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China Boqi Environmental (Holding) Co., Ltd.
中國博奇環保(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2377)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

ANNUAL RESULTS HIGHLIGHTS

For the year ended 31 December 2018, the revenue of the Group amounted to RMB1,745 million, representing an increase of 31.3% as compared with last year.

For the year ended 31 December 2018, the gross profit of the Group amounted to RMB318 million and the gross profit margin of the Group was 18.2%, representing an increase of 7.1% and a decrease of 4.2 percentage points as compared with last year, respectively.

For the year ended 31 December 2018, the net profit of the Group amounted to RMB393 million, and the net profit margin of the Group was 22.5%, representing an increase of RMB430 million as compared with last year.

If excluding the gains from change in fair value of convertible ordinary shares, the adjusted net profit[1] for the year ended 31 December 2018 would be RMB259 million. Adjusted net profit margin[1] would be 14.8%, an increase of 32.1% and 0.1 percentage points compared with that for last year.

The Board has recommended the payment of HK$0.09 per ordinary share as final dividend for the year ended 31 December 2018 (2017: Nil).

Note 1: To facilitate comparisons of the overall operating performance of the Company in different periods, certain non-recurring, non-cash or non-operating items, which were not indicative of our operating performance, were excluded. Adjusted net profit and adjusted net profit margin are not measures required by, or presented in accordance with, IFRS and are unaudited figures. The use of these measures has limitations as analytical tools, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. Please refer to "MANAGEMENT DISCUSSION AND ANALYSIS – Non-IFRS Measurement Indicators" for more details.

The board (the "**Board**") of directors (the "**Directors**") of China Boqi Environmental (Holding) Co., Ltd. (the "**Company**", together with its subsidiaries collectively referred to as the "**Group**") is pleased to announce the consolidated annual results of the Group for the year ended 31 December 2018 (the "**2018 Financial Year**"), together with comparative figures for the corresponding period of 2017 (the "**2017 Financial Year**").

In this announcement, "we", "us" and "our" refer to the Company and where the context otherwise requires, the Group.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**Year ended 31 December** **2018** *RMB'000*	**2017** *RMB'000*
Revenue	*3*	**1,744,998**	1,329,078
Cost of sales and services		**(1,427,140)**	(1,031,836)
Gross profit		**317,858**	297,242
Other income and other gains and losses	*4*	**117,456**	26,017
Selling and distribution expenses		**(26,170)**	(18,318)
Administrative expenses		**(109,103)**	(88,892)
(Allowance) reversal of impairment losses on financial assets and contract assets		**(3,816)**	10,158
Share of profit of an associate		**27,963**	31,694
Finance costs	*5*	**(5,900)**	(5,333)
Change in fair value of convertible ordinary shares		**133,541**	(233,228)
Listing expenses		**(3,319)**	(14,114)
Profit before tax		**448,510**	5,226
Income tax expense	*6*	**(55,691)**	(42,255)
Profit (loss) for the year	*7*	**392,819**	(37,029)
Other comprehensive (expense) income for the year:			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instrument at fair value through other comprehensive income		**(5,460)**	–
Income tax relating to investments in equity instrument at fair value through other comprehensive income		**819**	–
		(4,641)	–
Items that may be subsequently reclassified to profit or loss:			
Change in fair value of an available-for-sale investment		**–**	7,000
Income tax relating to items that may be reclassified subsequently		**–**	(1,051)
		–	5,949
Total comprehensive income (expense) for the year		**388,178**	(31,080)

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Profit (loss) for the year attributable to:			
Owners of the Company		**394,359**	(36,418)
Non-controlling interests		**(1,540)**	(611)
		392,819	(37,029)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**389,718**	(30,469)
Non-controlling interests		**(1,540)**	(611)
		388,178	(31,080)
Earnings (loss) per share			
– Basic (RMB)	*8*	**0.44**	(0.08)
– Diluted (RMB)	*8*	**0.27**	(0.08)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

		At 31 December	
	Notes	**2018**	**2017**
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**88,330**	67,021
Investment properties		**12,348**	12,982
Intangible assets		**543,824**	425,140
Receivables under service concession arrangement	*9*	**367,029**	384,565
Investment in an associate		**69,537**	70,098
Equity instrument at fair value through other comprehensive income		**3,540**	–
Available-for-sale investment		**–**	9,000
Amounts due from related parties		**143,287**	158,014
Deferred tax assets		**25,121**	21,995
Total non-current assets		**1,253,016**	1,148,815
Current assets			
Receivables under service concession arrangement	*9*	**12,526**	23,519
Debt instrument at fair value through other comprehensive income		**70,205**	–
Inventories		**37,841**	25,429
Contract assets	*10*	**204,289**	–
Amounts due from customers for contract work	*10*	**–**	95,348
Trade and notes receivables	*11*	**779,070**	667,253
Prepayments, deposits and other receivables		**123,190**	70,176
Amounts due from related parties		**181,520**	70,405
Pledged bank deposits		**88,113**	54,383
Bank balances and cash		**780,480**	689,354
Total current assets		**2,277,234**	1,695,867

	Notes	At 31 December 2018 RMB'000	2017 RMB'000
Current liabilities			
Trade and notes payables	*12*	**885,535**	720,727
Other payables, deposits received and accrued expenses		**176,024**	405,489
Contract liabilities	*10*	**115,651**	–
Amounts due to customers for contract work	*10*	**–**	27,708
Income tax payable		**24,805**	17,719
Other tax liabilities		**57,659**	32,385
Bank borrowings		**53,483**	100,000
Amounts due to related parties		**23,901**	5,496
Total current liabilities		**1,337,058**	1,309,524
Net current assets		**940,176**	386,343
Total assets less current liabilities		**2,193,192**	1,535,158
Non-current liabilities			
Deferred tax liabilities		**8,018**	–
Bank borrowings		**12,000**	27,000
Convertible ordinary shares	*13*	**–**	755,129
		20,018	782,129
Net assets		**2,173,174**	753,029
Capital and reserves			
Share capital		**67**	32
Reserves		**2,174,058**	752,408
Equity attributable to owners of the Company		**2,174,125**	752,440
Non-controlling interests		**(951)**	589
		2,173,174	753,029

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

China Boqi Environmental (Holding) Co., Ltd. (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 30 January 2015 of which its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 March 2018. The addresses of the registered office of the Company and principal place of business of the Company and its subsidiaries (collectively referred to as the "Group") are disclosed in the section headed "Corporate Information" to the annual report.

The Company is an investment holding company. The principal activities of the Group are providing independent flue gas treatment service and environmental protection solution service by various business models, including environmental protection facility engineering, operation and maintenance and concession operation.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the Related Amendements
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"
Amendments to IAS 28	As part of the Annual Improvements to IFRSs Standard 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior year and/or on the disclosures set out in these consolidated financial statements.

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Gross carrying amounts previously reported at 31 December 2017	Reclassification	Gross carrying amounts under IFRS 15 at 1 January 2018*
	RMB'000	*RMB'000*	*RMB'000*
Current Assets			
Trade and notes receivables	698,677	(127,489)	571,188
Contract assets	–	222,837	222,837
Amounts due from customers for contract work	95,348	(95,348)	–
Current Liabilities			
Contract liabilities	–	74,521	74,521
Amounts due to customers for contract work	27,708	(27,708)	–
Other payables, deposits received and accrued expenses	405,489	(51,797)	353,692
Other tax liabilities	32,385	4,984	37,369

* The amounts in this column are before the adjustment from the application of IFRS 9.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	Gross carrying amount as reported	Adjustments	Gross carrying amount without application of IFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Current Assets			
Trade and notes receivables	802,046	69,980	872,026
Contract assets	211,400	(211,400)	–
Amounts due from customers for contract work	–	111,420	111,420
Amounts due from related parties	184,040	30,000	214,040
Current Liabilities			
Contract liabilities	115,651	(115,651)	–
Amounts due to customers for contract work	–	43,808	43,808
Other payables, deposits received and accrued expenses	176,024	81,304	247,867
Other tax liabilities	57,659	(9,461)	48,198

There is no impact on the consolidated statement of profit and loss and other comprehensive income.

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and 3) general hedge accounting.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets, financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale investment	Equity instrument at FVTOCI*	Trade and notes receivables	Amounts due from customers for contract work	Prepayments deposits and other receivables	Amounts due from related parties	Receivables under service concession arrangement	Debt insturment at FVTOCI	Contract assets	Deferred tax assets	Retained profits
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Closing balance at 31 December 2017 – IAS 39	9,000	–	667,253	95,348	70,176	228,419	408,084	–	–	21,995	504,141
Effect arising from initial application of IFRS 15	–	–	(127,489)	(95,348)	–	–	–	–	222,837	–	–
Effect arising from initial application of IFRS 9											
Reclassification from											
Available-for-sale investment	(9,000)	9,000	–	–	–	–	–	–	–	–	–
Trade and notes receivables			(65,837)	–	–	–	–	65,837	–	–	–
Remeasurement											
Impairment under ECL model	–	–	4,381	–	(59)	(2,839)	(3,673)	–	(5,833)	1,741	(6,282)
Opening balance at 1 January 2018	–	9,000	478,308	–	70,117	225,580	404,411	65,837	217,004	23,736	497,859

* FVTOCI: Fair value through other comprehensive income

All loss allowances, including contract assets, trade and notes receivables, other receivables, amounts due from customers for contract work, amounts due from related parties, receivables under service concession arrangement, and debt instrument at FVTOCI as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Contract assets	**Trade and notes receivables**	**Prepayments, deposits and other receivables**	**Amounts due from related parties**	**Receivables under service concession arrangement**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017 – IAS 39	N/A	31,424	300	–	–
Reclassification	5,281	(5,281)	–	–	–
Amounts remeasured through opening retained profits	552	900	59	2,839	3,673
Opening balance at 1 January 2018	5,833	27,043	359	2,839	3,673

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) *RMB'000*	**IFRS 15** *RMB'000*	**IFRS 9** *RMB'000*	**1 January 2018 (Restated)** *RMB'000*
Non-current Assets				
Receivables under service concession arrangement	384,565	–	(3,461)	381,104
Available-for-sale investment	9,000	–	(9,000)	–
Amounts due from related parties	158,014	–	(1,840)	156,174
Equity instrument at FVTOCI	–	–	9,000	9,000
Deferred tax assets	21,995	–	1,741	23,736
Current Assets				
Trade and notes receivables	667,253	(127,489)	(61,456)	478,308
Amounts due from related parties	70,405	–	(999)	69,406
Amounts due from customers for contract work	95,348	(95,348)	–	–
Receivables under service concession arrangement	23,519	–	(212)	23,307
Prepayments, deposits and other receivables	70,176	–	(59)	70,117
Debt instrument at FVTOCI	–	–	65,837	65,837
Contract assets	–	222,837	(5,833)	217,004
Current Liabilities				
Contract liabilities	–	74,521	–	74,521
Amounts due to customers for contract work	27,708	(27,708)	–	–
Other payables, deposits received and accrued expenses	405,489	(51,797)	–	353,692
Other tax liabilities	32,385	4,984	–	37,369
Capital and Reserves				
Retained profits	504,141	–	(6,282)	497,859

New and revised IFRSs in issue but not yet effective

The Group has not adopted the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after a date to be determined

[3] Effective for annual periods beginning on or after 1 January 2021

[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[5] Effective for annual periods beginning on or after 1 January 2020

3. REVENUE AND SEGMENT INFORMATION

Revenue is mainly generated from the flue gas desulfurisation and denitrification services through three different models, namely EPC, operation and maintenance and concession operation. In addition, the Group also provides sewage treatment and sales of by-products, which are recorded in others.

For the purposes of resources allocation and assessment of segment performance, the executive Directors, being the chief operating decision maker ("CODM"), regularly review types of goods or services delivered or provided by focusing on different business models. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under IFRS 8 are as follows:

EPC	project design, procurement of equipment and materials, project construction and equipment installment and testing services
O&M	operation service and regular maintenance service for desulfurisation and denitrification facilities and dust removal facilities
BOT & TOT	construction of infrastructure or acquisition of existing infrastructure from grantor, operation and maintenance of flue gas treatment project for a pre-defined period according to the concession contract and transfer the ownership of the infrastructure to the customer at the end of the period
Others	sewage treatment, sales of by-products and others

Disaggregation of revenue

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Timing of revenue recognition		
Over time	**1,717,555**	1,307,718
A point in time	**27,443**	21,360
	1,744,998	1,329,078
Types of goods and services		
Provision of services	**1,717,555**	1,307,718
Sales of goods	**27,443**	21,360
	1,744,998	1,329,078
Nature of goods and services		
EPC	**722,117**	555,261
O&M	**415,113**	402,815
Concession operation	**580,051**	340,477
Others	**27,717**	30,525
	1,744,998	1,329,078

Geographical information

The Group primarily operates in the PRC. Substantially all non-current assets and revenue of the Group are located in and generated from the PRC.

The following is an analysis of the Group's revenue and results by operating and reportable segment:

	Segment revenue		**Segment profit**	
	Year ended 31 December		**Year ended 31 December**	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
EPC	**722,117**	555,261	**56,523**	43,072
O&M	**415,113**	402,815	**124,556**	126,756
Concession operation	**580,051**	340,477	**114,042**	111,452
Others	**27,717**	30,525	**22,737**	15,962
Total	**1,744,998**	1,329,078	**317,858**	297,242
Unallocated other income and other gains and losses			**117,456**	26,017
Unallocated selling and distribution expenses			**(26,170)**	(18,318)
Unallocated administrative expenses			**(109,103)**	(88,892)
Unallocated (allowance) reversal of impairment losses on financial assets and contract assets			**(3,816)**	10,158
Unallocated share of profit of an associate			**27,963**	31,694
Unallocated finance costs			**(5,900)**	(5,333)
Unallocated change in fair value of convertible ordinary shares			**133,541**	(233,228)
Unallocated listing expenses			**(3,319)**	(14,114)
Profit before tax			**448,510**	5,226

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for the year ended 31 December 2018 (2017: Nil).

Segment profit represents the results of each segment without allocation of corporate items including other income and other gains and losses, selling and distribution expenses, administrative expenses, (allowance) reversal of impairment losses on financial assets and contract assets, share of profit of an associate, finance costs, change in fair value of convertible ordinary shares and listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

No segment assets and liabilities are presented as the CODM does not regularly review segment assets and liabilities.

Information about major customers

Revenue from customers during the year contributing over 10% of the total revenue of the Group are as follows:

	Segment	Year ended 31 December **2018** *RMB'000*	2017 *RMB'000*
Customer A	O&M	**255,575**	197,061
Customer B	Concession operation & O&M	*	168,696
Customer C	EPC	*	146,990

* Revenue from these customers was less than 10% in 2018.

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31 December **2018** *RMB'000*	2017 *RMB'000*
Interest income	**38,496**	17,199
Government grants	**26,968**	11,554
Rental income, net	**1,526**	847
Loss on disposal of property, plant and equipment	**(21)**	(45)
Gains from extinguishment of liabilities *(note)*	**8,786**	2,534
Foreign exchange gains (losses)	**35,445**	(10,331)
Others	**6,256**	4,259
	117,456	26,017

Note: The amount mainly represents certain outstanding trade payables, other payables and accrued expenses, relating to construction contracts, which has exceeded the maximum recourse periods and is no longer payable by the Group.

5. FINANCE COSTS

	Year ended 31 December **2018** *RMB'000*	2017 *RMB'000*
Interest on bank borrowings	**5,900**	5,333

6. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax – PRC	**48,239**	29,718
Deferred income tax	**7,452**	12,537
Total	**55,691**	42,255

The Company and CBEE Holdings Co., Ltd. ("CBEE") were incorporated in the Cayman Islands and the British Virgin Islands ("BVI"), respectively. Both entities did not have tax assessable profit in Cayman Islands, BVI or other jurisdiction during the reporting periods.

Pursuant to the Enterprise Income Tax Law (the "EIT Law") effective on 1 January 2008, Beijing Boqi Electric Power SCI-TECH Co., Ltd. (北京博奇電力科技有限公司) ("Beijing Boqi") obtained a "High and New Technology Enterprise" (the "HNTE") in 2008 which Beijing Boqi was entitled to a preferential tax rate of 15% from 2008 to 2010 and could be re-applied every three years; the current active HNTE certificate has an effective date until December 2020.

In October 2015, Shanxi Hejin Boqi Environmental Technology Co., Ltd.(山西河津博奇環保科技有限公司) ("Hejin Boqi") obtained the approval for being eligible as the HNTE for the year ended 31 December 2015 which Hejin Boqi was entitled to a preferential tax rate of 15% from 2015 to 2017 and could be re-applied every three years; the current active HNTE certificate has an effective date until December 2021.

In November 2016, Jiangxi Jinggangshan Boqi Environmental Technology Co., Ltd. (江西井岡山博奇環保科技有限公司) ("Jinggangshan Boqi") obtained the approval for being eligible as the HNTE for the year ended 31 December 2016 which Jinggangshan Boqi was entitled to a preferential tax rate of 15% from 2016 to 2018 and could be re-applied every three years, and the current active HNTE certificate has an effective date until November 2019.

In December 2017, Shanxi Puzhou Boqi Environmental Technology Co., Ltd. (山西蒲洲博奇環保科技有限公司) ("Puzhou Boqi") obtained the approval, by which the desulfurisation program in Puzhou Boqi was entitled to a preferential income tax of three-years free from 2017, followed by a three-year preferential rate of 12.5%.

The applicable tax rate of other PRC subsidiaries of the Company was 25% for the year ended 31 December 2018 (2017: 25%).

According to the relevant tax law in the PRC, dividend distributed to foreign investors out of the profit generated from 1 January 2008 onwards shall be subject to withholding tax at 10% and withheld by the PRC entities, pursuant to Articles 3 and 37 of the EIT Law and Article 91 of its Detailed Rules for the Implementation of the Regulation.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**448,510**	5,226
Tax at applicable income tax rate of 25%	**112,128**	1,307
Tax deduction due to preferential tax rate	**(31,210)**	(24,052)
Tax effect of R&D super deduction	**(836)**	(643)
Tax effect of income not taxable for tax purpose	**(48,831)**	(5,397)
Tax effect of expenses that are not deductible for tax purpose	**14,053**	70,714
Utilisation of tax losses previously not recognised	**(113)**	(166)
Tax effect of tax losses not recognised	**2,482**	492
Withholding income tax on earnings expected to be remitted by subsidiaries	**8,018**	–
Tax charge for the year	**55,691**	42,255

7. PROFIT (LOSS) FOR THE YEAR

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
Salaries and other benefits	**155,927**	122,513
Contributions to retirement benefits scheme	**18,758**	12,685
Share-based payment expenses	**8,442**	7,206
Total staff costs	**183,127**	142,404
Gross rental income from investment properties	**(2,160)**	(1,548)
Less: Direct operating expense (including depreciation) incurred for investment properties that generated rental income during the year (included in other income and other gains and losses)	**634**	701
	(1,526)	(847)
Cost of inventories recognised as expenses (included in cost of sales and services)	**541,325**	364,105
Depreciation of property, plant and equipment	**11,153**	6,454
Depreciation of investment properties	**634**	634
Amortisation of intangible assets	**36,851**	33,418
Research and development expenses	**10,618**	8,204
Auditor's remuneration	**2,340**	5,500

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

Earnings (loss) figures are calculated as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Earnings (loss):		
Earnings (loss) for the purpose of calculating earnings (loss) per share (profit (loss) for the year attributable to owners of the Company) – basic and diluted	**394,359**	(36,418)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**903,159,880**	453,694,494
Weighted average number of ordinary shares for the purpose of calculating diluted earnings (loss) per share	**967,910,157**	453,694,494

The calculation of the number of shares for the purpose of basic earnings per share for the year ended 31 December 2018 has taken into account the allotment and issuance with regards to the conversion of Class B and C convertible ordinary shares and the issuance of shares upon listing on 16 March 2018, and repurchase of ordinary shares from 18 December 2018 to 31 December 2018.

The calculation of basic loss per share for the year ended 31 December 2017 was based on the loss for the year attributable to the owners of the Company and the number of 600,000,000 ordinary shares, which had been adjusted retrospectively for the effect of bonus element of additional shares issued and the share split as if the bonus issue and the share split had been effective on 1 January 2017.

The computation of diluted earnings per share for the year ended 31 December 2018 has considered the effect of the shares issued under the Pre-IPO Share Award Scheme, and the conversion of Class B and C convertible ordinary shares.

The computation of diluted loss per share for the year ended 31 December 2017 has not considered the effect of the shares issued under the Pre-IPO Share Award Scheme given that the effect is anti-dilutive, and does not assume the conversion of the Class B and C convertible ordinary shares issued by the Company in 2017 since their assumed exercise would result in an anti-dilutive in loss per share.

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENT

In June 2017, the Group entered into a service concession arrangement with a state owned power plant. Through the arrangement, the Group is involved as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment (the infrastructure) and upgrading the acquired facilities for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure for the period of 15 years (the "Service Concession Period"), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is entitled to use all of the related infrastructure, however, the power plant, as the grantor, will control and regulate the scope of service that the Group must provide with the infrastructure. The construction stage of this TOT project have been fully completed in December 2018.

The service fee is charged by reference to on-grid tariff subsidies determined on a per kilowatt hour basis as set out in the service concession agreement. However, the Group is entitled to a minimum guaranteed service charge, which is calculated based on the minimum guaranteed on-grid tariff per year and the price agreed in the service concession agreement. Accordingly, the receivables under service concession arrangement was recognised by the Group at fair value upon the service concession arrangement established.

The receivables under service concession arrangement arose from the minimum service charge guaranteed by the power plant was as follows:

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current portion	**12,526**	23,519
Non-current portion	**367,029**	384,565
	379,555	408,084
Expected collection schedule is analysed as follows:		
Within one year	**12,526**	23,519
More than one year, but not more than two years	**18,981**	17,830
More than two years but not more than five years	**88,811**	60,600
More than five years	**259,237**	306,135
	379,555	408,084

The Group estimated the fair value of the receivables under service concession arrangement based on the present value of the estimated annual minimum service charge in the Service Concession Period by applying an effective interest rate of 6.37% which is considered by reference to the market interest rate and the credit risk of the grantor.

The grantor under the service concession arrangement is a state owned power plant in which the default risk is generally perceived to be low. The Directors consider that there was no significant change in credit risk in the year ended 31 December 2018, and thus measure the loss allowance for receivables under service concession arrangement at an amount equal to 12m ECL, which is RMB3,518,000 (1 January 2018: RMB3,673,000). While the Company consider the credit risk is low, the collection of receivables under service concession arrangement is closely monitored by the Company in order to minimise any credit risk associated with the receivables.

10. CONTRACT ASSETS AND CONTRACT LIABILITIES/AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

The Group has rights to considerations from customers for the provision of construction, operation and maintenance services. Contract assets arise when the Group has rights to considerations for completion of such services and not yet billed under the relevant contracts, and their rights are conditioned on factors other than passage of time. Any amount previously recognised as a contract assets are transferred to trade receivables when the rights become unconditional. Remaining rights and performance obligations in a particular contract are accounted for and presented on a net basis, as either a contract asset or a contract liability.

	At 31 December 2018 *RMB'000*	At 1 January 2018* *RMB'000*
Construction contracts analysed for reporting purposes as follows:		
Contract assets	**204,289**	217,004
Contract liabilities	**(115,651)**	(74,521)
Contract assets are analysed for reporting purposes as follows:		
Current	**204,289**	217,004
	204,289	217,004
Contract liabilities are analysed for reporting purposes as follows:		
Current	**115,651**	74,521
	115,651	74,521

* The amounts in this column are after the adjustments from the application of IFRS 9 and 15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically reclassifies contract assets to trade receivables on the date of issue of invoice or billing with the customers when such right of collections becomes unconditional other than the passage of time.

Movement in lifetime ECL that has been recognised for contract assets in accordance with the simplified approach set out in IFRS 9 for the year ended 31 December 2018 is as follows:

	RMB'000
At 31 December 2017 under IAS 39	–
Adjustment upon application of IFRS 9	5,833
At 1 January 2018-restated under IFRS 9	5,833
Allowance for contract assets	1,278
At 31 December 2018	7,111

Amounts due from (to) customers for contract work as at 31 December 2017, which were reclassified to contract assets and contract liabilities upon initial application of IFRS 15, are analysed as follows:

	RMB'000
Contracts in progress at the end of reporting period	
Contract costs incurred plus recognised profits less recognised losses to date	350,172
Less: progress billings	(282,532)
	67,640
Recognised and included in the consolidated financial statements as amounts due:	
– from customers for contract work	95,348
– to customers for contract work	(27,708)
	67,640

11. TRADE AND NOTES RECEIVABLES

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**802,046**	632,840
Notes receivables	**–**	65,837
Less: Allowance for credit losses	**(22,976)**	(31,424)
	779,070	667,253

The Group generally grants credit period between 30 to 90 days which are agreed with each of its trade customers. The extension of credit period to the customers may be granted on a discretionary basis by considering customer type, the current creditworthiness and the customer's financial condition and payment history with the Group.

Trade receivables relate to a number of independent customers that have a good track record with the Group. The allowance for doubtful debts of the Group is based on the evaluation of collectability and aging analysis of individual trade debts performed by the Directors. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

As at 31 December 2017, included in the trade receivables are retention amounts of RMB206,601,000, which were held by customers under construction contracts. Upon application of IFRS 15, the retentions receivables were reclassified to contract assets.

Notes receivables are bank acceptance notes and the aging is generally within 90 days to 180 days, which the Directors believe that no impairment allowance is necessary as there is no significant change in credit quality and the balances are considered fully recoverable. Notes receivables are reclassified to debt instrument at fair value through other comprehensive income upon application of IFRS 9 on 1 January 2018.

Aging analysis of trade receivables net of allowance for credit losses based on invoice date or notes receiving dates is as follows:

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
1–90 days	**448,239**	293,006
91–180 days	**75,851**	72,187
181–365 days	**121,812**	96,524
1–2 years	**81,775**	156,788
2–3 years	**18,454**	37,385
Over 3 years	**32,939**	11,363
	779,070	667,253

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB330,831,000 which are past due as at the reporting date.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB321,872,000 which are past due as at the reporting date for which the Group has not recognised any allowance for doubtful debts because, based on past experience, the Directors are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable. There is no past due for notes receivables.

Aging analysis of trade receivables that are past due but not impaired is as follows:

	At 31 December
	2017
Overdue by:	*RMB'000*
1–90 days	25,914
91–180 days	80,938
181–365 days	116,775
1–2 years	66,837
2–3 years	20,050
Over 3 years	11,358
	321,872

Movements in the allowance for doubtful debts are as follows:

	2017
	RMB'000
At beginning of the year	49,289
Recoveries of debts previously written off	1,800
Reversal of allowance for trade receivables	(10,458)
Amounts written off as uncollectable	(9,207)
At end of the year	31,424

As at 31 December 2017, allowance for doubtful debts included individually impaired trade receivables with an aggregate gross principal balance of RMB235,218,000, which were either under dispute with the customers or the customers are in financial difficulties. The Group does not hold any collateral over these balances.

Movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9 for the year ended 31 December 2018 is as follows:

	RMB'000
At 31 December 2017 under IAS 39	31,424
Reclassification to allowance for contract assets upon application of IFRS 15	(5,281)
Adjustment upon application of IFRS 9	900
At 1 January 2018 – restated under IFRS 9	27,043
Provided allowance for trade receivables	324
Written-off as uncollectible	(4,391)
At 31 December 2018	22,976

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings whichever occurs earlier. The Group has taken legal action against the debtors to recover the amount due. None of the trade receivables that have been written off is subject to enforcement activities.

12. TRADE AND NOTES PAYABLES

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**695,360**	641,187
Notes payables	**190,175**	79,540
Total	**885,535**	720,727

The credit period on purchases of goods and services is generally 30 to 90 days. The table below sets forth, as at the end of reporting period indicated, the aging analysis of the trade and notes payables based on the invoice or completion report date:

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Less than 90 days	**349,822**	244,900
90–180 days	**194,485**	108,416
180 days – 1 year	**92,898**	95,020
1–2 years	**87,244**	128,528
2–3 years	**58,310**	46,241
Over 3 years	**102,776**	97,622
Total	**885,535**	720,727

13. CONVERTIBLE ORDINARY SHARES

	At 1 January 2018 *RMB'000*	Change in fair value *RMB'000*	Conversion *RMB'000*	At 31 December 2018 *RMB'000*
Class B convertible ordinary shares ("Class B Shares")	**295,548**	**(52,266)**	**(243,282)**	**–**
Class C-1 convertible ordinary shares ("Class C-1 Shares")	**65,195**	**(11,530)**	**(53,665)**	**–**
Class C-2 convertible ordinary shares ("Class C-2 Shares")	**260,777**	**(46,116)**	**(214,661)**	**–**
Class C-3 convertible ordinary shares ("Class C-3 Shares")	**133,609**	**(23,629)**	**(109,980)**	**–**
Class C convertible ordinary shares ("Class C Shares")	**459,581**	**(81,275)**	**(378,306)**	**–**
	755,129	**(133,541)**	**(621,588)**	**–**

On 16 March 2018, the Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited, upon when all of the Company's Class B and Class C convertible ordinary shares were converted into ordinary shares. The fair value of such Class B and Class C convertible shares upon conversion was changed to RMB621,588,000, which was recorded as the Company's equity upon such conversion.

14. COMMITMENT FOR CAPITAL EXPENDITURE

	At 31 December	
	2018 *RMB'000*	2017 *RMB'000*
Commitments for construction of infrastructure under concession operation (contracted but not provided for)	**84,538**	116,209

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is committed to the development of the environmental protection industry. As an independent flue gas treatment integrated services provider, the Group is principally engaged in flue gas treatment business, which falls within three segments, namely flue gas desulfurization, flue gas denitrification and dust removal, with their respective business models. The Group also provides waste water treatment services to coal-fired power plants and will continuously expand its existing comprehensive environmental protection business in coal-fired power plants to provide energy conservation and environmental protection solutions to customers by focusing on zero waste water discharge and detoxification treatment of solid waste. The Group also provides its services through various business models including environmental protection facility engineering ("EPC"), operation and maintenance ("O&M") and concession operations.

1. Industry Overview

2018 was the opening year of consistently implementing the spirit of the 19th CPC National Congress with both ecological civilization construction and environmental protection beginning a new journey. Driven by policy and market demand, the environmental protection industry continues to maintain a momentum of rapid development as a whole.

Pursuant to the Environmental Protection Tax Law of the PRC, which came into effect on 1 January 2018, within the territory of China and other sea areas under the jurisdiction of China, enterprises, public institutions and other producers and operators that directly discharge pollutants to the environment shall be liable for environmental pollution tax. The implementation of the Environmental Protection Tax Law of the PRC tightened the management and control efforts on enterprises discharging pollutants, which effectively motivated such enterprises to reduce pollutant emission by improving technologies.

According to the 2018 Work Report of the State Council at the first meeting of the 13th National People's Congress, the PRC government shall achieve greater results in promoting pollution prevention, consolidate the achievements of the blue sky protection policy, and promote ultra-low emission reform in industries such as the steel industry in 2018. Subsequently, on 7 May 2018, the Ministry of Ecology and Environment released the "Work Plan for Ultra-low Emissions Reform of Iron and Steel Enterprises (Consultation Draft)", clarifying that all new steel projects (including relocation) should reach ultra-low emission standard, and will focus on promoting the low-emission work in the steel industry while the enhanced governance of the steel industry will be the focus of air pollution prevention and control. With increasingly stringent environmental inspections, the demand for such services in non-electricity flue gas treatment and emission industries is expected to increase. The market is expected to expand in the future, which may have a scale exceeding that of thermal power field.

On 18 May 2018, at the National Working Conference on Environmental Protection held in Beijing, General Secretary Xi Jinping pointed out that to build an ecological civilization is of fundamental importance for the sustainable development of China. The nation shall channel more energy into promoting ecological civilization, resolving environmental problems and battling against pollution in China to promote the advancement of building a ecological civilized country.

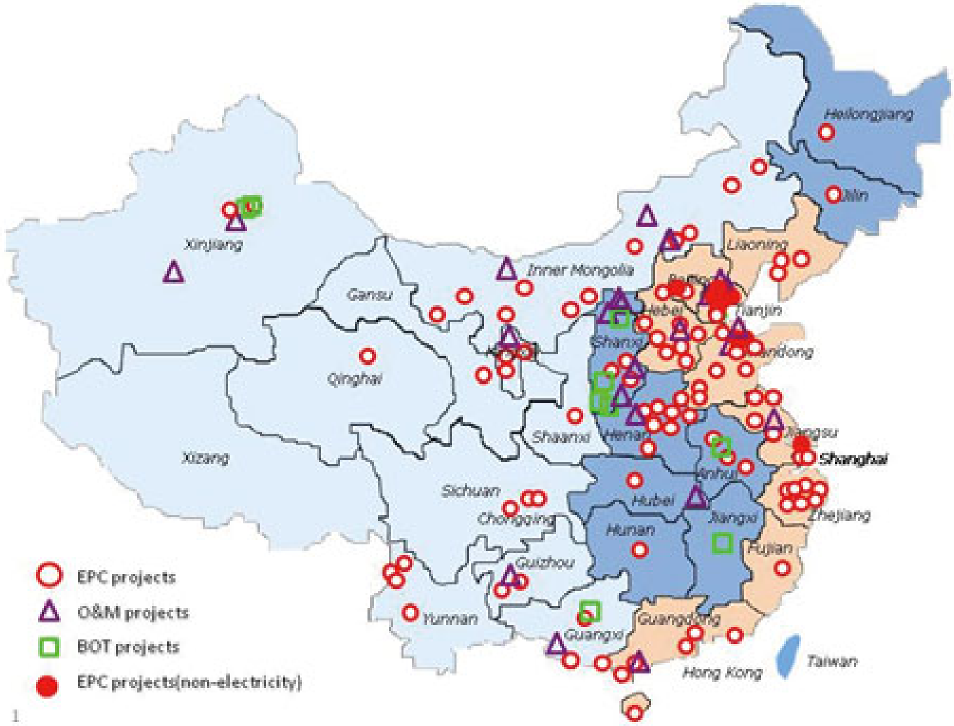
On 3 July 2018, the State Council issued the "Three-Year Plan on Defending the Blue Sky", focusing on the main areas such as the Beijing-Tianjin-Hebei and surrounding areas, the Yangtze River Delta and the Fenhe and Weihe plain and continuing to carry out air pollution prevention and control operations. "The national air pollution prevention and control work will be carried out in the next three years, with the objective to greatly reduce the total amount of major air pollutants, synergistically reduce greenhouse gas emissions so that the concentration can be further reduced to PM2.5, shorten the heavy pollution days, substantially improve the environmental air quality, significantly facilitating the people's satisfaction of blue sky after the three years of efforts." Since the introduction of this policy, various local governments have launched corresponding action plans to further open up market space in the atmospheric pollution control and monitoring industries in key regions.

In July 2018, the Ministry of Ecology and Environment published the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (Revised Draft) (Consultation Draft), which stipulated responsibilities of each stakeholder in controlling solid waste while enhancing management of solid waste with comprehensive methods. Further, on 31 August 2018, the Fifth Session of the Standing Committee of the 13th National People's Congress voted to adopt the Soil Pollution Prevention and Control Law of the PRC. It was implemented on 1 January 2019, promoting the development of the entire industrial chain of soil restoration. With the increasingly stringent state policies on environmental protection, the market prospects for soil restoration and treatment of solid waste and hazardous waste is broad.

2. Business Review

The Group commenced its flue gas treatment business in 2003 and is among the first independent participants in the flue gas treatment industry in China. The services of the Group cover the entire industry-chain of the flue gas treatment industry, from project design, equipment procurement and facilities construction to operation and maintenance and concession operation of flue gas treatment facilities. Moreover, the Group's business has a broad geographic coverage, reaching almost 30 provinces, municipalities and autonomous regions in China. Furthermore, the Group has been expanding its business overseas, including in Europe, South Asia, Latin America, Africa and Southeast Asia.

The following map shows the distribution of the projects of the Group within the PRC as at 31 December 2018:



As at 31 December 2018, the Group has also executed, or has been implementing, more than ten projects in regions outside the PRC, such as Europe, South Asia, Latin America, Africa and Southeast Asia.

As an independent flue gas treatment integrated services provider, the Group provides innovative technologies and quality services which aim to reduce the SO_2 and NOx emissions of coal-fired power plants and offer flue gas desulfurization, flue gas denitrification and dust removal services, as well as other pollution control solutions to its customers. For the 2018 Financial Year, the Group entered into project contracts with coal-fired power plants, aluminum factories, steel factories, chemical plants and other customers for the provision of services based mainly on three business models: the EPC, the O&M business and concession operations (including "Build-Operate-Transfer" or "BOT" and "Transfer-Operate-Transfer" or "TOT"). The Group adopt different business models for different projects in its desulfurization, denitrification and other flue gas treatment businesses in an effort to comply with general market practices, to meet clients' expectation or to take advantage of certain favorable government policies.

EPC

The typical EPC business primarily involves project design, procurement of equipment and materials, project construction and equipment installment services in relation to SO_2 or NOx emission control and dust removal for power plants, aluminum factories, steel factories, chemical plants. The Group acts as the main contractor and is responsible for the design of the client's project; procurement and selection of various environmentally friendly materials and equipment from domestic and overseas suppliers; construction subcontracting and supervision of the project construction and equipment installment; testing, inspection and trial operation of the facilities; and delivery of finished project to client upon its completion after inspection by the competent government authority or independent subcontractors or customers.

In 2018, the total contract value of new EPC projects (including desulfurization, denitrification and dust removal projects) of the Group amounted to RMB1,036 million, of which the contract value of new EPC projects in steel industry was RMB520 million. The cumulative installed capacities of these projects reached a cumulative sintering machine area of 1,344 m^2 in steel factories.

In 2018, the Group has made a breakthrough in EPC projects in non-electricity fields. As for the steel industry, we have entered into a contract with Tangshan Xinbaotai Iron and Steel Company Limited for a 210m^2 sintering machine transformation project, Hebei Jinxi Iron and Steel Company Limited for a flue gas ultra-clean emission project for 265m^2 sintering machines, and with Jinxi Wantong Company Limited for a desulfurization and denitrification project for 685m^2 sintering machines. As for the natural gas industry, we have entered into a contract for our first waste heat boiler denitrification project, which is a waste heat boiler denitrification project with Jingneng Gao'antun Gas-fired Thermal Power Co., Ltd. Meanwhile, the Group successfully entered the electrolytic aluminum flue gas desulfurization market and entered into a contract for Weiqiao Group Aluminium Power One, Two, Three, Four, Five, Yangxin and Beihai Electrolytic Aluminum Flue Gas Desulfurization Project.

In 2018, the continuous battle against atmospheric pollution has brought opportunities for the flue gas treatment industry in non-electricity field. As the leading provider in flue gas treatment field, the Group is equipped with proven technologies as well as innovation capacities and has achieved good performance in non-electricity field in 2018.

In 2018, the Group has 25 EPC projects under construction and their status set forth as below:

Serial no.	Environmental Protection Facility Engineering projects under construction	Type of project	Newly built/ upgraded	Date of contract (Month/Year)	Aggregate contract value *(RMB million)*
1.	Shentou Electric Power Phase II Desulfurization System and WESP Project	Desulfurization and dust removal	Newly built	December 2014	354
2.	Beihai Desulfurization Project	Desulfurization	Newly built	November 2015	150
3.	Shouyang Green Island Project	Green Island	Newly built	December 2015	288
4.	Binzhou Phase II Dust Removal Project	Dust removal	Upgraded	April 2016	30
5.	Shangqiu Desulfurization Project	Desulfurization	Newly built	June 2016	86
6.	Phase II Desulfurization EP Project in Serbia	Desulfurization	Newly built	September 2016	90
7.	Seawater Desulfurization System and Equipment Supply Project in Pakistan	Desulfurization	Newly built	November 2016	91
8.	Xinjiang New Energy #1-2 Unit Desulfurization Project	Desulfurization	Newly built	December 2016	72
9.	Shanghai Petrochemical Boiler Ultra-low Emission Upgrade Project	Green Island	Upgraded	March 2017	225
10.	Gaoqiao Denitrification System Supplies Procurement Project	Denitrification	Upgraded	April 2017	17
11.	Nanyang Desulfurization Project	Desulfurization	Newly built	March 2017	168
12.	Sinopec Shanghai # 3-4 Unit Desulfurization Project	Desulfurization	Upgraded	September 2017	91
13.	Flue Gas Desulfurization System Construction for Aluminum Company I of Zouping Hongmao New Material Technology Co., Ltd	Desulfurization	Upgraded	November 2017	20
14.	Flue Gas Desulfurization System Construction for Aluminum Company VI of Zouping Hongzheng New Material Technology Co., Ltd	Desulfurization	Upgraded	November 2017	22
15.	Tangshan Xinbaotai Iron & Steel Limited 210m^2 Sintering Machines Upgrade Project	Desulfurization	Upgraded	January 2018	105

Serial no.	Environmental Protection Facility Engineering projects under construction	Type of project	Newly built/ upgraded	Date of contract (Month/Year)	Aggregate contract value *(RMB million)*
16.	Xinjiang Guotai Xinhua Zhundong Phase I Ultra-low Emiossion Upgrade Project	Desulfurization	Upgraded	May 2018	39
17.	265m^2 Ultra-clean Emission Project for Flue Gas from Sintering Machines for Hebei Jinxi Iron and Steel Company Limited	Green Island	Upgraded	May 2018	120
18.	Jinxi Wanton 1#, 2#, 3# Sintering Machines Flue-gas Ultra-low Emission Project	Green Island	Upgraded	May 2018	216
19.	Jingneng Gao'antun Gas-fired Thermal Power Co., Ltd Waster Heat Boiler Denitrification Upgrade Project	Denitrification	Upgraded	June 2018	24
20.	Shandong Haihua Thermal Power Company Third Power Plant Desulfurization, Dust Removal and Expansion project	Desulfurization and dust removal	Expansion and upgraded	July 2018	50
21.	Jingxi Gas Thermal Power Plant #1,#3 Boiler Technical Denitrification System Technical Upgrade Project	Denitrification	Upgraded	August 2018	17
22.	Hebei Tangyin Iron and Steel Co., Ltd. 184m^2 Sintering Machine Ultra-clean Emission of Flue Gas	Sintering machine desulfurization, denitrification and dust removal	Newly built	July 2018	79
23.	Zhongke Joint Venture Guangdong Refining and Chemical Integration Project Denitrification Project	Denitrification	Newly built	September 2018	25
24.	Chuanwei Denitrification, Desulfurization and Dust Removal Ultra Low Emissions Reconstruction Project	Green Island	Upgraded	September 2018	206
25.	Weiqiao Group Aluminium Power One, Two, Three, Four, Five, Yangxin and Beihai Electrolytic Aluminum Flue Gas Desulfurization Project	Desulfurization	Upgraded	November 2018	156

O&M

The O&M services mainly include operation services and regular maintenance services for desulfurization and denitrification facilities owned by the customers. The Group acts as a contractor, which provides desulfurization, denitrification and dust removal operation services while the scope of work involves the full operation, repair, upgrade and maintenance of flue gas treatment system/facilities owned by power plants. Under the O&M projects, the customers are either charged service fees for the O&M services calculated based on the total amount of on-grid electricity generated during the service period, or a price predetermined at the commencement of the project based on the scope of work that will be performed. Revenues from the O&M business can be a recurring one, generating stable cash flow for the Group.

In 2018, the Group acted as a contractor under the O&M projects which provided desulfurization, denitrification and dust removal operating services, and the scope of business included full-process operation, upgrading and maintenance of flue gas treatment system/facilities of coal-fired power plants. Regular maintenance services included provision of technical support, regular maintenance, facilities testing, maintenance services and spare parts services for flue gas facilities. In 2018, the Group had 18 O&M projects under operation with an aggregate installed capacity of 24,400 MW. Such projects operated steadily and their emissions were up to standard. They will provide stable growth in our business.

The following table sets forth the installed capacity and status of the O&M projects of the Group under operation in 2018:

Serial no.	Project name	Type of project	Starting date of service (Month/Year)	Expiring date of service contract (Month/Year)	Installed capacity
1.	Anshun Flue Gas Desulfurization O&M Project	Desulfurization	November 2017	December 2018	2×300MW
2.	Yangcheng #1-6 Unit Flue Gas Desulfurization O&M Project	Desulfurization	July 2018	August 2019	6×350MW
3.	Yangcheng #7-8 Unit Flue Gas Desulfurization O&M Project	Desulfurization	June 2018	August 2019	2×600MW
4.	Yangcheng #7-8 Unit Slag Removal O&M Project	Slag removal	June 2018	August 2019	2×600MW
5.	Kuche Flue Gas Desulfurization O&M Project	Desulfurization	December 2012	December 2018	2×330MW
6.	Bulian Flue Gas Desulfurization O&M Project	Desulfurization	April 2013	April 2019	2×660MW
7.	Qinzhou Desulfurization Q&M Project	Desulfurization	July 2015	June 2021	2×630MW+ 2×1000MW

Serial no.	Project name	Type of project	Starting date of service (Month/Year)	Expiring date of service contract (Month/Year)	Installed capacity
8.	Guotai Flue Gas Desulfurization, Denitrification and Slag Removal O&M Project	Denitrification, desulfurization and slag removal	November 2015	June 2018	2x350MW
9.	Jingjiang Flue Gas Desulfurization and Dust Removal O&M Project	Desulfurization and dust removal	March 2016	March 2020	2x660MW
10.	Tianjin SDIC Jineng Power Plant Desulfurization, WESP and Water Intake System Operation and Cleaning Project	Desulfurization	August 2016	December 2020	4x1000MW
11.	Serbian Flue Gas Desulfurization O&M Project	Desulfurization	May 2017	May 2018	2x350MW
12.	Yangxi Flue Gas Desulfurization and Denitrification O&M Project	Desulfurization and denitrification	January 2017	December 2025	2x660MW+ 2x600MW
13.	Chengde Desulfurization O&M Project	Desulfurization	May 2017	September 2019	2x350MW
14.	Anshun #1-2 Units Maintenance and Repair Service Project	Desulfurization	September 2017	December 2018	2x300MW
15.	Shouguang Auxiliary Ashing and Sulfurization Control System Entrusted Operation Project	Desulfurization	May 2018	May 2021	2x1000WM
16.	Shanyin Phase II Environmental Protection O&M	Denitrification, desulfurization and slag removal	June 2018	May 2021	2x350MW
17.	Jiantou Zunhua Auxiliary System Entrusted Operation Project	Desulfurization	August 2018	July 2019	2x350MW
18.	Xilinhot Desulfurization and Denitrification O&M Project	Desulfurization and denitrification	Expected to be June 2019	Expected to be May 2020	2x660MW

Concession Operation Business

Under the concession operation business model, the Group is responsible for the financing, investment, construction and upgrading of a project according to its concession contract with the customer. In general, the concession projects are funded by the Group's internal funds or borrowings from local banks. Upon the completion of constructions, the Group owns the project assets and operates the project for a period specified in the concession agreement, which is typically 15 to 20 years, and the Group is entitled to collect revenues generated from the project during the term of the contract. Revenues generated from the concession operation business during the operation phase of the relevant projects are calculated based on the on-grid power generation of the customer multiply by the unit price specified in the concession contract during the operation phase, which is generally settled monthly. The Group also generates revenues from the sales of by-products during the operation of the environmental protection facilities. The fees the Group receives for the provision of concession services typically include a service fee based on a guaranteed minimum flue gas treatment volume and such fees are contingent subject to adjustment of certain variable costs the Group incurred. Such subsidy for the power consumption is pre-determined at the time the concession agreement is entered into with the client.

In 2018, the Group continued to carry out its concession operation business, including desulfurization, denitrification and green island (which is an integrated flue gas treatment system to treat synergistically the flue gas pollutants produced by the boilers of coal-fired power plants, including denitrification, desulfurization, dust removal, induced-drafted fan system, reheating system.). As at 31 December 2018, the Group has accumulated 9 concession operation projects with 3 currently under construction and 6 in operation. Among them, the BOT project of flue gas ultralow emission upgrade for two 330MW units in Guqiao power plant of Huainan Mining Industry Group Power Generation Co., Ltd, Xinjiang Guotai Xinhua BOT Project and Guangxi Laibin Desulfurization, Denitrification and Dust Removal "Build-Own-Operate"or "BOO" project are the Group's new projects in 2018. These projects have provided us with decent investment returns and stable cashflows, laying a strong foundation for us to operate continuously and develop steadily.

The following table sets forth the installed capacity and status of the concession operation projects of the Group in 2018:

Serial no.	Project name	Installed capacity	Type of project	Newly built/ upgraded	Total investment *RMB million*	Date of signing contract (Month/Year)	Ending date of concession period (Month/Year)
1.	Jiangxi Jinggangshan BOT Project	2×300MW+ 2×660MW	Desulfurization	Newly built	224	January 2008 (for Phase I) August 2008 (for Phase II)	July 2030 (for Phase I) December 2030 (for Phase II)
2.	Shanxi Hejin BOT Project	2×350MW	Denitrification	Newly built	90	June 2012	September 2033 (for Unit #1) May 2033 (for Unit #2)
3.	Shanxi Puzhou Phase I BOT Project	2×300MW	Denitrification	Newly built	84	June 2012	January 2034 (for Unit #1) May 2033 (for Unit #2)
4.	Shanxi Puzhou Phase II BOT Project	2×350MW	Denitrification	Newly built	112	May 2014	End of 2037
5.	Shanxi Yuguang BOT Project	2×300MW	Green Island	Upgraded	82	May 2015	February 2036 (for Unit #1) May 2035 (for Unit #2)
6.	Xinjiang Shenhuo BOT Project	4×350MW	Green Island	Upgraded	490	June 2017	End of 2032
7.	Huainan Guqiao BOT Project	2×330MW	Green Island	Upgraded	173	May 2018	End of 2033
8.	Xinjiang Guotai Xinhua BOT Project	2×350MW	Green Island	Upgraded	150	July 2018	June 2028
9.	Guangxi Laibin Desulfurization, Denitrification and Dust Removal BOO Project	2×300MW	Green Island	Upgraded	281	December 2018	End of 2033

3. Financial Position and Operating Results

In 2018, there had been significant uncertainties in the global economy. Under the great goal of reducing capacity, eliminating economic bubble, and deleveraging, the Chinese economy began to implement a series of major policies such as restructuring, stabilizing growth, ensuring the environmental protection, and benefiting the people. There is still a large room for environmental protection industry to developed under the support of national policies.

2018 has been a milestone year for the Group. On 16 March 2018, the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. As a listed company, China Boqi entered the capital market with a new attitude and will continue to seize its unique advantages and potential to seek for a new round of growth on the financing platform.

Projects in the new fields of non-electricity industries, such as iron and steel, metallurgical and petrochemical, have successively won the bid and signed contracts to provide guarantee for the sustainable development of the Group. The EPC, O&M and concession operation business have been executed smoothly, and the integration of industry and capital have improved. The business segments with high profit margin accounted for a higher proportion in the Group's operating income, The net profit has a relatively large increase as compared with 2017. The gearing ratio remained at a low level. The cashflow and bank facilities were sufficient and laid an important foundation for the development of the Group.

Non-IFRS Measurement Indicators

We believe that indicators such as adjusted net profit for the year provide useful information for investors and others to compare net profit across different periods and different companies by eliminating the impact of items which are, in the view of our management, not indicative of our business performance. Our management also adopts the same approach to understand and assess our operating results. We expect that the impact of reconciliation items will decrease gradually from 2019.

The adjusted net profit for 2018 increased by 32.1% to approximately RMB259 million in 2018 (2017: approximately RMB196 million). The following tables reconcile our adjusted net profit for the year indicated to the profit for the year in accordance with IFRS:

	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Reconciliation of profit for the year to adjusted net profit for the year		
Profit (loss) for the year	**392,819**	(37,029)
Adjusted for:		
Change in fair value of convertible ordinary shares	**(133,541)**	233,228
Adjusted net profit for the year	**259,278**	196,199

Revenue

In the 2018 Financial Year, the Group's total revenue increased by 31.3% to RMB1,745 million as compared with RMB1,329 million for the 2017 Financial Year, primarily attributable to the significant increase in revenue of EPC and BOT business segment of the Group during the reporting period.

The Group generates revenues primarily from three major operating segments: (i) the EPC business, (ii) the O&M business, and (iii) concession operation business. The following table sets forth a breakdown of the revenue of the Group by segment for the periods stated.

	Segment revenue	
	Year ended 31 December 2018	Year ended 31 December 2017
	RMB'000	*RMB'000*
EPC	**722,117**	555,261
Operation and Maintenance	**415,113**	402,815
Concession Operation	**580,051**	340,477
Of which: Operation	**369,880**	254,986
Construction	**210,171**	85,491
Others	**27,717**	30,525
Total	**1,744,998**	1,329,078

Revenue generated from the EPC business for the 2018 Financial Year increased by 30.1% to RMB722 million as compared with RMB555 million for the 2017 Financial Year, mainly attributable to the increased number of projects newly contracted by the Group in steel and petrochemical fields.

The revenue generated from the O&M business for the 2018 Financial Year increased by 3.0% to RMB415 million as compared with RMB403 million for the 2017 Financial Year, mainly attributable to the increase in the Group's power generation capacity for the operation and maintenance projects in 2018.

Revenue from concession operation business for the 2018 Financial Year increased by 70.6% to RMB580 million as compared with RMB340 million for the 2017 Financial Year, mainly attributable to the increase in construction revenue of new BOT projects and the gradual commencement of operation of projects that were previously under construction during the reporting period.

Cost of Sales and Services

The Group's cost of sales and services for the 2018 Financial Year increased by 38.3% to RMB1,427 million as compared with RMB1,032 million for the 2017 Financial Year mainly attributable to the increase in cost resulting from the increased revenue of each business segment of the Group during the reporting period.

Cost of sales and services for the Group's EPC business consists primarily of equipment procurement cost, construction and installation costs. The cost of sales and services for the Group's EPC business for the 2018 Financial Year increased by 30.1% to RMB666 million as compared with RMB512 million for the 2017 Financial Year, mainly attributable to the increase in newly contracted projects in steel and petrochemical fields during the reporting period.

Cost of sales and services for the O&M service consists of raw materials costs, staff costs and repair and maintenance costs. The cost of sales and services for the O&M service for the 2018 Financial Year increased by 5.4% to RMB291 million as compared with RMB276 million for the 2017 Financial Year, mainly attributable to the increase of the Group's O&M project repair and power generation.

Cost of sales and services for the Group's concession operation business consists primarily of raw material costs, construction costs and amortization and depreciation. The cost of sales and services for the Group's concession operation business for the 2018 Financial Year increased by 103.5% to RMB466 million as compared with RMB229 million for the 2017 Financial Year, mainly attributable to the increase of construction investment in new BOT projects and the gradual commencement of operation of several projects which led to increase of material costs and labour costs during the reporting period.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the 2018 Financial Year increased by 7.1% to RMB318 million as compared with RMB297 million for the 2017 Financial Year while the gross profit margin of the Group for the 2018 Financial Year was 18.2% as compared with 22.4% for the 2017 Financial Year, mainly attributable to the increase in the cost of raw material in BOT business and the proportion of revenue attributable from those in the construction period with lower gross profit margin during the reporting period.

The following table sets forth the Group's gross profit and gross profit margin for each of the business segments for the periods stated.

	Year ended 31 December 2018		Year ended 31 December 2017	
	Gross Profit ***RMB'000***	**Gross Profit Margin %**	Gross Profit *RMB'000*	Gross Profit Margin %
EPC	**56,523**	**7.8**	43,072	7.8
O&M	**124,556**	**30.0**	126,756	31.5
Concession Operation	**114,042**	**19.7**	111,452	32.7
Of which: Operation	**109,297**	**29.5**	110,605	43.4
Construction	**4,745**	**2.3**	847	1.0
Others	**22,737**	**82.0**	15,962	52.3
Total	**317,858**	**18.2**	297,242	22.4

The gross profit of the Group's EPC business for the 2018 Financial Year increased by 32.6% to RMB57 million as compared with RMB43 million for the 2017 Financial Year, mainly attributable to the year-on-year increase of EPC revenue and gross profit margin remained the same as 2017.

The gross profit of the Group's O&M business for the 2018 Financial Year decreased by 1.6% to RMB125 million as compared with RMB127 million for the 2017 Financial Year while the gross profit margin decreased from 31.5% in the 2017 Financial Year to 30.0% for the 2018 Financial Year, mainly attributable to the increase of materials and labour costs in certain operation and maintenance projects of the Group.

The gross profit of the Group's concession operation business for the 2018 Financial Year increased by 2.7% to RMB114 million as compared with RMB111 million for the 2017 Financial Year while the gross profit margin decreased from 32.7% in the 2017 Financial Year to 19.7% for the 2018 Financial Year, mainly attributable to (i) lower gross profit margin during the construction period; (ii) the increase in materials and labour cost for some of the projects.

Other Income and Other Gains and Losses

Other income and other gains and losses consist primarily of government grants, foreign exchange gains and losses, interest income etc.

The following table sets forth a breakdown of other income and other gains and losses for the periods stated.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest income	**38,496**	17,199
Government grants	**26,968**	11,554
Rental income, net	**1,526**	847
Losses on disposal of property, plant and equipment	**(21)**	(45)
Gains from extinguishment of liabilities	**8,786**	2,534
Foreign exchange gains (losses)	**35,445**	(10,331)
Others	**6,256**	4,259
	117,456	26,017

The Group's other income and revenue for the 2018 Financial Year increased by 350.0% to RMB117 million as compared with RMB26 million for the 2017 Financial Year, mainly attributable to increase in interest income, tax refund and foreign exchange gains.

Selling and Distribution Expenses

The Group's selling and distribution expenses were RMB26 million in 2018 Financial Year as compared with RMB18 million for the same period last year, with the share of revenue of 1.5%, up 0.1 percentage point year-on-year, mainly attribute to the increase in resources and expenses for market expansion during the reporting period.

Administrative Expenses

The Group's administrative expenses were RMB109 million in 2018 as compared with RMB89million for the same period last year, with the share of revenue of 6.2% in 2018, down 0.5 percentage point year-on-year.

Finance Costs

Finance costs of the Group consist of interest expense on bank borrowings in 2018 Financial Year. The Group's finance costs increased by 20.0% to RMB6 million as compared with RMB5 million for 2017, mainly attributable to the increase in year-on-year average bank borrowings of the Group during the reporting period.

Gearing Ratio

The gearing ratio is calculated as the percentage which the Group's total bank borrowings bears to the aggregate of the Group's equity. The Group's gearing ratio decreased from 16.9% as at 31 December 2017 to 3.0% as at 31 December 2018, mainly attributable to repayment of the bank borrowings by the Company and increase of equity capital.

Change in Fair Value of Convertible Ordinary Shares

Class B convertible ordinary shares and Class C convertible ordinary shares have been automatically converted into ordinary shares of the Company on 16 March 2018, which the Company's shares were listed on the Stock Exchange (the "Listing"). Class B convertible ordinary shares and Class C convertible ordinary shares are included in the Group's consolidated statement of financial position at fair value, the changes are recognised in the Group's profit or loss. The Group incurred fair value surplus of RMB133.5 million and would not affect the Group's operations and profitability. There is no cash income arising from the fair value gains.

Listing Expenses

The Group incurred remaining listing expenses of RMB3 million in connection with the preparation for the Listing in the later stage for the year ended 31 December 2018, which included the professional service fees and other fees but excluded the maintenance expenses after the Listing.

Income Tax Expenses

Certain subsidiaries of the Company are entitled to a preferential income tax rate of 15% as a "high-end new technology enterprise", and some of the other subsidiaries of the Company are entitled to a three-year tax holiday followed by a three-year 50% tax rate reduction as their operations fall within certain qualified environmental protection and energy conservation sections as defined by the PRC government. Other subsidiaries of the Company are subject to an income tax rate of 25% pursuant to the applicable PRC taxation law. The Company, which was incorporated in the Cayman Islands, is not subject to any Cayman Islands taxation.

The income tax expenses of the Group were RMB56 million, representing an increase of 33.3% as compared with RMB42 million for the same period last year, mainly attributable to increase in profit before tax and provision for withholding income tax for dividend.

Profit/(Loss) for the Year

The Group recorded a net profit of RMB393 million for the 2018 Financial Year. Excluding the gain from change in fair value of convertible ordinary shares, the adjusted net profit of the Group would have increased to RMB259 million for the 2018 Financial Year compared to RMB196 million for the 2017 Financial Year.

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company for the 2018 Financial Year was RMB394 million while the loss attributable to the owners of the Company for the 2017 Financial Year was RMB36 million.

Liquidity and Capital Resources

Taking into account the financial resources available to the Group, including cash and cash equivalents on hand, cash generated from operations and available facilities of the Company, and the net proceeds from the Listing, and after diligent and careful investigation, the Directors are of the view that the Group have sufficient working capital required for the Group's operations at present and for the year ending 31 December 2019.

Cash Flows

The Group's cash and cash equivalents of RMB689 million as at 31 December 2017 increased by 13.2% to RMB780 million as at 31 December 2018, mainly deducted by the application of part of the funds raised from the Listing on 16 March 2018 in BOT investment and replenish liquidity, according to the use of proceeds.

Capital Expenditure

The capital expenditure of the Group comprises expenditures on the purchase of property, plant and equipment and the construction of BOT projects. For the 2018 Financial Year, the total capital expenditure of the Group was RMB392 million which were used primarily for the construction of concession operation projects of the Group and asset acquisition for individual BOT projects.

Pledge of the Group's Assets

As at 31 December 2018, the Group borrowed an aggregate amount of RMB27 million from banks, of which bank borrowings for BOT projects of approximately RMB3 million were secured by the pledge of bank deposit or the right to the future income or the pledge of the concession arrangements for borrowings used in concession operation. The Group also had RMB38 million of notes receivable that has been discounted as at 31 December 2018, of which the Group still has continuing involvement.

Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities.

4. Risk Factors and Risk Management

Risks on environmental protection and pollution control policies

The Group provides substantially all of its environmental protection services to customers in the PRC, and the development of its businesses is greatly dependent on the pollution preventive policies of the PRC. Environmental protection industry is one of the major industries that benefit from the constant support of the PRC governments. The demand for the Group's environmental protection services and the revenue generated therefrom are directly linked with the environmental protection requirements imposed on the current and potential customers of the Group. However, there can be no assurance that the specific favourable policies which are currently available will continue to exist. In addition, these policies and incentives may attract additional new market entrants and may encourage other products or services which may achieve greater pollution control effects than the products and services of the Group. There can therefore be no assurance that the Group will directly benefit from the changed industry policies. However, the Group, as a leader among independent flue gas treatment integrated services providers in the PRC, will capture market opportunities to further cover the overall industry chain of flue gas treatment, explore the potential markets and at the same time ambitiously expand its business in new market of the non-electricity industries such as steel, petrochemical and cement, to achieve the sustainable development of the Group's business. The Group will further expand its business scope based on the core competitive strengths of the Group in the flue gas treatment industry to become a comprehensive environmental protection industrial group.

Liquidity Risks

Although the Group recorded positive operating cash flow in the 2018 Financial Year, there is no guarantee that the Group's operating cash flow will continue to be positive in the future. The Group's ability to generate adequate cash inflows from operating activities in the future will depend on project schedule and billing arrangement, its ability to collect receivables in timely manner and the credit terms it can obtain. If the Group is not able to generate sufficient cash flows from its operations, the Group's growth prospects may be materially and adversely affected. Ultimate responsibility for liquidity risk management rests with the Directors, who have established an appropriate liquidity risk management framework for the management of the Group's short-term, medium-term and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve bank financing, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Credit Risks

The credit risk primarily arises from trade and notes receivables, receivables under concession arrangement, bank balance and cash, pledged bank deposit, contract assets, debt instrument at FVTOCI, other receivables and amounts due from related parties. Due to the nature of business of the Group, the Group has significant concentration of credit risk on a small number of customers and the financial guarantee provided by the Group. As at 31 December 2018, the aggregated amount of the Group's trade and notes receivables to the top five customers was RMB449 million, representing 57.6% of the total trade and notes receivable of the Group on 31 December 2018. Furthermore, the amount receivable from the concession operation business is RMB380 million on 31 December 2018. In addition, the Group's concentration of credit risk by geographical locations is solely in the PRC. The Group has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. The Group has established a collection team for each customer and require customers to settle progress billings and other debts in accordance with the terms of the agreements such customers have entered into.

Foreign Exchange and Conversion Risks

Almost all of the Group's operating activities are carried out in the PRC with most of the transactions denominated in RMB. The Group is exposed to foreign exchange and conversion risks primarily through sales and procurement that are denominated in currencies other than RMB. In addition, RMB is not freely convertible into foreign currencies and the conversion of RMB into foreign currencies is subject to rules and regulations of the foreign exchange control promulgated by the PRC Government.

The Group does not have a foreign currency hedging policy. However, the Directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currency, consider adopting significant foreign currency hedging policy in the future.

5. Outlook on the Group's Future Development

In recent years, the PRC government has over time introduced a series of policies that have far-reaching impact on the development of the environmental protection industry, and promoted the sustained and rapid development of environmental protection. The realisation of "Beautiful China initiative" and "Ecological Civilization" has been written into the PRC Constitution, highlighting the importance of ecological civilization construction in the overall layout of the country, and the construction of ecological civilization has risen to the level of national will. With a strong support from national policies, the principal business of the Company has shifted from electricity sector to non-electricity sector. With the gradual opening of flue gas treatment market in the non-power industry and the rapid increase of VOCs market potential, the demand for sewage treatment, soil restoration, solid waste treatment and environmental monitoring will continue to grow. The Group will seize these development opportunities by virtue of its own strength and become a leader in the environmental protection industry.

The Group seeks to strengthen its position as a leading flue gas treatment service provider in the PRC, and further expand the market share to maximize shareholder returns. The Group also plans to expand its business into other environmental protection and energy conservation areas and contribute to the environmental protection in the PRC and around the world. The Group is committed to becoming a world-class environmental industrial group. Looking forward, the Group will carry out the following tasks with its existing advantages:

Maintaining the sustainability of each business segment

In 2018, the Group's business segments and profits achieved remarkable results. In the future, the Group will comprehensively enhance the professional management capabilities of each business segment, further reduce costs, optimize operations, enhance core competitiveness, continue to build quality projects, and actively strengthen its exchange and cooperation with peers in PRC and abroad, introducing and promoting advanced technology, increasing investment in research and development, and improving the innovation ability of enterprises. We will also seize the national policy opportunities, further explore the thermal power industry's desulfurization and denitrification operation and maintenance market potential, and vigorously promote the development of the Company's concession operation and the development of operation and maintenance business through public tendering and strategic cooperation with major customers in the industry. The optimized structure of concession and operation and maintenance business strengthens the foundation of the Company's sustainable development.

Actively participate in the atmospheric management business of non-electrical field

National and local governments in the PRC continue to introduce policies and standards for flue gas treatment in non-electrical fields to drive the efforts of heavy pollution enterprises in desulfurization and denitrification treatment. The Group will seize the opportunity of air pollution control in non-electrical industries, actively participate in the flue gas treatment in various industrial processes, expand its business to cement, petrochemical, metallurgical and other fields, horizontally extend the industrial chain, and seize market opportunities, increase its market share of non-electrical business, and seek new breakthroughs in long-term sustainable development of enterprises. In face of the difficulties in high-level pollutant discharge, high pollution intensity and prevention and control, the Group will use its own advantages to overcome technical difficulties, improve professional capabilities and management standards, and provide customers with high quality and integrated comprehensive environmental protection and energy saving solutions.

Utilize capital market platform to realize enterprise value appreciation

While developing business and expanding the markets, the Group will leverage its strong capital strength to enter the fields of municipal and industrial sewage treatment business and detoxification treatment of solid waste through various approaches, such as technology cooperation, investment, mergers and acquisitions, so as to build an integrated environmental industry group. In addition, supported with the industry background and resources of our shareholders, the Group would collaborate with relevant research institutes on joint technology licensing, so as to explore our "ultra-low emission" upgrade business in the fields of petroleum and petrochemicals, metallurgical, steel and coal chemicals.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the 2018 Financial Year.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 1,800 employees in total (2017: 1,375 employees), substantially all of whom were based in the PRC. The Group has established labor union branches. Currently, the Group has entered into employment contracts with all employees, in which the position, duties, remuneration, employment benefits, training, confidentiality obligations relating to trade secrets and grounds for termination, among other things are specified pursuant to PRC Labor Law and other relevant regulations.

The remuneration package of the employees includes salaries, bonuses and allowances. Our employees also receive supplemental medical provision, transportation allowances, meal allowances and other benefits. The Company carries out employee performance appraisals and establishes diversified and dynamic appraisal mechanisms. The department heads' salaries and remunerations will be adjusted corresponding to the results of their performance appraisals. In compliance with applicable PRC regulations, the Company has contributed to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, and housing funds for all its employees.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this announcement, there are no major subsequent events to 31 December 2018 which would materially affect the Group's operating and financial performance as of the date of this announcement.

FINAL DIVIDEND

The Board has recommended the payment of HK$0.09 per ordinary share as final dividend for the year ended 31 December 2018 (2017: Nil) to holders of ordinary shares whose names appear on the register of members of the Company on 28 June 2019. No interim dividend was declared for the financial year of 2018. Subject to the shareholders' approval at the AGM (as define below), the proposed final dividend will be paid to the shareholders of the Company on or around 22 July 2019.

USE OF PROCEEDS

On 16 March 2018 (the "**Listing Date**"), the shares of the Company were listed on the Main Board of the Stock Exchange, pursuant to which 216,105,000 new shares were issued by the Company to the public at HK$2.40 per share, with net proceeds of HK$489 million (approximately RMB391 million), after deduction of underwriting commission and estimated expenses payable in connection with the global offering.

In 2018, the Company saw an increase in the capital requirement for the new projects and concession investments in the non-electricity industry. However, taking into consideration the Company's position of domestic funds, fluctuations in the exchange rate and the longer time for handling registration and filing of inbound funds for foreign exchange administration, the Company provisionally used its own domestic funds in the PRC for the execution of the above projects. Accordingly, since the Listing Date and up to 31 December 2018, the Company has utilized (i) approximately RMB92 million of the proceeds for the newly built and upgrade concession operation projects; (ii) approximately RMB78 million of the proceeds for the development of sewage treatment, soil and solid waste treatment and new businesses in non-electricity industry; (iii) approximately RMB5 million of the proceeds for research and development expense; and (iv) approximately RMB12 million of the proceeds for working capital and other general corporate purposes, in the ways as disclosed in the prospectus, with a remaining balance of RMB204 million.

For the amounts not utilized yet, the Company will use the net proceeds in the ways as disclosed in the prospectus in the future. The below table sets out the expected plan of use:

Use of Proceeds	**Amount expected to be utilized as disclosed in the prospectus** *(RMB million)*	**Utilized amount for the period** *(RMB million)*	**Amount expected to be utilized** *(RMB million)*	**Expected time of use**	**Detailed description**
New concession projects or the upgrade of the concession projects	117	92	25	1 January 2019 to 30 June 2019	Guqiao and Shenhuo concession projects
Sewage treatment, soil and solid waste treatment fields and the development of new business of non-electricity industry	78	78	0	Not applicable	Desulfurization, denitrification and dust removal project for steel sintering machines
Research and development expense	20	5	4	1 January 2019 to 30 June 2019	Technological research and development for zero sewage discharge
			3 8	1 January 2019 to 30 June 2019 1 July 2019 to 31 December 2019	Research and development expense on the fields of flue gas, water and solid waste treatment and other environmental protection solutions
Working capital and other general corporate purposes	39	12	20 7	1 January 2019 to 30 June 2019 1 July 2019 to 31 December 2019	Working capital and other general corporate purposes
Strategic mergers and acquisitions	137	0	137	1 July 2019 to 31 December 2019	The Company has been identifying and contacting various acquisition targets to seek strategic merger and acquisition opportunities. Generally, it is expected to take approximately 8 to 16 months from the confirmation of an acquisition target to the completion of the acquisition.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the period from the Listing Date and up to 31 December 2018 (the "**Period**"), the Company purchased 1,255,000 shares of its shares, in aggregate, on the Stock Exchange at a total consideration of HK$2,038,510.00, which were cancelled thereafter. Save for the above, neither the Company nor any member of the Group has purchased, sold or redeemed any of the Company's shares during the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange (the "**Listing Rules**") to ensure that the Company's business activities and decision making processes are regulated in a proper and prudent manner.

During the Period, the Company has fully complied with the CG Code.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding dealings in the securities of the Company. Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code during the Period.

The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted during the Period after making reasonable enquiry.

Audit Committee and Review of Financial Statements

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee comprises three members, namely Dr. Xie Guozhong, Mr. Liu Genyu and Mr. Tony Tuo Zheng. Dr. Xie Guozhong is the chairman of the Audit Committee.

The Audit Committee has reviewed the consolidated financial statements of the Group for the 2018 Financial Year. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and the internal control with senior management members. Based on the review and discussions with the management team, the Audit Committee was satisfied that the Group's consolidated financial statements were prepared in accordance with accounting standards and fairly present the Group's financial position and results for the 2018 Financial Year.

REVIEW OF ANNUAL RESULTS

Scope of work of Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu ("**DTT**"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by DTT in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by DTT on the preliminary announcement.

Annual General Meeting

The annual general meeting is scheduled to be held on 29 May 2019 (the "**AGM**"). A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

Closure of Register of Members

In order to determine the entitlement to attend and vote at the AGM, the register of members will be closed from Friday, 24 May 2019 to Wednesday, 29 May 2019, both dates inclusive, during which period no transfer of share will be effected. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on Thursday, 23 May 2019. The record date for such purpose is Wednesday, 29 May 2019.

In order to determine the entitlement to the proposed final dividend for the year ended 31 December 2018, the transfer books and register of members of the Company will be closed from Wednesday, 26 June 2019 to Friday, 28 June 2019, both days inclusive. During the above period, no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Tuesday, 25 June 2019.

Publication of Annual Results and Annual Report

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinaboqi.com) and the 2018 Annual Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
China Boqi Environmental (Holding) Co., Ltd.
Cheng Liquan Richard
Chairman

Hong Kong, 26 March 2019

As at the date of this announcement, the Board comprises Mr. Cheng Liquan Richard and Mr. Zeng Zhijun, as executive Directors; Mr. Tony Tuo Zheng, Mr. Chen Xue and Mr. Zhu Weihang, as non-executive Directors; and Dr. Xie Guozhong, Mr. Liu Genyu and Mr. Lu Zhifang, as independent non-executive Directors.

\# *For identification purposes only*