博奇
BOQI

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 UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS OF UNAUDITED ANNUAL RESULTS

For the year ended 31 December 2019, the revenue of the Group amounted to RMB1,812 million, representing an increase of 3.8% as compared with last year.

For the year ended 31 December 2019, the gross profit of the Group amounted to RMB282 million and the gross profit margin of the Group was 15.6%, representing a decrease of 11.3% and 2.6 percentage points as compared with last year, respectively.

For the year ended 31 December 2019, the net profit of the Group amounted to RMB183 million. Excluding the gain from change in fair value of convertible ordinary shares for 2018, the net profit of the Group for 2019 would have decreased RMB76 million as compared to 2018, representing a decrease of 29.3%, mainly attributable to (i) the decrease in gross profit of the environmental protection facilities engineering and O&M sectors; (ii) the decrease in foreign exchange gains as compared to the same period last year; and (iii) the increase in administrative expenses such as R&D expenses as compared to the same period last year.

UNAUDITED ANNUAL RESULTS

Due to the impact caused by the restrictions in force in parts of the People's Republic of China (the "**PRC**") to combat the COVID-19 outbreak, the auditing process for the annual results of China Boqi Environmental (Holding) Co., Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") has not been completed. In the meantime, the board of directors (the "**Board**") of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 (the "**Reporting Period**" or the "**2019 Financial Year**") as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

		Year ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Revenue	*3*	**1,812,400**	1,744,998
Cost of sales and services		**(1,529,974)**	(1,427,140)
Gross profit		**282,426**	317,858
Other income and other gains and losses	*4*	**45,346**	117,456
Selling and distribution expenses		**(29,295)**	(26,170)
Administrative expenses		**(113,032)**	(109,103)
Allowance of impairment losses on financial assets and contract assets		**(10,928)**	(3,816)
Share of profit of an associate		**38,727**	27,963
Finance costs	*5*	**(4,177)**	(5,900)
Change in fair value of convertible ordinary shares		**–**	133,541
Listing expenses		**–**	(3,319)
Profit before tax		**209,067**	448,510
Income tax expense	*6*	**(26,453)**	(55,691)
Profit for the year		**182,614**	392,819
Earnings per share			
—Basic (RMB)	*8*	**0.18**	0.44
—Diluted (RMB)	*8*	**0.18**	0.27

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**As at 31 December 2019 RMB'000 (Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**361,561**	88,330
Investment properties		**11,714**	12,348
Intangible assets		**790,260**	543,824
Receivables under service concession arrangement	*9*	**356,429**	367,029
Investment in an associate		**82,887**	69,537
Equity instrument at fair value through other comprehensive income		**–**	3,540
Amounts due from related parties		**138,496**	143,287
Deferred tax assets		**30,206**	25,121
Total non-current assets		**1,771,553**	1,253,016
Current assets			
Receivables under service concession arrangement	*9*	**20,201**	12,526
Debt instrument at fair value through other comprehensive income		**197,933**	70,205
Inventories		**28,915**	37,841
Contract assets	*10*	**346,602**	204,289
Equity instruments at fair value through profit or loss		**45,693**	–
Trade receivables	*11*	**590,931**	779,070
Prepayments, deposits and other receivables		**185,093**	123,190
Amounts due from related parties		**223,589**	181,520
Pledged bank deposits		**133,181**	88,113
Bank balances and cash		**450,506**	780,480
Total current assets		**2,222,644**	2,277,234

	Notes	As at 31 December 2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Current liabilities			
Trade and notes payables	*12*	**971,820**	885,535
Other payables, deposits received and accrued expenses		**434,657**	176,024
Contract liabilities	*10*	**102,390**	115,651
Lease liabilities		**8,892**	–
Income tax payable		**25,495**	24,805
Borrowings		**157,378**	53,483
Amounts due to related parties		**11,209**	23,901
Total current liabilities		**1,711,841**	1,337,058
Net current assets		**510,803**	940,176
Total assets less current liabilities		**2,282,356**	2,193,192
Non-current liabilities			
Deferred tax liabilities		**8,018**	8,018
Borrowings		**–**	12,000
Lease liabilities		**180**	–
Total non-current liabilities		**8,198**	20,018
Net assets		**2,274,158**	2,173,174
Capital and reserves			
Share capital		**67**	67
Reserves		**2,274,965**	2,174,058
Equity attributable to owners of the Company		**2,275,032**	2,174,125
Non-controlling interests		**(874)**	(951)
		2,274,158	2,173,174

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) Annual Reporting issued by the International Accounting Standards Board already defined as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the consolidated financial statements for the year ended 31 December 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's consolidated financial statements.

IFRS 16	Leases
IFRIC-23	Uncertainty over Income Tax Treatments
Amendments to IFRS	9 Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 3	Definition of a Business
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

In addition, the Group has early applied Amendments to IFRS 3 Definition of a Business which will be mandatorily effective for the Group for business combinations and asset acquisitions for which the acquisition is on or after 1 January 2020.

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

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations. The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. The Group recognised lease liabilities of RMB18 million and right-of-use assets of RMB18 million at 1 January 2019. The transition to IFRS 16 has no impact on retained profits at 1 January 2019.

3. REVENUE AND SEGMENT INFORMATION

Revenue is mainly generated from the flue gas desulfurisation and denitrification services through three different models, namely environmental protection facility engineering, operation and maintenance and concession operation. In addition, the Group also provides design service and sewage treatment, which are recorded in others. Revenue is recognised net of sales related taxes.

For the purposes of resources allocation and assessment of segment performance, the executive directors of the Company, 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:

Environmental protection facilities engineering ("EPC"):	project design, procurement of equipment and materials, project construction and equipment installment and testing services
Operation and maintenance ("O&M"):	operation service and regular maintenance service for desulfurisation and denitrification facilities and dust removal facilities
Concession operation ("Build-Operate-Transfer" or "BOT", and "Build-Own-Operate" or "BOO"):	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:	sales of by-products and others

Disaggregation of revenue

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Timing of revenue recognition		
Over time	**1,787,338**	1,717,555
A point in time	**25,062**	27,443
	1,812,400	1,744,998
Types of goods and services		
Provision of services	**1,787,338**	1,717,555
Sales of goods	**25,062**	27,443
	1,812,400	1,744,998

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Nature of goods and services		
EPC	**730,628**	722,117
O&M	**380,317**	415,113
Concession operation	**676,393**	580,051
Others	**25,062**	27,717
	1,812,400	1,744,998

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 For the year ended 31 December		**Segment profit For the year ended 31 December**	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
EPC	**730,628**	722,117	**29,344**	56,523
O&M	**380,317**	415,113	**81,659**	124,556
Concession operation	**676,393**	580,051	**148,161**	114,042
Others	**25,062**	27,717	**23,262**	22,737
Total	**1,812,400**	1,744,998	**282,426**	317,858
Unallocated other income and other gains and losses			**45,346**	117,456
Unallocated selling and distribution expenses			**(29,295)**	(26,170)
Unallocated administrative expenses			**(113,032)**	(109,103)
Unallocated allowance of impairment losses on financial assets and contract assets			**(10,928)**	(3,816)
Unallocated share of profit of associates			**38,727**	27,963
Unallocated finance costs			**(4,177)**	(5,900)
Unallocated change in fair value of convertible ordinary shares			**–**	133,541
Unallocated listing expenses			**–**	(3,319)
Profit before tax			**209,067**	448,510

Segment revenue reported above represents revenue generated from external customers.

Segment profit represents the gross profit of each segment. 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.

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interest income	**32,900**	38,496
Government grants	**23,358**	26,968
Rental income, net	**2,355**	1,526
Loss on disposal of property, plant and equipment	**(140)**	(21)
Foreign exchange losses	**4,416**	35,445
Gains from extinguishment of liabilities	**1,964**	8,786
Fair value gain on equity instrument at FVTPL	**(4,415)**	–
Others	**(15,092)**	6,256
	45,346	117,456

5. FINANCE COSTS

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Finance costs	**4,177**	5,900

6. INCOME TAX EXPENSE

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
PRC enterprise income tax ("EIT")	**31,368**	48,239
Deferred tax	**(4,915)**	7,452
Total	**26,453**	55,691

7. PROFIT FOR THE YEAR

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit for the periods has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
Salaries and other benefits	**102,225**	155,927
Contributions to retirement benefits scheme	**17,565**	18,758
Share-based payment expenses	**3,317**	8,442
Total staff costs	**123,107**	183,127
Gross rental income from investment properties	**(2,166)**	(2,160)
Less: Direct operating expense (including depreciation) incurred for investment properties that generated rental income during the periods (included in other income and other gains and losses)	**634**	634
	(1,532)	(1,526)
Cost of inventories recognised as expenses (included in cost of sales and services)	**496,908**	541,325
Depreciation of property, plant and equipment	**23,314**	11,153
Depreciation of investment properties	**634**	634
Amortisation of intangible assets	**54,358**	36,851
Research and development expenses	**24,256**	10,618
Auditor's remuneration	**2,600**	2,340

8. EARNINGS PER SHARE

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

Earnings figures are calculated as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Earnings:		
Earnings for the purpose of calculating earnings per share (profit for the periods attributable to owners of the Company) – basic and diluted	**182,189**	394,359
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,008,248,547**	903,159,880
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,011,819,847**	967,910,157

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENT

	As at 31 December 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current portion	**20,201**	12,526
Non-current portion	**356,429**	367,029
	376,630	379,555
Expected collection schedule is analysed as follows:		
Within one year	**20,201**	12,526
More than one year, but not more than two years	**21,488**	18,981
More than two years but not more than five years	**73,031**	88,811
More than five years	**261,910**	259,237
	376,630	379,555

10. CONTRACT ASSETS AND CONTRACT LIABILITIES

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.

	As at 31 December 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Construction contracts analysed for reporting purposes as follows:		
Contract assets	**346,602**	204,289
Contract liabilities	**(102,390)**	(115,651)
Contract assets are analysed for reporting purposes as follows:		
Current	**346,602**	204,289
	346,602	204,289
Contract liabilities are analysed for reporting purposes as follows:		
Current	**102,390**	115,651
	102,390	115,651

11. TRADE RECEIVABLES

	As at 31 December 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Trade receivables	**610,876**	802,046
Less: Allowance for credit losses	**(19,945)**	(22,976)
	590,931	779,070

Trade receivables relate to a number of independent customers that have a good track record with the Group. The credit losses of the Group are 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.

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

	As at 31 December 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
1 – 90 days	**384,520**	448,239
91 – 180 days	**21,209**	75,851
181 – 365 days	**32,523**	121,812
1 – 2 years	**110,461**	81,775
2 – 3 years	**22,568**	18,454
Over 3 years	**19,650**	32,939
	590,931	779,070

12. TRADE AND NOTES PAYABLES

	As at 31 December 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Trade payables	**765,036**	695,360
Notes payables	**206,784**	190,175
Total	**971,820**	885,535

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:

	As at 31 December 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Less than 90 days	**362,220**	349,822
90 – 180 days	**238,954**	194,485
180 days – 1 year	**103,623**	92,898
1 – 2 years	**133,697**	87,244
2 – 3 years	**40,411**	58,310
Over 3 years	**92,915**	102,776
Total	**971,820**	885,535

13. SUBSEQUENT EVENTS

On 15 January 2020, Jiangxi Jinggangshan Boqi Environmental Technology Co., Ltd.* (江西井岡山博奇環保科技有限公司) ("**Jinggangshan Boqi**") as lessee and CITIC Financial Leasing Co. Ltd.* (中信金融租賃有限公司) ("**CITIC Leasing**") as lessor entered into a finance lease arrangement, pursuant to which (i) CITIC Leasing agreed to purchase and Jinggangshan Boqi agreed to dispose certain desulfurization and denitrification equipment at the consideration of RMB90 million; and (ii) CITIC Leasing agreed to lease the Jinggangshan Equipment to Jinggangshan Boqi for a term of five years, at an estimated total amount of approximately RMB108 million, being the sum of an one-off handling fee of approximately RMB4 million, plus an estimated lease payment of RMB104 million.

On the even date, Changjizhou Boqi Environmental Technology Co., Ltd.* (昌吉州博奇環保科技有限公司) ("**Changjizhou Boqi**") as lessee and CITIC Leasing (as lessor) entered into a finance lease arrangement, pursuant to which (i) CITIC Leasing agreed to purchase and Changjizhou Boqi agreed to dispose certain desulfurization and denitrification equipment at the consideration of RMB260 million; and (ii) CITIC Leasing agreed to lease the Changjizhou Equipment to Changjizhou Boqi for a term of five years, at an estimated total amount of approximately RMB311 million, being the sum of an one-off handling fee of RMB12 million, plus an estimated lease payment of approximately RMB299 million.

There has been no material events subsequent to the period, which require adjustment or disclosure in accordance with IFRSs.

* *for identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been committed to the development of the environmental protection industry. As an independent flue gas treatment integrated services provider, the Group is principally engaged in the flue gas treatment business, which comprises three segments, namely flue gas desulfurization, flue gas denitrification and dust removal. The Group also provides a full range of comprehensive environmental protection services to various industry enterprises, such as existing coal-fired power plants and enterprises in steel, petrochemical, coking and electrolytic aluminum sectors through various business models including environmental protection facility engineering ("**EPC**"), operation and maintenance ("**O&M**") and concession operations.

According to the statistics from the National Energy Administration, the industrial power generated by power plants above-scale in the PRC increased by 3.5% year-on-year in 2019, which was much lower than the growth rate in 2018, of which thermal power only increased by 1.9% Therefore, the Group has been vigorously exploring its flue gas treatment business in the non-electricity sectors and tailoring the services of "EPC+O" to the actual needs of customers, so as to further expand its market shares in non-electricity sectors such as steel, coking and electrolytic aluminum. Meanwhile, the Group has successfully developed industrial sewage treatment business and actively explored its business in the hazardous and solid waste treatment/disposal sector.

1. Industry Overview

In 2019, the environmental protection industry experienced a new situation, with environmental protection policies announced intensively by the central government and local authorities. Efforts on environment protection were further stepped up and a large-scale regulation regime on water, soil, solid waste and gas was basically formed, under which the market forces of third-party governance on pollution were fully mobilized. With the support of national policies, the environmental protection industry will have a further growth in output scale.

On 28 April 2019, five government ministries of China, including the Ministry of Ecology and Environment of PRC and the National Development and Reform Commission of PRC, jointly issued the Opinions on Promoting the Implementation of Ultra-low Emissions in the Steel Industry (《關於推進實施鋼鐵行業超低排放的意見》), proposing to enhance policy support in, among other things, taxation, capital, price, finance and environmental protection for enterprises in the steel industry that have completed the transformation for ultra-low emissions, strengthen corporate responsibility, adopt strict evaluation and management, and strengthen supervision and enforcement. By the end of 2020, the key areas shall have made significant progress in the transformation of steel enterprises for ultra-low emissions, and shall strive to complete the transformation of about 60% of the production capacity; by the end of 2025, the key areas should have basically completed the transformation, and the country shall strive to complete more than 80% of the production capacity.

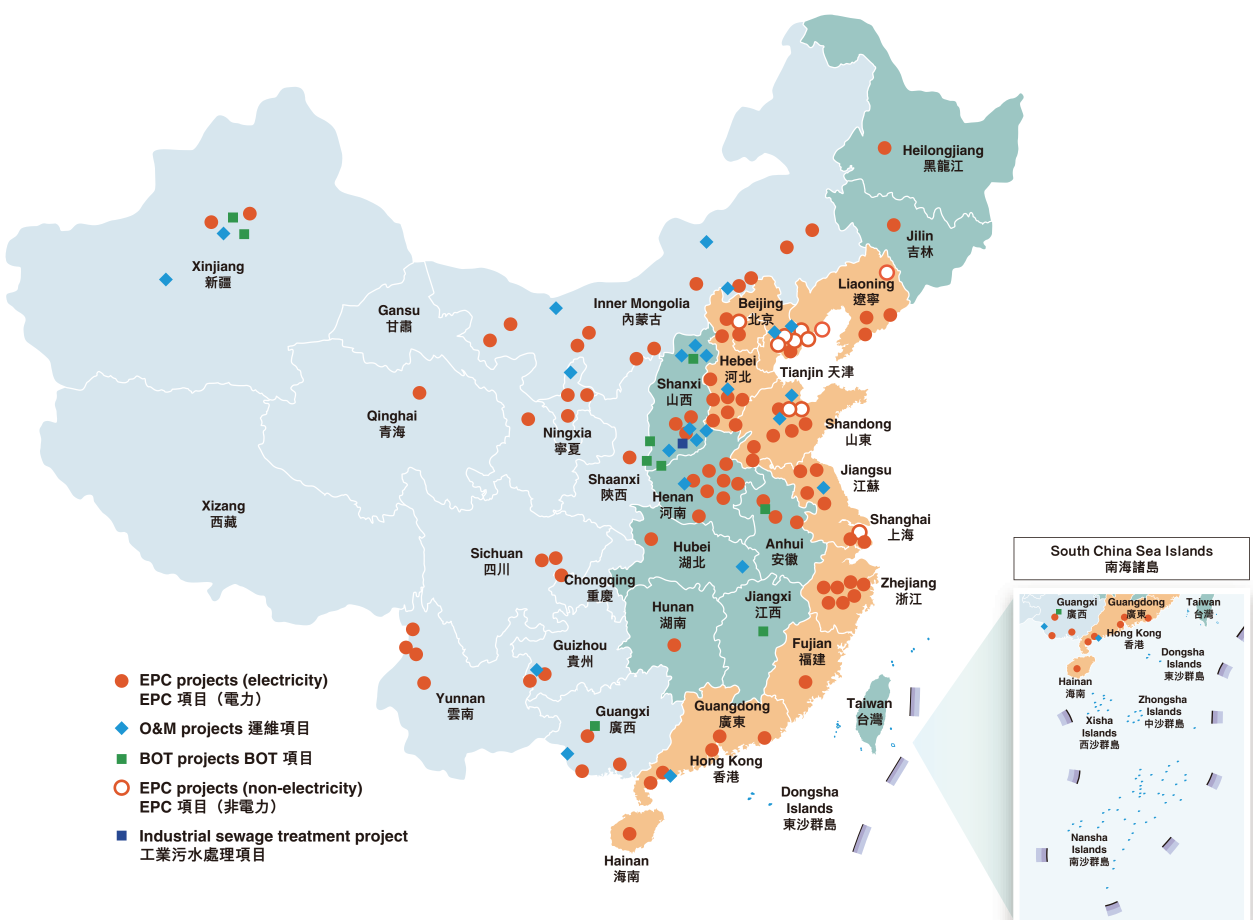
On 17 June 2019, the General Office of the Central Committee of the Communist Party of China ("**CPC**") and the General Office of the State Council of PRC issued the Regulations on the Central Government's Supervision of the Ecological Environmental Protection (《中央生態環境保護督查工作規定》), aiming to standardize the supervision of ecological environmental protection, strictly fulfill the responsibility of ecological environmental protection, promote the construction of ecological civilization and build a beautiful China. Around the corner of the second round of Central Government's Supervision of the Ecological Environmental Protection, the issue of such regulations further demonstrated the determination of the CPC Central Committee and the State Council of the PRC to strengthen the construction of an ecological civilization and enhance ecological environmental protection efforts. Enterprises in China shall strengthen their governance on various aspects, such as air, water and solid waste, to meet emission standards, further heightening the market demand for the environmental protection industry.

On 1 July 2019, the Ministry of Ecology and Environment of the PRC issued the Comprehensive Air Pollution Control Plan for Industrial Furnaces and Kilns(《工業爐窯大氣污染綜合治理方案》), stating that while industrial furnaces and kilns are widely used in various industries such as steel, coking, nonferrous metal, building material, petrochemical, chemical engineering and machinery manufacturing and play a important supporting role in industrial development, they are also the main sources of air pollution in the industrial field. The plan requires Chinese local governments to achieve the following targets by 2020: (i) improve the comprehensive control and management system for air pollution from industrial furnaces and kilns; (ii) ensure the industrial furnaces and kilns are fully in compliance with emission standards; (iii) significantly enhance the standard of the related equipment and pollution governance on industrial furnaces and kilns in key areas of air pollution control such as Beijing, Tianjin, Hebei, the Yangtze River Delta and Fenhe and Weihe River Plains; (iv) further reduce the emissions of sulfur dioxide, nitrogen oxides, particulate matter and other pollutants in various industries; (v) facilitate the effective control of the aggregate carbon dioxide emissions from key industries such as steel and building materials; and (vi) promote the continuous improvement of environmental air quality and the high-quality industrial development.

2. **Business Overview**

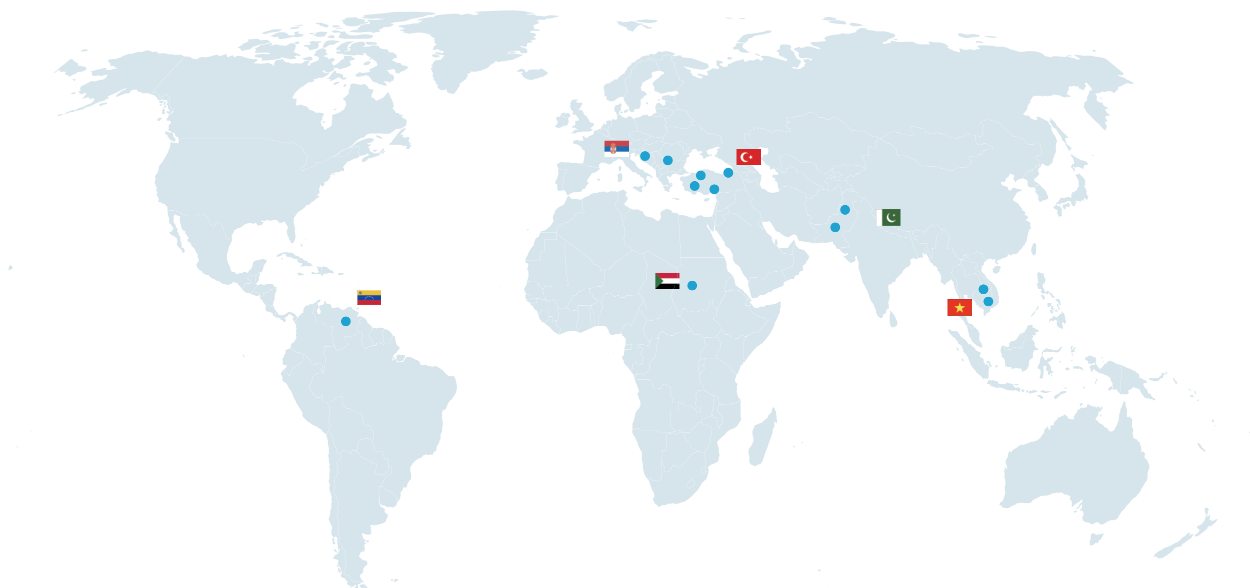
The Group commenced its flue gas treatment business in 2003 and is among the first independent participants in the flue gas treatment industry in China. The services of the Group cover the entire industry-chain of the flue gas treatment industry, from project design, equipment procurement and facilities construction to operation and maintenance and concession operation of flue gas treatment facilities. In 2019, the Group acquired a sewage treatment center of Shanxi Lubao Industrial Park in China ("**Lubao Sewage Treatment Center**") and shall successfully begin its industrial sewage treatment business. We are gradually transforming our role from a coordinated flue gas solution provider to the intelligent environmental protection housekeeper in relation to the comprehensive service of flue gas treatment, industrial sewage treatment, hazardous and solid waste treatment/disposal. Moreover, the Group's business has a broad geographic coverage, reaching nearly 30 provinces, municipalities and autonomous regions in China. Furthermore, the Group has been striving to expand 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 of 31 December 2019:



As of 31 December 2019, the Group had also executed, or had been implementing, over ten projects in regions outside the PRC, such as Europe, South Asia, Latin America, Africa and Southeast Asia. As of 31 December 2019, the Group's overseas desulfurization units have accumulated a capacity of 5,707 MW.

The following map shows the distribution of the projects of the Group outside the PRC as of 31 December 2019:



As an integrated environmental protection services provider, the Group also provides its services through various business models including EPC, Q&M and concession operations (including "**Build-Operate-Transfer**" or "**BOT**", and "**Build-Own-Operate**" or "**BOO**").

EPC

A typical EPC business model involves project design, procurement of equipment and materials, project construction and equipment installment services in relation to SO2 or NOx emission control and dust removal primarily for power plants, aluminum factories, steel factories and chemical plants. The Group acts as the main contractor and is responsible for the design of the 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 a project to the customer upon its completion and inspection by the competent government authority or independent third parties or customers.

In 2019, the Group further expanded its market share in steel flue gas treatment by entering into contracts in relation to the flue gas treatment project for 350m^2 sintering machine of Tianjin Iron Factory and the flue gas treatment project for 90m^2 sintering machine with Jinyuan Industrial Co., Ltd.. As such, the Group's flue gas treatment performance in the steel industry continued to grow steadily. In the meantime, the Group entered into a contract for the 4 x 600 t/d lime double-hearth kiln flue gas SCR (selective catalytic reduction) denitrification project with Hebei Jinxi Africa Metal Mine Industry Co., Ltd., which is the Group's first time participating in the industrial kiln flue gas treatment, thus further expanding into the new non-electricity flue gas treatment market for the Group.

In 2019, the Group entered into a contract on the flue gas desulfurization and denitrification project for the LUCKY 1 x 660MW coal-fired power station in Pakistan, which was the Group's another breakthrough in the overseas market in response to China's "Belt and Road" and "China-Pakistan Economic Corridor" policy initiatives.

In 2019, the Group entered into an EPC project which is of the high-voltage electrode boiler heating and thermal storage load shifting auxiliary service project of the State Power Investment Fushun Thermal Power Company. As such, the business scope of the Group has been expanded.

In 2019, the total contract value of new EPC projects (including desulfurization, denitrification and dust removal projects) of the Group amounted to RMB486 million, of which the contract value of new EPC projects in steel industry was RMB226 million.

The following table sets forth the status of the EPC projects under construction as of 31 December 2019:

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.	Shangqiu Desulfurization Project	Desulfurization	Newly built	June 2016	86
5.	Phase II Desulfurization EP Project in Serbia	Desulfurization	Newly built	September 2016	90
6.	Seawater Desulfurization System and Equipment Supply Project in Pakistan	Desulfurization	Newly built	November 2016	91
7.	Xinjiang New Energy #1-2 Unit Desulfurization Project	Desulfurization	Newly built	December 2016	72
8.	Gaoqiao Denitrification System Supplies Procurement Project	Denitrification	Upgraded	April 2017	17
9.	Nanyang Desulfurization Project	Desulfurization	Newly built	March 2017	168
10.	Jinxi Wanton 1#, 2#, 3# Sintering Machines Flue-gas Ultra-low Emission Project	Green Island	Upgraded	May 2018	216
11.	Jingneng Gao'antun Gas-fired Thermal Power Co., Ltd Waster Heat Boiler Denitrification Upgrade Project	Denitrification	Upgraded	June 2018	24
12.	Shandong Haihua Thermal Power Company Third Power Plant Desulfurization, Dust Removal Expansion and Upgrade Project	Desulfurization and dust removal	Expansion and upgraded	July 2018	50
13.	Jingxi Gas Thermal Power Plant #1,#3 Boiler Denitrification System Technical Upgrade Project	Denitrification	Upgraded	August 2018	17
14.	Zhongke Joint Venture Guangdong Refining and Chemical Integration Project Denitrification Project	Denitrification	Newly built	September 2018	25
15.	Chuanwei Denitrification, Desulfurization and Dust Removal Ultra Low Emissions Upgrade Project	Green Island	Upgraded	September 2018	206
16.	Weiqiao Group Aluminium Power One, Two, Three, Four, Five, Yangxin and Beihai Electrolytic Aluminum Flue Gas Desulfurization Project	Desulfurization	Upgraded	November 2018	156
17.	Tianjin Iron Factory 350m^2 Sintering Machines Flue Gas Treatment Project	Desulfurization,denitrification and dust removal	Upgraded	March 2019	164
18.	POWER CHINA Lucky 660MW Coal-fired Power Plant Desulfurization Equipment Procurement Project in Pakistan	Desulfurization	Newly built	April 2019	132
19.	Jinyuan Industrial Co., Ltd. 90m^2 Sintering Machines Flue Gas Treatment Project	Desulfurization,denitrification and dust removal	Newly built	April 2019	62
20.	EPC project of the high-voltage electrode boiler heating and thermal storage load shifting auxiliary service project of the State Power Investment Fushun Thermal Power Company	Heating and thermal storage load shifting auxiliary service	Newly built	August 2019	101

No.	Environmental protection facility engineering projects under construction	Type of project	Newly built/ upgraded	Date of contract *(Month/Year)*	Aggregate contract value *(RMB million)*
21.	4X600 t/d lime double-hearth kiln flue gas SCR denitrification project of Hebei Jinxi Africa Metal Mine Industry Co., Ltd.	Denitrification	Newly built	December 2019	27

O&M

The provision of O&M services mainly includes operation services and regular maintenance services for desulfurization and denitrification facilities owned by the customers. The Group acts as a contractor to provide desulfurization, denitrification and dust removal operation services. The scope of work involves the full operation, repair, upgrade and maintenance of flue gas treatment system/facilities of coal-fired power plants. Under the O&M projects, our customers are either charged service fees for the O&M services 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 pre-agreed scope of work. Revenues from the O&M business can be a recurring one, generating stable cash flow for the Group.

In 2019, the Group acted as a contractor under the O&M projects to provide operation services in desulfurization, denitrification, dust removal and industrial sewage treatment. Regular maintenance services included a provision of technical support, facilities testing, maintenance services and spare parts replacement. Prior to 2019, the Group's O&M customers were mainly concentrated in the thermal power sector. In 2019, the Group successfully expanded its O&M business to the steel, coking and industrial sewage sectors, and the O&M services for the Lubao Sewage Treatment Center in China which was acquired in the same year, and have been undertaken by the Group independently. As of 31 December 2019, the Group had a total of 19 O&M projects under operation, which have operated consistently with their emissions in compliance with required standards and shall provide a stable source of business growth of the Group.

The following table sets forth the installed capacities and status of the O&M projects of the Group under operation as of 31 December 2019:

No.	Project name	Type of project	Starting date of service *(Month/Year)*	Expiring date of service contract *(Month/Year)*	Installed capacity
1.	Yangcheng #1-6 Unit Flue Gas Desulfurization O&M Project	Desulfurization	July 2018	August 2020	6×350MW
2.	Yangcheng #7-8 Unit Flue Gas Desulfurization O&M Project	Desulfurization	June 2018	August 2020	2×600MW
3.	Yangcheng #7-8 Unit Slag Removal O&M Project	Slag removal	June 2018	August 2020	2×600MW
4.	Bulian Flue Gas Desulfurization O&M Project	Desulfurization	April 2013	June 2019	2×660MW
5.	Qinzhou Desulfurization Q&M Project	Desulfurization	July 2015	June 2021	2×630MW+2×1,000MW
6.	Jingjiang Flue Gas Desulfurization and Dust Removal O&M Project	Desulfurization and dust removal	March 2016	March 2020	2×660MW

No.	Project name	Type of project	Starting date of service *(Month/Year)*	Expiring date of service contract *(Month/Year)*	Installed capacity
7.	Tianjin SDIC Jinneng Power Plant Desulfurization, WESP and Water Intake System Operation and Cleaning Project	Desulfurization	August 2016	December 2020	4×1,000MW
8.	Yangxi Flue Gas Desulfurization and Denitrification O&M Project	Desulfurization and denitrification	January 2017	December 2025	2×660MW+2×600MW
9.	Chengde Desulfurization O&M Project	Desulfurization	May 2017	May 2019	2×350MW
10.	Shouguang Auxiliary Ashing and Sulfurization Control System Entrusted Operation Project	Desulfurization	May 2018	May 2021	2×1,000WM
11.	Shanyin Phase II Environmental Protection O&M	Denitrification, desulfurization and slag removal	June 2018	May 2021	2×350MW
12.	Jiantou Zunhua Auxiliary System Entrusted Operation Project	Desulfurization	August 2018	July 2019	2×350MW
13.	Xilinhaote Desulfurization and Denitrification O&M Project	Desulfurization and denitrification	August 2019 (tentative)	July 2020 (tentative)	2×660MW
14.	Jinxi Iron and Steel O&M Project	Denitrification, desulfurization and dust removal	March 2019	February 2022	$265m^2$ sintering machines
15.	Jinxi Special Steel O&M Project	Denitrification, desulfurization and dust removal	March 2019	February 2022	2×210 m^2+1×265 sintering machines
16.	Denitrification, Desulfurization and Dust Removal O&M Project on $350m^2$ Sintering Machines of Tianjin Iron Plant	Denitrification, desulfurization and dust removal	November 2019	November 2022	$350m^2$ sintering machines
17.	Denitrification O&M Project on $360m^2$ Sintering Machines of Tianjin Iron Plant	Denitrification	December 2019	November 2022	$360m^2$ sintering machines
18.	Flue Gas Denitrification, Desulfurization and Dust Removal O&M Project on 4*65 Hole 6.05m Stamp Charging Coke Oven of Shanxi Lubao Group's Jingang Zhaofeng Coal Chemical Company	Denitrification, desulfurization and dust removal	December 2019	November 2024	4*65 hole 6-05m stamp charging coke oven
19.	Flue Gas Denitrification, Desulfurization and Dust Removal O&M Project on 4×75t/h Facilities of Shanxi Lubao Group's Shanxi Jintao Lubao Chemical Co., Ltd.	Denitrification, desulfurization and dust removal	December 2019	November 2024	4×75t/h

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 contracts with its customers. In general, the concession projects are funded by the Group's internal funds or borrowings from local banks. Upon the completion of construction, 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 during the operation phase multiplied by the unit price specified in the concession contract, which is generally settled every calendar month. Further, the Group also generates revenues from the sales of by-products during the operation of the environmental protection facilities. The fees that the Group receives for the provision of concession services under concession agreement typically include service fees based on a guaranteed minimum flue gas treatment volume multiplied by a fixed unit price (pre-determined at the time the concession agreement is entered into with the customer) and such fees are subject to adjustment by certain variable costs the Group incurred.

In 2019, 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 of 31 December 2019, the Group has accumulated nine concession operation projects and all of which have been under operation smoothly, laying a strong foundation for us to operate continuously and develop steadily.

The following table sets forth details of the concession operation projects of the Group under operation as of at 31 December 2019:

No.	Project name	Installed capacity	Type of project	Newly built/ upgraded	Total investment *RMB million*	Date of signing contract *(Year/Month)*	Ending date of concession period *(Year/Month)*
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 BOO Project	2×300MW	Green Island	Upgraded	281	December 2018	End of 2033

Industrial Sewage Treatment Business

In 2019, the Group acquired the Lubao Sewage Treatment Center at a cash consideration of RMB300,000,000. The designed capacity of the wastewater (sewage) biological treatment unit, the wastewater (sewage) advanced treatment and recycling unit, and the reclaimed water and sewage recycling unit is 560m^3/h, 560m^3/h and 400m^3/h, respectively. The operation of Lubao Sewage Treatment Center applies advanced technologies, including ultrafiltration, nanofiltration, reverse osmosis and other processes. With wastewater biochemical treatment, wastewater advanced recycling equipment and reclaimed water and sewage recycling, it operates throughout the business chain.

The industrial sewage treatment business is one of the new directions for the Group's future development. Through the acquisition of Lubao Sewage Treatment Center, the Group has successfully explored a new sector in the environmental protection market, which will bring continuous and stable benefits to the Group's performance. The Group regards Lubao Sewage Treatment Center as a demonstration project for such industry and intends to train a team of technology and operating professionals in industrial wastewater treatment, so as to lay a solid foundation for the development of the sewage treatment market of chemical parks in China.

3. Financial Position and Operating Results

In 2019, the development of the global economy was stagnant, while the economy of mainland China was growing steadily under the influence of the complex landscape both domestically and abroad and has experienced an economic slowdown. Against the backdrop of the relatively weak market demand and the escalation of Sino-US trade disputes, the production of industrial enterprises has continued to slow and the operating structure has been undergoing adjustment. The environmental protection industry has ushered in a new round of competition and challenges, which has heightened requirements for the enterprises' ability on cost control and financing.

In 2019, the Group continued to maintain a sound business strategy, actively make deployments on new business sectors and make new breakthroughs in industrial sewage treatment projects. Besides, the Group expanded its flue gas treatment business in non-electricity sectors and increased its market shares in steel, petrochemical, electrolytic aluminum sectors. In additional, the Group's main business continued to develop steadily, with optimized operating structure, excellent asset quality, abundant cash flow and bank facilities, as well as continued to maintain a relatively low gearing ratio.

Revenue

In the 2019 Financial Year, the Group's total revenue increased by 3.8% to RMB1,812 million as compared with RMB1,745 million for the 2018 Financial Year, mainly attributable to the growth in the revenue of the Group's new business 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 2019	Year ended 31 December 2018
	RMB'000	*RMB'000*
EPC	**730,628**	722,117
Operation and Maintenance	**380,317**	415,113
Concession Operation	**676,393**	580,051
Of which: Operation	**499,972**	369,880
Construction	**176,421**	210,171
Others	**25,062**	27,717
Total	**1,812,400**	1,744,998

Revenue generated from the EPC business for the 2019 Financial Year amounted to RMB731 million, representing a slight increase as compared with the 2018 Financial Year, mainly attributable to some contracted projects suffered postponement or delays in construction due to economic downturn, and no corresponding income was recognized during the reporting period.

The revenue generated from the O&M business for the 2019 Financial Year decreased by 8.4% to RMB380 million as compared with RMB415 million for the 2018 Financial Year, mainly attributable to the changes in the service specification of the large-scale power generation O&M project undertaken by the Group, the maintenance downtime and the reduction of power generation.

Revenue from concession operation business for the 2019 Financial Year increased by 16.6% to RMB676 million as compared with RMB580 million for the 2018 Financial Year, mainly attributable to the increase of operating income resulting from the beginning of operation of the new concession operation projects in flue gas treatment sectors during the reporting period.

Cost of Sales and Services

The Group's cost of sales and services for the 2019 Financial Year increased by 7.2% to RMB1,530 million as compared with RMB1,427 million for the 2018 Financial Year, mainly attributable to the increase in the cost of raw materials and labor after the Group's newly added concession operation project was put into operation during the reporting period.

Cost of sales and services for the Group's EPC business consists primarily of technology and design costs, equipment procurement cost, construction and installation costs. The cost of sales and services for the EPC business for the 2019 Financial Year amounted to RMB701 million, representing a slight increase of 5.3% as compared with RMB666 million for the 2018 Financial Year, mainly attributable to the slight increase of revenue as compared to the same period of last year.

Cost of sales and services for the O&M service consists of raw materials costs, labor costs and inspection and repair costs. The cost of sales and services for the O&M service for the 2019 Financial Year increased by 2.7% to RMB299 million as compared with RMB291 million for the 2018 Financial Year, mainly attributable to the decrease in revenue from O&M services and the increase of raw material prices.

Cost of sales and services for the concession operation business consists primarily of raw material costs, labor costs, amortization and depreciation and construction costs. The cost of sales and services for the concession operation business for the 2019 Financial Year increased by 13.3% to RMB528 million as compared with RMB466 million for the 2018 Financial Year, mainly attributable to the increase in the cost of raw materials and labor resulting from the increase in the revenue of the newly added concession operation project during the reporting period

Gross Profit and Gross Profit Margin

The gross profit of the Group for the 2019 Financial Year decreased by 11.3% to RMB282 million as compared with RMB318 million for the 2018 Financial Year, while the gross profit margin of the Group for the 2019 Financial Year deceased to 15.6% as compared with 18.2% for the 2018 Financial Year, mainly attributable to the decrease in revenue from O&M business and the increase in costs.

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 2019		Year ended 31 December 2018	
	Gross Profit	**Gross Profit Margin**	Gross Profit	Gross Profit Margin
	RMB'000	***%***	*RMB'000*	*%*
EPC	**29,344**	**4.0**	56,523	7.8
O&M	**81,659**	**21.5**	124,556	30.0
Concession Operation	**148,161**	**21.9**	114,042	19.7
Of which: Operation	**143,991**	**28.8**	109,297	29.5
Construction	**4,171**	**2.4**	4,745	2.3
Others	**23,262**	**92.8**	22,737	82.0
Total	**282,426**	**15.6**	317,858	18.2

The gross profit of the EPC business for the 2019 Financial Year decreased by 49.1% to RMB29 million as compared with RMB57 million for the 2018 Financial Year, while the gross profit margin for the 2019 Financial Year deceased to 4.0% as compared with 7.8% for the 2018 Financial Year, mainly attributable to the decrease of the gross profit of newly signed contracts resulting from market competition and the increase in the raw material costs.

The gross profit of the O&M business for the 2019 Financial Year decreased by 34.4% to RMB82 million as compared with RMB125 million for the 2018 Financial Year, while the gross profit margin decreased from 30.0% in the 2018 Financial Year to 21.5% for the 2019 Financial Year, mainly attributable to (i) the changes in the service specification of the large-scale power generation O&M project undertaken by the Group and the decrease in revenue resulting from maintenance downtime and the reduction of power generation; and (ii) the increase of raw material prices in the O&M business.

The gross profit of the concession operation business for the 2019 Financial Year increased by 29.8% to RMB148 million as compared with RMB114 million for the 2018 Financial Year, while the gross profit margin increased from 19.7% for the 2018 Financial Year to 21.9% for the 2019 Financial Year, mainly attributable to (i) the increase of flue gas treatment operation projects; (ii) the strengthening on cost control and the reduction of raw material and energy consumption; and (iii) the decrease of the proportion of construction revenue as compared to the same period last year, which has a lower gross profit margin during the construction stage.

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 Group's other income and revenue for the 2019 Financial Year decreased by 61.5% to RMB45 million as compared with RMB117 million for the 2018 Financial Year. The decrease was mainly attributable to (i) the decrease in foreign exchange gains as compared to the same period last year; and (ii) the decrease in interest income from financial assets and gains from extinguishment of liabilities as compared to the same period last year.

Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to RMB29 million for the 2019 Financial Year, as compared to RMB26 million for the same period last year. The percentage of selling and distribution expenses to revenue was 1.6%, up 0.1 percentage point year-on-year, mainly attributable to the increase of selling expenses due to the expansion of new business in the industrial sewage treatment and hazardous and solid waste treatment/disposal markets during the reporting period.

Administrative Expenses

The Group's administrative expenses amounted to RMB113 million for the 2019 Financial Year, as compared to RMB109 million for the same period last year. The percentage of administrative expenses to revenue was 6.2% in 2019, which remains approximately the same level as last year.

Finance Costs

Finance costs consist of interest expense on bank borrowings.

The Group's finance costs for the 2019 Financial Year amounted to RMB4 million, representing a decrease of 33.3% as compared with RMB6 million for 2018, mainly attributable to the decrease of financing costs resulting from the increase of the utilization of acceptance bills for saving financial costs during the reporting period.

Gearing Ratio

The gearing ratio is calculated as the percentage which the Group's total bank borrowings bears to the Group's total equity. The Group's gearing ratio increased from 3.0% as at 31 December 2018 to 6.9% as at 31 December 2019, mainly attributable to the increase in notes payables and bank borrowings during the reporting period.

Income Tax Expenses

The corporate income tax of the Group and its subsidiaries includes the following taxation: 1) the Company, which was incorporated in the Cayman Islands, is not subject to any Cayman Islands taxation; 2) certain subsidiaries of the Company are entitled to a preferential income tax rate of 15% as high-end new technology enterprises; 3) 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 comply with preferential tax policies for environmental protection and energy conservation industries; and 4) other subsidiaries are subject to an income tax rate of 25%.

The income tax expenses of the Group for the 2019 Financial Year amounted to RMB26 million, representing a decrease of 53.6% as compared with RMB56 million for the same period last year, mainly attributable to the decrease in profit before tax and newly added preferential policies for concession operation projects.

Profit for the Year

The Group recorded a net profit of RMB183 million for the 2019 Financial Year, as compared to a net profit of RMB393 million for the 2018 Financial Year. Excluding the gain from change in fair value of convertible ordinary shares for 2018, the net profit of the Group for 2019 would have decreased by RMB76 million as compared to 2018, representing a decrease of 29.3%, mainly attributable to (i) the decrease in gross profit of the environmental protection facilities engineering and O&M sectors; (ii) the decrease in foreign exchange gains as compared to the same period last year; and (iii) the increase in administrative expenses such as R&D expenses as compared to the same period last year.

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Group for the 2019 Financial Year was RMB228 million, while the profit attributable to the owners of the Group for the 2018 Financial Year was RMB217 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 analysis, the Directors are of the view that the Group has sufficient working capital required for the Group's operations at present and for the year ending 31 December 2020.

Cash Flows

The Group's cash and cash equivalents decreased by 42.2% from RMB780 million as at 31 December 2018 to RMB451 million as at 31 December 2019, which is mainly attributable to the expenses for the investments and the merger and acquisition of industrial sewage treatment and flue gas treatment concession operation projects.

Capital Expenditure

The capital expenditure of the Group comprises expenditures on the purchase of property, plant and equipment and the construction of concession operation projects. For the 2019 Financial Year, the total capital expenditure of the Group was RMB317 million, and mainly attributable to the investment in concession operation projects, which have long operation periods, high gross profit margins and stable cash flow, so as to ensure the sustainable development of the Group.

Contingent Liabilities

As at 31 December 2019, 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 that can provide other products or services with greater pollution control effects than the products and services of the Group. Therefore, there is no assurance that the Group will directly benefit from the changed industry policies. However, as a large-scale brand enterprise in the environmental protection industry, the Group will capture new market opportunities in solid waste treatment and sewage treatment on the basis of its mature flue gas treatment business, and at the same time ambitiously expand its business in the new market of the non-electricity industries such as steel, petrochemical and cement, with a view to achieving the strategic objective of becoming a comprehensive environmental protection industry group.

Liquidity Risks

Although the Group recorded a positive operating cash flow in the 2019 Financial Year, there is no guarantee that the Group will have positive operating cash flows in any future period. The Group's ability to generate adequate cash inflows from operating activities in the future will depend on its overall annual fund arrangement, its ability to recover receivables and the credit terms it can obtain. If the Group is not able to generate sufficient cash flows from its operations, the Group's operating position may be materially and adversely affected. Ultimate responsibility for liquidity risk management rests with the Directors, who have established a rigid liquidity risk management regime for the management of the Group's liquidity management requirements. The Group manages liquidity risk by various measures, such as maintaining adequate reserves, banking facilities and bank credit lines and continuously monitoring forecast and actual cash flows.

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 of 31 December 2019, the aggregated amount of the Group's trade and notes receivables of the top five customers was RMB427 million, representing 37.4% of the total trade and notes receivable. Besides, the receivables of the concession operation projects amounted to RMB377 million as of 31 December 2019. The Group's concentration of credit risk by geographical locations is solely in the PRC, and the Group has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

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 will 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

With the changes in the market demand for environmental governance, the requirements for enterprises in the environmental protection industry has been increasingly demanding and will bring about a change in the industry structure. In the future, the development of the environmental protection industry will enter a new era characterized with intensive pollution control, demutualized equities in enterprises, diversified investment channels and personalized service models.

In the future, the Group will continue to aim at creating a comprehensive environmental protection platform enterprise by adjusting its business structure, optimizing resource allocation and expanding market share. Besides, it will continue to expand its multiple business areas comprising (i) flue gas governance, (ii) industrial sewage treatment and (iii) hazardous and solid waste treatment/disposal, striving to develop into a world-class group in the environmental protection industry. Looking ahead, the Group will carry out the following key tasks:

(1) Maintain stable development of the Group's main business and continue to expand its air pollution governance business in non-electricity sectors

The Group will continue to promote smart and intelligent O&M, provide all-round services and vigorously build a "Boqi O&M" brand in the industry, so as to expand its O&M project market in the traditional flue gas governance field. The Group will optimize the proportion between its concession operations and O&M business and improve the profitability of the Group. While the current flue gas desulfurization and denitrification business in the electricity sector has entered a stage of in-depth governance, the Group will seize opportunities brought about by national policies and utilize its own technology and extensive project experience to strive to develop its business in non-electricity sectors. The Group will fully tailor its one-stop service of "EPC+O" to the actual needs of customers in the steel industry, with a view to continuously consolidating the foundation for the Group's sustainable development.

(2) Further establish market presence for industrial wastewater treatment sector

The Group has actively responded to the ecological and environmental protection policies issued by national, ministerial and local authorities. Leveraging on the opportunity to improve water discharge standards, the Group has pursued its strategic goals, actively integrated its internal resources and acquired Lubao Sewage Treatment Center in 2019, successfully taking the first step of establishing a market presence in the industrial sewage treatment industry. In the future, the Group will leverage on the industrial technology and project experience of Lubao Sewage Treatment Center to nurture a team of professional talents, enhance technology reserves and further develop its industrial treatment business.

(3) Realizing the implementation of hazardous and solid waste treatment/disposal projects

As the country has attached great importance to the environmental protection industry and the environmental protection awareness among the public has been growing, coupled with the fact that the outbreak of COVID-19 has intensified the problem of the insufficiency of the capacity of treatment facilities to cope with the production of hazardous and solid waste and medical waste, the hazardous and solid waste treatment industry has gradually entered a rapid development phrase and has a promising prospect of industrial development. By seizing tightly the market opportunities, the Group will combine its actual needs and strategic positioning to actively make deployments in the Beijing-Tianjin-Tangshan regional market and roll out its specific projects. In addition, the Group will also enter new business areas through various forms of technical cooperation, investment, mergers and acquisitions.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

On 10 June 2019, the Group completed the acquisition of a sewage treatment centre in Lubao Industrial Park, Lucheng City, Shanixi Province of the PRC, for a total cash consideration of RMB300 million.

Save for those disclosed above, the Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the 2019 Financial Year.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 1,950 employees in total (2018: 1,800 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

On 15 January 2020, Jiangxi Jinggangshan Boqi Environmental Technology Co., Ltd.* (江西井岡山博奇環保科技有限公司) ("**Jinggangshan Boqi**") as lessee and CITIC Financial Leasing Co. Ltd.* (中信金融租賃有限公司) ("**CITIC Leasing**") as lessor entered into a finance lease arrangement, pursuant to which (i) CITIC Leasing agreed to purchase and Jinggangshan Boqi agreed to dispose certain desulfurization and denitrification equipment at the consideration of RMB90 million; and (ii) CITIC Leasing agreed to lease the Jinggangshan Equipment to Jinggangshan Boqi for a term of five years, at an estimated total amount of approximately RMB108 million, being the sum of an one-off handling fee of approximately RMB4 million, plus an estimated lease payment of RMB104 million.

On the even date, Changjizhou Boqi Environmental Technology Co., Ltd.* (昌吉州博奇環保科技有限公司) ("**Changjizhou Boqi**") as lessee and CITIC Leasing (as lessor) entered into a finance lease arrangement, pursuant to which (i) CITIC Leasing agreed to purchase and Changjizhou Boqi agreed to dispose certain desulfurization and denitrification equipment at the consideration of RMB260 million; and (ii) CITIC Leasing agreed to lease the Changjizhou Equipment to Changjizhou Boqi for a term of five years, at an estimated total amount of approximately RMB311 million, being the sum of an one-off handling fee of RMB12 million, plus an estimated lease payment of approximately RMB299 million.

* *for identification purposes only*

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

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 2019, the Company saw an increase in the capital requirement for the new projects and concession investments in the non-electricity industry. Accordingly, since 1 January 2019 and up to 31 December 2019, the Company has utilized the proceeds in the following manner:

(i) approximately RMB25 million of the proceeds for the newly built and upgrade concession operation projects;

(ii) approximately RMB11 million of the proceeds for research and development expenses; and

(iii) approximately RMB27 million of the proceeds for working capital and other general corporate purposes,

which was in line with the intended use of the proceeds as disclosed in the prospectus, with a remaining balance of RMB87 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 available to be utilized as of 31 December 2018** *(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	25	25	Nil	–	–
Research and development expenditures	15	11	4	2020	Research and development expenses in flue gas, industrial waste water and hazardous and solid waste treatment/ disposal and other environmental protection solutions
Working capital and other general corporate purposes	27	27	Nil		Working capital and other general corporate purposes
Strategic mergers and acquisitions	137	54	83	2020	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

During the Reporting Period, the Company purchased 2,397,000 shares of its Shares (the "**Shares**"), in aggregate, on the Stock Exchange at a total consideration of HK$3,459,500.00, which were cancelled thereafter.

Details of the purchases are summarized as follows:

	Number of Shares	Highest price per share *HK$*	Lowest price per share *HK$*	Aggregate consideration *HK$*
January	764,000	1.80	1.72	1,359,720.00
February	341,000	1.75	1.60	579,250.00
July	692,000	1.28	1.10	806,780.00
August	100,000	1.20	1.10	116,180.00
September	500,000	1.20	1.17	597,570.00

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 Reporting 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 Listing Rules to ensure that the Company's business activities and decision making processes are regulated in a proper and prudent manner.

During the Reporting 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 Reporting 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 Reporting Period after making reasonable enquiry.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED ANNUAL RESULTS

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 auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVID-19 outbreak. The unaudited annual results contained herein have not been agreed with the Company's auditors. The results may also be subject to change for the following reasons: (i) further review will be carried out by the Company and related professionals; (ii) bank confirmations and other audit confirmations necessary for the auditors of the Company to complete the audit process in accordance with relevant auditing standards will be obtained; and (iii) as at the latest practicable date, the progress of the auditor's review, especially the work in Wuhan, has been suspended and affected resulting from the impact of the COVID-19 outbreak in China. Upon receipt of further supporting documents, any potential adjustments may be suggested by the auditor of the Company.

The unaudited annual results contained herein have been reviewed by the Audit Committee.An announcement relating to the audited results will be made when the auditing process has been completed in accordance with IFRSs issued by the IASB.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

Publication of Annual Results and Annual Report

This unaudited annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinaboqi.com) and the 2019 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.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
China Boqi Environmental (Holding) Co., Ltd.
Zeng Zhijun
Vice Chairman, Executive Director and Chief Executive Officer

Hong Kong, 27 March 2020

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