Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

ANNOUNCEMENT OF FINAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2019

§1 IMPORTANT

1.1 The board of directors (the "**Board**"), supervisory committee (the "**Supervisory Committee**"), directors (the "**Directors**"), supervisors (the "**Supervisors**") and senior management of Tianjin Capital Environmental Protection Group Company Limited (the "**Company**") confirm that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of its contents.

This results announcement is the summary of the 2019 annual report of the Company and its subsidiaries (the "**Group**"). For detailed information, please read the 2019 annual report of the Group carefully.

1.2 PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the 2019 financial reports of the Group and have issued unqualified audit reports.

1.3 Mr. Liu Yujun, the Company's chairman, Ms. Peng Yilin, the officer in charge of the accounting function, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2019 annual report.

§2 COMPANY PROFILE

2.1 Basic information

Short name of the A shares	創業環保
Stock code of the A shares	600874
Stock exchange for listing of the A shares	Shanghai Stock Exchange
Short name of the H shares	Tianjin Capital
Stock code of the H shares	1065
Stock exchange for listing of the H shares	The Stock Exchange of Hong Kong Limited

2.2 Contact person and method

	Company Secretary to the Board	**Company Secretary in Hong Kong**	**Securities Affairs Representative**
Name	Niu Bo	Mona Y. Y. Cho	Guo Fengxian
Correspondence address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, The People's Republic of China (the "**PRC**")	22/F, Worldwide House, Central, Hong Kong	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Telephone number	86-22-23930128	852-21629620	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
Email address	niu_bo@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

§3 ACCOUNTING DATA AND FINANCIAL INDICATORS

3.1 Major accounting data

Unit: 0'000 Currency: RMB

Major accounting data	**2019**	**2018**	**Increase/decrease for the period as compared to the same period last year (%)**	**2017**
Operating income	**285,145.3**	244,751.5	16.50	214,834.1
Net profit attributable to the shareholders of the Company	**50,710.7**	50,116.8	1.19	50,825.1
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	**38,445.2**	44,560.6	-13.72	46,887.7
Net cash flow from operating activities	**83,928.6**	69,264.6	21.17	91,205.2

	As at the end of 2019	**As at the end of 2018**	**Increase/decrease as at the end of the period as compared to the end of the same period last year (%)**	**As at the end of 2017**
Net assets attributable to the shareholders of the Company	**617,402.5**	581,820.3	6.12	511,704.0
Total assets	**1,799,080.7**	1,568,744.8	14.68	1,245,289.0

3.2 Major financial indicators

Currency: RMB

Major financial indicators	2019	2018	Increase/decrease for the period as compared to the same period last year (%)	2017
Basic earnings per share (RMB/share)	**0.36**	0.35	2.86	0.36
Diluted earnings per share (RMB/share)	**0.36**	0.35	2.86	0.36
Basic earnings per share after deduction of extraordinary items (RMB/share)	**0.27**	0.31	-12.90	0.33
Weighted average return on net assets ratio (%)	**8.48**	9.05	-0.57	10.33
Weighted average return on net assets ratio after deduction of extraordinary items (%)	**6.43**	8.05	-1.62	9.53

3.3 EXTRAORDINARY ITEMS

Unit: 0'000 Currency: RMB

Extraordinary items	Amount in 2019	Amount in 2018	Amount in 2017
Profit/loss from disposal of non-current assets	**70.4**	-90	-8.2
Government grants recognized in current profit and loss, except for those closely related to normal business operation, in compliance with requirements of national policy and settled in certain amount which are constantly granted by government	**10,810.3**	7,848.1	5,343.3
Profit from disposal of other current assets	**4,870.3**	0	0
Other non-operating income and expenses except for the above items	**-152.0**	-180.9	-72.6
Effect on non-controlling interests	**-183.9**	-126.7	-9.5
Income tax effect	**-3,149.6**	-1,894.3	-1,315.6
Total	**12,265.5**	5,556.2	3,937.4

§4 DIRECTORS' REPORT

I. OPERATION DISCUSSION AND ANALYSIS

In 2019, under the leadership of the Board and in accordance with the 2019 Operating Strategy and Business Plan of the Group, the management of the Company has continued to solidly promote basic management, technology R&D, market development, institutional mechanism reform and other operations:

1. Further deepening operational management and consolidating operational advantages

Following the introduction of more stringent sewage treatment and discharge standards in various places, the Company upgraded and transformed multiple sewage projects. As the project operation has become more complex, the Company set up a large operational management center to systematize and standardize operational management on the one hand, and refined innovation and optimized technical schemes on the other hand, to strive to provide excellent operational services, control operational cost, and ensure project return.

In 2019, the Company, by overcoming numerous difficulties, completed the upgrading and renovation projects of the Jingu and Beicang sewage water treatment plants in the urban area of Tianjin, and was granted the the non-monetary exchange of the upgrading projects of the Xianyang Road Sewage Water Treatment Plant by exchanging with non-cash assets, and achieved overall A standard for effluent water quality. At the same time, the Company and Tianjin Water Bureau* (天津水務局) (Party A to the agreement) jointly evaluated and negotiated the sewage treatment service fee after the upgrade. Both parties agreed, on the basis that the income level of the existing projects remain unchanged, the unit price of the sewage treatment service fee, being RMB2.32/m^3, would be applicable to the sewage water treatment plants in Jingu, Beicang, Xianyang Road, and Dongjiao in Tianjin after their upgrades. The new unit price of the sewage treatment service fee is currently subject to the approval procedures of the relevant government departments.

The construction of the Yishui hazardous waste disposal project under Shandong Capital Environmental Protection Technology Consultant Company Limited* (山東創業環保科技發展有限公司) ("**Shandong Company**"), a subsidiary of the Company, was completed and the project was officially put into operation. The construction of projects in other areas are in progress according to the plan.

2. Intensifying marketing effort and expanding the scale of the principal business

During the reporting period, the Company successively obtained the sewage treatment PPP project in Jieshou (2nd batch); the franchised projects of the Yuanquan Waterworks in Hanshou County; the PPP project for the comprehensive improvement of the regional water environment in Gaocheng District, Shijiazhuang City, Hebei Province; the first and the second sewage treatment plants in Suzhou District, Jiuquan City; the Yingdong sewage treatment plant project (phase II); the PPP project of the construction of the sewage treatment facilities for towns in Huize County; and phase I of the PPP project of the second sewage treatment plant in the north of Huoqiu County. The newly-added sewage treatment capacity, recycled water capacity, and tap water supply capacity was 367,000 tons per day, 65,000 tons per day, and 30,000 tons per day respectively.

3. **Establishing a market-oriented incentive mechanism and deepening management innovation**

   The Company actively advances marketization reform, establishes a market-based incentive mechanism, and builds a professional manager team and puts in place a corresponding market-based salary and appraisal system, to establish a market-oriented employment mechanism and give full play to the performance-driven role of the management, thus driving the smooth realization of the Company's strategic goals. To adapt to the increasingly complex management of the Group, the Company integrates various management functions, sets up corporate governance centers, corporate management centers, and other functional management centers, combines these centers with the three existing linear business centers, and further optimizes the matrix management system. These effort lay a solid foundation for improving the overall management efficiency, and management and control capabilities of the Group.

4. **Strengthening the foundation, increasing investment, and playing the leading role of science and technology**

   In 2019, the Company's R&D base and R&D center were preliminarily constructed, while laboratory qualification certification was initiated. The market-oriented scientific research progressed as planned, and functions such as sci-tech liaison, sci-tech information sharing, and sci-tech exchange and training played an increasingly important role. The leading role of technology R&D in market development, particularly in participating in market competition slowly emerged. Favorable economic benefits were made in the transformation of achievements in technology research centering on the CYYF+ entire-process deodorization business of Tianjin Caring Technology Development Company Limited* (天津凱英科技發展股份有限公司) ("**Caring Company**"). As of the end of the reporting period, the Company owned a total of 91 patents on sewage treatment and deodorization and 3 software copyrights.

5. **During the reporting period, the shareholders' meeting of the Company agreed to issue green medium-term notes and green short-term financing bonds with a total amount of no more than RMB2 billion and would initiate the issuance in due time, to provide financial support for the Company's business development while optimizing the Company's financial structure.**

II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

1. Analysis on the overall results of operations during the reporting period

In 2019, the Group recorded an operating revenue of RMB2,851.453 million, representing an increase of 16.50% as compared to that of last year. The operating costs were RMB1,984.537 million, representing an increase of 26.48% as compared to that of last year. The net profit attributable to the Company was RMB507.107 million, representing an increase of 1.19% over last year. The slight increase in net profit as compared to the same period last year was mainly due to the increase in the gross profit resulting from the significant increase in the revenue of various businesses and the cut in the income tax rate applicable to sewage projects.

2. Analysis of the principal business

During the reporting period, the Group's principal business segment did not change significantly as compared to the previous year and the Group is still engaged in the sewage treatment business, recycled water business, tap water supply business, new energy heating and cooling supply business, toll collection business, and transformation of achievements in technology research. It recorded an operating income of RMB2,662.361 million, representing an increase of 17.80% over the previous year.

① The sewage treatment business recorded an income of RMB2,025.026 million, representing an increase of 24.51% as compared to the same period last year, which was mainly attributable to the increased volume of sewage water treatment and the upward adjustment to the unit price of the sewage treatment service fee of the sewage water treatment plants in the urban area of Tianjin. During the reporting period, the Group processed a total of 1,367.419 million m^3 of sewage, representing an increase of 12.4% as compared to the same period last year. On the one hand, the volume of the sewage treated by existing projects has increased. On the other hand, certain new sewage treatment projects were put into operation in the first half of this year.

② The recycled water business recorded an income of RMB283.813 million, representing a decrease of 18.88% as compared to the same period last year. This decrease was mainly attributable to: the revenue from the service of pipeline connection for recycled water falls significantly as the settlement of the service as confirmed by the progress schedule decreases year on year; and although the revenue of the Zhangguizhuang recycled water plant and Inner Mogolia Bayannur Capital Water Co., Ltd.* (內蒙古巴彥淖爾創業水務有限責任公司) ("**Bayannur Company**") is driven by the year-on-year increase of the water sales volume, the revenue is still less than the decreased revenue from the service of pipeline connection. During the reporting period, the water sales volume was 60.981 million m^3, representing an increase of 17.6% as compared to the same period last year.

③ The tap water supply business recorded an income of RMB105.374 million, representing an increase of 12.99% as compared to the same period last year, which was mainly attributable to the increase in the water sales volume. During the reporting period, the water sales volume was 48.696 million m^3, representing an increase of 6.4% as compared to the same period last year. This was due to the increase of domestic water consumption from the Qujing water supply project; the year-on-year increase in the water sales volume as boosted by the commencement of the operation of the Bayannur project in March 2018; and the newly-added Hanshou water supply project.

④ The new energy heating and cooling supply business recorded an income of RMB101.377 million, representing an increase of 11.38% as compared to the same period last year, which was mainly attributable to the year-on-year increase in the income from heating and cooling supply as the operation of the Heiniucheng Road new energy project was commenced in November 2018.

⑤ The business of transformation of achievement in technology research recorded an income of RMB44.386 million, representing an increase of 25.8% as compared to the same period last year, which was mainly attributable to heightened marketing effort and the year-on-year increase in the sales revenue of deodorization equipment.

⑥ The toll collection business recorded an income of RMB62.302 million, which remained more or less the same as the same period last year.

⑦ The hazardous waste disposal business recorded an income of RMB14.10 million during the reporting period since the commencement of the official operation of the Yishui hazardous waste disposal project in 2019.

During the reporting period, while striving for market expansion for its principal business, the Company continued to strengthen its project operation (including cost control and agreement maintenance), decrease the operating cost as much as possible, and in time adjust the unit price of the sewage treatment service fee for ensuring project income.

3. Analysis of other businesses

The Group's other businesses mainly include the sewage treatment entrusted operation business via the technical service model as well as the technical and engineering consulting business. During the reporting period, it realised an income for other businesses of RMB189.092 million, which remains unchanged from the previous year.

(I) ANALYSIS OF THE PRINCIPAL BUSINESS

Analysis on changes in income statement and cash flow statement

Unit: 0'000 Currency: RMB

Item	Amount for the current period	Amount for the same period last year	Percentage change (%)
Operating revenue	285,145.3	244,751.5	16.50
Operating cost	198,453.7	156,899.5	26.48
Distribution costs	707.5	541.7	30.61
Administrative expenses	16,866.1	12,909.6	30.65
Financial expenses-net	19,939.6	16,198.6	23.09
Net impairment losses on financial assets	3,138.3	1,297.3	141.91
Other gains-net	4,787.5	246.1	1,845.35
Income tax expense	10,058.7	16,806.4	-40.15
Net cash flows from operating activities	83,928.6	69,264.6	21.17
Net cash flows from investing activities	-195,348.8	-242,270.2	19.37
Net cash flows from financing activities	137,196.0	164,491.0	-16.59

1. Reason for change in operating revenue: it was mainly due to the increase in sewage treatment of existing projects and the price adjustment of the sewage projects in the urban area of Tianjin, which increased the operating revenue.

2. Reason for change in operating cost: it was mainly due to increased water volume and improved water quality standards which resulted in significant increase in the cost per unit of the Group, and the impairment losses for the Anguo sewage treatment project.

3. Reason for change in selling expenses: it was mainly due to the operation of the Company's hazardous waste projects, which increased the selling expenses.

4. Reason for change in administrative expenses: it was mainly due to the year-on-year increase in asset depreciation as the Company's investment properties transferred to fixed assets and the increase in the staff number and administrative expenses of newly operated projects.

5. Reason for change in financial expenses: it was mainly due to the increase in the financial expenses as the interest expenses were recorded as expenses after certain construction projects were put into operation.

6. Reason for change in net impairment losses on financial assets: it was mainly due to the increase in the provision of bad debt for receivables accrued by the Company.

7. Reason for change in others gains-net: it was mainly due to the disposal of the proceeds from the disposal of the tap water business from Auguo Capital Water Company Limited* (安國創業水務有限公司) ("**Anguo Company**").

8. Reason for change in income tax: it was mainly due to reduction of the applicable income tax rate of the Company's sewage treatment services.

9. Reason for change in net cash flows from operating activities: it was mainly due to the increase in the sewage treatment service fee received as compared to the same period last year.

10. Reason for change in net cash flows from investing activities: it was due to the fact that the investment payment of the construction projects of the Company for the current year were lower than those in the last year.

11. Reason for change in net cash flows from financing activities: it was mainly because the new debt financing for the current year is lower than that in the same period last year.

1. Analysis of income and costs

During the reporting period, while striving for market expansion and increasing the scale of its principal business, the Company continued to strengthen its project operation, on the one hand to improve the operation quality to meet increasingly stringent regulatory requirements, and strive for operating cost control through refined management; and on the other hand to maintain project agreements and adjust the unit price of the sewage treatment service fee in time for ensuring project income.

Unit: 0'000 Currency: RMB

	2019	2018
Major business operating revenue	**266,236**	226,013
Other business operating revenue	**18,909**	18,739
	285,145	244,752
Major business operating cost	**179,979**	141,399
Other business operating cost	**18,475**	14,457
	198,454	155,856

(1). *Major business breakdown by industry, product, and region*

Unit: 0'000 Currency: RMB

Major business by industry						
Industry	**Operating revenue**	**Operating cost**	**Gross profit margin (%)**	**Increase/ Decrease in operating revenue as compared to last year (%)**	**Increase/ Decrease in operating cost as compared to last year (%)**	**Increase/Decrease in gross profit margin as compared with last year (%)**
Sewage treatment *(Note 1)*	202,503	138,728	31.49	24.51	32.54	-4.15
Recycled water business	28,381	21,137	25.52	-18.88	-3.80	-11.67
Toll collection business	6,230	712	88.57	-0.29	–	-0.03
Tap water supply business	10,537	7,652	27.38	12.99	22.67	-5.73
Cooling and heating supply business	10,138	7,013	30.82	11.38	19.29	-4.59
Transformation of technology research achievements *(Note 2)*	4,439	1,937	56.36	25.82	5.16	8.57
Others *(Note 3)*	4,008	2,800	30.14	2,054.84	3,046.07	-22.01

Major business by region

Region	Operating revenue	Operating costs	Gross profit margin (%)	Increase/ Decrease in operating revenue as compared to last year (%)	Increase/ Decrease in operating costs as compared to last year (%)	Increase/ Decrease in gross profit margin as compared to last year (%)
Beijing-Tianjin-Hebei Region *(Note 4)*	160,668	103,044	35.87	14.80	28.24	-6.72
Southwest Region *(Note 5)*	15,123	11,089	26.67	-9.33	1.45	-7.80
Northwest Region *(Note 6)*	28,711	22,113	22.98	45.33	39.91	2.98
Central China Region *(Note 7)*	23,712	17,089	27.93	52.08	66.04	-6.06
Eastern China Region *(Note 8)*	30,196	21,546	28.65	-0.15	1.73	-1.32
Northeast Region *(Note 9)*	7,826	5,098	34.86	106.38	79.38	9.81

Note 1: The increase was due to the increased treatment volume of existing water projects and the upward adjustment to the unit price of the sewage treatment service fee of the sewage water treatment plants in the urban area of Tianjin.

Note 2: The increase was due to the year-on-year increase in the settlement amount of the deodorization business.

Note 3: The increase was due to the addition of commissioning and installation service plus technical advice service of new equipment.

Note 4: The Beijing-Tianjin-Hebei Region includes the four sewage treatment plants in Dongjiao, Xianyang Road, Jingu, and Beicang of Tianjin as well as Anguo Company, Tianjin Jinghai Capital Water Company Limited* (天津靜海創業水務有限公司) ("**Jinghai Company**"), Tianjin Jinning Capital Water Company Limited* (天津津寧創環水務有限公司) ("**Jinning Capital Company**"), Tianjin Water Recycling Company Limited* (天津中水有限公司) ("**Water Recycling Company**"), Caring Company, Tianjin Jiayuanxing Innovative Energy Technology Company Limited* (天津佳源興創新能源科技有限公司) ("**Jiayuanxing Company**"), Tianjin Capital New Materials Company Limited* (天津創業建材有限公司) ("**Capital Materials Company**"), etc., and the growth was due to the increase in business volume as compared with the same period last year.

Note 5: The Southwest Region includes Guizhou Capital Water Company Limited* (貴州創業水務有限公司) ("**Guizhou Company**") and Qujing Capital Water Company Limited* (曲靖創業水務有限公司) ("**Qujing Company**").

Note 6: The Northwest Region includes Xi'an Capital Water Company Limited* (西安創業水務有限公司) ("**Xi'an Company**"), Karamay Tianchuang Capital Water Company Limited* (克拉瑪依天創水務有限公司) ("**Karamay Company**"), Bayannur Company, Linxia Capital Water Company Limited* (臨夏市創業水務有限公司) ("**Linxia Company**"), and Jiuquan Capital Water Company Limited* (酒泉創業水務有限公司) ("**Jiuquan Company**"), and the increase was due to the new commissioning and installation service plus technical advice service of Xi'an Company, the operation of the projects of Karamay Company (Phase II) and Linxia Company, and the newly-added Jiuquan Company.

Note 7: Central China Region includes Fuyang Capital Water Company Limited* (阜陽創業水務有限公司) ("**Fuyang Company**"), Wuhan Tianchuang Capital Environmental Protection Company Limited* (武漢天創環保有限公司) ("**Wuhan Company**"), Yingshang Capital Water Company Limited* (穎上創業水務有限公司) ("**Yingshang Company**"), Changsha Tianchuang Capital Water Co., Ltd.* (長沙天創水務有限公司) ("**Changsha Tianchuang Water Company**"), Changsha Tianchuang Environmental Protection Co., Ltd.* (長沙天創環保有限公司) ("**Changsha Tianchuang Environmental Protection Company**"), Anhui Capital Water Company Limited* (安徽天創水務有限公司) ("**Anhui Company**"), Honghu Tianchuang Water Company Limited* (洪湖市天創水務有限公司) ("**Honghu Tianchuang Company**") and Hefei Capital Water Company Limited (合肥創業水務有限公司) ("**Hefei Company**") and Hanshou Capital Water Co., Ltd* ("**Hanshou Company**"). The increase was due to the operation of the upgraded projects of Anhui Company, Hefei Company, and Wuhan Company and the newly-added Hanshou Company.

Note 8: The Eastern China Region includes Hangzhou Tianchuang Capital Water Company Limited* (杭州天創水務有限公司) ("**Hangzhou Company**"), Baoying Capital Water Company Limited* (寶應創業水務有限責任公司) ("**Baoying Company**"), and Deqing Capital Water Company Limited* (德清創業水務有限公司) ("**Deqing Company**").

Note 9: The Northeast Region includes Dalian Oriental Chunliuhe Water Quality Purification Company Limited* (大連春柳河公司) ("**Dalian Chunliuhe Company**"), Wendeng Capital Water Company Limited* (文登創業水務有限公司) ("**Wendeng Company**") and Shangdong Company. The increase was due to the full-year operation of Dailian Chunliuhe Company and the commencement of the trial operation of Shandong Company.

(2). Analysis of production and sales volume

Not applicable

(3). Cost analysis

Unit: 0,000 Currency: RMB

		By industry					
Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Sewage treatment	Labor	14,532	8.07	12,999	9.19	11.79	Nil.
	Energy consumption (electricity)	24,874	13.82	20,977	14.84	18.58	Nil.
	Materials consumption	26,159	14.53	17,042	12.05	53.50	The material consumption has increased mainly due to the increase in the volume of sewage treatment.
	Depreciation and amortization	43,081	23.94	31,068	21.97	38.67	Increase in amortization expenses resulting from the projects that are newly put into operation
	Other manufacturing costs	30,082	16.71	22,581	15.97	33.22	Laboratory testing, sludge disposal, and plant environmental fees resulting from the projects newly put into operation as well as the maintenance and monitoring costs of existing projects has increased.
	Subtotal	138,728	77.07	104,667	74.02	32.54	Nil.

By industry							
Industry	**Cost item**	**Amount for the current period**	**Percentage of total costs for the current period (%)**	**Amount in the same period last year**	**Percentage of total costs for the same period last year (%)**	**Percentage change in the amount for the current period as compared to the same period last year (%)**	**Explanation**
Tap water	Labor	1,318	0.73	1,060	0.75	24.34	Nil.
	Energy consumption (electricity)	936	0.52	689	0.49	35.85	The Hanshou Project is newly added this year
	Materials consumption (including the water resource fees)	3,179	1.77	2,969	2.10	7.07	Nil.
	Depreciation and amortization	1,846	1.03	1,411	1.00	30.83	The Hanshou Project is newly added this year
	Other manufacturing costs	373	0.21	109	0.08	242.20	The costs of maintenance, water quality testing, and pipeline network maintenance has increased due to the newly-added Hanshou Project in this year.
	Subtotal	7,652	4.26	6,238	4.41	22.67	Nil.
Recycled water	Labor	2,194	1.22	1,829	1.29	19.96	Nil.
	Energy consumption (electricity)	1,261	0.70	1,241	0.88	1.61	Nil.
	Materials consumption	1,081	0.60	895	0.63	20.78	Nil.
	Depreciation and amortization	2,710	1.51	3,023	2.14	-10.35	Nil.
	Other manufacturing costs	5,177	2.88	1,655	1.17	212.81	The pipeline network commissioning and maintenance costs have increased.
	Subtotal	12,423	6.91	8,643	6.11	43.73	Nil.
Recycled water pipe network connection	Construction cost	8,714	4.84	13,329	9.43	-34.62	The cost has reduced due to the decrease in the settlement of the pipeline connection business
	Subtotal	8,714	4.84	13,329	9.43	-34.62	Nil.

By industry

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Energy supply	Labor	1,203	0.67	930	0.66	29.35	Nil.
	Energy consumption (electricity)	2,343	1.30	2,231	1.58	5.02	Nil.
	Materials consumption	74	0.04	64	0.05	15.63	Nil.
	Depreciation and amortization	2,348	1.30	1,833	1.30	28.10	Nil.
	Other manufacturing costs	1,045	0.58	821	0.58	27.28	Nil.
	Subtotal	7,013	3.89	5,879	4.16	19.29	Nil.
Toll collection	Collection management fees	712	0.40	712	0.50	0	Nil.
	Subtotal	712	0.40	712	0.50	0	Nil.
Transformation of achievements in technology research	Expenditure for materials and facilities	1,785	0.99	1,753	1.24	1.83	Nil.
	Other manufacturing costs	152	0.08	89	0.06	70.79	The depreciation expenses have increased.
	Subtotal	1,937	1.07	1,842	1.3	5.16	
Others	Product marketing	2,196	1.22	0	0	0	The equipment debugging and installation revenue has increased.
	Other manufacturing costs	604	0.34	89	0.06	578.65	The cost has increased due to the operation of the hazardous waste business
	Subtotal	2,800	1.56	89	0.06	3,046.07	Nil.
	Total	**179,979**	**100**	**141,399**	**100**	**27.28**	Nil.

Cost analysis and other explanation

Nil.

(4). Major customers and major suppliers

Sales from the top five customers amounted to RMB1,666.4789 million, accounting for 58% of total sales for the year; among which, sales from related parties was RMB0 million, accounting for 0% of total sales for the year.

Procurement from the top five suppliers amounted to RMB645.5174 million, accounting for 24% of total procurement for the year; among which, procurement from related parties was RMB0 million, accounting for 0% of total procurement for the year.

Other explanation

Nil.

2. Expenses

See the above analysis statement on relevant subjects changes in income statement and cash flow statement for details.

3. Research and development investment

Unit:0,000 Currency:RMB

Expensed research and development investment during the current period	1,792.5
Capitalized research and development investment during the current period	849.26
Total research and development investment	2,641.76
Percentage of total research and development investment over operating revenue (%)	0.93
Number of research and development personnel in the Company	212
Percentage of number of research and development personnel over the total number of personnel of the Company (%)	10.57
Ratio of capitalized research and development investment (%)	32.15

Explanation

During the reporting period, the Company has made great efforts to promote the research and development work and rebuild the research and development bases and centers. The investment in R & D has increased significantly compared with the previous year. The main capitalized R & D investment in the year is the expenditure for the purchase of R & D equipment.

4. Cash flow

See the above analysis statement on relevant subjects changes in income statement and cash flow statement for details.

(II) MAJOR CHANGES IN PROFITS CAUSED BY NON-PRINCIPAL BUSINESSES

Not applicable

(III) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: 0,000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Notes receivable *(Note 1)*	1,613.1	0.09	1,029.5	0.07	56.69	Mainly due to the increase in the bank acceptance notes received during the current period as compared with the same period last year.
Prepayments	3,858.3	0.21	2,353.1	0.15	63.97	Mainly due to the increase in the prepayment for materials during the current period as compared to the same period last year.
Other receivables	6,515.6	0.36	3,616.2	0.23	80.18	Mainly due to the increase in awarded deposits and the value-added tax refund receivable during this period as compared with last year.
Other current assets	8,972.8	0.50	17,947.7	1.14	-56.41	Mainly due to the increase in the value-added tax to be credited by the Company within one year as compared with last year.
Investment property	0.0	0.00	8,405.2	0.54	-100.00	Mainly due to the decrease of the external leasing business of the Company's buildings
Property plant and equipment	80,100.7	4.45	49,758.0	3.17	40.37	Mainly due to the increased investment in the construction of hazardous waste projects and other projects as compared with last year.
Deferred income tax assets	420.9	0.02	0.0	0.00	100.00	Mainly due to the impact of deductive temporary differences to income tax.

Note 1: notes receivable is included in trade receivables.

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Other non-current assets	19,591.9	1.09	10,918.1	0.70	79.44	Mainly due to the increase in the long-term value-added tax to be credited by the Company as compared with last year.
Trade payables	23,129.3	1.29	17,639.8	1.12	31.12	Mainly due to the costs of pipeline network maintenance, water resource fees, and materials expenses payable by subsidiaries.
Borrowings-short term	105,986.9	5.89	44,336.9	2.46	139.05	Mainly due to the increase in long-term borrowings due within one year during this period.
Borrowings-long term	506,679.7	28.16	411,468.3	22.87	23.14	Mainly due to the newly added long-term borrowings of the Company.

(IV) ANALYSIS OF INDUSTRY OPERATIONAL INFORMATION

With the revision of Water Pollution Prevention and Control Law of the PRC, the local governments have been increasing the demands for the enhancement and assurance of the water environment quality. On one hand, the existing sewage treatment plants have gradually begun to upgrade in order to meet the higher discharge standards. On the other hand, the comprehensive management of water environment will become the mainstream demand of the market.

"National Plan for Construction of Urban Sewage Treatment and Recycling Facilities under the 13th Five-Year Plan" suggests that by the end of 2020, full coverage of urban sewage treatment facilities shall be achieved, and the black and odorous water of urban built districts above the prefecture level shall be controlled within 10%, and the urban sludge harmless disposal rate shall reach 75%, and the utilization rate of recycled water in cities and counties shall be raised further.

The above industry policies give the enterprises in the water utilities industry a lot of room for the market development, but they also put forward a great challenge for operation, market expansion, capital operation, technological development and research and other comprehensive capabilities of the enterprises.

Water Utilities Industry Analysis

1. Capacity and operation situation during the reporting period

Section	Capacity	Utilization rate of capacity (%)
Supply of tap water and industrial water	315,000 m^3/day	46.1
Sewage treatment	4,211,100 m^3/day	89.0
Recycled water	355,000 m^3/day	38.4

District	Capacity	Scale of new production during the reporting period	Planned capacity of projects under construction	Estimated production time
Beijing-Tianjin – Hebei region	1,905,000 tons/day	0	600,000 tons/day	2020
Northwest	925,000 tons/day	15.5	100,000 tons/day	2020
Eastern China	698,000 tons/day	4.8	0 tons/day	–
Central China	708,100 tons/day	28.81	276,600 tons/day	2020 to 2021
Southwest	440,000 tons/day	5	31,850 tons/day	2020 to 2021
Northeast	205,000 tons/day	0	100,000 tons/day	2020

2. Sales information

Unit: 0,000 Currency: RMB

Section	Sales revenue	Cost	Gross margin (%)	YoY Change (%)
Supply of tap water	10,537	7,652	27.38	-5.73
Sewage treatment	202,503	138,728	31.49	-4.15
Recycled water	10,839	12,423	-14.61	-5.59

(1). Section of supply of tap water

1.1 The average water price and pricing principle for each district, and adjustment during the reporting period

Unit: Yuan Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Qujing	1.70	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment	Price adjustment by the cost factor adjustment method
Hanshou, Hunan	2.60	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment	Price adjustment by the cost factor adjustment method
Bayannur	2.35	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment	According to the relevant provisions of the Administrative Measures on the Price of Water Supplied to Municipalities

1.2 The average water price and pricing principle for each customer type, and adjustment during the reporting period

Unit: Yuan Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	2.14	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	The Hanshou Project has been newly added during the reporting period.	Price adjustment by the cost factor adjustment method

(2). Section of sewage treatment

2.1 The average water price and pricing principle for each district, and adjustment during the reporting period

Unit: Yuan Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Beijing-Tianjin-Hebei region	2.12	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The unit price of the sewage treatment service fee, being RMB2.32/m^3, will be applicable to the sewage water treatment plants in Jingu, Beicang, and Xianyang Road in Tianjin after their upgrades.	Price adjustment by the cost factor adjustment method
Northeast	1.20	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Wendeng Company changed the water price (exclusive of tax) of RMB1.3/m^3 to RMB1.39/m^3 (inclusive of tax) due to the adjustment to the value-added tax refund mechanism, and subsequently changed the water price to RMB1.37/m^3, which should be put into effect as from 1 April 2019.	Price adjustment by the cost factor adjustment method
Eastern China	1.3	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The newly-added Deqing Project has been put into operation.	Price adjustment by the cost factor adjustment method
Central China	1.12	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The newly-added Anhui, Hefei, Honghu and Ninxiang Projects have been put into operation.	Price adjustment by the cost factor adjustment method

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Northwest	1.29	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return. ◦	The newly-added Gansu, Linxia and Jiuquan Projects have been put into operation.	Price adjustment by the cost factor adjustment method
Southwest	1.01	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The water price for Guiyang Project has been increased to RMB1.40/m^3.	Price adjustment by the cost factor adjustment method

2.2 The average water price and pricing principle for each customer type, and adjustment during the reporting period

Unit: Yuan Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.46	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	See more details in the table "2.1 The average water price and pricing principle for each district, and adjustment during the reporting period" above.	Price adjustment by the cost factor adjustment method

3. Water quality of water sources of major water collection points

During the reporting period, the warer sources of Qujing No. 1, No. 2, and No. 3 Water Plants of the Company are Xiaoxiang Reservoir, Xihe Reservoir and Shuicheng Reservoir. According to the inspection information of Qujing Zhizhen Environmental Testing Co., Ltd.*(曲靖至臻環境檢測有限公司) in 2019, the water quality indicators of the three reservoirs met Class II surface water environmental quality standards (GB3838-2002). The supply project of tap water in Bayannur for Front Banner subsidies was Shengyuan Tap Water Plant. The water sources for the plant are Gongjiqu(公濟渠)underground water sources. According to the inspection information of the Institute of Water Resources for Bayannur*(巴彥淖爾市水利科學研究所) in 2019, the water quality indicators of 10 water source wells met The Standards for Drinking Water Quality (GB5749-2006).

4. Supply of tap water

Water supply	Sales volume	Difference of production and sales volume (%)	YoY Change (%)	Reason	Impact on the Company's operation
48,696,000 tons	48,696,000 tons	0	6.4	New water users in the cigarette factory area of Qujing Tap Water Plant	No material impact
6,115,000 tons	6,115,000 tons	0	8.4	An increase in 2019 due to the commencement of industrial water supply in March 2018	No material impact

5. Significant capital expenditure

Unit: 0,000 Currency: RMB

Total amount of capital expenditure plan during the reporting period	Source of capital	Capital cost	Project status
326,493	Projects are financed with the Company's own funds, and the construction funds are from bank borrowings.	4.79%	See details in the table below

Among which: Project status

Unit: 0,000 Currency: RMB

Project operation model	Total project budget	Project Progress	The amount invested during the investment period	Accumulated and actual investment amount	Project revenue	If there is any significant change or significant difference in the project progress, the reasons shall be stated and disclosed
Hefei taochong project	58,590	Under construction	16,570	48,841	Deficit of RMB13.13 million in 2019.	Nil.
The 2nd batch of PPP projects in Jieshou City	48,725	Under construction	16,574	16,574	Profit of RMB0.6 million in 2019.	Nil.
Yuanquan Waterworks in Hanshou County	15,000	Under construction	8,822	8,822	Profit of RMB0.16 million in 2019.	Nil.
Project for the comprehensive improvement of the water environment in Gaocheng District	72,499	Under construction	20,068	20,068	Under construction and no income	Nil.
Project in Suzhou District, Jiuquan City	59,413	Under construction	14,645	14,645	Deficit of RMB1.04 million in 2019.	Nil.
Phase II project in Yingdong District	17,542	Under construction	2,965	2,965	Under construction and no income	Nil.

6. Non-monetary assets exchange

According to the policies of the Tianjin Municipal Government (the "**Tianjin Government"**), the Company is mandated to improve the quality standards of the effluent from two of its sewage treatment plants in Tianjin. As a result, the operations of the Company's Xianyang Road Sewage Plant and Dongjiao Water Plant (include matched recycling water plant) have to be relocated and conducted in another new plants to be constructed by the Tianjian Government (namely the "**New Xianyang Road Sewage Plant and the New Dongjiao Water Plant**"). All of the construction costs for the new plants (together with the associated land costs) and relocation costs will be borne by the Tianjin Government.

The New Xianyang Road Water Plant as freely provided by the Tianjin Government becomes ready for use on 1 August 2019 and all of the operations of the Xianyang Road Sewage Plant has been relocated to the New Xianyang Road Sewage Plant and the Group has transferred its entire interests in the Xianyang Road Sewage Plant (including the land) to the Tianjian Government on the same date (the "**Assets Transfer Date**") (the "**Relocation and Non-monetary Assets Exchange Arrangement**"). All of the key terms of the service concession right agreement governing the operations of the Xianyang Road Sewage Plant (the "**Concession Right Agreement**") remains unchanged and continued to be applicable to the Company's operations of the New Xianyang Road Sewage Plant till the end of the Concession Right Agreement. The Tianjin Government has also approved that the Company can increase the tariff rates for its sewage processing services (to certain extent) so as to compensate the higher operating costs for maintaining the improved quality standards of the effluent from the New Xianyang Road Sewage Plant.

As of the Assets Transfer Date, the assets and concession right as recognised by the Group in connection with operations of the Xianyang Road Sewage Plant were included in property, plant and equipment, right-of-use assets (representing the land use rights) and intangible assets with the carrying amounts of RMB19 million (with cost amounts and accumulated depreciation amounts of RMB96 million and RMB77 million respectively), RMB4 million (with cost amounts and accumulated depreciation amounts of RMB5 million and RMB1 million respectively) and RMB685 million (with cost amounts and accumulated amortisation amounts of RMB1,094 million and RMB409 million respectively), respectively.

The entire Relocation and Non-monetary Assets Exchange Arrangement is conducted based on the instructions of the Tianjin Government and the Group has not been exposed to or benefit from any significant changes in risks and rewards as a result of that arrangement. In view of this, the Directors of the Company are of the view that the Relocation and Non-monetary Assets Exchange Arrangement will not have any impact on the carrying amounts of property, plant and equipment, right-of-use assets and intangible assets as previously recognised by the Group and the related assets (including the concession right) will continue to be depreciated or amortised on a consistent straight-line basis over their respective remaining useful lives or concession right period (as applicable).

The relocation of the Dongjiao Water Plant under similar arrangement as mentioned above is expected to be commenced and completed in 2020.

(V) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

During the reporting period, the Company's equity investment was distributed in water projects and hazardous waste business, and for the establishment of project companies or purchase of equity thereof. The total amount of equity investment in 2019 was approximately RMB554.32 million, decreasing RMB213.83 million from the previous year.

(1) Major equity investment

(1) On 30 January 2019, the Board agreed to increase the capital of Fuyang Company by RMB146.1822 million for increasing the capital of Jieshou Capital Water Company Limited* (界首市創業水務有限公司) ("**Jieshou Company**"). With the amount, Jieshou Company would invest in, construct, operate, and maintain the sewage treatment PPP project (2nd batch) in Jieshou. The investment in the project was expected to be RMB487.2486 million. Following the capital increase, the registered capital of Fuyang Company would increase to RMB337.2822 million. The capital increase has been completed during the reporting period.

(2) On 25 February 2019, the Board agreed that Hanshou Company would be responsible for the investment, construction, and operation of the franchised projects of the Yuanquan Waterworks in Hanshou County. The Company contributed RMB33.75 million to Hanshou Company, whose registered capital was RMB45 million, accounting for 75% of the share capital; and Hunan Fengyuan Water Investment Construction Co., Ltd.* (湖南省豐源水務投資建設有限公司) contributed RMB11.25 million to Hanshou Company, accounting for 25% of the share capital. Hanshou Company has been established.

(3) On 11 March 2019, the Board agreed to establish Hebei Guojin Tianchuang Sewage Treatment Company Limited* (河北國津天創污水處理有限責任公司) ("**GJTC**") that would be responsible for the investment, construction, operation, and maintenance of the PPP project for the comprehensive improvement of the regional water environment in Gaocheng District. The Company contributed RMB128.3232 million in cash to GJTC whose registered capital was RMB217.4969 million, accounting for 59% of the share capital; Hebei Guokong Jincheng Environmental Control Co., Ltd.* (河北國控津城環境治理有限責任公司) ("**Hebei Guokong**") contributed RMB65.2491 million in cash to GJTC, accounting for 30% of the share capital; China Construction Third Bureau No. 3 Construction Engineering Co., Ltd* (中建三局第三建設工程有限公司) contributed RMB1.9575 million in cash to GJTC, accounting for 0.9% of the share capital; Tianjin Municipal Engineering Design & Research Institute * (天津市市政工程設計研究院) contributed RMB0.2175 million to GJTC, accounting for 0.1% of the share capital; and the government representatives contributed RMB21.7497 million in cash to GJTC, accounting for 10% of the share capital. GJTC has been established during the reporting period.

(4) On 18 June 2019, the Board agreed to establish Jiuquan Company that would be responsible for the investment, construction, operation, and maintenance of the first and the second sewage water treatment plants in Suzhou District, Jiuquan City. The Company contributed RMB158.2379 million to Jiuquan Company whose registered capital was RMB178.2379 million, accounting for 88.78% of the share capital; and Suzhou District Construction Investment LLC* (肅州區建設投資有限責任公司), an implementing agency authorized by the government, contributed RMB20 million to Jiuquan Company, accounting for 11.22% of the share capital. Jiuquan Company has been established during the reporting period.

(5) On 13 August 2019, the Board agreed to increase the capital of Fuyang Company by RMB52.6263 million for the investment, construction, and implementation of the Yingdong Sewage Treatment Plant Project (2nd batch) by Fuyang Company. The investment in the project was expected to be RMB175.4210 million. Following the capital increase, the registered capital of Fuyang Company would increase to RMB389.9085 million. The capital increase has been completed during the reporting period.

(6) On 16 September 2019, the Board agreed that the Company would increase the capital of Changsha Tianchuang Environmental Protection Company for implementing the construction project of the emergency accident pool of the sewage treatment plant of Ningxiang Economic and Technological Development Zone. The capital increase of RMB5.7654 million was funded by the shareholders of Changsha Tianchuang Environmental Protection Company in cash in proportion to their shareholdings. The Company contributed RMB4.6947 million, accounting for 81.43% of the share capital; Tianjin Motianmo Science and Technology Co., Ltd.* (天津膜天膜科技股份有限公司) contributed RMB0.2883 million, accounting for 5% of the share capital; and Changsha Shuntai Investment Management Co., Ltd.* (長沙順泰投資管理有限公司) contributed RMB0.7824 million, accounting for 13.57% of the share capital. The capital increase has been completed during the reporting period.

(7) On 16 September 2019, the Board agreed that Shandong Company and Dongying Runli Municipal Garden Co., Ltd.* (東營市潤璗園林市政有限公司) would jointly establish Shandong Chuangye New Environment Service Co., Ltd.* (山東創業新環境服務有限公司) to implement the transfer station projects of hazardous waste in Dongying. Shandong Company contributed RMB5.1 million in cash to Shandong Chuangye New Environment Service Co., Ltd.* (山東創業新環境服務有限公司) whose registered capital was RMB10 million, accounting for 51% of the share capital; and Dongying Runli Municipal Garden Co., Ltd.* (東營市潤璗園林市政有限公司) contributed RMB4.9 million in cash to Shandong Chuangye New Environment Service Co., Ltd.* (山東創業新環境服務有限公司), accounting for 49% of the share capital. Shandong Chuangye New Environment Service Co., Ltd.* (山東創業新環境服務有限公司) has been established.

(2) Major non-equity investment

During the reporting period, the Jingu and Beichen sewage water treatment plants were upgraded and achieved A standards for effluent water quality. After reaching consensus through evaluation and negotiation with Party A to the agreement, the Company and Party A agreed that the unit price of the sewage treatment service fee, being RMB2.32/m^3, would be adopted after the upgrade. The unit price of the sewage treatment service fee is currently subject to the approval procedures of the relevant government departments.

(3) Financial assets measured by fair value

Not applicable

(6) DISPOSAL OF MAJOR ASSETS AND EQUITY INTEREST

Not applicable

(7) ANALYSIS OF MAJOR COMPANIES IN WHICH THE COMPANY HAS INVESTED

Unit: 0'000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products\Or Services	Registered Capital	Type of Legal Person	Percentage of interest	Asset Size	Net Assets	Net Profits
Water Recycling Company	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; manufacturing, installation, debugging and operation of water recycling facilities etc.	10,000	Limited Company	100%	123,263	34,269	6,127
Hangzhou Company	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training. And its technical services, technical training and other supporting services.	37,744.50	Limited Company	70%	100,002	71,353	3,109
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation and management of municipal sewage treatment plants and tap water and its supporting facilities; research and promotion Of environment protection technology.	33,400	Limited Company	100%	60,481	42,920	2,663
Jiayuanxing	Tianjin	Development, consulting, service and transfer of energy conservation and energy technology; property management services.	19,195.05	Limited Company	100%	70,718	33,271	2,995
Caring Company	Tianjin	Environmental engineering management and technical advice etc.	3,333.33	Limited Company	60%	15,414	12,412	879
Bayannur Company	Bayannur, Inner Mongolia	Processing of sewage water, production and sales of recycled water and supply of tap water	106,757.79	Limited Company	70%	115,139	112,466	1,347
Shandong Company	Shandong	Investment and construction of sewage treatment facilities	19,200	Limited Company	55%	48,326	18,387	-459

Water Recycling Company recorded revenue from principal operations of RMB264.06 million and operating profit of RMB83.43 million in 2019.

(8) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Not applicable

III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

(I) STATUS AND TRENDS OF THE INDUSTRY

In macroeconomics respect, the Central Committee of the CPC defined the policy of "consolidating, strengthening, upgrading, and ensuring unimpeded flows", which was paired with the two driving factors of "innovation-driven" and "reform and opening up", to improve the economic competitiveness across the board and speed up the building of a modern economic system. This calls for the enterprises to adapt to changes in the macro environment in their development, to pursue progress while ensuring stability. On the one hand, risk control should be focused, and on the other hand, the quality and benefit of development should also be focused. In addition, the Fourth Plenary Session of the 19th Central Committee of the CPC proposed strengthening the building of the basic system in the capital market and perfecting a modern financial system that is highly adaptable, competitive, and inclusive, to forestall and defuse financial risks. It will be more convenient for enterprises to obtain direct financing and conducive to reducing the assets liability ratio of enterprises. It also provides a rare opportunity for merger, acquisition, investment and industrial integration particularly at the stage of economic downturn and underestimation of asset prices.

In addition, in terms of industry development, the following three changes are of concern:

1. The PPP model is further standardized and is used to control project risks

In March 2019, the Ministry of Finance issued the Implementation Opinions of the Ministry of Finance on Promoting the Sound Development of Public-Private Partnership (Cai Jin [2019] No. 10)《(財政部關於推進政府和社會資本合作規範發展的實施意見》(財金[2019]10號)), specifying the principle of "sound operation, strict supervision, openness and transparency, and credibility and compliance" and emphasizing the financial expenditure, payment mechanism, scope of application, and market operation of PPP projects, which further standardized PPP projects. The Implementation Opinions are beneficial to exerting strict control over local hidden debt risks and rectifying the phenomena of "focusing on engineering to the neglect of operation".

In addition, the National Development and Reform Commission promulgated the Opinions on Innovation and Improvement of the Pricing Mechanism for Promoting Green Development (關於創新和完善促進綠色發展價格機制的意見) in 2018. This policy proposed to formulate the sewage treatment standards according to the principle of compensating the operating costs of facilities for sewage treatment and sludge treatment (excluding the operating costs of sewage collection and pipeline network construction) and making a reasonable profit, to move forward the marketization of sludge disposal.

2. Sewage treatment and discharge standards continue to raise and the upgrading will be an important growth point for the industry in the future

China's current national standard for sewage discharge is the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (城鎮污水處理廠污染物排放標準) (GB18918-2002) promulgated in 2002. Since its publication, urban sewage treatment plants have been upgraded four times, some of which have been upgraded to First Grade B and First Grade A, then the others of which have been upgraded to First Grade B, and finally all of which have been upgraded to First Grade A. In 2015, the State Environmental Protection Administration published the Draft for Comment of the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (國家環境保護標準城鎮污水處理廠污染物排放標準) (GB18918-2002), in which the pollutant indexes requiring basic control under the "special emission limits" meet the class IV standard for surface water, and the standards introduced by Beijing, Tianjin, Jiangsu, and Zhejiang are stricter than the national standard. In 2018, the sewage treatment rate in urban areas of China reached 96%, and the sewage treatment rate in counties reached 92%. From this respect, further upgrading will be an important growth point for the industry in the future. In addition, as the discharge standards are rising, the requirements for the discharge of total nitrogen and total phosphorus become more stringent. In 2018, the Ministry of Ecology and Environment specially issued the Regulations on Strengthening the Prevention Control of Nitrogen and Phosphorus from Fixed Pollution Sources (關於加強固定污染源氮磷污染防治的統治), which expanded the market demand for external carbon sources and related pharmaceuticals.

3. ***The clear water defense plan is successively introduced and the sewage treatment business model is in great need of innovation***

In June 2018, the Central Committee of the CPC and the State Council rolled out the Decisions of the Central Committee of the CPC and the State Council on Comprehensively Enhancing Eco-environmental Protection to Completely Win the Battle Against Pollution (關於全面加強生態環境保護堅決打好污染防治攻堅戰的意見), explicitly demanding an all-out fight to keep our skies blue, our waters clear, and our land pollution-free. To win Blue Sky Defense Battle, the Central Committee of the CPC and the State Council proposed to take solid action in the five critical battles of water source protection, treatment of black and odorous water, protection and restoration of the Yangtze River, comprehensive management of the Bohai Sea, and agricultural and rural pollution abatement and successively introduced plans for winning the five critical battles. In response to the requirements for environmental protection including water governance, regional governance, watershed governance, and ecological restoration, the business model for sewage treatment requires immediate innovation.

In 2019, the Ministry of Housing and Urban-Rural Development, the Ministry of Ecology and Environment, and the National Development and Reform Commission jointly unveiled the Three-year Action Plan for Improving Quality and Increasing Efficiency of Municipal Wastewater Treatment (城鎮污水處理提質增效三年行動方案), expressing particular concerns about the long-standing issue of "a focus on the construction of sewage treatment plants to the neglect of pipeline networks". On the one hand, although sewage treatment facilities are provided, "bad construction projects" and a low load rate frequently occur due to the inadequacy of pipeline networks. On the other hand, the water quality of rivers is affected due to the disrepair, damage, leakage, and incorrect connection of pipe networks. Different from sewage treatment plants that have a clear financing source, the construction and maintenance of pipeline networks basically rely on government funding, which puts greater pressure on local governments and thus become the focus and difficulty of future model innovation.

After years of hard work, the Company's water projects has a total water supply scale of approximately 6.0841 million m^3/day, involving water supply, sewage treatment, and recycling. Having accumulated rich experience and capabilities in the market development, construction, operation, and management of water projects, the Company has become a domestically well-known water company. In recent years, the Company has also made achievements in fields such as sludge disposal, industrial wastewater treatment, hazardous waste disposal, soil remediation, new energy supply, and sponge city. It has gradually built up comprehensive environmental service capabilities. In the future, the Company is capable and confident to participate in the competition in the key development areas of the environmental protection industry, creates revenue for shareholders, and contributes to building a Beautiful China.

(II) DEVELOPMENT STRATEGIES OF THE COMPANY

Positioning itself as a "comprehensive environmental service provider" and based on the development strategic objectives set out during the "13th Five-Year Plan" period, the Company will continue to promote the corporate development in all aspects. 2020 is the year of sprint in implementing the "13th Five-Year Plan". The Company will continue to devote consistent efforts to realise new development and step across pedestals in the crucial stage of the "13th Five-Year Plan". In respect of business development, the Company not only continues to consolidate its core business focusing on wastewater treatment, but also actively expands other promising environmental protection business such as solid waste disposal, new energy and environmental protection and technology, and explore emerging businesses such as environmental restoration and environmental monitoring. In addition, the Company focuses on key links in the business industry chain such as pharmaceutical production and high-end environmental protection equipment manufacturing, to further build the comprehensive environmental service capabilities. In 2020, facing the COVID-19, the Company will focus on both epidemic prevention and control and production and operation, and strive to achieve "attaching equal importance to both." Meanwhile, the Company will pay close attention to changes in external risks, make plans for risk prevention and control, and promote deep transformation and high-quality development of enterprises through institutional innovation, technological innovation and model innovation.

(III) OPERATING PLANS

1. ***Progress of development strategy and operating plan of the Company during the reporting period***

In 2019, the Company used the "13th Five-Year" strategic plan as its guideline to consolidate staff's efforts and developed new strategic businesses. It deepened organizational and structural reforms, improved research and development system, focused on the refined management as the major task. Through comprehensive distribution, careful planning and solid progress, key progresses have been achieved in all aspects of work. With efforts of all employees, the operation strategy and operation plan formulated by the Board at the beginning of the year has basically been completed. The targets set on revenue, fees and costs have also been achieved successfully.

2. ***2020 is the first year of market-oriented reform of entrepreneurship and environmental protection. The Company will combine the 13th Five-Year Plan and annual operating plan to consolidate operational advantages and continue to strengthen scientific and technological research and development to help the Company become more powerful; build the new model of market development to accelerate the development of the Company; ensure that the deepening of reforms is effective, and stimulate the development vitality of the Company; improve the Company's internal control system and continuously improve the Company's governance capabilities. The business strategies for 2020 are as follows:***

(1) ***Continue to strengthen technology-leading and improve core competitiveness***

Increase market demand-oriented technology research and development and investment, enhance the technological advantages of the corporation in project operation, construction, development and other fields, achieve new breakthroughs in technology leadership in the transformation of scientific and technological achievements and strategic new business development, and continue to provide high quality development with new energy to help the corporation become more powerful.

(2) ***Continue to strengthen project operation management and construction management and improve operation quality to ensure project construction progress***

Increase quality safety and cost management, use big data and other information technologies to improve project operation and management. Control costs reasonably and ensure safe and economic operation. Make continuous efforts to ensure project quality and progress.

(3) ***Promote the practice of market-oriented reforms and stimulate the Company's development vitality***

In 2020, on the basis of completing the selection and employment of professional managers of the Company, implement the salary and performance assessment of the managements to stimulate the professional spirit and professional ability of the managements; promote the deepening reform of directly-owned sewage treatment plants and various subsidiaries to stimulate employee motivation and promote the common growth of employees and the corporation; continue to improve the management structure reform of the Company and improve the management efficiency.

(4) ***Explore new models for market development and accelerate the development of the company***

In 2020, develop a new market development model comprehensively based on the good market development in recent years, that is, to optimize traditional water projects and increase project profitability requirements; to extend the industrial chain, try to expand new businesses through mergers and acquisitions, and accelerate the development of the Company.

(5) ***Further improve the internal control system and continuously improve the Company's governance capabilities***

With the operation of the new organizational structure and the guidance of new management ideas, the Company's internal control system will also be further improved to effectively enhance its corporate governance capabilities and consolidate the foundation of the Company's sound development.

(6) ***Strengthen the leading of the Party to provide solid safeguard for the Company's development***

The Company will focus on the deep integration between the Party-building works and our major works, stick to the way of market-oriented reforms and give full play to the Party Committee's guiding role of "defining direction, making overall planning and supporting implementation" so as to provide solid political, talent and organizational safeguard to the Group's transformation and upgrading and escort our operation.

3. Income, expenses and cost plan:

In 2020, it is expected that the main business of the Group will still mainly engage in sewage treatment business, and the annual sewage treatment will be not less than 1.3 billion cubic meters. With the higher discharge standards applicable to each project and the continuous increase in costs of various types of resources, energy and labor, the operation costs of projects increase. If there are no major changes in the prevailing national guidelines, policies and business environment, it is expected that amount of variation in revenue from and cost for sewage treatment service fee will not be higher than 20%.

4. Technology R&D investment plan:

In 2020, the Group will invest not less than RMB14.00 million in technology research, development and technological reforms, and will continue to conduct research and development on the new technical processes and application technology in the areas of sewage water treatment and sludge treatment etc.

5. In 2020, the estimated capital expenditure is RMB4.6 billion, which will be mainly used for the upgrading of water projects, and the construction of new energy projects and hazardous waste projects.

In 2020, the capital required for the Group's operation and investment will be satisfied by the Group's existing credit, corporate bonds, equity financing, strategic cooperation and other channels.

(IV) POSSIBLE RISKS

(1) Risks of COVID-19

The COVID-19 may cause certain impact on the economy in the short term. For existing businesses, in addition to ensuring safety and quality, epidemic prevention and control is also necessary, which will increase the difficulty and cost of the work to a certain extent. As for business development, it is also affected by the whole society's epidemic prevention and control, which may bring certain uncertainty to the market.

(2) **Risk of government credit**

Given the characteristic of licensed operation in sewage treatment projects, the capital source of sewage treatment service fee comes mainly from the special sewage-treatment fee charged by the governments through the sales of tap water; the deficient amount will be supplemented by the local governments. The PPP packaging projects recently promoted usually include the investment and construction of infrastructure such as pipe networks. The investment of social capital is relatively huge, and the investment return relies mainly on the payment of sewage treatment service fee from the governments. Therefore, the singleness of capital source determines the importance and cruciality of the government credibility. Whether water utilities companies can recoup the investment as scheduled and obtain the expected rate of return depends on the level of government credibility. In case the risk related to government credibility occurs, the project companies will face cash flow problem, which may generate capital risks such as financial risks and financing risks.

(3) **Risk of change in policy**

Currently, the PRC is at the special phase of comprehensive in depth reform. For a long period in the future, there will be transformative changes in policies related to economy, finance, commodity prices, financial taxation and government functions, etc. The policy changes in commodity prices and taxation will directly influence the adjustment of water price. During the exclusive license operation period lasting for 30 years, as a social investor, the Company needs to pay attention to the risk of changes in policy.

(4) **Risk of operation and management**

With the introduction of a series of energy-saving and emission reduction requirements under the national "13th Five-Year Plan", the standards for environmental governance will become more stringent. In order to meet the new standards, the demands for upgrading sewage treatment plants will gradually increase. Under this circumstance, on one hand, sewage treatment plants will face the risk of facing restructuring and operational risk. On the other hand, enterprises will also face the risk of adjusting the original licensed operation agreement.

2. **Risk control measures**

(1) **Achieve both the "epidemic prevention and control" and "economic work" to fully respond to the short-term risks**

Facing the epidemic of COVID-19, the corporation must complete various tasks while preventing and controlling the epidemic, effectively protecting the health of employees, and giving full play to their social responsibilities.

(2) Protect the Company's lawful interests by making full use of laws and regulations

Strengthening the concept of corporate governance in accordance with the laws by making full use of its overall legal advisory system to protect lawful interests of the Company. Meanwhile, the Company calls for and supports the prompt establishment and perfection of "Licensed Operation Law" and "PPP Law" to further assure equality of the contracting parties, tighten up the performance assessment and profit distribution mechanisms, and provide for the government obligations to pay according to contracts and the rights for investors to get reasonable returns under the laws, so as to reduce the risk related to government credibility and the financial risk of the investors.

(3) Strengthen comprehensive risk management

Determine the target for comprehensive risk management; establish the institutional framework for comprehensive risk management to identify, analyse, assess and deal with possible hidden risks in different business links; improve the risk management system and establish a sound and comprehensive risk management system for the Company; improve its timing and efficiency of the comprehensive risk management of the Company; conduct the dynamic management and effective control over risks so as to reasonably ensure the achievement of the Company's strategic targets.

(4) Continue to raise the standards of operating management

As a listed company in the environmental protection field, the Company has control over production and operation risks in a timely manner through standardized management in accordance with relevant changes in policies. Specifically, our risk control measures include staff training, strengthening the consciousness of laws on environmental protection and improving the management and control levels of technologies; strengthening the maintenance and protection of facilities for proper preservation of asset value and stable operation; perfecting the monitoring of quality, promoting control over the whole process to ensure the end products could meet the standards of discharge; developing water environment remedy plans and safe production plans, so as to ensure careful operation and the best environmental performance of the Company under force majeure conditions.

(V) Others

Not applicable

IV. FAILURE TO DISCLOSE AS PER RULES DUE TO INAPPLICABILITY OR SPECIAL REASONS, SUCH AS STATE SECRETS AND BUSINESS SECRETS

Not applicable

V. THE PROPOSAL ON THE PROFIT APPROPRIATION OR TRANSFER OF CAPITAL RESERVE FUND TO SHARE CAPITAL FOR THE REPORTING PERIOD AS REVIEWED BY THE BOARD

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2019 amounted to RMB507.11 million. After deduction of the statutory common reserve of RMB41.14 million drawn in accordance with the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the retained profit of RMB3,442.84 million at the beginning of the year, and less the distribution in 2019 of the 2018 cash dividend of RMB151.29 million, the actual profit distributable to the shareholders for this year amounted to RMB3,757.52 million.

Considering that the Company is still in the development stage and cooperating with the capital expenditure arrangement in 2020 of Company for external project development, the Company intends to distribute to all of its Shareholders in the form of every 10 share with cash dividends of RMB1.07 (gross tax) with a total amount of RMB152.71 million in 2019 according to the profit appropriation policy of the Company. The amount of cash dividends accounted for 30.11% of the Company' s distributable profit realized in 2019. The capital reserve in 2019 will not be transferred to the share capital.

The distribution proposal is subject to the consideration and approval at the 2019 general meeting of the Company.

§5 FINANCIAL ACCOUNTING REPORT

CONSOLIDATED INCOME STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts in Rmb thousand unless otherwise stated)

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Continuing operations			
Revenue from contracts with customers	*3*	**2,851,453**	2,447,515
Cost of sales	*5*	**(1,984,537)**	(1,568,995)
Tax expenses and surcharge		**(45,716)**	(49,688)
Gross profit		**821,200**	828,832
Distribution costs	*5*	**(7,075)**	(5,417)
Administrative expenses	*5*	**(168,661)**	(129,096)
Net impairment losses on financial assets		**(31,383)**	(12,973)
Other income	*4*	**166,989**	173,023
Other gains – net	*6*	**47,875**	2,461
Operating profit		**828,945**	856,830
Finance income		**23,951**	53,779
Finance costs		**(223,347)**	(215,765)
Finance costs – net	*7*	**(199,396)**	(161,986)
Profit before income tax		**629,549**	694,844
Income tax expense	*8*	**(100,587)**	(168,064)
Profit for the year		**528,962**	526,780
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year		**528,962**	526,780
Total comprehensive income for the year is attributable to:			
Owners of the Company		**507,107**	501,168
Non-controlling interests		**21,855**	25,612
		528,962	526,780
Earnings per share for profit attributable to the equity holders of the Company (in RMB Yuan):			
Basic earnings per share	*9*	**0.36**	0.35
Diluted earnings per share	*9*	**0.36**	0.35

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019
(All amounts in RMB thousand unless otherwise stated)

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Land use rights		**–**	60,358
Right-of-use assets		**58,080**	–
Property, plant and equipment		**801,007**	497,580
Intangible assets		**11,701,362**	10,314,469
Deferred income tax assets		**4,209**	–
Investment properties		**–**	84,052
Investments accounted for using the equity method		**195,000**	195,000
Financial asset at fair value through other comprehensive income		**2,000**	2,000
Long-term receivables		**236,450**	253,686
Other non-current assets		**195,919**	109,181
Total non-current assets		**13,194,027**	11,516,326
Current assets			
Inventories		**14,805**	13,991
Trade receivables	*11*	**2,508,895**	2,091,760
Prepayments		**38,583**	23,531
Other receivables		**65,156**	36,162
Other current assets		**89,728**	179,477
Cash and cash equivalents		**2,066,301**	1,808,543
Restricted cash		**13,312**	17,658
Total current assets		**4,796,780**	4,171,122
Total assets		**17,990,807**	15,687,448

CONSOLIDATED BALANCE SHEET (continued)
AS AT 31 DECEMBER 2019
(All amounts in Rmb thousand unless otherwise stated)

	Notes	2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**5,066,797**	4,114,683
Deferred revenue		**2,059,702**	2,101,085
Deferred income tax liabilities		**125,587**	138,812
Provisions for other liabilities and charges		**11,665**	10,069
Other non-current liabilities		**36,000**	38,000
Total non-current liabilities		**7,299,751**	6,402,649
Current liabilities			
Trade payables	*12*	**231,293**	176,398
Contract liabilities		**558,472**	469,185
Wages payables		**66,100**	53,942
Income tax and other taxes payables		**86,188**	68,893
Dividend payable		**1,172**	1,912
Other payables		**1,532,842**	1,456,133
Borrowings		**1,059,869**	443,369
Provisions for other liabilities and charges		**12,933**	–
Total current liabilities		**3,548,869**	2,669,832
Total liabilities		**10,848,620**	9,072,481
Net assets		**7,142,187**	6,614,967
EQUITY			
Share capital		**1,427,228**	1,427,228
Other reserves		**989,274**	948,131
Retained earnings		**3,757,523**	3,442,844
		6,174,025	5,818,203
Non-controlling interests		**968,162**	796,764
Total equity		**7,142,187**	6,614,967

Notes to the Condensed Consolidated Financial Statements
AS AT 31 DECEMBER 2019
(All amounts in RMB thousand unless otherwise stated)

1 Basis of preparation

(a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRS') and disclosure requirements of the Hong Kong Companies Ordinance ('HKCO') Cap.622.

(b) Historical cost convention

The financial statements have been prepared on the historical cost basis.

(c) New and amended standards and interpretations adopted by the Group

The Group has applied the following new and amended standards and interpretations for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2. Most of the other amendments and interpretations listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New and amended standards and revised conceptual framework not yet adopted

Certain new accounting standards and revised conceptual framework for financial reporting have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards and revised conceptual framework are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Change in accounting policies

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statements.

As indicated in Note 1 above, the Group has adopted HKFRS 16 "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The adjustments are explained in more detail by standard below.

(a) ***Measurement of right-of-use assets***

Upon the adoption of HKFRS 16, right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. Adjustments were recognised in the balance sheet on 1 January 2019.

The impact resulted from the change in accounting policy only affected the following items in the balance sheet on 1 January 2019:

- land use rights – decrease by RMB60,358 thousand.

- right-of-use assets – increase by RMB60,358 thousand.

The adoption of HKFRS 16 has no impact on the Group's retained earnings as of 1 January 2019.

(b) ***Lessor accounting***

- The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

3 Segment information

(a) ***Operating segment analysis***

Management has determined the operating segments based on the reports reviewed by the strategy steering committee held regularly that are used to make strategic decisions for the purpose of allocating resources and assessing performance.

The strategy steering committee meeting considers the business primarily from service perspective and for the most significant business segments geographical perspectives will also be considered. From a service perspective, management assesses the performance of processing of sewage water, recycled water and pipeline connection, heating and cooling services, tap water operations and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment is mainly the achievement of technology research. The assets are allocated based on the operations of the respective segments and the physical location of assets. The liabilities are allocated based on the operations of the respective segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

Other services include contract operation services, lease of office building or apartments and provide technical services etc. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column.

The strategy steering committee assesses the performance of the operating segments based on a measure of profit before income tax, which is measured in the approach consistent with that in the financial statements.

(i) For the year ended 31 December 2019

	Sewage water processing								
	Tianjin plants *RMB'000*	Hangzhou plant *RMB'000*	Other plants *RMB'000*	Recycled water and pipeline connection *RMB'000*	Heating and cooling services *RMB'000*	Tap water operations *RMB'000*	Sale of environmental protection equipment *RMB'000*	All other segments *RMB'000*	Group *RMB'000*
Segment revenue	1,122,467	254,208	648,351	283,813	101,377	105,374	44,386	291,477	2,851,453
Timing of revenue recognition:									
At a point in time	-	-	-	-	-	-	-	18,875	18,875
Over time	1,122,467	254,208	648,351	283,813	101,377	105,374	44,386	272,602	2,832,578
Segment expense	(878,181)	(210,958)	(511,231)	(199,529)	(63,035)	(80,791)	(28,167)	(250,012)	(2,221,904)
Segment results	244,286	43,250	137,120	84,287	38,342	24,583	16,219	41,462	629,549
Profit before income tax									629,549
Income tax expense									(100,587)
Profit for the year									528,962
Segment assets	6,779,197	981,119	6,625,106	985,548	705,829	507,909	57,814	1,153,285	17,795,807
Investment accounted for using the equity method									195,000
Total assets									17,990,807
Total liabilities	(6,090,474)	(286,491)	(2,714,905)	(846,306)	(374,378)	(32,434)	(11,257)	(492,375)	(10,848,620)
Other information									
– Interest income	12,498	1,820	2,874	4,463	855	28	1,186	227	23,951
– Interest expenses	(126,783)	(11,077)	(69,493)	(56)	(3,197)	(1,712)	(9)	(1,655)	(213,982)
– Depreciation	(19,850)	-	(605)	(19,377)	(296)	(1,132)	(521)	(4,737)	(46,518)
– Amortization	(170,375)	(62,648)	(177,327)	(7,727)	(23,186)	(17,330)	(1)	(4,371)	(462,965)
– Capital expenditures	121,112	-	1,585,870	54,656	53,621	73,918	-	226,177	2,115,354

(ii) For the year ended 31 December 2018

	Sewage water processing								
	Tianjin plants *RMB'000*	Hangzhou plant *RMB'000*	Other plants *RMB'000*	Recycled water and pipeline connection *RMB'000*	Heating and cooling services *RMB'000*	Tap water operations *RMB'000*	Sale of environmental protection equipment *RMB'000*	All other segments *RMB'000*	Group *RMB'000*
Segment revenue	858,211	284,062	484,102	349,860	91,015	93,261	35,282	251,722	2,447,515
Timing of revenue recognition:									
At a point in time	–	–	–	–	–	–	–	–	–
Over time	858,211	284,062	484,102	349,860	91,015	93,261	35,282	251,722	2,447,515
Segment expense	(607,310)	(201,086)	(376,977)	(213,545)	(57,905)	(76,419)	(29,044)	(190,385)	(1,752,671)
Segment results	250,901	82,976	107,125	136,315	33,110	16,842	6,238	61,337	694,844
Profit before income tax									694,844
Income tax expense									(168,064)
Profit for the year									526,780
Segment assets	6,430,423	1,090,937	5,136,425	863,109	611,827	376,511	48,816	934,400	15,492,448
Investment accounted for using the equity method									195,000
Total assets									15,687,448
Total liabilities	5,838,269	349,501	1,351,428	816,293	290,659	40,542	9,711	376,078	9,072,481
Other information									
– Interest income	33,398	1,748	2,218	14,206	792	15	386	1,016	53,779
– Interest expenses	(145,836)	(15,461)	(31,211)	(57)	(2,138)	(2,319)	(18)	(1,734)	(198,774)
– Depreciation	(235)	–	(4,217)	(25,071)	(16)	(48)	(513)	(14,730)	(44,830)
– Amortization	(131,095)	(60,781)	(114,353)	(5,157)	(18,310)	(14,061)	(1,026)	(1,639)	(346,422)
– Capital expenditures	923,737	–	2,499,828	182,955	45,520	150,780	2,871	162,481	3,968,172

(b) Liabilities related to contracts with customers – contract liabilities

	31 December 2019 ***RMB'000***	31 December 2018 *RMB'000*
For recycled water and pipeline connection services	**508,138**	453,602
For sewage water services	**12,071**	–
For equipment sales	**11,263**	–
For heating supply services	**8,014**	4,074
For hazardous wastes	**6,197**	–
Others	**12,789**	11,509
	558,472	469,185

(i) *Revenue recognised in relation to contract liabilities*

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Pipeline connection service	**166,190**	249,567
Heating supply service	**4,074**	3,670
Others	**3,131**	3,955
	173,395	257,192

The Group classified these contract liabilities as current because the Group expects to realise them in its normal operating cycle.

(ii) *Unsatisfied long-term contracts*

As at 31 December 2019, the consideration for pipeline connection services of approximately RMB556 million of which the contracts were signed but the performance obligation is not yet fully completed, will be recognised by overtime based on the progress towards the completion of related performance obligations in the following years.

As at 31 December 2019, the consideration for certain entrusted sewage services of RMB61 million of which the contracts were signed but the performance obligations is not yet fully completed, among which the Group expects the related revenue of approximately RMB52 million,RMB8 million and RMB1 million will be recognised in 2020, 2021 and 2022 respectively.

As at 31 December 2019, the consideration for equipment sales of RMB13 million of which the contracts were signed but the performance obligations is not yet fully completed. The related revenue is expected to be recognised in 2020.

As at 31 December 2019, a contract of road tolls service fee of RMB571 million was signed but the performance obligations is not yet fully completed, among which the Group expects to recognise revenue of approximately RMB62 million in every year from 2020 to 2028, and revenue of approximately RMB13 million in 2029.

All other contracts are for periods of one year or less or are billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4 Other income

	2019 *RMB'000*	2018 *RMB'000*
Government grants	**108,103**	73,140
VAT refund	**58,874**	99,512
Others	**12**	371
	166,989	173,023

5 Expenses by nature

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Amortisation – intangible assets	**462,965**	344,780
Raw materials and consumables used	**352,215**	190,667
Employee benefit expenses	**350,018**	286,101
Utilities	**342,274**	314,546
Repair and maintenance expenses	**181,978**	105,194
Subcontract cost of recycling water pipeline connection service, environmental equipment and toll road management	**135,556**	**178,625**
Sewage mud processing fee	**93,930**	97,018
Depreciation – property, plant and equipment	**43,862**	42,062
Factory environment, detection and fire prevention expenses	**36,759**	29,355
Impairment loss on other current assets	**26,808**	–
Travel, meeting and business entertainment expenses	**21,390**	14,403
Consulting service expenses	**20,416**	15,274
Network maintenance costs	**17,330**	17,416
Office expenses	**9,412**	7,054
Expenses of secretary of the board	**4,789**	4,475
Auditors' remuneration – audit services	**3,300**	3,300
Other taxes	**2,663**	2,464
Depreciation – right of use assets	**2,278**	–
Depreciation – investment properties	**378**	2,768
Amortisation – land use rights	**–**	1,642
Others	**51,952**	46,364
	2,160,273	1,703,508

6 Other gains – net

	2019	2018
	RMB'000	*RMB'000*
Gain/(loss) on disposal of property, plant and equipment	**704**	(900)
Gain on disposal of other current assets	**48,703**	–
Government grants	**–**	5,341
Others	**(1,532)**	(1,980)
	47,875	2,461

7 Finance costs – net

	2019	2018
	RMB'000	*RMB'000*
Interest expenses of borrowings	**250,341**	233,574
Less: Capitalised interest (a)	**(36,359)**	(34,800)
Net interest expenses	**213,982**	198,774
Net exchange losses (b)	**8,813**	16,543
Others	**552**	448
Finance costs	**223,347**	215,765
Less: Interest income	**(23,951)**	(53,779)
– long-term receivables	**(9,405)**	(10,029)
– bank deposits	**(14,546)**	(43,750)
Finance costs	**199,396**	161,986

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the year, which is 4.44% in 2019 (2018: 4.48%).

(b) For the year ended 31 December 2019, the net exchange loss on the long-term payables denominated in JPY and US dollar amounted to approximately RMB9 million (2018: RMB17 million) which have been included as finance costs.

8 Income tax expense

	2019	2018
	RMB'000	*RMB'000*
Current income tax	**118,021**	163,631
Deferred income tax (credit)/charge	**(17,434)**	4,433
	100,587	168,064

9 Earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the Company of approximately RMB507 million (2018: RMB501 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2018: 1,427 million shares).

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares. Therefore, diluted earnings per share equal to earnings per share and the calculations of which are as below:

	2019 ***RMB'000***	2018 *RMB'000*
Profit attributable to owners of the Company	**507,107**	501,168
Weighted average number of ordinary shares in issue (million shares)	**1,427**	1,427
Basic and diluted earnings per share (RMB Yuan)	**0.36**	0.35

10 Dividends

(i) Ordinary shares

	2019 ***RMB'000***	2018 *RMB'000*
Final dividend for the year ended 31 December 2018 of 10.6 cent (2017: nil) per fully paid share	**151,285**	–
Dividends paid in cash	**151,285**	–

(ii) Dividends not recognised at the end of the reporting period

	2019 ***RMB'000***	2018 *RMB'000*
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 10.7 cents per fully paid ordinary share (2018: 10.6 cents). The aggregate amount of the proposed dividend expected to be paid on 13 May 2020 out of retained earnings at 31 December 2019, but not recognised as a liability at year end, is	**152,713**	151,285

11 Trade receivables

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade receivables	**2,508,246**	2,079,697
Notes receivable	**16,131**	10,295
Receivables from third parties	**2,524,377**	2,089,992
Receivables from related parties	**65,474**	51,352
	2,589,851	2,141,344
Less: loss allowance	**(80,956)**	(49,584)
	2,508,895	2,091,760

(i) The majority of the Group's sales are on credit or documents against payment. The ageing analysis of the trade receivables based on invoice date were as follows:

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Within 1 month	**517,692**	204,628
1 month to 1 year	**1,352,969**	1,263,411
1 to 2 years	**641,788**	649,268
2 to 3 years	**52,987**	15,464
More than 3 years	**24,415**	8,573
Total	**2,589,851**	2,141,344

(ii) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared based credit risk characterises and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of client in which it sells its goods and service to be the most relevant factor, the default rate by client's industry group, the defaulted unsecured loan recoveries and accordingly adjusts the historical loss rates based on expected changes in this factor.

Group – banker's acceptance

The Group measures bad debt provision in accordance with the lifetime expected credit loss for the entire duration, and no provision is deemed necessary. The Group considers that there is no significant credit risk in banker's acceptance and no major loss will be caused by bank default.

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for trade receivables:

By individual:

31 December 2019	**Carrying amount** *RMB'000*	**Expected credit loss rate**	**Loss Allowance** *RMB'000*
Tianjin Water Authority Bureau	**1,809,061**	**0.05%**	**(990)**
Qujing Sewage Company	**163,735**	**18.40%**	**(30,120)**
Hangzhou Municipal Facilities Development Center	**56,757**	**0.05%**	**(31)**
Guiyang Water Authority Bureau	**52,612**	**0.05%**	**(29)**
Jinghai Development Area Management Committee	**21,723**	**24.88%**	**(5,405)**
Xi'an Infrastructure Investment Group	**18,424**	**0.05%**	**(10)**
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd	**16,797**	**15.97%**	**(2,682)**
Tianjin City Appearance Sanitation Construction Development Co. Ltd	**14,513**	**15.73%**	**(2,283)**
Tianjin Shuangkou Municipal Solid Waste Landfill	**14,208**	**36.98%**	**(5,254)**
Zhejiang Xinsanyin Dyeing Co.Ltd	**5,731**	**65.03%**	**(3,727)**
Tianjin Tianbao Municipal Administration Co. Ltd	**5,174**	**28.91%**	**(1,496)**
Total	**2,178,735**		**(52,027)**

31 December 2018	Carrying amount *RMB'000*	Expected credit loss rate	Loss Allowance *RMB'000*
Tianjin Water Authority Bureau	1,582,240	0.05%	(791)
Qujing Sewage Company	140,296	24.49%	(34,357)
Hangzhou Municipal Facilities Development Center	43,545	0.05%	(21)
Guiyang Water Authority Bureau	39,243	0.05%	(2)
Hangzhou Sewage Company	18,198	0.05%	(9)
Xi'an Infrastructure Investment Group	16,608	0.05%	(14)
Tianjin Qudong Culture Media Co. LTD	7,910	100.00%	(7,910)
Total	1,848,040		(43,104)

Group – Non-provincial government customers

31 December 2019	**Current**	**Less than 180 days past due**	**More than 180 days past due**	**Total**
Expected loss rate	**5.31%**	**5.31%**	**7.46%**	
Gross carrying amount	**102,406**	**107,386**	**57,014**	**266,806**
Loss allowance	**5,438**	**5,702**	**4,255**	**15,395**

31 December 2018	Current	Loss than 180 days past due	More than 180 days past due	Total
Expected loss rate	0.01%	0.11%	0.50%	
Gross carrying amount	42,605	63,698	64,790	171,093
Loss allowance	4	71	324	399

Group – Non-government customers

31 December 2019	**Current**	**Loss than 90 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**6.70%**	**6.70%**	**15.08%**	
Gross carrying amount	**41,844**	**27,352**	**58,983**	**128,179**
Loss allowance	**2,804**	**1,833**	**8,897**	**13,534**

31 December 2018	Current	Loss than 180 days past due	More than 180 days past due	Total
Expected loss rate	0.10%	1.13%	5.00%	
Gross carrying amount	34,821	48,523	28,572	111,916
Loss allowance	35	546	5,500	6,081

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	2019	2018
	RMB'000	*RMB'000*
Opening loss allowance at 1 January	**49,584**	36,759
Net impairment losses recognised in profit or loss during the year	**31,372**	12,825
Closing loss allowance at 31 December	**80,956**	49,584

For the trade receivable with actual bad debts, the relevant departments of each business will explain the specific reasons for the failure to recover them, and the financial management department will write off the accounts according to the information.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

12 Trade payables

The aging analysis of trade payables based on supplier's invoice date is as below:

	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**164,526**	143,620
Over due 1 year	**66,767**	32,778
	231,293	176,398

As at 31 December 2019, trade payable are mainly payable for purchases of inventories. The trade payable with aging more than 1 year are mainly source water charges payable by Qujing Company of RMB34 million, and the subcontract costs payable by Tianjin Water Recycling Co., Ltd of RMB21 million. As the Group has not yet recovered the relevant sewage treatment charges and the related projects have not yet been completed, the Group has not settled the related balances.

§6 SALE AND PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the reporting period, the Company or its subsidiaries did not purchase, sell and redeem any securities of the Company or its subsidiaries.

§7 CORPORATE GOVERNANCE CODE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the year, in compliance with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

§8 MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of practice in respect of securities transactions conducted by the Directors with standards not lower than those prescribed in Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. During the reporting period, all Directors have complied with the Model Code for securities transactions conducted by the Directors.

§9 PUBLIC FLOAT

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

§10 PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and there is no restriction against such rights under the laws of the PRC.

§11 AUDIT COMMITTEE

On 31 July 2001, the Board approved the establishment of the audit committee (the "**Audit Committee**") to review and supervise the financial reporting procedures and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2019 with the Directors.

§12 REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in this preliminary announcement of the Group's annual results for the year ended 31 December 2019 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

By Order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
26 March 2020

As at the date of this announcement, the Board comprises three executive Directors: Mr. Liu Yujun, Ms. Wang Jing and Mr. Niu Bo; three non-executive Directors: Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong; and three independent non-executive Directors: Mr. Di Xiaofeng, Mr. Guo Yongqing and Mr. Wang Xiangfei.