918076.51	29022939.07
减: 坏账准备	5	0.00	0.00	Other Payable 其他应付款	36	10120052.19	10173572.71
应收账款净额	6	25450.00	0.00	应付工资	37	0.00	0.00
预付账款	7	37616.00	5802095.00	应付福利费	38	0.00	0.00
应收出口退税	8	0.00	0.00	未交税金	39	88076.76	297212.70
应收补贴款	9	0.00	0.00	未付利息	40	0.00	0.00
其他应收款	10	1291946.47	329373.70	其他未交款	41	0.00	0.00
存货	11	9047439.48	8665530.11	预提费用	42	258000.00	325280.18
待转其他业务支出	12	0.00	0.00				
待摊费用	13	295169.72	888962.01	一年内到期的长期负债	43	0.00	0.00
待处理流动资产净损失	14	0.00	0.00	其他流动负债	44	0.00	0.00
一年内到期的长期债券投资	15	0.00	0.00				
其他流动资产	16	0.00	0.00				
流动资产合计	17	10846027.66	15782205.91	流动负债合计	45	14274440.68	40504529.05
长期投资				长期负债			
长期投资	18	0.00	0.00	长期借款	46	0.00	0.00
固定资产				应付债券	47	0.00	0.00
固定资产原价	19	2789468.88	25174609.24	长期应付款	48	0.00	4840.00
减: 累计折旧	20	102077.28	1116093.91	其他长期负债	49	0.00	0.00
PP&E, net 固定资产净值	21	2687391.60	24058515.33	其中: 住房周转金	50	0.00	0.00
固定资产清理	22	0.00	0.00				
在建工程	23	0.00	1709.40				
待处理固定资产净损失	24	0.00	0.00	长期负债合计	51	0.00	4840.00
				递延税项			
固定资产合计	25	2687391.60	24060224.73	递延税款贷项	52	0.00	0.00
无形资产及递延资产				负债合计	53	14274440.68	40509369.05
无形资产	26	0.00	0.00	所有者权益			
递延资产	27	266000.00	209000.00	实收资本	54	1000000.00	1000000.00
无形资产及递延资产合计	28	266000.00	209000.00	资本公积	57	0.00	0.00
其他长期资产				盈余公积	58	0.00	0.00
其他长期资产	29	0.00	0.00	其中: 公益金	59	0.00	0.00
递延税项				未分配利润	60	-1475021.42	-1457938.41
递延税款借项	30	0.00	0.00	少数股东权益	61	0.00	0.00
				所有者权益合计	62	-475021.42	-457938.41
资产总计	31	13799419.26	40051430.64	负债及所有者权益合计	63	13799419.26	40051430.64
附注说明				调整计提工资			

Source: 2012 Shangyu Manufacturing SAIC Filings – Balance Sheet

The balance of trade payables at Shangyu Manufacturing similarly indicates that Ozner's production costs were significantly less than reported in its prospectus.

In its prospectus, Ozner reported over RMB 37 million and RMB 43 million in trade payables, a liability on the Company's balance sheet, at FYEs 2012 and 2011, respectively. Ozner states in its prospectus that the vast majority of trade payables arose from payments to suppliers of components of water purification machines, which means such payables should be incurred by its sole manufacturing subsidiary.³ Yet, SAIC filings show that Shangyu Manufacturing's trade payables were RMB 0.7 million at FYE 2012 and RMB 0.9 million at FYE 2011.

Trade Payables Comparison

Figures are in RMB'000

	2011	2012
Shangyu Manufacturing	890	686
Ozner Prospectus	43,197	37,040
Difference	-98%	-98%

Source: SAIC Filings; Ozner Prospectus

Ultimately, Shangyu Manufacturing's SAIC filings show that the production costs of Ozner's sole manufacturing subsidiary during the track record period were over **90% less than the cost of raw materials and components** reported by the Company in its prospectus.

We believe that the Shangyu Manufacturing SAIC files are a smoking gun, indicating that the Company materially fabricated its reported production and thus the scale of its business to Hong Kong investors and regulators.

2) *Profitability and Revenues from Leasing Purifiers Much Less than Reported*

Annual rental fees from leasing water purifiers to corporations and households ostensibly accounted for ~70% of Ozner's reported revenue during the pre-IPO track-record period and are increasingly the Company's dominant business segment (accounting for 76% of revenues in FY 2013).

According to Ozner's prospectus, Shanghai Haoze Water Purification Technology Development Co., Ltd. ("Shanghai Haoze") and Shaanxi Haoze Environmental Technology ("Shaanxi Haoze"), are the Company's subsidiaries which lease water purifying machines to end users (together, the "Leasing Subsidiaries").⁴

Ozner recognizes revenue from the leasing of water purifiers on a straight-line basis over the one-year term of the lease.⁵ But Ozner purportedly receives the annual leasing fee in cash up front from its principal distributors (often in the form of a deposit or advance from the distributor when it signs up with Ozner), and the annual fee is deducted from such deposit or advance on a monthly basis following either installation or the annual renewal of the lease.⁶

The Company reported leasing revenues from water purifiers of **RMB 53 million in 2011 and RMB 195 million in 2012**. Importantly, Ozner reported that this business was its primary driver of profitability. In 2011, its water purification leasing business accounted for 67% of reported operating profits (RMB 18.3

³ Ozner Prospectus, p. 225.

⁴ Ozner Prospectus, p. 224; I-7 (leasing subsidiaries identified as providers of "water purifying services").

⁵ Ozner Prospectus, p. 143.

⁶ Ozner Prospectus, p. 145-148.

million).⁷ In 2012, the water purification leasing business accounted for **80% of reported operating profits (RMB 98 million)**.⁸

Yet SAIC filings of Shaanxi Haoze and Shanghai Haoze indicate, in our opinion, that Ozner's leasing revenues are much smaller and far less profitable than reported. On a consolidated basis, rental revenues reported in the SAIC filings of the Leasing Subsidiaries were **~54% less than reported in the prospectus in both 2012 and 2011**.

Reported Difference in Consolidated SAIC Filings and Prospectus for Ozner's Water Purification Leasing Subsidiaries

Figures are in RMB'000	2011		2012	
	Sales	Operating Income	Sales	Operating Income
Ozner Prospectus - rental income from water purifier*	53,286	18,346	195,469	98,446
Consolidated SAIC financials**	25,051	(3,145)	90,736	18,717
% Difference	-53%	-117%	-54%	-81%

Source: Prospectus p. I-24~ I-25, SAIC filings

* Glaucus calculates reported operating profit by multiplying the company's total operating profit by the percentage of operating profit attributable to the water purification rental segment on page I-24 and page I-25 of the prospectus.

** Consolidated SAIC financials include Shanghai Haoze Water Purification Tech. Dev. and Shaanxi Haoze Environmental Tech. Dev., the two water purification leasing subsidiaries.

Equally important, SAIC filings show that rather than generate operating profits of RMB 18 million in 2011 and RMB 98 million in 2012, the Leasing Subsidiaries **were unprofitable in 2011 (losing RMB 3.1 million) and only generated RMB 18 million in operating profit in 2012 (81% less than reported)**.⁹

It is critical to note not only that revenues and operating profits are a fraction of the figures reported to Hong Kong investors in the prospectus, but that SAIC balance sheets for the leasing subsidiaries show a combined PP&E of revenue generating assets of RMB 252 million in 2012, **34% less than reported in the prospectus**.¹⁰

⁷ Ozner Prospectus, p. I-24.

⁸ Ozner Prospectus, p. I-25.

⁹ We believe, based on the low COGS in the SAIC filings for both Leasing Subsidiaries, that the Leasing Subsidiaries capitalize the acquisition cost of the water purification machines like the Company does on a consolidated basis in its Hong Kong filings. As a result, we believe that profitability figures are comparable between SAIC filings and the Hong Kong prospectus. However, because in the PRC (and on SAIC filings) they do not capitalize the installation costs of the machines, we would expect a slight difference between Hong Kong filings and SAIC filings.

¹⁰ Figures are adjusted account for PP&E additions related to the construction of the Shaanxi manufacturing facility (additions RMB 31mm in 2011, and RMB 75 mm in 2012) and for acquisition of Shanghai Comfort water purifiers in 2012 (RMB 57 million on the Hong Kong balance sheet). Ozner Prospectus, p. 205, 231 and I-31.

Reported Difference in Consolidated SAIC Filings and Prospectus for Ozner's Water Purification Leasing Subsidiaries

Figures are in RMB'000	2011			2012		
	SAIC	Prospectus	Difference	SAIC	Prospectus	Difference
PP&E (Revenue Generating Assets)	150,284	148,051	2%	252,526	384,127	-34%

1. Prospectus numbers are from Ozner Prospectus p. I-31
2. Took out RMB 105.4 mm from SAIC PP&E in 2012 as such amount was invested in the new Shaanxi facilities and not revenue generating assets.

The balance sheets in the SAIC filings also confirm that Shaanxi Haoze and Shanghai Haoze are, as the Company reiterates in its prospectus, the leasing subsidiaries which maintain title to machines rented out to end users and thus should report rental revenues and operating profits similar to the figures reported in the Hong Kong prospectus. They do not.

On the following pages, we present the income statements and balance sheets from the SAIC filings of both Shanghai Haoze and Shaanxi Haoze for 2011 and 2012. Such SAIC records are publicly available, and provided they are not doctored following the release of this report, can be obtained by any investor. SAIC filings show that such revenues and related net profits are substantially less than reported to Hong Kong investors and regulators.

Shanghai Haorun Environmental Technology Development

利 润 表 Income Statement

Unit: RMB

编制单位: 上海浩润环保科技有限公司

This Year Last Year 2012年度

金额单位: 元

项 目	行次	本期金额	上期金额	项 目	行次	本期金额	上期金额
一、营业总收入	1	54,766,849.90	25,050,665.83	加: 公允价值变动收益 (损失以“-”号填列)	20	This Year	Last Year
其中: 营业收入	2	54,766,849.90	25,050,665.83	投资收益 (损失以“-”号填列)	21		-1,000,000.00
其中: 主营业务收入	3	54,766,849.90	24,972,545.83	其中: 对联营企业和合营企业的投资收益	22		
其他业务收入	4		78,120.00	三、营业利润 (亏损以“-”号填列)	23	-280,704.10	-3,144,760.24
二、营业总成本	5	55,047,554.00	27,195,426.07	加: 营业外收入	24	6,460.93	35,621.26
其中: 营业成本	6	15,531,956.64	4,351,258.60	其中: 非流动资产处置取得	25		
其中: 主营业务成本	7	15,531,956.64	4,351,258.60	非货币性资产交换利得 (非货币性交易损益)	26		
其他业务成本	8			政府补助 (补贴收入)	27		7,405.00
营业税金及附加	9	2,434,277.49	1,340,210.67	债务重组利得	28		
销售费用	10	23,259,670.18	14,519,490.67	减: 营业外支出	29	61,134.15	30,480.26
管理费用	11	13,772,645.00	6,944,396.53	其中: 非流动资产处置损失	30		
其中: 业务招待费	12	795,347.67	323,018.70	非货币性资产交换利得 (非货币性交易损失)	31		
研究与开发费	13	3,561,533.25	2,079,100.66	债务重组损失	32		
财务费用	14	49,004.69	40,069.60	四、利润总额 (亏损以“-”号填列)	33	-335,377.32	-3,139,619.24
其中: 利息支出	15		20,000.00	减: 所得税费用	34	11,937.14	
利息收入	16	10,068.73	10,603.57	加: *期末确认的投资损失	35		
汇兑净损失 (净收益以“-”号填列)	17			五、净利润 (净亏损以“-”号填列) Net Profit	36	-347,314.46	-3,139,619.24
△资产减值损失	18			减: *少数股东权益	37		
其他	19			六、归属于母公司所有者的净利润	38	-347,314.46	-3,139,619.24

注: 表中带*项目为合并财务报表专用; 表中加△份家体项目为执行新会计准则企业专用, 其他企业不填; 表中加#份体项目为执行企业会计准则等企业专用, 执行新会计准则企业不填。

Source: 2012 Shanghai Haoze Water Purification Technology Development SAIC Filings-Income Statement¹¹

¹¹ Shanghai Haoze Water Purification Technology Development changed its name from Shanghai Haorun Environmental Technology Development in 2013.

Shanghai Haoren Environmental Tech. Dev. **损益表** Income Statement
2011年12月 December 2011

编制单位: 上海浩源环保科技有限公司

项 目	行次	This Year	
		本月数	本年累计数
一、主营业务收入 Sales Revenue	1	8,128,534.50	25,050,665.83
减: 主营业务成本	2	1,016,486.06	4,351,258.60
主营业务税金及附加	5	434,876.60	1,340,210.67
二、主营业务利润 (亏损以“-”号填列)	10	6,677,171.84	19,359,196.56
加: 其他业务利润 (亏损以“-”号填列)	11	-	-
减: 销售费用	13	1,820,522.20	14,519,490.67
管理费用	14	1,097,370.27	6,944,396.53
财务费用	15	-868.99	40,069.60
三、营业利润 Operating Profit (亏损以“-”号填列)	18	3,760,148.36	-2,144,760.24
加: 投资收益 (损失以“-”号填列)	19	-	-1,000,000.00
补贴收入	22	-	-
营业外收入	23	-	35,621.26
减: 营业外支出	25	-	30,480.26
四、利润总额 (亏损总额以“-”号填列)	27	3,760,148.36	-3,139,619.24
减: 所得税	28	-	-
五、净利润 Net Profit (净亏损以“-”号填列)	30	3,760,148.36	-3,139,619.24

Source: 2011 Shanghai Haoze Water Purification Technology Development SAIC Filings-Income Statement

当前位置: 年度报告信息查询

基本信息表 资产负债表 利润表 外商投资企业外方权益统计表

年度报告审核	利润表	Income Statement	This Year	Last Year	Currency: CNY
			本年金额	上年金额	货币单位: 人民币CNY
营业收入	Sales Revenue		35,968,697.40	0.00	
减: 营业成本	COGS		6,488,696.32	0.00	
营业税金及附加			1,978,278.37	0.00	
销售费用			7,360,787.63	0.00	
管理费用			847,501.24	0.00	
财务费用			295,505.39	0.00	
资产减值损失			0.00	0.00	
加: 公允价值变动收益			0.00	0.00	
投资收益			0.00	0.00	
其中: 对联营企业和合营企业的投资收益			0.00	0.00	
营业利润	Operating Profit		18,997,928.45	0.00	
加: 营业外收入			200.00	0.00	
减: 营业外支出			0.00	0.00	
其中: 非流动资产处置损失			0.00	0.00	
利润总额			18,998,128.45	0.00	
减: 所得税费用			2,849,719.27	0.00	
净利润	Net Profit		16,148,409.18	0.00	
每股收益			0.00	0.00	
基本每股收益			0.00	0.00	
稀释每股收益			0.00	0.00	

Source: 2012 Shaanxi Haoze SAIC Filings – Income Statements

Shanghai Haorun Environmental Technology Development

Balance Sheet

资产负债表

编制单位 上海浩润环保科技有限公司

Ending Balance

Beginning Balance

2012年12月31日

项 目	行次	年末余额	期初余额	项 目
流动资产	1	—	—	流动负债
货币资金	2	1,014,288.58	4,522,417.16	短期借款
△交易性金融资产	3			△交易性金融负债
# 短期投资	4			# 应付权证
应收票据	5			应付票据
应收账款	6			应付账款
预付账款	7	12,179,663.24	27,164,286.91	预收账款
应收股利	8			应付职工薪酬
应收利息	9			其中：应付工资
其他应收款	10	1,786,190.12	2,636,736.35	应付福利
存货	11	12,027,802.39	13,516,265.94	
其中：原材料	12		454,874.39	应交税费
库存商品（产成品）	13		13,061,391.55	其中：应交税金
一年内到期的非流动资产	14			应付利息
其他流动资产	15	130,080.82	80,925.58	应付股利
	15			其他应付款
流动资产合计	16	27,138,025.15	47,920,631.94	一年内到期的非流动负债
非流动资产	17	—	—	其他流动负债
△可供出售金融资产	18			流动负债
△持有至到期投资	19			非流动负债
# 长期股权投资	20			长期借款
△长期应收款	21			应付债券
长期股权投资	22			长期应付款
# 股权投资准备	23			专项应付款
△投资性房地产	24			预计负债
固定资产原价	25	205,762,000.69	155,067,676.33	△递延所得税负债
减：累计折旧	26	24,703,473.59	4,783,524.64	# 递延所得税资产
固定资产净值	27	181,058,527.10	150,284,151.69	其他非流动负债
减：固定资产减值准备	28			其中：特准储备基金
固定资产净额	29	181,058,527.10	150,284,151.69	非流动负债

Source: 2012 Shanghai Haoze Water Purification Technology Development SAIC Filings - Balance Sheet

基本信息表		资产负债表		利润表		外商投资企业外方权益统计表	
年度报告审核		资产负债表		Balance Sheet		Currency:	
				货币单位: 人民币CNY			
资产	年初余额	期末余额	负债和所有者权益 (或股东权益)	年初余额	期末余额		
	Beginning Balance	Ending Balance		Beginning Balance	Ending Balance		
流动资产:			流动负债:				
货币资金	0.00	2,860,768.86	短期借款	0.00	0.00		
交易性金融资产	0.00	0.00	交易性金融负债	0.00	0.00		
应收票据	0.00	0.00	应付票据	0.00	0.00		
应收账款	0.00	0.00	应付账款	0.00	5,967,565.89		
预付账款	0.00	63,666,502.85	预收账款	0.00	173,323,362.90		
应收利息	0.00	0.00	应付职工薪酬	0.00	0.00		
应收股利	0.00	0.00	应交税费	0.00	2,743,957.61		
其他应收款	0.00	673,313.07	应付利息	0.00	0.00		
存货	0.00	32,054,717.45	应付股利	0.00	0.00		
一年内到期的非流动资产	0.00	0.00	其他应付款	0.00	4,408,487.52		
其他流动资产	0.00	0.00	一年内到期的非流动负债	0.00	0.00		
流动资产合计	0.00	99,255,302.23	其他流动负债	0.00	2,699,820.96		
非流动资产:			流动负债合计	0.00	189,143,194.88		
可供出售金融资产	0.00	0.00	非流动负债:				
持有至到期投资	0.00	0.00	长期借款	0.00	0.00		
长期应收款	0.00	0.00	应付债券	0.00	0.00		
长期股权投资	0.00	0.00	长期应付款	0.00	0.00		
投资性房地产	0.00	0.00	专项应付款	0.00	0.00		
固定资产	0.00	176,867,701.83	预计负债	0.00	0.00		
在建工程	0.00	22,500.00	递延所得税负债	0.00	0.00		
工程物资	0.00	0.00	其他非流动负债	0.00	0.00		
固定资产清理	0.00	0.00	非流动负债合计	0.00	0.00		
生产性生物资产	0.00	0.00	负债合计	0.00	189,143,194.88		
油气资产	0.00	0.00					
无形资产	0.00	0.00	所有者权益(或股东权益)				
开发支出	0.00	0.00	实收资本(或股本)	0.00	70,853,900.00		
商誉	0.00	0.00	资本公积	0.00	0.00		
长期待摊费用	0.00	0.00	减:库存股	0.00	0.00		
递延所得税资产	0.00	0.00	盈余公积	0.00	0.00		
其他非流动资产	0.00	0.00	未分配利润	0.00	16,148,409.18		
非流动资产合计	0.00	176,890,201.83	所有者权益(或股东权益)合计	0.00	87,002,309.18		
资产总计	0.00	276,145,504.06	负债和所有者权益(或股东权益)总计	0.00	276,145,504.06		

Source: Shaanxi Haoze Environmental Technology Development 2012 SAIC Filings – Balance Sheet

If Ozner's prospectus was truthful and accurate, we would expect the SAIC filings of the Company's primary leasing subsidiaries, Shaanxi Haoze and Shanghai Haoze, to show substantially the same financial performance (at least in terms of sales and operating profits) as the consolidated entity.

They do not. Rather, the Leasing Subsidiaries' SAIC filings' shows revenues which were 54% less than reported. SAIC filings also show that operating profits were 81% less than reported in 2012, and that the subsidiaries were unprofitable in 2011 (in direct contradiction to the prospectus). In our opinion, this is further evidence that Ozner has significantly overstated the financial performance of its Company to Hong Kong investors and regulators.

SAME BUSINESS, DIFFERENT RESULT?

Prior to Ozner's IPO, [evidence suggests](#) that Chaoyue Group Limited ("CGL") (HK: 0147), a Hong Kong listed company, ran a very similar business, leasing Ozner-branded water purifying machines to end users, from 2009 through 2012. Despite leasing 63,000 water purifiers¹² (including many of the same or similar models as Ozner leases today), **CGL's water purification machine leasing business was an unprofitable failure which CGL eventually sold after prolonged and significant losses.**

Put simply, we are skeptical that almost an identical business could go from small and unprofitable failure in 2012 (under CGL) to a thriving and profitable operation with a market capitalization of HKD 6.2 billion under Ozner. We believe that such a turnaround is fantasy, and that the Company's purported performance has simply been exaggerated in preparation for a 2014 IPO.

1) Ozner's Water Purifier Leasing Business Failed under CGL

In 2005, Ozner's chairman, founder and CEO, Shu Xiao ("Xiao") [started](#) Shanghai Comfort, which [leased](#) water purification machines to end users in China through a direct marketing channel and third party distributors. In 2008, a Hong Kong public company, CGL, [agreed to purchase](#) the business from Xiao in exchange for preferred shares in CGL. The purchase price however, would change considerably.

Originally, CGL [announced](#) that the consideration for the acquisition was HKD 800 million in preferred shares. In its subsequent annual report, CGL announced that the consideration for the purchase was in fact only HKD 383 million in preferred shares, subject to a purchase-price adjustment based on whether the business achieved a profit in calendar-year 2009 of HKD 100 million.¹³ It failed. In fact, the water purification leasing business was so unprofitable that CGL adjusted the purchase down from HKD 383 million to **HKD 41 million**, an 89% decrease.¹⁴

From the time CGL acquired Shanghai Comfort in 2009 to the time it sold the subsidiary to Ozner in 2012, the business continued to be a money-losing failure beset by declining sales and mounting write offs, driven primarily by the awful performance of the water purifier leasing segment.

CGL Income Statement

Fiscal year ends on Mar. 31.

Figures are in RMB'000

	FYE 2010	FYE 2011	FYE 2012
Water Purifier Leasing Segment			
Segment Sales	67,981	14,325	22,828
Segment P&L	(33,250)	(167,061)	9,695
Park Wealth Air and Water Purification Business			
Total Park Wealth Sales	107,700	24,498	23,101
Total Park Wealth P&L	(32,492)	(220,165)	991

Sources: 2010 CGL Annual Report p 52, 2011 CGL Annual Report p.47, 2012 CGL Annual Report p46

Following CGL's acquisition of the water purification business, the segment operated at a loss. It was unprofitable from FY 2010 through FY 2011, including a particularly disastrous FY 2011 in which the water purification machine leasing segment recorded losses of HKD 167 million because CGL had to write off most of its value.

¹² Ozner Prospectus, p. 2.

¹³ [CGL 2009 Annual Report](#), p. 7; [CGL 2010 Annual Report](#), p. 79.

¹⁴ [CGL 2010 Annual Report](#), p. 33, 80 and 91.

CGL was forced to write off almost all of the value of the business and take massive impairment losses on the value of the leased machines, PP&E (including the factory), intangible assets (presumably including the Ozner brand) and goodwill:

FYE 2011 CGL Segment Impairment Write-Offs

<i>Figures are in HKD'000</i>	Water Purifier Leasing Segment	Park Weath Total
Impairment loss on PP&E	63,753	63,753
Impairment loss on intangible assets	23,516	23,516
Impairment loss on goodwill	27,085	27,085
Impairment loss on advances to suppliers	-	10,802
Allowance on bad and doubtful debts, net	24,499	41,898
Total	138,853	167,054

Source: 2011 CGL Annual Report

Such impairment losses resulted in an upside-down balance sheet in which the business, driven mainly by the failing water purifying leasing segment, began to report liabilities significantly in excess of assets.

CGL Balance Sheet

Fiscal year ends on Mar. 31.

Figures are in RMB'000

	FYE 2010	FYE 2011	FYE 2012
Water Purifier Leasing Segment			
Assets	152,874	15,005	13,532
Liabilities	46,104	73,498	69,378
Assets as a % of Liabilities	332%	20%	20%
Park Wealth Air and Water Purification Segment			
Total Park Wealth Assets	235,546	25,577	13,660
Total Park Wealth Liabilities	70,875	96,057	83,022
Assets as a % of Liabilities	332%	27%	16%

Sources: 2010 CGL Annual Report p.54, 2011 CGL Annual Report p. 49, 2012 CGL Annual Report p.48.

2) CGL's Water Purifying Business Appears Very Similar to Ozner's

Although Ozner does mention in its prospectus that CGL struggled, it discusses neither the extent of CGL's losses nor the striking similarities between CGL's business and Ozner's. Consider the following PowerPoint presentations. [The first presentation](#) was circulated **between 2010 and 2012 by CGL**. [The second presentation](#) was circulated in **2013 by Ozner** in anticipation of its IPO.

In the CGL presentation, CGL describes its "Ozner" branded water purification and air sanitization business:



公司介绍

Haoze Environmental Group (Company registered name: Shanghai Comfort Environment and Science Co., Ltd. Ticker: HK00147) is a hi-tech, diversified, large foreign environmental protection enterprise who does R&D, production and sales.




浩泽环保集团（企业注册名称：上海康福特环境科技有限公司股票代码hk00147）是一家集科研、生产和销售为一体的高科技、多元化、大型外资综合环保企业，是国内首家也是唯一一家获得软件产品认证（拥有软件知识产权）的水家电企业。

亚太区总部在香港，中国运营总部设在上海，在北京、广州、深圳、成都、苏州、福州、西安等地设有事业部。集团设有净水服务事业部与环保工程事业部两大分支机构，主营业务为健康饮用水、污水处理、中水回用、空气净化、消毒工艺及设备的研发推广等，并致力于臭氧技术在相关领域的应和推广

Source: CGL PowerPoint Presentation

CGL’s PowerPoint presentation also describes its Shangyu manufacturing facilities as the base of production for its water and air purification machines, just like Ozner does today.










Haoze Group Zhejiang Shangyu Production Facility
浩泽集团浙江上虞生产基地

Source: CGL PowerPoint Presentation

CGL’s presentation not only markets water purifying machines under the Ozner brand but advertises many of the same or similar models which Ozner sells on its website today. To demonstrate the similarity of the products for sale by CGL a couple of years ago and Ozner in 2014, below we have cut and pasted excerpts from the CGL PowerPoint presentation on the left with models currently for sale on Ozner’s website on the right:

CGL **OZNER**

1 A1XB2-A

Source: CGL PowerPoint Presentation

Difference	A1XB2-A	JZY-A1XB-A4	JZY-A1XB-A5
Purified water output	7.0 L/H	6.0 L/H	6.0 L/H

JZY-A1XB-A4
JZY-A1XB-A4

Source: <http://www.ozner.net/product.aspx?id=13>

JZY-A1XB-A5
JZY-A1XB-A5

Source: <http://www.ozner.net/product.aspx?id=14>

2 A1MB2-A

Difference	A1MB2-A	JZY-A1XB-A3
Purified water output	7.0 L/H	6.0 L/H
Purified water tank volume	5L	10L
Hot water output	5.0 L/H	4.0 L/H
Seller	CGL	Ozner

JZY-A1XB-A3

免去安装束缚
手动自来水龙头, 可随心将水机摆放在各种地方, 平安安装更简单快捷

珠光白

Source: <http://www.ozner.net/product.aspx?id=17>

CGL

OZNER

3 A1XB2-1



额定电压: 220VAC
 额定功率: 600W
 额定频率Hz: 50Hz
 纯水产量: 7L/H (25°C 0.25MPa)
 净水箱容积: 5L
 压力桶容积: 8L
 热水罐容积: 1.5L
 冰水罐容积: 1.2L
 热水制水量: 4L/H
 冷水制水量: 0.7L/H
 适合水压MPa: 0.06-0.3MPa
 适用自来水水温: 5-40°C
 适用环境温度: 5-40°C
 加热功率: 600W
 制冷功率: 78W
 热水温度: ≥90°C
 冷水温度: ≤15°C
 机身尺寸(mm): 1380*380*300
 机身重量: 23Kg
 计费方式: 以年计费
 标配管线分机一台
 机型颜色:

型号: A1XB2—1
 标配1台分机
 节省饮水成本30%以上
 国际顶级APO+8级净水
 专业净水服务五大承诺
 智能电脑板控制

JZY-A1XB-A1

JZY-A1XB-A1



额定电压: 220VAC
 额定功率: 600W
 额定频率Hz: 50Hz
 纯水产量: 6L/H
 净水箱容积: 10L
 压力桶容积: 7L
 热水罐容积: 1.5L
 热水制水量: 4L/H
 冷水制水量: 0.7L/H
 适合水压MPa: 0.06-0.3MPa
 适用自来水水温: 5-40°C
 适用环境温度: 5-40°C
 加热功率: 500W
 制冷功率: 78W
 热水温度: ≥90°C
 冷水温度: ≤15°C
 机身尺寸(mm): 1380*385*300
 机身重量: 23kg
 计费方式: 以年计费

Source: <http://www.ozner.net/product.aspx?id=15>

Difference	A1XB2-1	JZY-A1XB-A1
Purified water output	7.0 L/H	6.0 L/H
Purified water tank volume	5L	10L
Pressure tank volume	8L	7L
Seller	CGL	Ozner

4 A1XB2-D



额定电压: 220VAC
 额定功率: 1250W
 额定频率Hz: 50Hz
 纯水产量: 7L/H (25°C 0.25MPa)
 净水箱容积: 10L
 压力桶容积: 8L
 热水罐容积: 10L
 高温热水制水量: 10L/H
 中温热水制水量: 34L/H
 适合水压MPa: 0.06-0.3MPa
 适用自来水水温: 5-40°C
 适用环境温度: 5-40°C
 加热功率: 1200W
 高温热水温度: ≥90°C
 中温热水温度: 50°C
 机身尺寸(mm): 1380*380*300
 机身重量: 21Kg
 计费方式: 以年计费

型号: A1XB2—D
 热量加倍 (10L/H)
 节省饮水成本30%以上
 国际顶级APO+8级净水
 专业净水服务五大承诺
 智能电脑板控制

JZY-A1XB-A2

JZY-A1XB-A2



额定电压: 220VAC
 额定功率: 600W
 额定频率Hz: 50Hz
 纯水产量: 6L/H
 净水箱容积: 10L
 压力桶容积: 7L
 热水罐容积: 10L
 高温热水制水量: 10L/H
 中温热水制水量: 34L/H
 适合水压MPa: 0.06-0.3MPa
 适用自来水水温: 5-40°C
 适用环境温度: 5-40°C
 加热功率: 500W
 高温热水温度: ≥90°C
 中温热水温度: 50°C
 机身尺寸(mm): 1380*385*300
 机身重量: 21kg
 计费方式: 以年计费
 机型颜色:

Source: <http://www.ozner.net/product.aspx?id=16>

Difference	A1XB2-D	JZY-A1XB-A2
Rated power	1250 W	600 W
Purified water output	7.0 L/H	6.0 L/H
Pressure tank volume	8L	7L
Heating power	1200 W	500 W
Seller	CGL	Ozner

CGL	OZNER
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5 A5B2-8



A5B2-8S

- 功能

 技术

 额定电压: 220VAC
 额定功率: 100W
 额定频率: 50Hz
 纯水产量: 45L/H (25°C, 0.25MPa)
 压力桶容积: 18L
 适合水压MPa: 0.1-0.4MPa
 适用自来水水温: 5-40°C
 适用环境温度: 5-40°C
 机身尺寸(mm): 1380*480*420
 机身重量: 48Kg
 计费方式: 以年计费
 管线分机: 8台



- 型号: A5B2-8
 集团主机
 可带8台分机
 节省饮水成本30%以上
 国际顶级APO+8级净水
 专业净水服务五大承诺
 智能电脑板控制

JZY-A5B-B8

JZY-A5B-B8

- 功能

 技术

 额定电压: 220VAC
 额定功率: 100W
 额定频率: 50Hz
 纯水产量: 40L/H
 净水箱容积: 5L
 压力桶容积: 20L
 适合水压MPa: 0.06-0.3MPa
 适用自来水水温: 5-40°C
 适用环境温度: 5-40°C
 机身尺寸(mm): 1380*480*420
 机身重量: 48kg
 计费方式: 以年计费
 管线分机: 8台



Source: <http://www.ozner.net/product.aspx?id=20>

Difference	A5B2-8	JZY-A5B-B8
Purified water output	45.0 L/H	40.0 L/H
Pressure tank volume	18L	20L
Water pressure range	0.1 -0.4 Mpa	0.06 -0.3 Mpa
Seller	CGL	Ozner

Interestingly, CGL's PowerPoint presentation advertises the exact same research and development team as Ozner does in its 2013 PowerPoint presentation:

权威水质

承接了“2008北京奥运运动员配餐工厂”食品部工间空气净化项目。

2010年上海世博会饮用水供应商之一 世博志愿者饮用水唯一供应商 多家国际展馆指定饮用水

国家航天“嫦娥奔月项目”总装车间空气净化技术 供应商

研发团队

浩泽臭氧实验室 首席专家
 -陈工成, 英国杜伦大学生物学系硕士及博士学位, 现任香港理工大学生物及化学科技学系教授, 国际臭氧学会中国组主席、香港科技发展局特聘专家、香港华人臭氧协会会长。致力于臭氧在水处理领域的研究。

浩润微生物实验室 首席专家
 -陈再鸣, 教授, 现任浙江大学食用菌研究中心主任, 浙江省食用菌协会副理事长, 曾参加多项国家重点科研项目, 获得过多项国家科技进步奖。现任康福特公司技术研发中心兼职科学家、KFT微生物实验室首席专家, 指导公司新产品开发及技术开发工作。

浩润食品技术研究中心 首席专家
 -翁仁发, 高级工程师, 1987年厦门大学化学专业毕业, 营养学专家, 多年从事食品技术的研究和开发, 获得多项食品加工技术发明专利。曾在福建省科技厅、专利事务局任高级工程师, 现任康福特公司理化实验室指导科学家。

浩润电器实验室 首席专家
 -吴锡良, 高级工程师, 电子自动化技术专家, 从事电子技术的设计和开发多年, 获得多项发明专利。曾在上海海军船舶研究所、被工业第八研究所、上海造船七厂等单位担任高级工程师, 现任KFT电器实验室首席专家。

Source: CGL PowerPoint Presentation



核心技术团队



- 浩泽臭氧实验室 首席专家

- 陈玉成，英国社伦大学生物学系获硕士及博士学位，现任香港理工大学生物及化学科技学系教授。国际臭氧学会中国组主席、香港科技发展局特聘专家、香港华人臭氧协会会长。致力于臭氧在水处理领域的研究。



- 浩泽微生物实验室 首席专家

- 陈再鸣，教授，现任浙江大学食用菌研究中心主任，浙江省食用菌协会副理事长，曾参加多项国家重点科研项目，获得过多项国家科技进步奖。现任集团技术研发中心常职科学家，集团微生物实验室首席专家，指导公司新产品开发及技术攻关工作。



- 浩泽食品技术研究中心 首席专家

- 翁仁发，高级工程师，1967年厦门大学化学专业毕业，营养学专家，多年从事食品技术的研究和开发，获得多项食品加工技术发明专利。曾在福建省科技局、专利事务局任高级工程师，现任集团理化实验室指导科学家。



- 浩泽电气实验室 首席专家

- 奚锦良，高级工程师，电子自动化技术专家，从事电子技术的设计和开发多年，获得多项发明专利。曾在上海海军船舶研究所、核工业第八研究所、上海造船七厂等单位担任高级工程师。现任集团电气实验室首席专家。

Source: Ozner 2013 PowerPoint Presentation

CGL’s PowerPoint presentation states that it marketed Ozner-branded water purifiers to the 2010 Shanghai expo, so we estimate that the presentation was created at some point between 2010 and 2012 when it sold the water purification business to Ozner.

It is clear from the CGL presentation that CGL was leasing very similar models under the same brand which employed the same technology designed by the same research and development team as Ozner.

Mr. Xiao Shu, Ozner’s founder, CEO and Chairman, also apparently worked for CGL during this period. He is listed in each **CGL annual report from 2009-2012 as the director of the Shanghai Comfort operating subsidiary**, suggesting (in our view) that he was involved in the management of the subsidiary that leased and marketed water purifiers on behalf of CGL.

2009 CGL Annual Report:

23. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY		
	2009	2008
	HK\$'000	HK\$'000
Xiao Shu (肖述)	25,255	-

Xiao Shu is a director and former shareholder of Shanghai Comfort, a subsidiary of the Company acquired during the year.

The amount represents the advance which is non-trade nature.

The amount is interest free, unsecured and repayable on demand.

Source: CGL 2009 Annual Report p.90.

24. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY

	2010 HK\$'000	2009 HK\$'000
Xiao Shu (肖述)	23,464	25,255

Xiao Shu is a director and former shareholder of Shanghai Comfort, a subsidiary of the Company acquired during the year ended March 31, 2009.

The amount represents the advance which is non-trade nature.

The amount is interest free, unsecured and repayable on demand.

Source: [CGL 2010 Annual Report p.71.](#)

25. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY

	2011 HK\$'000	2010 HK\$'000
Xiao Shu (肖述)	20,061	23,464
Analysis for reporting purposes as:		
Current liabilities	–	23,464
Non-current liabilities	20,061	–
	20,061	23,464

The amount represents advance from Xiao Shu which is non-trade nature. Xiao Shu is a director and former shareholder of a subsidiary of the Company.

As at 31 March 2010, the amount was unsecured, interest free and repayable on demand. Pursuant to the agreement entered into with Xiao Shu in March 2011, the advance from Xiao Shu will be repaid on 31 March 2014. Accordingly, this amount has been reclassified as non-current liability as at 31 March 2011.

The amount is recognised at amortised cost with effective interest rate of 6.65% (2010: nil) per annum. At the date of rescheduling of the advance repayment terms, the difference between the carrying amount and the present value of the aforesaid advance under the rescheduled terms amounting to HK\$4,177,000 (2010: Nil) was included in other income as gain on extension of non-interest bearing payable to a director of a subsidiary.

Source: [CGL 2011 Annual Report p. 70](#)

23. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY

	2012 HK\$'000	2011 HK\$'000
Xiao Shu (肖述)	22,232	20,061

The amount represents advance from Xiao Shu which is non-trade nature. Xiao Shu is a director and former shareholder of a subsidiary of the Company.

Pursuant to the agreement entered into with Xiao Shu in March 2011, the advance from Xiao Shu will be repaid on 31 March 2014.

The amount is recognised at amortised cost with effective interest rate of 6.65% (2011: 6.65%) per annum.

Source: [CGL 2012 Annual Report p.66](#)

Clearly Mr. Xiao, according to CGL's annual reports, remained the director of the subsidiary which marketed and leased water purifiers from 2009-2012.

CGL's public financials also makes clear that Ozner's water purification business was a money-losing failure, beset by declining sales and mounting losses until CGL finally wrote off most of the business.

	CGL	OZNER
Business Segments	Leasing Water Purifying Machines, Direct Sales of Water Purifying Machines, EPC Projects for Air Sanitization Systems	Leasing Water Purifying Machines, EPC Projects for Air Sanitization Systems
Primary Segment	Leasing Ozner-branded Water Purifying Machines	Leasing Ozner-branded Water Purifying Machines
Brands	Ozner	Ozner
Manufacturing Base	Shangyu	Shangyu
Business Model	Direct sales and third party distributor network	Third party distributor network
R&D Team	Same	Same
Technology	APO (reverse osmosis)	APO (reverse osmosis)
Product Offerings	Diverse range of Corporate and Household models	Diverse range of Corporate and Household models
Business Value	Sold for HKD 78.5 million	Market capitalization of HKD 6.2 billion
Revenues	Shrinking	Expanding Rapidly
Profitability	Money Losing Failure	38% Net Margins

In January 2011, CGL [signed an agreement](#) with an independent third party, Shanghai Haoyang. Under the new deal, Shanghai Haoyang took over the office facilities, intellectual property (including the right to sell water purification machines under the brand name ‘Ozner’), and the annual rental fees from previously installed purifying machines. Shanghai Haoyang assumed responsibility to manage and service installed water purifying machines, and assumed the right to market and lease new machines to new customers (other than in 10 cities retained by CGL). In exchange, Shanghai Haoyang agreed to pay CGL an annual fee of **only HKD 12.5 million**.

In many ways this arrangement appears to be an indictment of Ozner’s current valuation and of the water purifier leasing business model. For the paltry annual fee of HKD 12.5 million, CGL was willing to subcontract all service and maintenance obligations and revenues for installed machines (as well as the right to lease to new customers in all but 10 cities). This arrangement makes sense given how much money CGL was losing by leasing water purifying machines. But it also suggests that Ozner’s current valuation is largely illusory and supports other evidence presented in this report indicating that the Company’s historical profitability has been fabricated.

Another detail is critical. Shanghai Haoyang sublicensed its right under the contract from CGL to Ozner, meaning that from January 2011 through September 2012, **both CGL and Ozner were marketing, leasing and installing water purifying machines in China to end users**. But CGL retained the right to run the business in 10 cities of its choice (which, based on CGL’s annual report, we believe were as follows).¹⁵

¹⁵ 2010 CGL Annual Report, p. 4

10 cities managed by Shanghai Comfort



From March 2011 to March 2012, CGL's water purifier leasing segment managed RMB 22 million in sales and RMB 9.7 million in operating profit.¹⁶ But this includes HKD 12.5 million in fees from subcontracting management of the installed machines to Ozner, so setting aside such fees it appears that CGL still operated the water purifying business at a loss during this period.¹⁷

By contrast, in CY 2011, Ozner reported 107,000 new installations, which supposedly generated RMB 53 million in rental income from leasing water purifiers and RMB 18 million in operating profit. How did Ozner generate more than five times the leasing revenues of CGL when CGL retained the right to lease machines in the 10 cities of its choice? How did Ozner install 107,000 new machines in CY 2011 when CGL retained the rights to the (presumably) best 10 cities and CGL had only installed 34,700 total machines since it acquired the business?¹⁸ How was Ozner able to operate profitably in those areas when CGL was presumably not able to do so?

In August 2012, CGL sold the Shanghai Comfort business to Ozner for a consideration of HKD 78.5 million.¹⁹ In essence CGL sold the water purification machine leasing business to Ozner for **1.5% of Ozner current market capitalization**. We believe that in this acquisition, Ozner acquired the right to use the Ozner brand, the rights to payments on installed machines and the rest of the Shanghai Comfort water and air purification business.

In describing the sale of Shanghai Comfort, CGL made clear that water and air purification business (including the leasing of water purifying machines) had been responsible for **HKD 213.6 million in losses in FY 2011 and HKD 0.1 million in losses from operation in FY 2012**. The water and air purification business also carried net liabilities as of March 31, 2012, of HKD 205.7 million:

¹⁶ CGL 2012 Annual Report, p. 46-47.

¹⁷ CGL 2012 Annual Report, p. 3 and 50.

¹⁸ CGL 2010 and 2011 Annual Reports. CGL 2012 Annual Report did not disclose the number of new installations.

¹⁹ [Ozner Prospectus](#), p. 107.

Based on the unaudited consolidated financial statements of the Park Wealth Group prepared in accordance with the Hong Kong Financial Reporting Standards, the loss before and after tax of the Park Wealth Group for the year ended 31 March 2011 amounted to approximately HK\$213.6 million and HK\$206.9 million respectively; and the loss before tax and profit after tax of the Park Wealth Group for the year ended 31 March 2012 amounted to approximately HK\$0.1 million and HK\$1.4 million respectively. The unaudited consolidated net liabilities of the Park Wealth Group as at 31 March 2012 amounted to approximately HK\$205.7 million.

Source: [CGL Press Release and Announcement](#)

It is clear from CGL's public filings that leasing Ozner-branded water purifying machines in China was a dramatic failure, resulting in sustained losses before CGL disposed of the business after writing down most of its value.

Ozner's current shareholders and auditors have to ask themselves how an essentially identical business, apparently run by the same manager (Mr. Xiao) leasing the same (or similar) products using the same core technology under the same brand, was unprofitable under CGL, only to suddenly become extremely profitable (net income margins of 35% and 38% in 2012 and 2013) when it was repackaged in preparation for the 2014 IPO. We believe that the most likely explanation, and one that is corroborated by SAIC filings and tax records, is that Ozner's water purifying business did not come back from the dead. Rather, we believe that financial alchemists have simply fabricated the Company's newfound success.

UNDISCLOSED RELATED PARTY TRANSACTIONS

PRC government [records](#), available to any investor online, indicate, in our opinion that Ozner blatantly misrepresented its relationship with the third party from whom Ozner acquired the rights to its business and with whom Ozner continued to transact throughout 2 of the 3 years of the track-record period.

As discussed in the previous section, leasing Ozner-branded water purifiers was such a disaster for CGL that in 2011, CGL sub-contracted the rights to run the business to Shanghai Haoyang Environmental Technology (“[Shanghai Haoyang](#)”) in exchange for an annual fee HKD 12.5 million per year. Under this framework, CGL granted to Shanghai Haoyang the right to market and lease water purifiers under the Ozner brand, the right to all revenues from previously installed machines, as well as right to use all office facilities, intellectual property and third-party distributors of the water purifying business (in all but 10 cities).

According to the Company’s [prospectus](#), Shanghai Haoyang then sub-contracted its right under the CGL subcontract to Ozner from January 2011 through September 2012. In September 2012, Ozner terminated this sub-contract with Shanghai Haoyang and supposedly cut out the middleman by purchasing the Shanghai Comfort business (including installed water purifying machines and the Ozner brand) from CGL.

Clearly Shanghai Haoyang’s dealings with Ozner were critical to both Ozner’s entry into the water purifying business and its operations between January 2011 and September 2012. During that period, **which covered almost two years of the three year pre-IPO track-record period**, Ozner paid Shanghai Haoyang a fee for the right to market, lease, install and receive revenue from Ozner-branded water purifying machines. Therefore, any details about the relationship between Shanghai Haoyang and Ozner, including any relationships that would otherwise suggest that the two parties did not conduct business at arm’s length, **would be critical to Ozner’s IPO investors**.

That is why Ozner unequivocally stated in its prospectus that Shanghai Haoyang was an “**independent third party**” and went so far to say, in no uncertain terms, that “**none of Shanghai Haoyang or its directors or shareholders had any past or present relationship, including without limitation, employment or financing relationship with [the Company] or our ... shareholders during the Track Record Period**”:

None of our Directors or shareholders had any equity interest in Shanghai Haoyang. None of Shanghai Haoyang or its directors or shareholders had any past or present relationship, including without limitation, employment or financing relationship with our Group or our directors or shareholders during the Track Record Period. In addition, our Directors believe, after due inquiries, that none of Shanghai Haoyang’s directors or shareholders had any family relationship with our Directors or shareholders or trust relationship with our Group or our directors or shareholders during the Track Record Period.

Source: Ozner Prospectus, p. 107.

“Shanghai Haoyang”

上海浩揚環保科技有限公司 (Shanghai Haoyang Environmental Technology Co., Ltd.), a company established in the PRC on November 1, 2010, [an Independent Third Party](#)

Source: Ozner Prospectus, p. 20.

But this appears to be a blatant misrepresentation. Corporate records published [online by the Chinese government](#) indicate that Xiao Jianping (an Ozner shareholder and director of an Ozner operating subsidiary) was and is a 60% shareholder of Shanghai Haoyang. Any investor can access such record by

entering the registration number (310115001756490) of Shanghai Haoyang (or its Chinese name) in the search bar, which will reveal the following record:



全国企业信用信息公示系统 (上海)	
上海浩扬环保科技有限公司 注册号: 310115001756490	
Shanghai Haoyang Environmental Technology Co., Ltd.	
登记信息 备案信息 动产抵押登记信息 股权出质登记信息 行政处罚信息 经营异常信息 严重违法信息 抽查检查信息	
基本信息	
注册号	310115001756490
名称	上海浩扬环保科技有限公司
类型	有限责任公司(自然人投资或控股)
法定代表人	刘志宝
注册资本	10.0万人民币
成立日期	2010年11月1日
住所	浦东新区民冬路698号4幢302室
营业期限自	2010年11月1日
营业期限至	2030年10月31日
经营范围	水处理设备专业领域的技术开发、技术咨询、水处理设备、空气净化设备的销售, 自有设备租赁(不得从事金融租赁)。【依法须经批准的项目经相关部门批准后方可开展经营活动】
登记机关	浦东新区市场监管局
核准日期	2010年11月1日
登记状态	存续(在营、开业、在册)
股东信息	
股东的出资信息截止2014年2月20日。2014年2月20日之后工商只公示股东姓名, 其他出资信息由企业自行公示。	
股东类型	股东 Shareholder
自然人股东	肖建平 Xiao Jianping 中华人民共和国居民身份证
自然人股东	刘志宝 中华人民共和国居民身份证

Source: <https://www.sgs.gov.cn/notice/home>

The above record indicates that Xiao Jianping (not be confused with the Mr. Xiao who is Ozner's chairman and CEO) was a 60% shareholder of Shanghai Haoyang since 2010, when he infused RMB 60,000 into the entity.²⁰



全国企业信用信息公示系统 (上海)								
Shanghai Haoyang Environmental Technology Co., Ltd.								
上海浩扬环保科技有限公司 注册号: 310115001756490								
股东及出资信息								
股东	认缴额 (万元)	实缴额 (万元)	认缴明细			实缴明细		
			认缴出资方式	认缴出资额 (万元)	认缴出资日期	实缴出资方式	实缴出资额 (万元)	实缴出资日期
肖建平	6.000000	6.000000	货币	6.000000		货币	6.000000	2010年10月15日

Shareholder Subscription
Xiao Jianping RMB 60K

Contribution Date of Contribution
RMB 60K 2010.10.15

Source: <https://www.sgs.gov.cn/notice/home>

²⁰ SAIC records show that Xiao Jianping originally pledged to contribute RMB 300,000 in Shanghai Haoyang (see next page) but that amount was reduced to RMB 60,000 when Shanghai Haoyang's registered capital was reduced from RMB 500,000 to RMB 100,000.

Paper SAIC filings corroborate the online record and indicate that Xiao Jianping continued to be an active owner and controller of Shanghai Haoyang from its inception in 2010 through 2013.

The notice for pre-approval of enterprise name

企业名称预先核准通知书

1/7 - 2/4

沪工商注名预核字第01201009020140号

根据《企业名称登记管理规定》、《企业名称登记管理实施办法》及《上海市企业名称登记管理规定》等规定，同意预先核准下列 2 个投资人出资，注册资本 50.0000 万元（人民币）的企业名称为：

上海浩扬环保科技有限公司

投资人、投资额和投资比例为：

Investor, investment amount, ownership

刘志宝	20.0000万元	40.00%
肖建平 Xiao Jianping	30.0000万元	60.00%

以上预先核准的企业名称保留期至2011年03月02日。在保留期内，企业名称不得用于经营活动，不得转让。经企业登记机关设立登记，颁发营业执照后企业名称正式生效。

六级注册官：

徐懿



Source: Shanghai Haoyang 2010 SAIC Registration Filings

**上海浩扬环保科技有限公司
股东会决议**

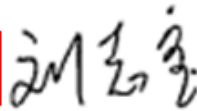
Shanghai Haoyang Environmental Technology
Shareholders' meeting resolutions

根据《中华人民共和国公司法》规定，全体股东于 2010 年 9 月 3 日在上海浩扬环保科技有限公司(筹)会议室召开首次股东会议，本次会议由刘志宝召集和主持，并形成决议如下：

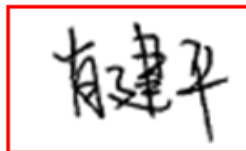
- 一、通过《上海浩扬环保科技有限公司章程》；
- 二、选举刘志宝担任公司执行董事。
- 三、选举肖建平担任公司监事。 Xiao Jianping was elected as Supervisor

会议一致同意设立上海浩扬环保科技有限公司，并拟向公司登记机关申请设立登记。

全体股东签字：



Shareholder's signature



Xiao Jianping

Source: Shanghai Haoyang 2010 SAIC Registration Filings

上海浩扬环保科技有限公司Shanghai Haoyang
Environmental Tech.**章程** Bylaw

依据《中华人民共和国公司法》(以下简称《公司法》)及其他有关法律、行政法规的规定,由刘志宝、肖建平共同出资设立上海浩扬环保科技有限公司(以下简称“公司”),经全体股东讨论,并共同制订本章程。

第一章 公司的名称和住所

第一条 公司名称:上海浩扬环保科技有限公司

第二条 公司住所:浦东新区桂桥路60号3幢203室

第二章 公司经营范围

第三条 公司经营范围:水处理设备专业技术领域内的技术开发,技术咨询,水处理设备、空气净化设备的销售,自由设备租赁(公司经营范围以工商局核准为准)。公司经营范围中属于法律、行政法规或者国务院决定规定在登记前须经批准的项目,应当在申请登记前报经国家有关部门批准。

第三章 公司注册资本

第四条 公司注册资本:人民币50万元。

第四章 股东的姓名、出资额、出资方式、出资时间

第五条 股东的姓名、出资额、出资比例、出资时间如下:

股东姓名	认缴出资额	出资方式	实缴出资额		出资时间
刘志宝	20万元	货币	首期	4万元	2010年10月15日
			第二期	16万元	2012年10月15日
肖建平	30万元	货币	首期	6万元	2010年10月15日
			第二期	24万元	2012年10月15日

全体股东签字:

Signature of all
shareholders

肖建平

Xiao Jianping

2010年9月3日

Source: Shanghai Haoyang 2010 SAIC Registration Filings

有关债务清偿及担保情况说明

A clarification for the issue of debt clearance and pledge

根据 2012 年 12 月 11 日上海浩扬环保科技有限公司关于减资的股东会决议，本公司编制了资产负债表及财产清单，在该决议作出之日起的 10 日内通知了债权人，并于 2012 年 12 月 12 日在文汇报上刊登了减资公告。现就减资所涉及的债务清偿及担保问题作如下说明：

根据公司编制的资产负债表及财产清单，公司对外债务为 0 元。至 2013 年 1 月 26 日，公司已无债务。如有未清偿的债务，由公司负责清偿，并由股东在法律规定的范围内提供相应的担保。

公司盖章（法定代表人签字）



刘玉玺

2013 年 1 月 28 日

担保人签字: Guarantor

肖建平

Xiao Jianping

2013 年 1 月 28 日

刘玉玺

Source: Shanghai Haoyang 2013 SAIC Amendment Filings

The problem is that this man appears to be the same Xiao Jianping who is a shareholder of Ozner and who is the director of the Company's operating subsidiary, Shanghai Haorun Environmental Works:

Name of option holder	Position held with our Group	Address	Number of Shares represented by options	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
XIAO Lilin (肖利林)	Executive Director	Unit 504, Block 10 Cheng Nan Shui Xiang Liang Hu County Shangyu City Zhejiang, PRC	7,596,652	0.45%
Sub-total:			89,054,283	5.28%
Director of our subsidiary				
LI Honggao (李紅高)	Director of Shanghai Comfort	No.60, Guiqiao Road Pudong New District Shanghai, PRC	3,200,000	0.19%
CHEN Jie (陳潔)	Director of Shanghai Haoze Environmental Technology	Unit 603, Building 16 Lane 743, Taopu Road Pudong New District Shanghai, PRC	1,128,547	0.07%
XIAO Jianping (肖建平) . .	Director of Shanghai Haorun Environmental Works	Group 1, Maojiacha Village Xiaodukou Town, Li County Changde City Hunan, PRC	875,464	0.05%

Source: Ozner Prospectus, p. IV-38

Ozner explicitly stated in its prospectus that none of Shanghai Haoyang's shareholders had any relationship with Ozner, past or present, during the track-record period. But the evidence suggests exactly the opposite: that an Ozner shareholder and manager of an operating subsidiary was in fact the controlling shareholder of Shanghai Haoyang during that time.

Plainly, Shanghai Haoyang is **not** an independent third party as the Company claims, but is rather a hidden, undisclosed related party. Not only do we believe that this is a clear violation of Hong Kong's listing rules but, in our opinion, constitutes a blatant misrepresentation to investors.

PRC TAX RECORDS INDICATE NET INCOME A FRACTION OF REPORTED

Annual tax rankings published by the city of Shangyu independently indicate, in our opinion, that Ozner's net income was at least 74% less than reported.

The city of Shangyu (Zhejiang province) publishes annual tax rankings, available to any [investor online](#), recognizing the top tax paying businesses in its jurisdiction. Included in each company's rankings are the total amount of taxes paid for the calendar year (including income taxes and VAT paid).

Ozner's prospectus reported both the number of units produced from 2011 through 2013 as well as the cost of production on a per unit basis during this period. **As a result, we are able to calculate the total cost of production for each such year.** Because Shangyu Manufacturing was Ozner's only manufacturer during the track record period, it should have been the sole subsidiary paying such production costs and thus should have been responsible for the associated VAT payments for the completed goods, allowing us to calculate the **minimum VAT that Shangyu Manufacturing should have paid from 2011 through 2013.** Shangyu Manufacturing must pay VAT because, as the Company discloses in the Prospectus, it transfers title of the machines it produces to Ozner's other subsidiaries for lease to end users.²¹

Shangyu Manufacturing minimum VAT Calculation

Figures are in RMB

	2011	2012	2013	3-Year Total
Production Output				
• Production Capacity ¹ = A	170,000	170,000	170,000	510,000
• Utilization Rate ¹ = B	70%	90%	92%	
• Units Produced =C=A*B	118,660	153,340	156,060	428,060
Unit Costs of Production				
• Cost of Raw Material per Unit ² = D	1,100	1,200	1,300	
• Raw Material as Percentage of Production Cost ² = E	70%	70%	70%	
• Total Production Cost per Unit =F=D/E	1,571	1,714	1,857	
Total Cost of Production =G=C*F	186,465,714	262,868,571	289,825,714	739,160,000
VAT Payable				
• VAT Payable (Pre-Deductions) =H=G*17%	31,699,171	44,687,657	49,270,371	125,657,200
VAT Deductions				
• Total Cost of Raw Material =I=C*D	130,526,000	184,008,000	202,878,000	517,412,000
• Capital Expenditure ³ =J	3,692,681	27,914,561	67,505,750	99,112,992
• VAT Deductible =K=(I+J)*17%	22,817,176	36,026,835	45,965,238	104,809,249
Minimum VAT Payable =L= H - K*	8,881,996	8,660,822	3,305,134	20,847,951
Actual Taxes Paid ⁴	< 1mm	2,250,000	2,270,000	5,520,000
% Actual Taxes Paid vs est. min. VAT owed	11%	26%	69%	26%

Sources:

* Glaucus estimate based on Ozner Prospectus

1. Prospectus p2

2. Prospectus p27

3. Prospectus P I-32~I-33, the sum of plant and machinery, motor vehicles, and software capital expenditure

4. Local Tax Records:

<http://www.shangyuribao.cn/oldpg/page/1/2012-01-17/08/49461326728039143.pdf>

<http://www.shangyuribao.cn/oldpg/page/1/2013-01-16/08/18321358254255840.pdf>

<http://www.shangyuribao.cn/images/2014-01/20/syrb2014012000004v01n.pdf>

²¹ SAIC filings confirm that Shangyu Manufacturing does not retain title of the machines, as no such rental generating machines are listed on its balance sheet.

凝心聚力谋发展 税企携手度时艰

天翻地覆, 汗水凝金。2011年是“十二五”开局之年, 面对复杂多变的经济形势, 全市各界干部群众深入贯彻落实市委、市政府的重大决策部署, 在社会各界特别是广大纳税人的真诚理解和支持下, 凝心聚力, 攻坚克难, 着力优化纳税服务, 切实加强税收征管, 不断强化队伍建设...

丰裕, 城乡面貌更加精致美丽。风雨多经志愈坚, 关山初度路犹长。2012年是实施“十二五”规划的重要一年, 更是上虞区位优势、产业优势、资源优势实现放大之年。上虞国税将一如以往地坚决贯彻落实市委、市政府的重大决策部署, 牢牢把握“稳中求进”的总基调, 围绕“调结构、抓转型、重投入、兴实体、强政策、优环境、惠民生、促和谐”, 继续不折不扣落实各项结构性减税政策, 加快出口退税进度, 扎实做好组织收入工作, 为上虞经济社会稳定发展和民生的保障改善提供更加充足的财力保障, 建立健全执法监督制约机制, 为经济发展营造公正公平的税收环境; 完善纳税服务体系, 持续提升纳税人满意度和税法遵从度。

在龙年来临之际, 我们谨向市委、市政府和一直以来理解、关心、支持、包容国税工作的各级党委、政府, 社会各界及全体纳税人表示最衷心的感谢和最诚挚的祝福。

上虞市国家税务局 局长: 孙伟红

纳税大户光荣榜

2亿元以上

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Row 1: 1, 浙江龙腾控股有限公司, 阮永尧, 20427

1亿元以上

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Row 1: 1, 同土控股有限公司, 阮加福, 13230

5000万元-1亿元

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Rows 1-6: 5, 卧龙控股集团有限公司, 陈建成, 8872; 6, 上虞新成生物化工有限公司, 胡朝斌, 7612; 7, 浙江华迪控股集团有限公司, 王炳通, 7029; 8, 浙江金盾控股集团有限公司, 周建超, 6670

1000万元-5000万元

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Rows 1-30: 13, 浙江百源药业有限公司, 马瑞娟, 22; 14, 浙江兴利源有限公司, 张金土, 23; 15, 浙江恒光控股集团有限公司, 陈卫, 24; 16, 浙江恒光控股集团有限公司, 陈卫, 25; 17, 浙江恒光控股集团有限公司, 陈卫, 26; 18, 浙江恒光控股集团有限公司, 陈卫, 27; 19, 浙江恒光控股集团有限公司, 陈卫, 28; 20, 浙江恒光控股集团有限公司, 陈卫, 29; 21, 浙江恒光控股集团有限公司, 陈卫, 30

500万元-1000万元

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Rows 49-70: 49, 浙江新源科药业有限公司, 李洪武, 60; 50, 浙江新源科药业有限公司, 李洪武, 61; 51, 浙江新源科药业有限公司, 李洪武, 62; 52, 浙江新源科药业有限公司, 李洪武, 63; 53, 浙江新源科药业有限公司, 李洪武, 64; 54, 浙江新源科药业有限公司, 李洪武, 65; 55, 浙江新源科药业有限公司, 李洪武, 66; 56, 浙江新源科药业有限公司, 李洪武, 67; 57, 浙江新源科药业有限公司, 李洪武, 68; 58, 浙江新源科药业有限公司, 李洪武, 69; 59, 浙江新源科药业有限公司, 李洪武, 70

100万元-500万元

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Rows 91-302: 91, 浙江兴源美化工有限公司, 叶秀君, 147; 92, 浙江兴源美化工有限公司, 叶秀君, 148; 93, 浙江兴源美化工有限公司, 叶秀君, 149; 94, 浙江兴源美化工有限公司, 叶秀君, 150; 95, 浙江兴源美化工有限公司, 叶秀君, 151; 96, 浙江兴源美化工有限公司, 叶秀君, 152; 97, 浙江兴源美化工有限公司, 叶秀君, 153; 98, 浙江兴源美化工有限公司, 叶秀君, 154; 99, 浙江兴源美化工有限公司, 叶秀君, 155; 100, 浙江兴源美化工有限公司, 叶秀君, 156; 101, 浙江兴源美化工有限公司, 叶秀君, 157; 102, 浙江兴源美化工有限公司, 叶秀君, 158; 103, 浙江兴源美化工有限公司, 叶秀君, 159; 104, 浙江兴源美化工有限公司, 叶秀君, 160; 105, 浙江兴源美化工有限公司, 叶秀君, 161; 106, 浙江兴源美化工有限公司, 叶秀君, 162; 107, 浙江兴源美化工有限公司, 叶秀君, 163; 108, 浙江兴源美化工有限公司, 叶秀君, 164; 109, 浙江兴源美化工有限公司, 叶秀君, 165; 110, 浙江兴源美化工有限公司, 叶秀君, 166; 111, 浙江兴源美化工有限公司, 叶秀君, 167; 112, 浙江兴源美化工有限公司, 叶秀君, 168; 113, 浙江兴源美化工有限公司, 叶秀君, 169; 114, 浙江兴源美化工有限公司, 叶秀君, 170; 115, 浙江兴源美化工有限公司, 叶秀君, 171; 116, 浙江兴源美化工有限公司, 叶秀君, 172; 117, 浙江兴源美化工有限公司, 叶秀君, 173; 118, 浙江兴源美化工有限公司, 叶秀君, 174; 119, 浙江兴源美化工有限公司, 叶秀君, 175; 120, 浙江兴源美化工有限公司, 叶秀君, 176; 121, 浙江兴源美化工有限公司, 叶秀君, 177; 122, 浙江兴源美化工有限公司, 叶秀君, 178; 123, 浙江兴源美化工有限公司, 叶秀君, 179; 124, 浙江兴源美化工有限公司, 叶秀君, 180; 125, 浙江兴源美化工有限公司, 叶秀君, 181; 126, 浙江兴源美化工有限公司, 叶秀君, 182; 127, 浙江兴源美化工有限公司, 叶秀君, 183; 128, 浙江兴源美化工有限公司, 叶秀君, 184; 129, 浙江兴源美化工有限公司, 叶秀君, 185; 130, 浙江兴源美化工有限公司, 叶秀君, 186; 131, 浙江兴源美化工有限公司, 叶秀君, 187; 132, 浙江兴源美化工有限公司, 叶秀君, 188; 133, 浙江兴源美化工有限公司, 叶秀君, 189; 134, 浙江兴源美化工有限公司, 叶秀君, 190; 135, 浙江兴源美化工有限公司, 叶秀君, 191; 136, 浙江兴源美化工有限公司, 叶秀君, 192; 137, 浙江兴源美化工有限公司, 叶秀君, 193; 138, 浙江兴源美化工有限公司, 叶秀君, 194; 139, 浙江兴源美化工有限公司, 叶秀君, 195; 140, 浙江兴源美化工有限公司, 叶秀君, 196; 141, 浙江兴源美化工有限公司, 叶秀君, 197; 142, 浙江兴源美化工有限公司, 叶秀君, 198; 143, 浙江兴源美化工有限公司, 叶秀君, 199; 144, 浙江兴源美化工有限公司, 叶秀君, 200; 145, 浙江兴源美化工有限公司, 叶秀君, 201; 146, 浙江兴源美化工有限公司, 叶秀君, 202

2亿元以上

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Row 1: 1, 浙江龙腾控股有限公司, 阮永尧, 20427

1亿元以上

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Row 1: 1, 浙江华孚色纺股份有限公司, 孙伟挺, 11008

5000万元-1亿元

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Rows 1-3: 1, 上虞市电力公司, 袁新华, 6249; 2, 浙江恒通机电股份有限公司, 邵瑞芳, 6006; 3, 浙江恒通机电股份有限公司, 邵瑞芳, 6007

1000万元-5000万元

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Rows 1-30: 31, 浙江恒通机电股份有限公司, 李树平, 32; 32, 浙江恒通机电股份有限公司, 李树平, 33; 33, 浙江恒通机电股份有限公司, 李树平, 34; 34, 浙江恒通机电股份有限公司, 李树平, 35; 35, 浙江恒通机电股份有限公司, 李树平, 36; 36, 浙江恒通机电股份有限公司, 李树平, 37; 37, 浙江恒通机电股份有限公司, 李树平, 38; 38, 浙江恒通机电股份有限公司, 李树平, 39; 39, 浙江恒通机电股份有限公司, 李树平, 40; 40, 浙江恒通机电股份有限公司, 李树平, 41; 41, 浙江恒通机电股份有限公司, 李树平, 42; 42, 浙江恒通机电股份有限公司, 李树平, 43; 43, 浙江恒通机电股份有限公司, 李树平, 44; 44, 浙江恒通机电股份有限公司, 李树平, 45; 45, 浙江恒通机电股份有限公司, 李树平, 46; 46, 浙江恒通机电股份有限公司, 李树平, 47; 47, 浙江恒通机电股份有限公司, 李树平, 48

500万元-1000万元

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Rows 49-70: 49, 浙江恒通机电股份有限公司, 陆金红, 71; 50, 浙江恒通机电股份有限公司, 陆金红, 72; 51, 浙江恒通机电股份有限公司, 陆金红, 73; 52, 浙江恒通机电股份有限公司, 陆金红, 74; 53, 浙江恒通机电股份有限公司, 陆金红, 75; 54, 浙江恒通机电股份有限公司, 陆金红, 76; 55, 浙江恒通机电股份有限公司, 陆金红, 77; 56, 浙江恒通机电股份有限公司, 陆金红, 78; 57, 浙江恒通机电股份有限公司, 陆金红, 79; 58, 浙江恒通机电股份有限公司, 陆金红, 80; 59, 浙江恒通机电股份有限公司, 陆金红, 81

100万元-500万元

Table with 3 columns: 序号, 纳税人识别号, 法定代表人, 税额. Rows 91-302: 91, 浙江恒通机电股份有限公司, 陆金红, 203; 92, 浙江恒通机电股份有限公司, 陆金红, 204; 93, 浙江恒通机电股份有限公司, 陆金红, 205; 94, 浙江恒通机电股份有限公司, 陆金红, 206; 95, 浙江恒通机电股份有限公司, 陆金红, 207; 96, 浙江恒通机电股份有限公司, 陆金红, 208; 97, 浙江恒通机电股份有限公司, 陆金红, 209; 98, 浙江恒通机电股份有限公司, 陆金红, 210; 99, 浙江恒通机电股份有限公司, 陆金红, 211; 100, 浙江恒通机电股份有限公司, 陆金红, 212; 101, 浙江恒通机电股份有限公司, 陆金红, 213; 102, 浙江恒通机电股份有限公司, 陆金红, 214; 103, 浙江恒通机电股份有限公司, 陆金红, 215; 104, 浙江恒通机电股份有限公司, 陆金红, 216; 105, 浙江恒通机电股份有限公司, 陆金红, 217; 106, 浙江恒通机电股份有限公司, 陆金红, 218; 107, 浙江恒通机电股份有限公司, 陆金红, 219; 108, 浙江恒通机电股份有限公司, 陆金红, 220; 109, 浙江恒通机电股份有限公司, 陆金红, 221; 110, 浙江恒通机电股份有限公司, 陆金红, 222; 111, 浙江恒通机电股份有限公司, 陆金红, 223; 112, 浙江恒通机电股份有限公司, 陆金红, 224; 113, 浙江恒通机电股份有限公司, 陆金红, 225; 114, 浙江恒通机电股份有限公司, 陆金红, 226; 115, 浙江恒通机电股份有限公司, 陆金红, 227; 116, 浙江恒通机电股份有限公司, 陆金红, 228; 117, 浙江恒通机电股份有限公司, 陆金红, 229; 118, 浙江恒通机电股份有限公司, 陆金红, 230; 119, 浙江恒通机电股份有限公司, 陆金红, 231; 120, 浙江恒通机电股份有限公司, 陆金红, 232; 121, 浙江恒通机电股份有限公司, 陆金红, 233; 122, 浙江恒通机电股份有限公司, 陆金红, 234; 123, 浙江恒通机电股份有限公司, 陆金红, 235; 124, 浙江恒通机电股份有限公司, 陆金红, 236; 125, 浙江恒通机电股份有限公司, 陆金红, 237; 126, 浙江恒通机电股份有限公司, 陆金红, 238; 127, 浙江恒通机电股份有限公司, 陆金红, 239; 128, 浙江恒通机电股份有限公司, 陆金红, 240; 129, 浙江恒通机电股份有限公司, 陆金红, 241; 130, 浙江恒通机电股份有限公司, 陆金红, 242; 131, 浙江恒通机电股份有限公司, 陆金红, 243; 132, 浙江恒通机电股份有限公司, 陆金红, 244; 133, 浙江恒通机电股份有限公司, 陆金红, 245; 134, 浙江恒通机电股份有限公司, 陆金红, 246; 135, 浙江恒通机电股份有限公司, 陆金红, 247; 136, 浙江恒通机电股份有限公司, 陆金红, 248; 137, 浙江恒通机电股份有限公司, 陆金红, 249; 138, 浙江恒通机电股份有限公司, 陆金红, 250; 139, 浙江恒通机电股份有限公司, 陆金红, 251; 140, 浙江恒通机电股份有限公司, 陆金红, 252; 141, 浙江恒通机电股份有限公司, 陆金红, 253; 142, 浙江恒通机电股份有限公司, 陆金红, 254; 143, 浙江恒通机电股份有限公司, 陆金红, 255; 144, 浙江恒通机电股份有限公司, 陆金红, 256; 145, 浙江恒通机电股份有限公司, 陆金红, 257; 146, 浙江恒通机电股份有限公司, 陆金红, 258

The city of Shangyu's tax rankings are prepared by the local State Tax Bureau and include VAT and income tax by companies in Shangyu. If the Company's reported financials were accurate, then we calculate that Shangyu Manufacturing should have paid significantly more VAT than it did.

Shangyu Manufacturing minimum VAT Calculation (cont.)

Figures are in RMB	2011	2012	2013
Minimum VAT Payable ¹	8,881,996	8,660,822	3,305,134
Actual Taxes Paid ²	< 1mm	2,250,000	2,270,000
% Actual Taxes Paid vs est. min. VAT owed	11%	26%	69%

Source: 1. Glaucus estimate based on Ozner Prospectus
2. Shangyu City Tax Rankings, [2011](#), [2012](#), [2013](#)

We believe that local or provincial tax rankings, such as those referred to above, are a credible source for taxes paid in China. For example, in our research on [China Lumena](#) (which is still halted since we issued our March 2014 research opinion), a similar tax ranking was, among other evidence, a telltale sign of misconduct. Such lists are an invaluable tool for investors doing research on public companies, but they are rarely as decisive as they are in this case.

Here, Ozner reported the supposed production costs of its manufacturing subsidiary, a claim directly and convincingly contradicted by the Shangyu city tax records. Such government tax rankings indicate, in our opinion, that Ozner's production figures and net profits were far lower during the track-record period than should be the case if the financials disclosed by Ozner were accurate.

1) Why Does Ozner Not Pay Income Tax?

Another facet of the Company's tax profile undermines its reported financial performance. Despite reporting an aggregate of RMB 795 million in revenue and **RMB 277 million in net income from 2011 through 2013**, Ozner **paid less than RMB 3 million in total income taxes during this period**.

	Notes	Year ended December 31,		
		2011	2012	2013
		RMB	RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		28,883,770	124,032,678	183,579,143
Adjustments for:				
Depreciation of revenue generating assets	13	5,661,571	26,384,665	54,375,728
Depreciation of property, plant and equipment	7	1,396,415	6,375,527	12,357,307
Amortisation of intangible assets	7	53,355	578,189	1,979,383
Unrealised exchange gain		(9,799,047)	(705,625)	(14,363,394)
Loss on disposal of property, plant and equipment		—	17,378	12,039
Loss on disposal of revenue generating assets		—	—	76,641
Gain on disposal of subsidiaries	6	—	—	(669,086)
Finance costs	8	20,000	—	1,847,980
Provision for doubtful collection of account receivables		—	—	362,465
		<u>26,216,064</u>	<u>156,682,812</u>	<u>239,558,206</u>
(Increase)/decrease in inventories		(28,651,527)	(9,262,083)	1,908,738
Increase in trade and bills receivables		(8,645,193)	(26,976,884)	(13,351,931)
(Increase)/decrease in prepayments, deposits and other receivables		(56,633,729)	(12,268,830)	1,090,378
Increase/(decrease) in trade and bills payables		41,051,360	(7,009,982)	20,772,925
Increase in other payables, advances from customers and accruals		48,707,776	20,395,074	37,936,800
Increase in deferred revenue		46,405,170	28,677,410	21,449,657
Cash generated from operations		<u>68,449,921</u>	<u>150,237,517</u>	<u>309,364,773</u>
Income tax paid		<u>—</u>	<u>(23,528)</u>	<u>(2,930,020)</u>
Net cash flows from operating activities		<u>68,449,921</u>	<u>150,213,989</u>	<u>306,434,753</u>

Source: Prospectus, p. I-6.

Ozner's explanation is deeply suspicious. The Company explained that it did not pay income taxes because:

“Income tax payable was primarily attributable to the **timing difference** in revenue recognition for accounting and tax reporting purposes. We recognize revenue of water purification services on a monthly basis over the one-year lease term for accounting purposes, whereas revenue reported to local tax bureau is revenue for **which invoices were already issued to principal distributors. We typically issue invoices to principal distributors at the end of lease terms, which we believe is consistent with market practice for the leasing business.**”²²

This explanation appears ludicrous. Ozner claims that it leases water purifiers for 1-year terms, meaning that if tax liabilities accrued because of the ‘timing difference’ between the end of a lease and the calendar year, income taxes owed on leased machines would not be outstanding for more than 1 year (at the most).

Yet Ozner's income tax payables have supposedly increased from RMB 10 million at FYE 2011, to RMB 34 million at FYE 2012, RMB 64 million at FYE 2013 and RMB 79.7 million at June 30, 2014.²³

CURRENT LIABILITIES				
Interest-bearing bank loan	22	—	—	212,716,680
Trade and bills payables	23	43,196,826	37,039,802	57,812,727
Other payables, advances from customers and accruals	24	49,756,184	88,586,198	130,395,728
Due to a shareholder	33	—	17,026,364	—
Due to a related party	33	287,757,213	422,820,024	407,955,002
Deferred revenue	25	46,405,170	75,082,580	96,532,237
Income tax payable		10,150,885	34,209,053	64,166,838
TOTAL CURRENT LIABILITIES		437,266,278	674,764,021	969,579,212

Source: Prospectus, p. I-4.

Over this time it has paid an aggregate of RMB 7 million in income taxes, less than 10% of what it owed as of June 30, 2014.²⁴ Rather than a “timing difference,” the continuing accrual of tax liabilities suggests that Ozner simply does not pay its income taxes.

In essence, Ozner claims that it is not required to pay income taxes because it has not yet invoiced its distributors, even though it has already received cash payments for leasing the machine and it has already recognized revenue for the transaction. If Ozner's explanation is to be believed, **any company could simply defer taxes by not invoicing distributors for payments received on leased goods!**

We believe that the more likely explanation for the Company's failure to pay meaningful income taxes is that Ozner has materially fabricated its reported profitability. Rather than report that it paid high income taxes, a claim that could easily be rebutted by local tax authorities who might then investigate the Company over its taxes, we believe that Ozner simply made up a (weak) explanation for why the Company barely paid any income taxes during the track-record period.

In our opinion, based both on our understanding of the PRC's tax system and conversations with experienced accountants and auditors, the Company's purported explanation is not credible and that its failure to pay more than RMB 3 million in income taxes over the track-record period (2011-2013) is simply additional evidence that the Company has significantly overstated its profitability.

²² Ozner Prospectus, p. 227.

²³ Ozner Prospectus, p. 217; Interim Report 2014, p. 24.

²⁴ Ozner Prospectus, p. I-6; Interim Report 2014, p. 27.

OZNER'S MARKET SHARE QUESTIONABLE

Consumer and industry surveys of China's water purifying market call into question the Company's claims regarding its market share, sales and the strength of its brand. Ozner claims in its prospectus to be the third largest water purifier manufacturer in China and the leader in commercial sales.

OVERVIEW

We are a leading water purification service provider in China, as we were the third largest water purifier manufacturer in China in terms of sales value to end users⁽¹⁾ in 2012 with a market share of 1.1% in a fragmented market, according to the Frost & Sullivan Report. In addition, we were the leader in the commercial segment of the market in terms of retail sales value in 2012 according to the same report. We provide water purification services to both

Source: Ozner Prospectus, p. 1.

Rank	Company	2012 Retail Sales Value (RMB million)	2012 Market Share (%)	Business Model Type
1	Midea Group	935.0	2.2	Sales
2	Qinyuan Group	700.0	1.6	Sales
3	Ozner Group	460.0	1.1	Lease and service
4	Shenzhen Litree Purifying Technology Co., Ltd.	395.0	0.9	Sales
5	Shenzhen Angel Drinking Water Equipment Co., Ltd.	375.0	0.9	Sales
6	Hefei GeMei Group	320.0	0.8	Sales
7	Pentair Ltd.	275.0	0.6	Sales
8	Ecowater Systems Ltd.	265.0	0.6	Sales
9	A. O. Smith (Shanghai) Water Treatment Products Co., Ltd.	260.0	0.6	Sales
10	Canature Group Co., Ltd.	240.0	0.6	Sales
	Others	38,226.3	90.1	
	Total	42,451.3	100.0	

Source: Frost & Sullivan Report

Source: Ozner Prospectus, p. 83.

According to Ozner, its principal competitors at the top of the water purifying market are Midea and Qinyuan. The Company claims that it has a clear lead on other water purifying manufacturers, including Angel, Litree and Canature. Yet independent data undermines such claims.

1) Consumer Brand Rankings

We found six different consumer and industry surveys in 2013 and 2014 produced by either consumer research centers or consumer brand websites. Each survey lists the top ten brands of water purifying manufacturers. **Not one of the six surveys even lists Ozner among the top 10 brands, let alone in the top three as the Company claims.**

By contrast, **each of the six surveys lists Ozner's competitors Midea and Qinyuan** as a top brand. Below we have provided links to each survey, the top ten rankings as reported, and details regarding the author of the survey and (where available) the methodology.

Top 10 Chinese Water Purifier Brand

中国净水器行业十大品牌

	www.chyxx.com	Chinese Top 10 Brand	Brand Ranking Website
Year	2014	2014	2014
No.	Brand	Brand	Brand
1	Midea 美的	Midea 美的	QLIFE 泉来
2	QINYUAN 沁园	Kingzer 净之泉	Angel 安吉尔
3	CONI 科里	Cleansui 三菱	Midea 美的
4	Angel 安吉尔	Guxin 谷新	Paragon 百诺肯
5	Litree 立升	hptinva 海普	Litree 立升
6	CHANITEX 佳尼特	Goodwater 好的水	QINYUAN 沁园
7	ECOWATER 怡可	Haier 海尔	EVERPURE 爱惠浦
8	Royalstar 荣事达	3M 3M	Canature 开能
9	sloan 斯隆	Well Blue 井蓝	ECOWATER 怡口
10	PENTAIR 滨特尔	QINYUAN 沁园	CONI 科里
Note	Ranked in random order	Ranking was generated by Chinese Industry Brand Top 10 List (http://www.10brand.cn/)	Ranked by customers' and distributors' votes.

[Chinese Trademark Association](#)
and relevant institutions

	Chinese Brand	Pchouse.com.cn
Year	2013	2013
No.	Brand	Brand
1	SUNDYLEE 圣帝尼	Midea 美的
2	Litree 立升	QINYUAN 沁园
3	QINYUAN 沁园	EVERPURE 爱惠浦
4	Midea 美的	Angel 安吉尔
5	Coway 熊津豪威	3M 3M
6	Canature 开能	Litree 立升
7	3M 3M	QLIFE 泉来
8	SYR 汉斯希尔	CONI 科里
9	Paragon 百诺肯	eSpring 益之源
10	Doulton 道尔顿	PHILIPS 飞利浦
Note	Ranked by distribution of Chinese water purifier brand awareness provided by ZDC.	Ranking was generated by Chinapp
		Pchouse.com.cn is a professional shopping platform for household products

These surveys are recent (2013 and 2014) and reputable. If, as the Company claims, Ozner was the third largest brand by market share in the water purifying market and the leader in corporate sales, we should expect it to appear on the lists summarized above.

Yet Ozner does not appear in the top ten (or appear at all) on any of the lists, even though its principal competitors (Midea and Qinyuan) are listed on each ranking. Ozner claims that its sales exceeded sales by Litree and Angel by 16% and 23%, respectively, during the track-record period.²⁵ Yet Litree appears as a top ten brand on 5 of the 6 surveys, whereas Angel appears as a top ten brand on 4 of the 6 surveys. Ozner claims that its sales exceed Canature's by 92%, yet even Canature manages to appear in the top ten in 2 of the surveys.

The two market share surveys which seems to validate the Company's claimed market share are neither independent nor credible. The Frost & Sullivan report quoted in the prospectus was **paid for by the Company and prepared using sales data provided by Ozner**. The Company also reported that HC360.com named it a 'top ten brand',²⁶ but that award was **sponsored by Ozner** (it is called the 'Ozner Cup top 10 China Water Purification Brand').²⁷

In our view, the six independent surveys undermine Ozner's claimed market share, sales and the purported strength of its brand.

2) Taobao and Tmall

Similarly, Ozner's purifiers do not even rank in the top 10 on Tmall or top 15 on Taobao, even if we limit our rankings to the category of purifiers which are supposedly Ozner's most popular models. On both websites, customers can see the ranking of products and the number of machines sold in the last 30 days.²⁸ This is a useful tool of comparing the popularity of brands.

Tmall

Period	2014.12.27-2015.01.26			
No.	Brand	Model	Price	Unit Sold
1	CHANITEX 佳尼特	CR400-N-N-1	2,680	610
2	Midea 美的	MRC1586A-50G	2,198	551
3	AO Smith AO史密斯	TR50-D1	3,088	442
4	QINYUAN 沁园	QR-RO-05A	2,498	386
5	Angel 安吉尔	A6	3,499	386
6	Angel 安吉尔	J1105-ROB8c	3,060	372
7	Midea 美的	MRO1593-50G	2,598	330
8	Haier 海尔	HRO5006-5	2,480	320
9	AO Smith AO史密斯	AR50-A2	2,888	132
10	QINYUAN 沁园	QR-RU-05A	3,198	124
N/A	Ozner 浩泽	A2B3-X1	1,699	93
N/A	Ozner 浩泽	A2B3-S1	5,180	4
N/A	Ozner 浩泽	A2B3-X	3,180	3
Note	The ranking was generated by number of unit sold under RO water purifier (direct drinking) category with pricing above RMB2,000 in the past 30 days.			

²⁵ Ozner Prospectus, p. 83.

²⁶ Ozner Prospectus, p. 140.

²⁷ <http://tech.hexun.com/2012-11-13/147876059.html>; <http://info.water.hc360.com/zt/top10/index.shtml>

²⁸ Taobao and Tmall rankings taken from the websites as of January 26, 2015.

On Tmall, we filtered the results for water purifiers to machines priced above RMB 2,000. In the last 30 days, Ozner's purported competitors, Midea, Angel and Qinyuan, sell the top ranked purifiers, sales of which were in the hundreds. By contrast, comparable Ozner purifiers are not ranked and appear to have ~100 total units sold.

Taobao shows similar results: Ozner is ranked far behind Qinyuan and Midea and sales of its products are an order of magnitude smaller (~22) than its supposed competitors.

Taobao

Period	2014.12.27-2015.01.26			
No.	Brand	Model	Price	Unit Sold
1	Midea 美的	MRC1586A-50G	2,432	446
2	CHANITEX 佳尼特	CR400-N-N-1	2,680	446
3	QINYUAN 沁园	QR-RO-05A	2,453	249
4	Angel 安吉尔	A6	3,499	247
5	AO Smith AO史密斯	TR50-D1	3,048	187
6	Midea 美的	MRO201A-4	3,385	106
7	CHANITEX 佳尼特	CR75-C-E-6	2,455	87
8	QINYUAN 沁园	QR-RU-05A	3,187	75
9	AO Smith AO史密斯	SR400-C3	5,150	66
10	AO Smith AO史密斯	AR50-A2	2,613	66
17	Ozner 浩泽	A2B3-X	2,451	18
48	Ozner 浩泽	A2B3-S	2,782	3
90	Ozner 浩泽	A2B3-X2	3,720	1
Note	The ranking was generated by number of unit sold under RO water purifier (direct drinking) category with pricing above RMB2,260 in the past 30 days.			

Rankings on Taobao and Tmall corroborate the consumer brand surveys, indicating, in our view, that Ozner's brand is far less popular than the Company claims. Such rankings also support the validity of SAIC filings and tax rankings by indicating that Ozner's production and sales are far less than reported to Hong Kong investors and regulators.

ACCOUNTING SHENANIGANS: DEPRICATION

Ozner's most critical accounting assumption is a 10-year useful life for water purification machines leased out to customers on an annual basis.²⁹ Because Ozner's machines are depreciated on a straight line basis over the 10-year useful life of its machines, most of the production cost is not recognized immediately, but deferred over the life of the asset. As such, depreciation expenses on leased purifiers accounted for 42% of Ozner's COGS in FY 2013.

But there is reason to doubt whether Ozner's depreciation assumptions are reasonable. A 10-year useful life assumption **is in direct contradiction to historical useful life assumptions for leased Ozner-branded water purifiers**. As discussed previously in this report, CGL leased and sold Ozner-branded water purifiers (including the same or similar corporate models for sale by Ozner today) from 2009 through 2012.

After acquiring the business, CGL directors carefully considered the useful lives of drinking water purification machines, including a careful estimation of expected usage, expected wear-and-tear, potential for technical obsolescence, and any future legal limitations. CGL also considered the historical experience with such machines. **CGL concluded by reassessing the estimated useful life of the machines from 9 years to 5 years:**

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated useful life for direct drinking water purification machines

The Group depreciates direct drinking water purification machines over their estimated useful lives and after taking into account of their estimated residual values, where appropriate, using the straight line method. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

During the year ended March 31, 2010, the directors evaluated the useful lives for the direct drinking water purification machines, through careful consideration with regards to expected usage, expected wear-and-tear, potential for technical obsolescence and any future legal limitations to usage of the assets. Further, the directors carefully considered the historical experience with similar assets in determining the estimated useful life, as well as taking into account anticipated technological or other changes. As a result of this reassessment, the directors concluded that the remaining useful lives of these direct drinking water purification machines should be reduced from approximately 9 years to 5 years. The directors consider this to be a change in accounting estimate and have therefore accounted for the change prospectively from April 1, 2009. The effect of this change in accounting estimate is to increase the depreciation charge for the year ended March 31, 2010 by HK\$4,841,000 and to decrease the profit for the year ended March 31, 2010 by HK\$3,631,000. As at March 31, 2010, the carrying amount of direct drinking water purification machines was approximately HK\$68,278,000 (2009: HK\$86,241,000).

Source: CGL 2010 Annual Report, p. 45.

CGL was selling similar purifiers under the same brand designed by the same research team as Ozner. Yet their estimate for the useful life of Ozner's machines was 5 years (and 50%) less than Ozner's current accounting assumptions.

²⁹ Ozner Prospectus, p. 201; I-14.

To give investors an idea of how sensitive Ozner's purported financial performance is to this depreciation assumption, in the following table we compare the effect on COGS by adjusting the assumption to 7-yr, 5-yr and 3-yr useful lives.

Depreciation Exp.		<u>2011</u>	<u>2012</u>	<u>2013</u>
Useful Life	3 yr	19,000	88,000	181,333
	5 yr	11,400	52,800	108,800
	7 yr	8,143	37,714	77,714
	10 yr	5,700	26,400	54,400

Adjusted COGS		<u>2011</u>	<u>2012</u>	<u>2013</u>
Useful Life	3 yr	23,800	100,200	193,633
	5 yr	16,200	65,000	121,100
	7 yr	12,943	49,914	90,014
	10 yr	10,500	38,600	66,700

Net Income		<u>2011</u>	<u>2012</u>	<u>2013</u>
Useful Life	3 yr	9,651	40,091	25,979
	5 yr	17,251	75,291	98,512
	7 yr	20,508	90,377	129,598
	10 yr	22,951	101,691	152,912

Net Income Margin		<u>2011</u>	<u>2012</u>	<u>2013</u>
Useful Life	3 yr	9%	14%	6%
	5 yr	17%	26%	24%
	7 yr	20%	31%	32%
	10 yr	22%	35%	38%

Using CGL's assumption for a 5-year useful life reduces 2013 net income by 36%, and this effect will only get larger as more and more of Ozner's revenues are derived from purifiers purportedly in circulation.

The impact on Ozner's valuation is even more striking. Simply by using CGL's 5-year useful life assumption, at current multiples we calculate that Ozner's share price is worth 39% less than its current price.

Ozner Valuation - By Useful Life

Useful life	Recurring Net Profit (RMB mm) ¹	Additional Depr. on Water Purifier ²	Adjusted Recurring Net Profit (RMB mm)	Shares (in mm) ³	EPS (RMB)	Price / Earnings ⁴	Stock Price (RMB)	EX Rate to HKD ⁵	Stock Price (HKD)
10 yr (Current)	140.2	-	140.2	1,751.0	0.08	35.41	2.84	1.26	3.56
5 yr	140.2	54.4	85.8	1,751.0	0.05	35.41	1.74	1.26	2.18
3 yr	140.2	126.9	13.3	1,751.0	0.01	35.41	0.27	1.26	0.34

1. Recurring net profit of 2013 from Ozner Water Int'l (2014.07.31 BNP PARIBAS report)

2. Used the depreciation of water purifier in COGS in 2013 to calculate the additional depreciation under 3 year and 5 year useful life.

3. Goldman Sachs report on Jan 14 2015

4. Stock price on Feb. 03 2015

5. Exchange rate from RMB to HKD on Feb 03 2015.

In this report, we have presented compelling evidence showing, in our opinion, that Ozner has materially misrepresented the scale and profitability of its business to Hong Kong investors and regulators. But what is striking is that even setting such compelling evidence aside, Ozner's shares appear 39% overvalued simply by correcting a depreciation assumption which materially contradicts the historical assumptions of the previous owners of Ozner's business.



VALUATION

Rarely does independent, publicly available evidence, converge so neatly to indicate (overwhelmingly), in our opinion, that a Company has materially misled investors, regulators and the market regarding its financial and operational performance.

Ozner claims to be the third ranked producer in a highly fragmented sector, supposedly ranked just behind competitors and giant appliance conglomerates Midea Group and Qinyuan Group.³⁰ In a highly fragmented appliance market such as water purifiers, we should expect intense competition between firms selling a relatively commoditized product. There is little ability to differentiate between products (the technology for water purification appliances is relatively straight forward), so we expect firms to compete on price and terms, which should drive down margins and make it difficult to turn a robust profit.

Yet, Ozner reports just the opposite: the Company claimed to generate 68% gross margins in 2013 (65% in 2012) and 46% EBIT margins in 2013 (43% in 2012). These are margins worthy of a branded monopoly, such as [Apple](#), which incidentally reports a 29% operating margin. How can the sale of commoditized water purifiers (from a non-industry leader) be almost twice as profitable as the sale of differentiated, best-in-class high end consumer electronics sold by one of the world's most famous brands?

Today, the Company trades for 15.9x 2014 Annualized EBITDA of HKD 318.29 million as calculated below.

Trading Valuation - 2014 Reported EBITDA

<i>Figures are in HKDmm²</i>	1H2014
Reported EBIT	101.22
Plus: D+A	57.93
Reported EBITDA	159.15
Reported EBITDA - 2014 Annualized¹	318.29

Current Trading Multiple	
Current Stock Price (HKD) ²	HKD 3.56
Shares Outstanding (mms) ³	1,751
Equity Value	6,234
Less: Net reported Cash	(1,172)
Enterprise Value	5,062
TEV/Annualized 2014 EBITDA	15.90

¹ Annualized EBITDA = Reported EBITDA - 1H2014*2
(EBITDA excludes other incomes and gains and other expenses)

² Stock price on Feb 03 2015

³ Goldman Sachs report on Jan 14 2015

⁴ RMB to HKD exchange rate = 1.26

We believe that there is a significant amount of credible, publicly-available evidence which suggests that Ozner's real EBITDA is between 50% and 90% lower than reported. We also believe that trading in Ozner's share will be halted pending an investigation into such misrepresentations.

³⁰ Company Prospectus, p. 83. Company claims a 1.1% market share in the water purification market.

In our opinion, the breadth of the Company's misrepresentations are so significant that it will no longer trade at a 15.9x EBITDA multiple, but (at most) 8x EBITDA. And we believe even such a multiple is extremely generous. Furthermore, only a small amount of Company cash remains offshore (denominated in USD or HKD), the rest has been repatriated to the PRC where it is beyond the reach of Ozner's foreign creditors and shareholders. As a result, we estimate that Ozner is worth between **HKD 0.27-0.85 per share, a downside of 76%-92% from today's trading price.**

Glaucus Valuation

Figures are in HKDmm²

	Case I	Case II
Reported EBITDA - 2014 Annualized ¹	318.3	318.3
EBITDA Reduction	50%	90%
Adjusted EBITDA	159.1	31.8

TEV/Annualized 2014 EBITDA	15.9	15.9
Corruption Discount	50%	50%
EBITDA Multiple - Adjusted	8.0	8.0

Adjusted Enterprise Value	1,265	253
Plus: Net Offshore Cash (6/30/2014) ²	228	228
Equity Value	1,493	481
Shares Outstanding (mms) ³	1,751	1,751
Implied Price Per Share	HKD 0.85	HKD 0.27
Decline from current prices	76%	92%
Value of Net Cash per Share	HKD 0.13	HKD 0.13
Value of Firm per Share	HKD 0.72	HKD 0.14

¹ Annualized EBITDA = Reported EBITDA - 1H2014*2

² Ozner Interim Report p. 41

³ Goldman Sachs report on Jan 14 2015

⁴ RMB to HKD exchange rate = 1.26

We believe that even a valuation of **HKD 0.27-0.85 per share** may be generous, as there could be significant downside pressure on the Company's share price given, in our opinion, the scale of its misrepresentations. We do not believe investors will ever trust Ozner again – nor should they.

