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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 2020

ANNUAL RESULTS HIGHLIGHTS

For the year ended 31 December 2020, the revenue of the Group amounted to RMB1,646 million, representing a decrease of 10.3% as compared with last year.

For the year ended 31 December 2020, the gross profit of the Group amounted to RMB340 million and the gross profit margin of the Group was 20.7%, representing an increase of 10.7% and 4.0 percentage points as compared with last year, respectively.

For the year ended 31 December 2020, the net profit of the Group amounted to RMB207 million with a net profit margin of 12.6%, representing an increase of 13.1% and 2.6 percentage points as compared with last year, respectively.

The Board has recommended the payment of HK\$7.40 cents per ordinary share as final dividend for the year ended 31 December 2020 (31 December 2019: HK\$3.15 cents).

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 2020 (the “**2020 Financial Year**” or the “**Reporting Period**”), together with comparative figures for the corresponding period of 2019 (the “**2019 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 2020

	Notes	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Revenue	3,4	1,646,131	1,836,496
Cost of sales and services		<u>(1,306,053)</u>	<u>(1,529,974)</u>
Gross profit		340,078	306,522
Other income and gains, net	5	33,532	25,436
Selling and distribution expenses		(22,352)	(29,295)
Administrative expenses		(79,540)	(88,776)
Research and development expenses		(33,810)	(24,256)
Impairment losses on financial and contract assets		(11,633)	(10,928)
Share of profits of associates		19,337	34,541
Finance costs		<u>(9,910)</u>	<u>(4,177)</u>
PROFIT BEFORE TAX	6	235,702	209,067
Income tax expenses	7	<u>(28,309)</u>	<u>(26,453)</u>
PROFIT FOR THE YEAR		<u>207,393</u>	<u>182,614</u>
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive loss:			
Changes in fair value		–	(2,374)
Income tax effect		–	171
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		<u>–</u>	<u>(2,203)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		<u>–</u>	<u>(2,203)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>207,393</u>	<u>180,411</u>

		Year ended 31 December	
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to:			
Owners of the parent		207,608	182,537
Non-controlling interests		(215)	77
		<u>207,393</u>	<u>182,614</u>
Total comprehensive income attributable to:			
Owners of the parent		207,608	180,334
Non-controlling interests		(215)	77
		<u>207,393</u>	<u>180,411</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	<i>9</i>		
– Basic (RMB)		0.21	0.18
– Diluted (RMB)		0.21	0.18
		<u>0.21</u>	<u>0.18</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		401,486	377,753
Investment properties		11,079	11,714
Intangible assets		697,656	774,068
Receivables under service concession arrangement	10	340,038	356,429
Investments in associates		69,952	82,887
Long-term receivable		42,620	–
Contract assets		21,459	–
Amounts due from related parties		139,296	138,496
Deferred tax assets		34,591	33,061
Other non-current assets		42,604	–
Total non-current assets		<u>1,800,781</u>	<u>1,774,408</u>
CURRENT ASSETS			
Receivables under service concession arrangement	10	27,376	20,201
Debt instruments at fair value through other comprehensive income		199,501	197,933
Inventories		27,685	28,915
Equity instrument at fair value through profit or loss		45,599	45,693
Contract assets		126,091	346,602
Trade receivables	11	675,852	590,931
Prepayments, deposits and other receivables		217,944	185,093
Amounts due from related parties		132,251	223,589
Pledged bank deposits		92,904	133,181
Cash and cash equivalents		519,128	450,506
Total current assets		<u>2,064,331</u>	<u>2,222,644</u>

	<i>Note</i>	2020 RMB'000	2019 <i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	<i>12</i>	947,781	1,021,730
Other payables, deposits received and accrued expenses		227,655	434,657
Contracts liabilities		71,873	102,390
Income tax payable		25,224	25,495
Interest-bearing bank and other borrowings		15,335	107,468
Lease liabilities		3,879	8,892
Amounts due to related parties		7,606	11,209
		<hr/>	<hr/>
Total current liabilities		1,299,353	1,711,841
		<hr/>	<hr/>
NET CURRENT ASSETS		764,978	510,803
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,565,759	2,285,211
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liabilities		33,871	180
Interest-bearing bank and other borrowings		63,956	–
Deferred tax liabilities		17,114	10,873
		<hr/>	<hr/>
Total non-current liabilities		114,941	11,053
		<hr/>	<hr/>
Net assets		2,450,818	2,274,158
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		67	67
Treasury shares		(1)	(1)
Other reserves		2,451,841	2,274,966
		<hr/>	<hr/>
		2,451,907	2,275,032
		<hr/>	<hr/>
Non-controlling interests		(1,089)	(874)
		<hr/>	<hr/>
TOTAL EQUITY		2,450,818	2,274,158
		<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the year, the Group was involved in the following principal activities:

- Flue gas treatment business
- Water treatment business
- Energy saving and environmental protection business

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) (which include all IFRS, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Boards (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for debt investments and equity investments which have been measured at fair value. These consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for *Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group did not have any interest rate hedging relationships.
- (c) Amendments to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any impact on the financial position and performance of the Group as the Group did not obtain any rent concession.
- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) Flue gas treatment business
- | | |
|----------------------|---|
| Concession operation | 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 transferring the ownership of the infrastructure to the grantor at the end of the period |
| 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 |
| Others | sales of by-products and others |
- (b) Water treatment business mainly involves the sewage treatment for industrial parks in coal chemical, coking and steel sectors
- (c) Energy saving and environmental protection business mainly involves project engineering and design, procurement of equipment and materials, project construction, equipment installation and commissioning services

Water treatment and energy saving and environmental protection are new businesses in 2020.

	Segment revenue (Note 4)		Segment profit	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Flue gas treatment business				
EPC	530,214	730,628	5,227	29,344
O&M	384,210	380,317	78,652	81,659
Concession operation	587,975	700,489	183,816	172,257
Others	28,055	25,062	27,834	23,262
Water treatment business	90,695	–	43,940	–
Energy saving and environmental protection business	24,982	–	609	–
Total	1,646,131	1,836,496	340,078	306,522
Unallocated other income and gains, net			33,532	25,436
Unallocated selling and distribution expenses			(22,352)	(29,295)
Unallocated administrative expenses			(79,540)	(88,776)
Unallocated research and development expenses			(33,810)	(24,256)
Unallocated impairment losses on financial and contract assets			(11,633)	(10,928)
Unallocated share of profits of associates			19,337	34,541
Unallocated finance costs			(9,910)	(4,177)
Profit before tax			235,702	209,067

Other segment information

	Total depreciation and amortization	
	2020	2019
	RMB'000	RMB'000
Depreciations and amortizations presented in cost of sales and services		
Flue gas treatment business		
EPC	1,025	567
O&M	7,069	6,730
Concession operation	71,809	66,064
Others	–	–
Water treatment business	16,061	–
Energy saving and environmental protection business	–	–
	<u>95,964</u>	<u>73,361</u>
Unallocated Depreciations and amortizations other than those presented in cost of sales and services	<u>6,531</u>	<u>4,945</u>
Total	<u><u>102,495</u></u>	<u><u>78,306</u></u>

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. CODM assesses the performance of the operating segments based on a measure of “reportable segment profit”, i.e., “revenue less cost of sales”. The Group does not allocate depreciations and amortizations other than those presented in cost of sales and services, impairment of other non-current asset, reversal of impairment losses on financial assets and contract assets. The Group also does not allocate other income and other gains, net, selling and distribution expenses, administrative expenses, research and development expenses, finance costs and share of profit of associates to its segments, as the CODM does not use such information to allocate resources to or evaluate the performance of the operating segments.

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

4. REVENUE

An analysis of revenue is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers	<u><u>1,646,131</u></u>	<u><u>1,836,496</u></u>

Revenue from contracts with customers

Disaggregation of revenue

For the year ended 31 December 2020

	Flue gas treatment business				Water treatment business	Energy saving and environmental protection business	Total
	Concession operation <i>RMB'000</i>	EPC <i>RMB'000</i>	O&M <i>RMB'000</i>	Others <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Types of goods and services							
Rendering of services	587,975	530,214	384,210	-	90,695	24,982	1,618,076
Sales of goods	-	-	-	28,055	-	-	28,055
Total revenue from contracts with customers	<u><u>587,975</u></u>	<u><u>530,214</u></u>	<u><u>384,210</u></u>	<u><u>28,055</u></u>	<u><u>90,695</u></u>	<u><u>24,982</u></u>	<u><u>1,646,131</u></u>
Geographical market							
Mainland China	587,975	530,214	384,210	28,055	90,695	24,982	1,646,131
Total revenue from contracts with customers	<u><u>587,975</u></u>	<u><u>530,214</u></u>	<u><u>384,210</u></u>	<u><u>28,055</u></u>	<u><u>90,695</u></u>	<u><u>24,982</u></u>	<u><u>1,646,131</u></u>
Timing of revenue recognition							
Services transferred over time	587,975	530,214	384,210	-	90,695	24,982	1,618,076
Goods transferred at a point in time	-	-	-	28,055	-	-	28,055
Total revenue from contracts with customers	<u><u>587,975</u></u>	<u><u>530,214</u></u>	<u><u>384,210</u></u>	<u><u>28,055</u></u>	<u><u>90,695</u></u>	<u><u>24,982</u></u>	<u><u>1,646,131</u></u>

For the year ended 31 December 2019

	Flue gas treatment business				Water treatment business	Energy saving and environmental protection business	Total
	Concession operation <i>RMB'000</i>	EPC <i>RMB'000</i>	O&M <i>RMB'000</i>	Others <i>RMB'000</i>			
Types of goods and services							
Rendering of services	700,489	730,628	380,317	-	-	-	1,811,434
Sales of goods	-	-	-	25,062	-	-	25,062
Total revenue from contracts with customers	<u>700,489</u>	<u>730,628</u>	<u>380,317</u>	<u>25,062</u>	<u>-</u>	<u>-</u>	<u>1,836,496</u>
Geographical market							
Mainland China	<u>700,489</u>	<u>730,628</u>	<u>380,317</u>	<u>25,062</u>	<u>-</u>	<u>-</u>	<u>1,836,496</u>
Total revenue from contracts with customers	<u>700,489</u>	<u>730,628</u>	<u>380,317</u>	<u>25,062</u>	<u>-</u>	<u>-</u>	<u>1,836,496</u>
Timing of revenue recognition							
Services transferred over time	700,489	730,628	380,317	-	-	-	1,811,434
Goods transferred at a point in time	-	-	-	25,062	-	-	25,062
Total revenue from contracts with customers	<u>700,489</u>	<u>730,628</u>	<u>380,317</u>	<u>25,062</u>	<u>-</u>	<u>-</u>	<u>1,836,496</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Rendering of services	<u>51,276</u>	<u>39,932</u>

5. OTHER INCOME AND GAINS , NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants	15,294	23,358
Other operating income and expense	3,267	7,072
Dividend from financial assets at fair value through profit or loss	1,238	4,186
Gains from extinguishment of liabilities	900	1,964
Foreign exchange (losses)/gains	(391)	1,786
Provision for claims from customer	-	(15,000)
Others	<u>13,224</u>	<u>2,070</u>
Total	<u>33,532</u>	<u>25,436</u>

6. PROFIT BEFORE TAX

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of inventories recognised as expenses (included in cost of sales and services)	494,255	496,908
Depreciation of property, plant and equipment	39,843	23,314
Depreciation of investment properties	635	634
Amortisation of intangible assets	60,726	54,358
Amortisation of other non-current assets	1,291	–
	<u>102,495</u>	<u>78,306</u>
Auditor's remuneration	<u>2,528</u>	<u>2,600</u>
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries and other benefits	187,645	200,334
Contributions to retirement benefit scheme	8,784	20,805
(Reversal) of/share-based payment expenses	<u>(1,728)</u>	<u>3,317</u>
	<u>194,701</u>	<u>224,456</u>
Impairment of financial and contract assets:		
Impairment of trade receivables	15,694	4,882
Reversal of impairment of contract assets	(2,743)	(3,003)
(Reversal of)/impairment of other receivables	(409)	1,423
(Reversal of)/impairment of amounts due from related parties	(2,279)	7,427
Impairment of long-term receivable	1,128	–
Impairment of receivables under service concession arrangement	<u>242</u>	<u>199</u>
	<u>11,633</u>	<u>10,928</u>
Provisions for inventory	<u>979</u>	<u>–</u>
Impairment of other non-current assets	<u>7,027</u>	<u>–</u>
Gross rental income from investment properties	<u>(747)</u>	<u>(2,989)</u>
Less: Direct operating expense (including depreciation) incurred for investment properties that generated rental income during the year (included in other income and gains, net)	<u>634</u>	<u>634</u>
	<u>(113)</u>	<u>(2,355)</u>
Share of profits of associates	<u>(19,337)</u>	<u>(34,541)</u>

7. INCOME TAX EXPENSES

PRC income tax has been provided at the rate of 25% (2019: 25%) on the estimated assessable profits arising in PRC during the year.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current income tax	23,598	31,538
Deferred income tax	4,711	(5,085)
Tax charge for the year	<u>28,309</u>	<u>26,453</u>

8. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Proposed Final – HK7.40 cents (2019: HK3.15 cents) per ordinary share	<u>62,413</u>	<u>29,005</u>

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic and diluted earnings per share are based on:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic/diluted earnings per share calculation	<u>207,608</u>	<u>182,537</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>993,228,799</u>	<u>1,008,248,547</u>
Effect of dilution – weighted average number of ordinary shares Pre-IPO Share Award Scheme	<u>4,106,358</u>	<u>3,881,941</u>
	<u>997,335,157</u>	<u>1,012,130,488</u>

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENT

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current portion	27,376	20,201
Non-current portion	<u>340,038</u>	<u>356,429</u>
	<u>367,414</u>	<u>376,630</u>
Expected collection schedule is analysed as follows:		
Within one year	27,376	20,201
More than one year, but not more than two years	22,879	21,488
More than two years but not more than five years	77,757	73,031
More than five years	<u>239,402</u>	<u>261,910</u>
	<u>367,414</u>	<u>376,630</u>

11. TRADE RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	711,491	610,876
Less: Allowance for credit losses	<u>(35,639)</u>	<u>(19,945)</u>
	<u>675,852</u>	<u>590,931</u>

The Group generally grants credit period of 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 the customer type, the current creditworthiness and the customer's financial condition and payment history with the Group.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
1 – 90 days	463,037	384,520
91 – 180 days	78,354	21,209
181 – 365 days	28,072	32,523
1 – 2 years	59,427	110,461
2 – 3 years	32,229	22,568
Over 3 years	<u>14,733</u>	<u>19,650</u>
	<u>675,852</u>	<u>590,931</u>

12. TRADE AND BILLS PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bills payables	232,302	206,784
Trade payables	<u>715,479</u>	<u>814,946</u>
Total	<u><u>947,781</u></u>	<u><u>1,021,730</u></u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
1 – 90 days	377,659	360,423
90 – 180 days	217,288	283,001
180 days – 1 year	65,344	111,083
1 – 2 years	119,547	133,897
2 – 3 years	54,710	40,411
Over 3 years	<u>113,233</u>	<u>92,915</u>
	<u><u>947,781</u></u>	<u><u>1,021,730</u></u>

The trade payables are non-interest-bearing and are normally settled on 30 to 90 day terms.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been committed to the development of the environmental protection industry. As an independent comprehensive treatment service provider for the industrial environment, the Group has kept abreast of the national policies of the environmental protection industry, striving to seize industry development opportunities and leveraging its own technology and capital advantages to provide customers with high-quality, integrated and comprehensive environmental protection, energy saving and emission reduction solutions.

1. Industry Overview

In 2020, the environmental protection industry has been affected to a certain extent under the impact of COVID-19. Enterprises faced an intensified market competition and the difficulty of operation was mounting, resulting in an austere overall situation. Nevertheless, with the resumption of production accelerated in light of the pandemic becoming controlled gradually and the continuous support of new policies, the rigid demand of the environmental industry will continuously be released. Therefore, the Board believe that it would bring about new opportunities to the industry.

In 2020, the state promulgated a number of environmental protection policies and regulations to provide institutional safeguard for the development of the industry.

On 3 March 2020, the General Office of the Communist Party of China and the General Office of the State Council jointly issued the “Guiding Opinions on Building a Modern Environmental Governance System”, which covered nine major issues including, among others, the overall requirements and the demands for the improvement of leadership and corporate responsibility systems in environmental governance, and put forward 28 specific requirements. The guidance clearly stated that we must adhere to the principle of joint governance efforts by multiple parties, thus forming a favorable landscape for the whole society to jointly promote environmental governance.

On 29 April 2020, the 17th meeting of the Standing Committee of the 13th National People’s Congress of China reviewed and passed the amended “Law on the Prevention and Control of Environment Pollution Caused by Solid Wastes”, which came into force on 1 September 2020, outlining the principles of quantity reduction, resource utilization and harmlessness in relation to the prevention and treatment of solid waste pollutions. This policy improves the prevention and control system of industrial solid waste pollution, perfects the long-term mechanism for the prevention and control of environmental pollution by solid waste, and protects the ecological environment under the stringent system and the strictest rule of law.

On 22 May 2020, the State Council of China issued the “Report on the Work of the Government” and established the following goals and arrangements in relation to environmental protection: (i) striving to defend the blue sky, clear water and pure land and achieving the phased goals of pollution prevention and control; (ii) improving the effectiveness of ecological environment governance, while emphasizing on pollution control according to law, science and precision; (iii) deepening the air pollution control works in key areas; (iv) strengthening the construction of sewage and garbage disposal facilities; (v) speeding up the relocation and transformation of hazardous chemicals production enterprises; (vi) further developing the energy conservation and environmental protection industry; and (vii) implementing major projects to protect and restore important ecosystems and promoting the construction of ecological civilization.

On 7 July 2020, the General Office of the National Development and Reform Commission issued the “Notice on Organizing the Construction of Model Bases for the Green Industry” (Fagaiban Huanzi [2020] No. 519), thereby a clear goal was put forward for the industry: By 2025, the construction of model bases for the green industry will achieve phased progress, thus fostering a number of green industry leading enterprises.

On 29 October 2020, the 5th Plenary Session of the 19th Central Committee of the Communist Party of China passed the “Proposal of the CPC Central Committee for Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and Vision 2035”. It is proposed that one of the main goals of the economic and social development during the “14th Five-Year Plan” period is to achieve new progress in the construction of ecological civilization, including achieving remarkable results in the green transformation of production and lifestyle, more reasonable allocation of energy resources, great enhancement of utilization efficiency, continuous reduction in the total discharge of major pollutants, continuous improvement of the ecological environment and significant improvement of the living environment of urban and rural people. The industry is required to continuously improve environmental governance and continue to carry out pollution control actions.

The Central Economic Work Conference was held from 16 December 2020 to 18 December 2020, at which the task regarding peaking carbon dioxide emissions and carbon neutrality was set as one of the eight key missions in 2021. Specifically, the industry has to promptly formulate an action plan for peaking carbon dioxide emissions by 2030 and support the areas with favorable conditions to take the lead in the peaking. It is necessary to accelerate the adjustment and optimization of the industrial structure and energy structure, promote coal consumption to peak as soon as possible, vigorously develop new energy, accelerate the establishment of a national transaction market for the energy use right and carbon dioxide emission right and improve the dual control system of energy consumption. As such, the industry will continue to endeavor in the battle of pollution prevention and control and realize the synergistic effect of pollution abatement and carbon reduction.

The support of the new policy has effectively stimulated the market demand of environmental protection-related industries and promoted the rapid development of the environmental protection industry.

2. Business Review

The business areas of the Group mainly cover flue gas treatment, water treatment, hazardous and solid waste treatment/disposal, energy saving and environmental protection. During the Reporting Period, the Group’s flue gas treatment business maintained a sustained and stable growth and business orders in the non-electrical field further increased, thereby effectively promoted the development of the water treatment business and began to bring handsome profits to the Group. Meanwhile, the Group has made deployments in hazardous and solid waste treatment/disposal and the energy saving and environmental protection sectors and made new breakthroughs. The Group is developing into a comprehensive enterprise providing all-round intelligent environmental protection services.

During the Reporting Period, the Group reorganized its marketing team, rationally deployed various resources and explored different market areas. It also strengthened cooperation with major customers and established a long-term mutual trust cooperation mechanism, and established a strict capital management and control system to ensure the safety of the Group's operating funds. Besides, the Group has reduced engineering costs, operating costs and management expenses by adopting a series of reasonable measures. Through sophisticated management in various aspects, the Group's business continued to grow and develop and progress steadily under the crisis of the pandemic.

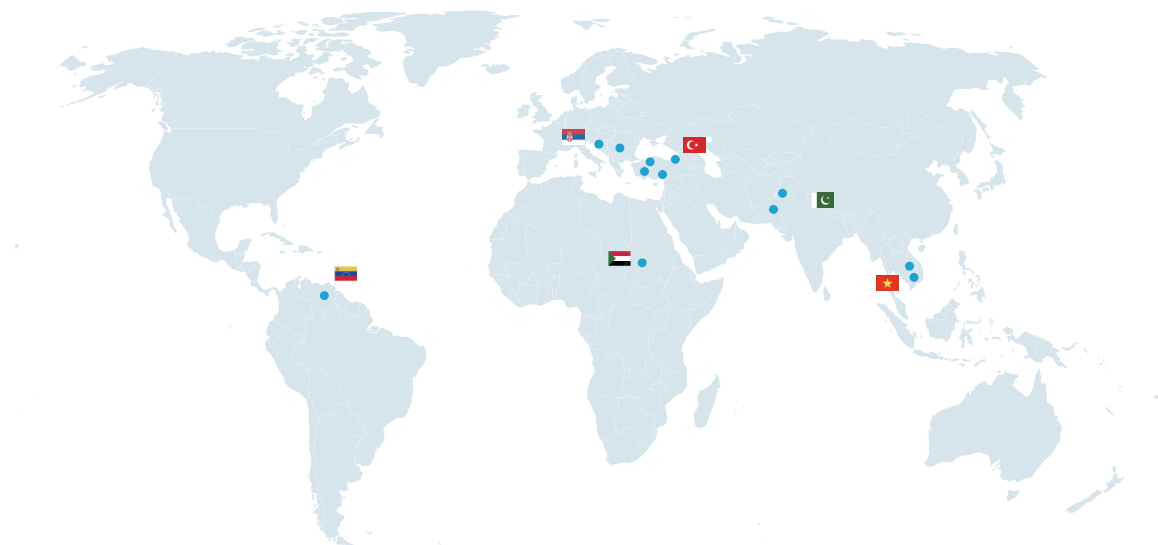
Besides, the Group's business has a broad geographic coverage, reaching nearly 30 provinces, municipalities and autonomous regions in China as of 31 December 2020.

The following map shows the distribution of the projects of the Group within the PRC as of 31 December 2020:



In the meantime, the Group has been striving to expand its business overseas, including in Europe, South Asia, Latin America, Africa and Southeast Asia. As of 31 December 2020, the Group's overseas desulfurization units have accumulated a capacity of 5,710MW.

The following map shows the distribution of the projects of the Group outside the PRC as of 31 December 2020:



2.1 Flue Gas Treatment Business

As a comprehensive treatment service provider for the industrial environment, the Group also provides its flue gas treatment services through various business models including EPC, O&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 NO_x emission control and dust removal primarily for industrial customers such as power plants, aluminum factories, steel factories and chemical plants.

In recent years, the Group has gradually expanded the scope of EPC business from the traditional coal-fired power plant flue gas treatment industry to petrochemical, steel, fuel gas, electrolytic aluminum and coking industries. As of 31 December 2020, the Group added eight new EPC projects, with a total contract value amounting to approximately RMB434 million.

The following table sets forth the status of the EPC projects under construction as of 31 December 2020:

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.	Shouyang Green Island Project	Green Island	Newly built	December 2015	288
3.	Phase II Desulfurization EP Project in Serbia	Desulfurization	Newly built	September 2016	90
4.	Nanyang Desulfurization Project	Desulfurization	Newly built	March 2017	168
5.	Chuanwei Denitrification, Desulfurization and Dust Removal Ultra Low Emissions Upgrade Project	Green Island	Upgraded	September 2018	206
6.	POWER CHINA Lucky 660MW Coal-fired Power Plant Desulfurization Equipment Procurement Project in Pakistan	Desulfurization	Newly built	April 2019	132
7.	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
8.	4X330MW Unit Flue Gas Desulfurization Transformation Project of Beihai Power Plant II Utilizing Magnesium and Calcium Adjustment Method	Desulfurization	Upgraded	January 2020	137
9.	215 Flat Sintering Machine Flue Gas Desulfurization and Denitrification Project of Chengde Jianlong	Desulfurization, denitrification and dust removal	Upgraded	April 2020	85
10.	2 million tons Aluminum Oxide Project of Guangxi Huasheng New Material Co., Ltd. 3500t/d Aluminum Hydroxide Gas Suspension Roaster Denitrification System General Contracting Project	Denitrification	Newly built	May 2020	10
11.	Shentou Phase II Urea Catalytic Hydrolysis Auxiliary System	Denitrification	Newly built	May 2020	7

No.	Environmental protection facility engineering projects under construction	Type of project	Newly built/ upgraded	Date of contract (Month/Year)	Aggregate contract value (RMB million)
12.	4 Ferronickel Kiln Flue Gas Desulfurization and Denitrification Ultra-low Emission EPC + O&M General Contracting Project of Guangdong Century Qingshan Nickel Industry Co., Ltd.	Desulfurization and denitrification	Newly built	August 2020	67
13.	Xutong Urea Hydrolysis Project	Denitrification	Newly built	August 2020	21
14.	Regional Heating Project and 1x410t/h Circulating Fluidized Bed Boiler Flue Gas-Ammonia Desulfurization EPC General Contracting Project of Cangzhou Xuyang Chemical Co., Ltd.	Desulfurization	Newly built	November 2020	25
15.	230m ² Sintering Flue Gas Desulfurization and Denitrification Ultra-low Emission Project of Tianjin Tiangang United Special Steel Co., Ltd.	Desulfurization and denitrification	Newly built	December 2020	82

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. Under the O&M projects, our customers are either charged (i) service fees for the O&M services based on the total amount of on-grid electricity generated during the service period, or (ii) a fixed 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 sustainable one, generating stable cash flow for the Group.

As of 31 December 2020, the Group had a total of 18 O&M projects under operation, covering industrial sectors such as thermal power, steel and coking, 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 2020:

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 2021	6×350MW
2.	Yangcheng #7-8 Unit Flue Gas Desulfurization O&M Project	Desulfurization	June 2018	August 2021	2×600MW
3.	Yangcheng #7-8 Unit Slag Removal O&M Project	Slag removal	June 2018	August 2021	2×600MW
4.	Qinzhou Desulfurization O&M Project	Desulfurization	July 2015	June 2021	2×630MW+ 2×1,000MW
5.	Jingjiang Flue Gas Desulfurization and Dust Removal O&M Project	Desulfurization and dust removal	March 2016	December 2021	2×660MW
6.	Tianjin SDIC Jinneng Power Plant Desulfurization, WESP and Water Intake System Operation and Cleaning Project	Desulfurization	August 2016	December 2020	4×1,000MW
7.	Yangxi Flue Gas Desulfurization and Denitrification O&M Project	Desulfurization and denitrification	January 2017	December 2025	2×660MW+ 2×600MW
8.	Shouguang Auxiliary Ashing and Sulfurization Control System Entrusted Operation Project	Desulfurization	May 2018	May 2021	2×1,000WM
9.	Shanyin Phase II Environmental Protection O&M	Denitrification, desulfurization and slag removal	June 2018	May 2021	2×350MW
10.	Xilinhaote Desulfurization and Denitrification O&M Project	Desulfurization and denitrification	December 2019	December 2020	2×660MW
11.	Jinxi Iron and Steel O&M Project	Denitrification, desulfurization and dust removal	March 2019	February 2022	265m ² sintering machines
12.	Jinxi Special Steel O&M Project	Denitrification, desulfurization and dust removal	March 2019	February 2022	2×210m ² + 1×265m ² sintering machines
13.	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
14.	Denitrification O&M Project on 360m ² Sintering Machines of Tianjin Iron Plant	Denitrification	December 2019	November 2022	360m ² sintering machines
15.	Flue Gas Denitrification, Desulfurization and Dust Removal O&M Project on 4x65 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	4x65 hole 6.05m stamp charging coke oven

No.	Project name	Type of project	Starting date of service (Month/Year)	Expiring date of service contract (Month/Year)	Installed capacity
16.	Flue Gas Denitrification, Desulfurization and Dust Removal O&M Project on 4×75 t/h Facilities of Shanxi Lubao Group's Shanxi Jintao Lubao Chemical Co., Ltd.	Denitrification, desulfurization and dust removal	December 2019	November 2024	4×75 t/h
17.	Coke Oven Flue Gas Desulfurization, Denitrification and Dust Removal Facility O&M Project of Shanxi Lubao Group Coking Co., Ltd.	Desulfurization, denitrification and dust removal	November 2020	October 2025	7.65m
18.	2×350 MW Desulfurization System O&M Project of Chengde Construction Investment Company	Desulfurization	September 2020	September 2021	2×350MW

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 2020, 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 2020, the Group had 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 2020:

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 Shenhua 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

2.2 Water Treatment Business

During the Reporting Period, the Sewage Treatment Center of Shanxi Lubao Industrial Park in China (“**Lubao Sewage Treatment Center**”), the Group’s industrial sewage treatment project, operated smoothly and started to contribute income to the Group. The Group regards Lubao Sewage Treatment Center as a demonstration project for such industry, and has swiftly trained a team of technology and operating professionals in industrial sewage treatment, thus further enhancing the Group’s comprehensive market competitiveness.

Taking advantage of the development opportunities of Lubao Sewage Treatment Center, the Group has acted as an environmental protection manager in Shanxi Lubao Industrial Park and planned to invest approximately RMB100 million in the Reporting Period to construct the concentrated water advanced treatment system project of Lubao Sewage Treatment Center, which will provide wastewater treatment and flue gas treatment services for various chemical companies in the park to promote the realization of zero discharge of wastewater. This project is conducive to the long-term development of the Group’s business in Shanxi Lubao Industrial Park and will bring stable income to the Group.

2.3 Hazardous and Solid Waste Treatment/Disposal Business

During the Reporting Period, the Group entered into a contract for the Cooperative Hazardous and Solid Waste Disposal Project of Tangshan Yandong Cement Kiln. The project is planned to be invested and constructed in two phases. After it is put into operation, the annual hazardous and solid waste treatment capacity is expected to reach approximately 100,000 tons, thus achieving a leading position in the local market and having much room for future development. The project is another breakthrough of the Group in the environmental governance industry following flue gas treatment and water treatment and will become a new driving force for the Group's performance. By leveraging on this opportunity and combining with the advantages of a new round of policies of the industry, the Group will continue to promote its hazardous and solid waste treatment and disposal business in order to achieve a leapfrog development.

2.4 Energy Saving and Environmental Protection Business

During the Reporting Period, the Group entered into the Coke Dry Quenching Waste Heat Power Generation Project EMC Agreement with Tianjin Iron Plant. The Group will provide energy saving and environmental protection services to Tianjin Iron Plant through the undertaking of waste heat power generation project. The project will have a total investment of approximately RMB278 million and will bring long-term revenue to the Group after being put into operation. The EMC project is another strategic deployment of the Company in the field of environmental protection, which will further consolidate the Company's leading position as a comprehensive environmental protection service provider.

3. Financial Position and Operating Results

In 2020, the sudden outbreak of COVID-19 brought a major test to the economic and social development of the world. The austere economic situation has led to intensified market competition among enterprises and greater uncertainty in production and operation. In this unprecedented historical period full of difficulties, we still achieved relatively good results in our production and operation throughout the year through refined operation, improved management and the pursuit of efficiency. Net profit has increased over the same period of last year and the receivables recovered has reached the historical highest level, thus still maintaining the asset structure in a sound condition.

Revenue

For the 2020 financial year, the Group's total revenue decreased by 10.3% to RMB1,646 million as compared with RMB1,836 million for the 2019 financial year, mainly attributable to the decrease in the revenue of the Group's EPC projects in the flue gas treatment business, as well as the decrease in the revenue from concession operation and construction business.

The Group generates revenue primarily from three operating segments: (i) flue gas treatment business, (ii) water treatment business and (iii) energy saving and environmental protection business. The following table sets forth a breakdown of the revenue of the Group by segment for the periods stated.

	Segment revenue	
	Year ended	Year ended
	31 December	31 December
	2020	2019
	RMB'000	RMB'000
Flue gas treatment business		
EPC	530,214	730,628
O&M	384,210	380,317
Concession operation	587,975	700,489
Of which: Construction	24,025	176,421
Operation	563,950	524,068
Others	28,055	25,062
Water treatment business	90,695	–
Energy saving and environmental protection business	24,982	–
	<hr/>	<hr/>
Total	<u>1,646,131</u>	<u>1,836,496</u>

For the 2020 financial year, revenue generated from the Group's flue gas treatment business was as follows:

The revenue from EPC sector was RMB530 million, representing a decrease of 27.5% as compared with RMB731 million for the 2019 financial year, which was mainly attributable to the postponement in construction of certain projects under the impact of COVID-19;

The revenue from O&M business was RMB384 million, representing an increase of 1.1% as compared with RMB380 million for the 2019 financial year;

The revenue from concession operation business decreased by 16.0% from RMB700 million for the 2019 financial year to RMB588 million, mainly attributable to the decrease in the revenue generated from the construction of concession operation projects of the Group during the Reporting Period.

The revenue from the Group's water treatment business for the 2020 financial year was RMB91 million. Water treatment business has become the Group's new growth driver during the Reporting Period.

The revenue from the Group's energy saving and environmental protection business for the 2020 financial year was RMB25 million. Energy saving and environmental protection business has become a new contributor to the business growth of the Group during the Reporting Period.

Cost of Sales and Services

The Group's cost of sales and services for the 2020 financial year was RMB1,306 million, representing a decrease of 14.6% as compared with RMB1,530 million for the 2019 financial year, mainly attributable to the postponement of the construction of certain EPC projects in the flue gas treatment business, the decrease in the cost of construction of concession operation projects and the strengthening of the cost control and management of the Company.

For the 2020 financial year, the cost of sales and services of the Group's flue gas treatment business sector was as follows:

The cost of sales and services for the EPC business consists primarily of design cost, procurement cost and construction and installation cost. The cost of sales and services of the EPC business amounted to RMB525 million, representing a decrease of 25.1% as compared with RMB701 million for the 2019 financial year, mainly attributable to the postponement of the construction of certain projects under the impact of COVID-19 during the Reporting Period;

The cost of sales and services for the O&M business consists of raw material costs, labor costs and repair and maintenance costs. The cost of sales and services for the O&M business amounted to RMB306 million, representing an increase of 2.3% as compared with RMB299 million for the 2019 financial year, mainly attributable to the increase of cost resulting from the operation of new projects during the Reporting Period;

The cost of sales and services for the concession operation business consists primarily of raw material costs, labor costs, construction costs and amortization and depreciation. The cost of sales and services for the concession operation business amounted to RMB404 million, representing a decrease of 23.5% as compared with RMB528 million for the 2019 financial year, mainly attributable to the decrease of construction cost resulting from the concession operation projects under construction put into operation during the Reporting Period.

The cost of sales and services for the Group's water treatment business consists primarily of raw material costs, labor costs and amortization and depreciation. The cost of sales and services for the water treatment business for the 2020 financial year was RMB47 million.

The cost of sales and services for the Group's energy saving and environmental protection business consists primarily of raw material costs, labor costs, construction costs and amortization and depreciation. The cost of sales and services for the energy saving and environmental protection business for the 2020 financial year was RMB24 million.

Gross Profit and Gross Profit Margin

The overall gross profit of the Group for the 2020 financial year increased by 10.7% to RMB340 million from RMB307 million for the 2019 financial year. The increase was mainly attributable to (i) the higher gross profit contribution from newly implemented projects; and (ii) the better efficiency achieved from cost control.

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 2020		Year ended 31 December 2019	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
Flue gas treatment business				
EPC	5,227	1.0	29,344	4.0
O&M	78,652	20.5	81,659	21.5
Concession operation	183,816	31.3	172,257	24.6
Of which: Construction	648	2.7	4,439	2.5
Operation	183,168	32.5	167,818	32.0
Others	27,834	99.2	23,262	92.8
Water treatment business	43,940	48.4	–	–
Energy saving and environmental protection business	609	2.4	–	–
Total	340,078	20.7	306,522	16.7

The gross profit of the Group's flue gas treatment business sector for the 2020 financial year was as follows:

The gross profit of EPC business was RMB5 million, representing a decrease of 82.8% as compared with RMB29 million for the 2019 financial year, mainly attributable to the decrease of gross profit contribution resulting from the postponement of the construction of existing projects and newly signed projects, coupling with the increase in the costs caused by the postponement;

The gross profit of the O&M business was RMB79 million, representing a decrease of 3.7% as compared with RMB82 million for the 2019 financial year, mainly attributable to the increase in the costs resulting from the operation of new projects during the Reporting Period;

The gross profit of the concession operation business increased by 7.0% to RMB184 million from RMB172 million for the 2019 financial year, mainly attributable to the increase in operating revenue resulting from the completion of the transformation of concession operation projects of the Group.

The gross profit of the Group's water treatment business for the 2020 financial year amounted to RMB44 million.

The gross profit of the Group's energy saving and environmental protection business for the 2020 financial year amounted to RMB0.61 million.

Other Income and Gains, Net

Other income and other gains, net consist primarily of interest income, government grants and rental income etc.

The Group's other income and other gains, net for the 2020 financial year increased by RMB9 million to RMB34 million, as compared with RMB25 million for the 2019 financial year. The increase was mainly attributable to the decrease in losses on fair value changes and the increase in interest income during the Reporting Period.

Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to RMB22 million for the 2020 financial year, as compared to RMB29 million for the 2019 financial year. The percentage of selling and distribution expenses to revenue dropped to 1.3% from 1.6% for the same period of last year, mainly due to the decrease of travelling and activity expenses under the impact of COVID-19.

Administrative Expenses

The Group's administrative expenses for the 2020 financial year amounted to RMB80 million, representing a decrease of RMB9 million as compared with RMB89 million for the 2019 financial year. The percentage of administrative expenses to revenue increased to 4.9% from 4.8% for the same period of last year, mainly due to the strengthening of cost control and the curtailing on expenditures internally.

Research and Development Expenses

The Group's research and development expenses for the 2020 financial year amounted to RMB34 million, representing an increase of RMB10 million as compared with RMB24 million for the 2019 financial year. The percentage of research and development expenses to revenue increased to 2.1% from 1.3% for the same period of last year, mainly due to (i) the increase of investment in research and development to order to save energy, reduce consumption and enhance competitiveness; and (ii) the increase of research and development expenses resulting from the enhancement of technology and talent reserves for the expansion of new business.

Finance Costs

Finance costs consist of interest expense on bank borrowings.

The Group's finance costs for the 2020 financial year amounted to RMB10 million, representing an increase of 150% as compared with RMB4 million for the 2019 financial year, mainly attributable to the increase of financing amount resulting from the increase of the Group's newly invested projects during the Reporting Period.

Gearing Ratio

The gearing ratio is calculated as the percentage of Group's total liabilities to its total assets. The Group's gearing ratio dropped to 36.6% as at 31 December 2020 from 43.1% as at 31 December 2019, mainly attributable to the decrease in other short-term liabilities during the Reporting Period.

Income Tax Expenses

The income tax expenses of the Group for the 2020 financial year amounted to RMB28 million, representing an increase of 7.7% as compared with RMB26 million for the 2019 financial year, mainly attributable to the increase in profit before tax of the Group during the Reporting Period.

Profit for the Year

The Group's profit for the 2020 financial year was RMB207 million, representing an increase of RMB24 million as compared with RMB183 million for the same period of last year. The increase was mainly attributable to: (i) the higher gross profit contribution from newly implemented projects; (ii) the better efficiency achieved from cost control; and (iii) the strengthening of expense management of the Group and the decrease in administrative expenditure.

Profit Attributable to Owners of the Company

Profit attributable to the owners of the Group for the 2020 financial year was RMB208 million, representing an increase of RMB25 million as compared with RMB183 million for the same period of 2019.

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 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 2021.

Cash Flows

The Group's cash and cash equivalents for the 2020 financial year increased by RMB68 million to RMB519 million from RMB451 million for the 2019 financial year. The increase was mainly attributable to the increase of project payments as a result of the greater efforts on receivables recovery.

Capital Expenditure

The capital expenditure of the Group comprises primarily expenditures on the acquisition and construction of investment projects and equity investments. The total capital expenditure of the Group for the 2020 financial year was RMB233 million, representing a decrease of 26.5% as compared with RMB317 million for the same period of 2019.

Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities.

Pledge of the Group's Assets

As at 31 December 2020, the bank deposits amounting to RMB93 millions were pledged for issuance of bills to the Group's suppliers, letters of crediting relating to the EPC contracts and the O&M contracts signed with the customers.

As at 31 December 2020, Jiangxi Jianggangshan Boqi Environmental Technology Co., Ltd. ("**Jianggangshan Boqi**"), a subsidiary of the Group, as the lessee, entered into a finance lease arrangement (the "**Finance Lease Agreement**") with CITIC Financial Leasing Co., Ltd. ("**CITIC Leasing**"). Beijing Boqi pledged all its equity interests in Jianggangshan Boqi and the service fee receivables under the Jianggangshan Boqi Concession Service Agreement to CITIC Leasing to guarantee its liabilities under the Finance Lease Agreement.

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 comprehensive treatment service provider for the industrial environment, the Group will seize market opportunities, continue to expand the flue gas treatment market and further develop environmental protection businesses such as water treatment, hazardous and solid waste treatment/disposal and energy saving and conservation, with a view to achieving the sustainable development of the Group's business.

Liquidity Risks

Although the Group recorded a positive operating cash flow in the 2020 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 fair value through other comprehensive income, 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 2020, the aggregated amount of the Group's trade receivables of the top five customers was RMB301 million, representing 42.3% of the total trade receivables as of 31 December 2020. 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

In the future, the environmental protection industry will embark on a new journey. The "14th Five-Year Plan" puts forward new long-term goals in respect of environmental protection: extensively developing green production and lifestyles, fundamentally improving the ecological environment and basically achieving the goal of building a beautiful China. The introduction of the goals of the peaking of carbon dioxide emission and carbon neutrality is the inherent requirement and inevitable trend for our country's economy to enter high-quality development. It will bring pressure to the adjustment and transformation of industrial structure but will also contain huge opportunities. Taking advantage of the favorable policies in the industry, the Group will continue to move forward with unswerving determination and adhere to the path of high-quality development, thus ushering in a new development stage for the Group, thereby the Group will focus on the following tasks:

The Group will promote the sustainable development of the four major business sectors in an orderly manner. Adhering to flue gas treatment as the core business, the Group will develop water treatment, hazardous and solid waste treatment/disposal and energy saving and environmental protection businesses synergically. Relying on the technology and experience of existing projects, the Group will further expand its scope of business and promote all-round one-stop services. Fully catering for the needs of existing customers, the Group can establish itself as a large-scale environmental protection service provider, providing intelligent environmental protection management services in multiple fields intensively. Meanwhile, the Group will promote the diversified development of its business through various strategies such as technical cooperation, strategic collaboration and investment, merger and acquisition.

The Group will continue to optimize management and improve operating efficiency. With the growth of the Group's performance and the expansion of its business scope, the Group will continue to maintain its development policies of seeking progress while maintaining stability, avoiding risks and strengthening management and control. On the one hand, the Group will optimize the management process, improve the operating efficiency of existing businesses and promote the sustainable and stable development of various businesses. On the other hand, the Group will enhance team capability, recruit high-caliber talents and strengthen the cohesion of employees, so as to build a professional, efficient, stable, high-quality and competent working team.

The Group will insist on technological innovation and enhancing core competitiveness. Through the combination of technical cooperation and independent research and development, the Group will enhance its own technological innovation capabilities and continuously achieve technological upgrades and breakthroughs. By integrating resources such as technology, talents and markets, combining with focusing on specific business difficulties and needs, the Group will accelerate the transformation and application of technology and research and development results, thus injecting new impetus into the development of the Group.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

During the 2020 financial year, the Group planned to invest in the Concentrated Water Advanced Treatment System Project of Lubao Sewage Treatment Center and the Coke Dry Quenching Waste Heat Power Generation EMC Project of Tianjin Iron Plant. Please refer to the sections headed "Business review – Water treatment business and Energy saving and environmental protection business" on pages 24 to 25 for related details. Save as disclosed above, the Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 1,890 employees in total (2019: 1,950 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

As at the approval date of the consolidated financial statements, the Group had no significant events after the Reporting Period which need to be disclosed.

THE IMPACT OF THE PANDEMIC

Since the outbreak of COVID-19, some of the Group's EPC projects have been delayed and difficult to start construction, resulting in a decrease in the Group's EPC revenue. However, in 2020, the Group minimized the risk of the pandemic faced by the Group by adopting a series of measures such as refined management, cost control, strict capital management and efforts to expand the market. Under the severe circumstances, the Group's profit has increased over the same period of last year, the receivables recovered have even reached the historical highest level and the asset structure has remained in sound condition, thus continuously maintaining an overall stable operation. Even though the pandemic may continue, the Group will leverage existing experience to avoid risks, forge ahead and maintain a favorable development trend.

FINAL DIVIDEND

Taking into consideration various factors such as the new business development needs of the Group and its future capital expenditure plans, the Board recommend the payment of HK\$7.40 cents per ordinary share as final dividend for the year ended 31 December 2020 (2019: HK\$3.15 cents) to holders of ordinary shares whose names appear on the register of members of the Company on 30 June 2021. No interim dividend was declared for the financial year of 2020. Subject to the shareholder's approval at the AGM (as defined below), the proposed final dividend will be paid to the shareholders of the Company on 16 July 2021.

USE OF PROCEEDS

On the Listing Date, the Shares of the Company were listed on the Main Board of the Stock Exchange by way of global offering, pursuant to which 216,105,000 new shares were issued by the Company to the public at the offer price of HK\$2.40 per share, with net proceeds of approximately RMB391 million, after deduction of underwriting commission and estimated expenses payable in connection with the global offering.

Since 1 January 2020 and up to 31 December 2020, the Company has utilized the proceeds in the following manner:

- (i) approximately RMB4 million of the proceeds for research and development expenses; and
- (ii) approximately RMB83 million of the proceeds for strategic acquisition and merger.

The following table sets out the use of proceeds during the Reporting Period:

Use of proceeds	Unutilized amount as at 1 January 2020 <i>(in RMB million)</i>	Utilized amount for the Reporting Period <i>(in RMB million)</i>	Unutilized amount as at 31 December 2020 <i>(in RMB million)</i>	Expected time of use	Detailed Description
Research and development expenditures	4	4	–	N/A	Research and development expense on the fields of flue gas, water and solid waste treatment and other environment protection solutions
Strategic mergers and acquisitions	83	83	–	N/A	Investment in water treatment business

As at 31 December 2020, the Company had used up all the proceeds according to the uses as disclosed in prospectus of the Company.

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

For the year ended 31 December 2020, neither the Company nor any member of the Group had purchased, sold or redeemed any of the Company's shares.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate values and accountability. The Company has adopted the principles and the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules (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 had 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 to all the Directors, save as disclosed below, all Directors confirmed that they had strictly complied with the required standards set out in the Model Code during the Reporting Period.

According to code provision A.3(a)(ii) of the Model Code, a director must not deal in any securities of the Company on any day on which its financial results are published and during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results (“**Blackout Period**”). Besides, pursuant to code provision B.8 of the Model Code, a director must not deal in any securities of the Company without first notifying in writing the Chairman or a director (otherwise than himself) designated by the Board for the specific purpose and receiving a dated written acknowledgement.

Due to inadvertent oversight, Mr. Zhu Weihang, a non-executive director of the Company, made the following transactions of the Shares on 24 August 2020 (which was within the Blackout Period) through New Asia Limited, a company indirectly wholly owned by him and of which he is the sole director, without notifying the chairman of the Board: (i) sale of an aggregate of 415,000 Shares at the average price of HK\$2.05 per Share on the market; and (ii) purchased of 12,000 Shares at the price of HK\$2.07 per Share on the market. Therefore, he has violated code provision A.3(a)(ii) and B.8 of the Model Code.

The Board has also adopted the Model Code to regulate all dealings by 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 was noted during the Reporting Period after making reasonable enquiry.

Audit Committee and Review of Financial Statements

The Company established the 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. Zheng Tony Tuo. Dr. Xie Guozhong is the chairman of the Audit Committee.

The Audit Committee has reviewed the draft consolidated financial statements of the Group for the 2020 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 this review and discussions with the management, the Audit Committee was satisfied that the Group’s draft consolidated financial statements were prepared in accordance with accounting standards and fairly present the Group’s financial position and results for the 2020 financial year.

REVIEW OF ANNUAL RESULTS

Scope of Work of Ernst & Young

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Company’s auditors to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by the Company’s auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company’s auditors on the preliminary announcement.

Annual General Meeting

The annual general meeting of the Company (the “**AGM**”) will to be held on Thursday, 3 June 2021. 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 Monday, 31 May 2021 to Thursday, 3 June 2021, 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, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 28 May 2021. The record date for such purpose is Thursday, 3 June 2021.

In order to determine the entitlement to the proposed final dividend for the year ended 31 December 2020, the transfer books and register of members of the Company will be closed from Monday, 28 June 2021 to Wednesday, 30 June 2021, 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 transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 25 June 2021.

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 2020 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.
Zeng Zhijun
chairman, executive director and chief executive officer

Beijing, PRC, 29 March 2021

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. Zheng Tony Tuo, Mr. Zhu Weihang and Mr. Chen Xue; and the independent non-executive Directors are Mr. Liu Genyu, Dr. Xie Guozhong and Mr. Lu Zhifang.