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Datang Environment Industry Group Co., Ltd.*

大唐環境產業集團股份有限公司

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

(Stock Code: 1272)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

FINANCIAL AND OPERATION HIGHLIGHTS

- For the year ended 31 December 2019, the revenue of the Group amounted to RMB6,414.6 million, representing a decrease of 25.3% as compared with last year.
- For the year ended 31 December 2019, the gross profit of the Group amounted to RMB1,080.0 million, representing a decrease of 20.0% as compared with last year; the gross profit margin of the Group was 16.8%, representing an increase of 1.1 percentage points as compared with last year, respectively.
- For the year ended 31 December 2019, the total comprehensive income attributable to owners of the parent amounted to RMB219.7 million, representing a decrease of 71.4% as compared with last year.
- For the year ended 31 December 2019, the Group continued to be the largest desulfurization and denitrification concession operator and the largest manufacturer of denitrification catalysts nationwide.
- The Board proposed to distribute the final dividend of RMB0.0338 per share (before tax) for the year ended 31 December 2019.

The board (the “**Board**”) of directors (the “**Directors**”) of Datang Environment Industry Group Co., Ltd. (the “**Company**”) hereby announces the financial results of the Company and its subsidiaries (the “**Group**” or “**we**” or “**us**”) for the year ended 31 December 2019, together with the comparable figures of 2018. The financial data of the Group for the year ended 31 December 2019 set out by the Company in this results announcement is based on the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and the disclosure requirements under the Hong Kong Companies Ordinance.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

		2019	2018
	Notes	RMB'000	RMB'000
Revenue	4	6,414,621	8,588,070
Cost of sales		<u>(5,334,656)</u>	<u>(7,238,113)</u>
Gross profit		1,079,965	1,349,957
Selling and distribution expenses		(36,898)	(42,237)
Administrative expenses		(549,695)	(279,419)
Other income and gains	4	132,290	169,414
Finance costs	5	(252,841)	(200,518)
Impairment losses on financial and contract assets		<u>(69,678)</u>	<u>(59,775)</u>
Profit before tax		303,143	937,422
Income tax expense	6	<u>(57,766)</u>	<u>(154,199)</u>
PROFIT FOR THE YEAR		<u><u>245,377</u></u>	<u><u>783,223</u></u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>553</u>	<u>(1,566)</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		<u>553</u>	<u>(1,566)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		487	2,734
Income tax effect		(73)	(410)
		414	2,324
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		414	2,324
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		967	758
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		246,344	783,981
Profit attributable to:			
Owners of the parent		218,942	766,736
Non-controlling interests		26,435	16,487
		245,377	783,223
Total comprehensive income attributable to:			
Owners of the parent		219,666	768,183
Non-controlling interests		26,678	15,798
		246,344	783,981
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (<i>RMB</i>)	8	0.07	0.26

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		7,617,283	7,675,153
Intangible assets		238,333	208,615
Right-of-use assets		356,043	–
Prepaid land lease payments		–	19,066
Equity investments designated at fair value through other comprehensive income		7,658	7,171
Deferred tax assets		70,086	45,395
Other non-current assets		422,254	331,608
Total non-current assets		8,711,657	8,287,008
CURRENT ASSETS			
Inventories		169,920	153,520
Contract assets		883,839	982,436
Trade and bills receivables	9	8,541,243	8,398,505
Prepayments, other receivables and other assets		1,241,554	888,860
Restricted cash		42,179	36,928
Time deposit		–	35,000
Cash and cash equivalents		1,580,367	1,677,724
Total current assets		12,459,102	12,172,973

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	10	4,989,275	6,481,262
Other payables and accruals		1,852,722	1,663,401
Interest-bearing bank borrowings and other loans	11	3,723,311	2,023,848
Income tax payable		9,471	27,110
Total current liabilities		10,574,779	10,195,621
NET CURRENT ASSETS		1,884,323	1,977,352
TOTAL ASSETS LESS CURRENT LIABILITIES		10,595,980	10,264,360
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings and other loans	11	3,322,567	2,906,048
Other non-current liabilities		39,532	38,990
Total non-current liabilities		3,362,099	2,945,038
Net assets		7,233,881	7,319,322
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	2,967,542	2,967,542
Reserves		4,047,101	4,153,865
		7,014,643	7,121,407
Non-controlling interests		219,238	197,915
Total equity		7,233,881	7,319,322

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent								Non-controlling interests	Total equity
	Share capital	Capital reserve*	Statutory surplus reserve*	Fair value reserve of financial assets at fair value through other comprehensive income*	Exchange fluctuation reserve*	Retained profits*	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	2,967,542	1,315,483	350,104	1,846	(317)	2,486,749	7,121,407	197,915		7,319,322
Profit for the year	-	-	-	-	-	218,942	218,942	26,435		245,377
Other comprehensive income for the year:										
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	414	-	-	414	-		414
Exchange difference on translation of foreign operations	-	-	-	-	310	-	310	243		553
Total comprehensive income for the year	-	-	-	414	310	218,942	219,666	26,678		246,344
Appropriation to statutory surplus reserve	-	-	18,208	-	-	(18,208)	-	-		-
Final 2018 dividend declared (Note 7)	-	-	-	-	-	(326,430)	(326,430)	-		(326,430)
Dividends paid by a subsidiary to its non-controlling shareholder	-	-	-	-	-	-	-	(5,355)		(5,355)
At 31 December 2019	<u>2,967,542</u>	<u>1,315,483</u>	<u>368,312</u>	<u>2,260</u>	<u>(7)</u>	<u>2,361,053</u>	<u>7,014,643</u>	<u>219,238</u>		<u>7,233,881</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
Year ended 31 December 2019

	Attributable to owners of the parent								
	Share capital	Capital reserve*	Statutory surplus reserve*	Fair value reserve of financial assets at fair value through other comprehensive income*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	2,967,542	1,315,483	278,050	(478)	560	2,177,847	6,739,004	184,318	6,923,322
Profit for the year	-	-	-	-	-	766,736	766,736	16,487	783,223
Other comprehensive income for the year:									
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	2,324	-	-	2,324	-	2,324
Exchange difference on translation of foreign operation	-	-	-	-	(877)	-	(877)	(689)	(1,566)
Total comprehensive income for the year	-	-	-	2,324	(877)	766,736	768,183	15,798	783,981
Appropriation to statutory surplus reserve	-	-	72,054	-	-	(72,054)	-	-	-
Final 2017 dividend declared (Note 7)	-	-	-	-	-	(385,780)	(385,780)	-	(385,780)
Dividends paid by a subsidiary to its non-controlling shareholders	-	-	-	-	-	-	-	(2,201)	(2,201)
At 31 December 2018	<u>2,967,542</u>	<u>1,315,483</u>	<u>350,104</u>	<u>1,846</u>	<u>(317)</u>	<u>2,486,749</u>	<u>7,121,407</u>	<u>197,915</u>	<u>7,319,322</u>

* These reserves accounts comprise the consolidated reserves of RMB4,047,101,000 (31 December 2018: RMB4,153,865,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		303,143	937,422
Adjustments for:			
Finance costs		259,141	200,518
Interest income		(11,073)	(9,739)
Depreciation of property, plant and equipment		490,646	485,703
Amortisation of intangible assets		13,873	12,455
Depreciation of right-of-use assets/recognition of prepaid land lease payments		24,522	465
Amortisation of other non-current assets		248,064	74,272
Loss on disposal of items of property, plant and equipment	4	177	–
Amortisation of government grants		(1,872)	(5,461)
Impairment loss on trade receivables	9	69,959	57,910
Impairment loss on other receivables		(1,380)	(133)
Impairment loss on property, plant and equipment		113,263	–
Impairment loss on contract assets		1,099	1,998
Increase in inventories		(16,400)	(29,593)
Decrease/(increase) in contract assets		97,498	(623,317)
Increase in trade and bills receivables		(207,855)	(1,244,610)
(Increase)/Decrease in prepayments and other assets		(314,825)	76,058
(Decrease)/Increase in trade and bills payables		(1,474,902)	885,774
Increase/(Decrease) in other payables and accruals		328,514	(130,123)
Increase in restricted cash		(5,251)	(19,085)
Cash generated from operations		(83,659)	670,514
Income tax paid		(99,566)	(182,732)
Net cash flows (used in)/from operating activities		(183,225)	487,782

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)*Year ended 31 December 2019*

	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	11,073	9,739
Purchase of items of property, plant and equipment and intangible assets	(1,095,971)	(827,814)
Proceeds from disposal of items of property, plant and equipment	10	–
Decrease/(increase) in a time deposit	35,000	(35,000)
Receipt of government grants for property, plant and equipment	3,955	13,486
Net cash flows used in investing activities	(1,045,933)	(839,589)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings and other loans	5,697,711	3,984,550
Repayments of bank borrowings and other loans	(4,530,491)	(3,306,536)
Proceeds from issue of bonds	600,000	–
Principal portion of lease payments	(20,183)	–
Share issue expenses	(641)	(11,088)
Dividends paid to shareholders	(329,476)	(83,650)
Dividends paid to non-controlling interests	(5,355)	(2,201)
Interest paid	(278,123)	(210,780)
Net cash flows from financing activities	1,133,442	370,295
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(95,716)	18,488
Cash and cash equivalents at beginning of year	1,677,724	1,666,080
Effect of foreign exchange rate changes, net	(1,641)	(6,844)
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,580,367	1,677,724

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

Datang Environment Industry Group Co., Ltd. (大唐環境產業集團股份有限公司) (the “**Company**”) was established on 25 July 2011 in the People’s Republic of China (the “**PRC**”) with limited liability. On 26 June 2015, the Company was converted into a joint stock company with limited liability from a limited liability company. The shares of the Company have been listed on the Main board of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) since 15 November 2016. The address of its registered office is No.120 Zizhuyuan Road, Haidian District, Beijing, the PRC.

The Company and its subsidiaries (together the “**Group**”) are involved in the following principal activities: environmental protection facilities concession operation, the manufacture and sale of denitrification catalysts, environmental protection facilities engineering, water treatment business, energy conservation business and renewable energy engineering business.

In the opinion of the directors of the Company (“**Directors**”), the immediate holding company and ultimate holding company of the Company is China Datang Corporation Ltd. (“**China Datang**”), a company established and domiciled in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name #	Place of incorporation/ registration	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company (%)		Principal activities
			Direct	Indirect	
China Datang Technologies & Engineering Co., Ltd. (中國大唐集團科技工程有限公司)	Beijing, the PRC	RMB180,000,000	56.00	–	Development of environmental protection technology and provision of engineering services in the PRC
Datang Nanjing Environmental Protection Technology Co., Ltd. (大唐南京環保科技有限責任公司)	Nanjing, the PRC	RMB124,630,000	92.11	–	Development and sale of catalysts; and provision of testing services in the PRC
Beijing Datang Hengtong Science & Technology Co., Ltd. (北京大唐恒通科技有限公司)	Beijing, the PRC	RMB42,000,000	100.00	–	Development of environmental protection technology and provision of engineering services in the PRC
Jiangsu Nanjing Thermal Electricity Engineering Design Institute Co., Ltd. (江蘇南京熱電工程設計院有限責任公司)	Nanjing, the PRC	RMB50,000,000	100.00	–	Provision of engineering design services in the PRC
Datang Technologies & Engineering India Private Limited (大唐科技工程印度有限公司)	Mumbai, India	Rupees 1,000,000	–	100.00	Provision of engineering services in India
Datang Beijing Energy Saving & Technology Co., Ltd. (大唐(北京)節能技術有限公司)	Beijing, the PRC	RMB10,000,000	65.00	–	Project management, engineering and technology services in the PRC

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Company name #	Place of incorporation/ registration	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company (%)		Principal activities
			Direct	Indirect	
Datang Beijing Water Engineering & Technology Co., Ltd. (大唐(北京)水務工程技術有限公司)	Beijing, the PRC	RMB187,976,000	100.00	–	Technology services and water engineering services in the PRC
Zhejiang Datang Tiandi Environmental Technology Co., Ltd. (浙江大唐天地環保科技有限公司)	Ningbo, the PRC	RMB60,000,000	65.00	–	Development of pollution improvement environmental protection technology and provision of technology services in the PRC
Datang (Beijing) Energy Management Co., Ltd. (大唐(北京)能源管理有限公司)	Beijing, the PRC	RMB150,000,000	100.00	–	Provision of engineering service; and provision of energy saving technology promotion services in the PRC

The names of these companies referred to in this report represent management's best effort at translating the Chinese names of the companies, as no English names have been registered.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) (which include all International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and Interpretations) issued by the International Accounting Standards Board (the “**IASB**”), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis, except for certain trade and bills receivables and equity investments which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary; (ii) the carrying amount of any non-controlling interests; and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received; (ii) the fair value of any investment retained; and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to IFRSs 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015–2017 Cycle* – Amendments to IFRS 3, IFRS 11 and IAS 12, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings and other infrastructure, machinery, transportation vehicles and office equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less (“**short-term leases**”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank borrowings and other loans. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under prepaid land lease payments of RMB19,066,000.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease;
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019;
- Relying on the entity's assessment of whether leases were onerous by applying IAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review; and
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease) RMB '000
Assets	
Increase in right-of-use assets	389,194
Decrease in prepaid land lease payments	<u>(19,066)</u>
Increase in total assets	<u>370,128</u>
Liabilities	
Increase in interest-bearing bank borrowings and other loans	371,814
Decrease in trade and bills payables	<u>(1,686)</u>
Increase in total liabilities	<u>370,128</u>
Decrease in retained earnings	<u>—</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

Financial impact at 1 January 2019 (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	<i>RMB'000</i>
Operating lease commitments as at 31 December 2018	51,123
Add:	
Payments for optional extension periods not recognised as at 31 December 2018	464,700
Other adjustments	<u>1,686</u>
Lease commitments as at 1 January 2019 under IFRS 16	517,509
Weighted average incremental borrowing rate as at 1 January 2019	<u>4.41%</u>
Lease liabilities as at 1 January 2019	<u><u>371,814</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the financial position or performance of the Group.

(c) Amendments under *Annual Improvements to IFRSs 2015–2017 Cycle*

IAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i> ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ¹
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non- current</i> ³

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below:

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IFRS 9, IFRS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 clarify the criteria for determining whether to classify a liability as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and clarify the situations that are considered settlement of a liability. The Group expects to adopt the amendments retrospectively from 1 January 2022 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to their nature. Each of the Group's operating segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

(a) Environmental protection and energy conservation solutions

The environmental protection and energy conservation solutions business mainly includes flue gas desulfurization and denitrification facilities concession operation for coal-fired power plants; the manufacture and sale of denitrification catalysts; engineering for coal-fired power plants, including the engineering of denitrification, desulfurization, dust removal, ash and slag handling and other environmental protection facilities and industrial site dust management related engineering; water treatment; and energy conservation including energy conservation facilities engineering and energy management contracting ("EMC").

(b) Renewable energy engineering

The renewable energy engineering business mainly includes the engineering general contracting for newly-built wind power plants, biomass power plants and photovoltaic power plants.

(c) Thermal power engineering

The thermal power engineering business mainly includes the engineering procurement construction ("EPC") services for thermal power plants.

(d) Other businesses

Other businesses currently mainly include various businesses such as fiberglass chimney anti-corrosion, air cooling system engineering general contracting and coal yard monitoring system upgrades.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that unallocated income and gains, non-lease-related finance costs as well as corporate and other unallocated expenses are excluded from such measurement.

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment assets exclude unallocated intangible assets, unallocated deferred tax assets, unallocated prepayments, other receivables and other assets, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings and other loans (other than lease liabilities) for daily operation purposes, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2019	Environmental protection and energy conservation solutions <i>RMB'000</i>	Renewable energy engineering <i>RMB'000</i>	Thermal power engineering <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue (note 4)					
Sales to external customers	5,385,382	763,880	113,597	151,762	6,414,621
Intersegment sales	155	–	–	19,147	19,302
	<u>5,385,537</u>	<u>763,880</u>	<u>113,597</u>	<u>170,909</u>	<u>6,433,923</u>
Reconciliation:					
Elimination of intersegment sales					<u>(19,302)</u>
Revenue					<u><u>6,414,621</u></u>
Segment results	654,139	3,599	1,159	(59,884)	599,013
Reconciliation:					
Other income and gains					132,290
Corporate and other unallocated expenses					(189,809)
Finance costs (other than interest on lease liabilities)					<u>(238,351)</u>
Profit before tax					<u><u>303,143</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2019	Environmental protection and energy conservation solutions <i>RMB'000</i>	Renewable energy engineering <i>RMB'000</i>	Thermal power engineering <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	17,639,061	1,802,470	131,392	275,483	19,848,406
Reconciliation:					
Elimination of intersegment receivables					(1,153,989)
Corporate and other unallocated assets					2,476,342
Total assets					<u>21,170,759</u>
Segment liabilities	10,792,731	1,740,899	197,187	163,235	12,894,052
Reconciliation:					
Elimination of intersegment payables					(1,153,989)
Corporate and other unallocated liabilities					2,196,815
Total liabilities					<u>13,936,878</u>
Other segment information					
Impairment losses recognised in profit or loss, net	163,045	21,720	–	(1,824)	182,941
Impairment losses reversed in profit or loss	(3,844)	–	–	(3,592)	(7,436)
Depreciation and amortisation	758,897	69	57	18,082	777,105
Capital expenditure*	<u>882,382</u>	<u>–</u>	<u>–</u>	<u>1,638</u>	<u>884,020</u>

* Capital expenditure consists of additions to property, plant and equipment, and intangible assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018	Environmental protection and energy conservation solutions <i>RMB'000</i>	Renewable energy engineering <i>RMB'000</i>	Thermal power engineering <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue (note 4)					
Sales to external customers	6,479,870	1,284,967	494,237	328,996	8,588,070
Intersegment sales	14,895	–	–	63,994	78,889
	6,494,765	1,284,967	494,237	392,990	8,666,959
Reconciliation:					
Elimination of intersegment sales					(78,889)
Revenue					<u>8,588,070</u>
Segment results	1,175,956	17,756	27,590	(109,358)	1,111,944
Reconciliation:					
Other income and gains					169,414
Corporate and other unallocated expenses					(143,418)
Finance costs					<u>(200,518)</u>
Profit before tax					<u>937,422</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended	Environmental protection and energy conservation solutions <i>RMB'000</i>	Renewable energy engineering <i>RMB'000</i>	Thermal power engineering <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2018					
Segment assets	16,655,926	1,905,751	154,122	652,381	19,368,180
Reconciliation:					
Elimination of intersegment receivables					(882,220)
Corporate and other unallocated assets					1,974,021
Total assets					<u>20,459,981</u>
Segment liabilities	8,118,872	1,931,100	206,970	579,394	10,836,336
Reconciliation:					
Elimination of intersegment payables					(882,220)
Corporate and other unallocated liabilities					3,186,543
Total liabilities					<u>13,140,659</u>
Other segment information					
Impairment losses recognised in profit or loss	55,492	8,123	–	1,379	64,994
Impairment losses reversed in profit or loss	(4,847)	–	–	(372)	(5,219)
Depreciation and amortisation	554,585	69	57	18,184	572,895
Capital expenditure*	<u>821,465</u>	<u>–</u>	<u>–</u>	<u>116,342</u>	<u>937,807</u>

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and intangible assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

The majority of the non-current assets are located in the PRC, and the majority of revenue is generated from Mainland China. Therefore, no geographical information is presented.

Information about major customers

Revenue of approximately RMB5,917 million (2018: RMB6,709 million) was derived from the sale of goods and the rendering of services to China Datang and its subsidiaries (excluding the Group) (“**China Datang Group**”).

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Revenue from contracts with customers	6,413,519	8,585,395
Revenue from other sources		
Gross rental income from operating leases		
Other lease payments, including fixed payments	<u>1,102</u>	<u>2,675</u>
	<u>6,141,621</u>	<u>8,588,070</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)*31 December 2019***4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)****Revenue from contracts with customers****(i) Disaggregated revenue information****For the year ended 31 December 2019**

Segments	Environmental protection and energy conservation solutions <i>RMB'000</i>	Renewable energy engineering <i>RMB'000</i>	Thermal power engineering <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services					
Sale of industrial products	331,465	–	–	20,889	352,354
Construction services	1,779,590	763,880	113,597	129,771	2,786,838
Desulfurization and denitrification services	3,274,327	–	–	–	3,274,327
Total revenue from contracts with customers	<u>5,385,382</u>	<u>763,880</u>	<u>113,597</u>	<u>150,660</u>	<u>6,413,519</u>
Timing of revenue recognition					
Goods transferred at a point in time	331,465	–	–	20,889	352,354
Services transferred over time	5,053,917	763,880	113,597	129,771	6,061,165
Total revenue from contracts with customers	<u>5,385,382</u>	<u>763,880</u>	<u>113,597</u>	<u>150,660</u>	<u>6,413,519</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2018

Segments	Environmental protection and energy conservation solutions <i>RMB'000</i>	Renewable energy engineering <i>RMB'000</i>	Thermal power engineering <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services					
Sale of industrial products	333,899	–	–	20,856	354,755
Construction services	2,938,323	1,284,967	494,237	305,465	5,022,992
Desulfurization and denitrification services	3,207,648	–	–	–	3,207,648
Total revenue from contracts with customers	<u>6,479,870</u>	<u>1,284,967</u>	<u>494,237</u>	<u>326,321</u>	<u>8,585,395</u>
Timing of revenue recognition					
Goods transferred at a point in time	333,899	–	–	20,856	354,755
Services transferred over time	6,145,971	1,284,967	494,237	305,465	8,230,640
Total revenue from contracts with customers	<u>6,479,870</u>	<u>1,284,967</u>	<u>494,237</u>	<u>326,321</u>	<u>8,585,395</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)*31 December 2019***4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)****Revenue from contracts with customers (Continued)****(i) Disaggregated revenue information (Continued)**

Set out below is the reconciliation of the revenue from contracts to customers with the amounts disclosed in the segment information:

For the year ended 31 December 2019

Segments	Environmental protection and energy conservation solutions <i>RMB'000</i>	Renewable energy engineering <i>RMB'000</i>	Thermal power engineering <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from contracts with customers					
External customers	5,385,382	763,880	113,597	150,660	6,413,519
Intersegment sales	<u>155</u>	<u>–</u>	<u>–</u>	<u>19,147</u>	<u>19,302</u>
	5,385,537	763,880	113,597	169,807	6,432,821
Intersegment adjustments and eliminations	<u>(155)</u>	<u>–</u>	<u>–</u>	<u>(19,147)</u>	<u>(19,302)</u>
Total revenue from contracts with customers	<u><u>5,385,382</u></u>	<u><u>763,880</u></u>	<u><u>113,597</u></u>	<u><u>150,660</u></u>	<u><u>6,413,519</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)*31 December 2019***4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)****Revenue from contracts with customers (Continued)****(i) Disaggregated revenue information (Continued)**

For the year ended 31 December 2018

Segments	Environmental protection and energy conservation solutions <i>RMB'000</i>	Renewable energy engineering <i>RMB'000</i>	Thermal power engineering <i>RMB'000</i>	Other businesses <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from contracts with customers					
External customers	6,479,870	1,284,967	494,237	326,321	8,585,395
Intersegment sales	<u>14,895</u>	<u>–</u>	<u>–</u>	<u>63,994</u>	<u>78,889</u>
	6,494,765	1,284,967	494,237	390,315	8,664,284
Intersegment adjustments and eliminations	<u>(14,895)</u>	<u>–</u>	<u>–</u>	<u>(63,994)</u>	<u>(78,889)</u>
Total revenue from contracts with customers	<u><u>6,479,870</u></u>	<u><u>1,284,967</u></u>	<u><u>494,237</u></u>	<u><u>326,321</u></u>	<u><u>8,585,395</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(i) *Disaggregated revenue information (Continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of industrial products	1,616	3,267
Construction services	207,250	367,081
	<u>208,866</u>	<u>370,348</u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, where payment in advance is normally required.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) *Performance obligations (Continued)*

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within one year from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 2018 are as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Amounts expected to be recognised as revenue		
Within one year	1,375,131	3,547,379
After one year	<u>–</u>	<u>913,967</u>
	<u>1,375,131</u>	<u>4,461,346</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Construction services (Continued)

The amounts of transactions prices allocated to the remaining performance obligations which are expected to be recognised after one year related to construction services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year.

	2019 RMB'000	2018 RMB'000
Other income		
Bank interest income	17,667	9,739
Government grants	112,151	144,244
	<u>129,818</u>	<u>153,983</u>
Gains		
Loss on disposal of items of property, plant and equipment	(177)	–
Exchange gains (Note a)	2,649	15,431
	<u>2,472</u>	<u>15,431</u>
	<u>132,290</u>	<u>169,414</u>

Note a: Included an exchange loss of RMB2 million arising from the conversion of the Hong Kong dollars into RMB during the year ended 31 December 2019.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	14,490	–
Interest expenses on bank borrowings and other loans	264,426	214,785
Less: interest capitalised	(26,075)	(14,267)
	<u>252,841</u>	<u>200,518</u>

The Group's capitalisation rate for the year ended 31 December 2019 was 4.90% to 7.50% (for the year ended 31 December 2018: 4.41% to 7.50%).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

6. INCOME TAX EXPENSE

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and the PRC Enterprise Income Tax Law Implementation Regulations (中華人民共和國企業所得稅法實施條例), the Company and its certain subsidiaries have been recognised as high-technology enterprises and are subject to a preferential corporate income tax rate of 15%.

Certain branches of the Company are engaged in qualified environmental protection and resource or water conservation projects and income derived from such activities is tax-exempted for the first 3 years followed by a 50% exemption from the fourth to the sixth years starting from the first year in which the project generates operating profit.

Under the above tax law and regulations, except for preferential treatments available to certain branches and subsidiaries of the Company as mentioned above, subsidiaries within the Group are subject to corporate income tax at the statutory rate of 25%.

The subsidiary of the Company in India is subject to corporate income tax at a rate of 27.82% during the period from 1 January 2019 to 31 December 2019 (27.55% during the period from 1 January 2018 to 31 March 2018, and 27.82% during the remaining period in 2018).

The components of income tax expense for the year are as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current – PRC	82,530	161,597
Current – other country	–	1,572
Deferred	(24,764)	(8,970)
	<u>57,766</u>	<u>154,199</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)*31 December 2019***6. INCOME TAX EXPENSE (CONTINUED)**

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rate applicable in the PRC to the income tax expense at the Group's effective income tax rate for the year is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Profit before tax	303,143	937,422
Income tax at the statutory income tax rate of 25% (2018: 25%)	75,786	234,356
Effect of a different tax rate applicable in another country	(197)	(285)
Effect of the preferential income tax rate	(31,480)	(91,880)
Expenses not deductible for tax	4,281	2,432
Additional deduction of research and development expenses	(1,402)	(837)
Adjustments in respect of current tax of previous periods	1,892	7,827
Effect of utilisation of unrecognised tax losses in prior years	–	(228)
Deductible temporary differences and tax losses not recognised	8,886	2,814
	57,766	154,199
Income tax charge for the year	57,766	154,199
The Group's effective rate	19.1%	16.4%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

7. DIVIDENDS

The dividends during the years ended 31 December 2019 and 2018 are set out below:

	2019 RMB'000	2018 RMB'000
Dividends declared to owners of the parent	<u>326,430</u>	<u>385,780</u>

- (i) During 2019, the final dividend of RMB326,430,000 at RMB0.11 per ordinary share (before tax) in respect of the year of 2018, based on the issued shares of the Company of 2,967,542,000 shares, was declared to owners of the parent.

On 28 March 2020, the Board of Directors proposed to distribute the final dividend for the year ended 31 December 2019 of RMB0.0338 per share (before tax) of the Company in cash to the shareholders. The proposal is subject to the approval of the shareholders at the 2019 annual general meeting of the Company.

- (ii) Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation rules, the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes final dividends to non-resident enterprise holders of H shares (including any H shares registered in the name of HKSCC Nominees Limited).

Pursuant to the applicable provisions of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation rules as well as the Tax Notice, the Company will withhold and pay individual income tax at the rate ranging from 10% to 20% on behalf of individual holders of H shares.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

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

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the years ended 31 December 2019 and 2018.

The Company did not have any potential dilutive shares in issue during the years ended 31 December 2019 and 2018. Accordingly, the diluted earnings per share amounts are the same as the basic earnings per share amounts.

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

Earnings	2019	2018
Profit attributable to ordinary equity holders of the parent, used in the basic/diluted earnings per share calculations (<i>RMB</i>)	<u>218,942,041</u>	<u>766,736,934</u>
	Number of shares	
Shares	2019	2018
Weighted average number of ordinary shares in issue during the year, used in the basic/diluted earnings per share calculations (<i>share</i>)	<u>2,967,542,000</u>	<u>2,967,542,000</u>
Earnings per share	2019	2018
Basic/diluted earnings per share (<i>RMB</i>)	<u>0.07</u>	<u>0.26</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)*31 December 2019***9. TRADE AND BILLS RECEIVABLES**

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	8,033,142	8,070,157
Less: provision for impairment	(234,844)	(164,885)
	7,798,298	7,905,272
Bills receivable	742,945	493,233
	8,541,243	8,398,505

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally within one year. Each customer has a maximum credit limit. The Group seeks to maintain strict control over the outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

(a) Ageing analysis

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 1 year	4,404,897	5,148,887
Between 1 and 2 years	1,751,826	940,826
Between 2 and 3 years	750,711	1,225,560
Over 3 years	1,868,653	1,248,117
	8,776,087	8,563,390
Less: provision for impairment	(234,844)	(164,885)
	8,541,243	8,398,505

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

9. TRADE AND BILLS RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of the year	164,885	106,975
Impairment losses, net	69,959	57,910
At end of the year	234,844	164,885

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating). The calculation reflects the probability-weighted outcome, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables.

As at 31 December 2019, the Group has assessed that the expected loss rate for trade receivables from related parties was nil since related parties have a strong capacity to meet their contractual cash flow obligations in the near term. Thus, no loss allowance provision for trade receivables from related parties was recognised at 31 December 2019.

To measure the expected credit losses of trade receivables from third parties, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss model also incorporates forward-looking information.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)*31 December 2019***9. TRADE AND BILLS RECEIVABLES (CONTINUED)****(b) Impairment of trade receivables (Continued)**

Set out below is the information about the credit risk exposure on the Group's trade receivables from third parties using a provision matrix:

As at 31 December 2019

	Current	Past due				Total
		Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Over 3 years	
Expected credit loss rate	0.98%	1.62%	7.75%	19.91%	47.04%	15.69%
Gross carrying amount (RMB'000)	219,380	113,845	652,034	221,829	289,456	1,496,544
Expected credit losses (RMB'000)	2,153	1,841	50,509	44,167	136,174	234,844

As at 31 December 2018

	Current	Past due				Total
		Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Over 3 years	
Expected credit loss rate	0.95%	1.32%	11.91%	22.38%	40.52%	7.65%
Gross carrying amount (RMB'000)	1,266,572	264,335	276,241	133,555	213,759	2,154,462
Expected credit losses (RMB'000)	12,002	3,484	32,889	29,886	86,624	164,885

As at 31 December 2019, there were trade and bills receivables amounting to RMB126,272,000 pledged to secure bank borrowings and other loans granted to the Group (31 December 2018: RMB123,630,000).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

10. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing and are normally settled within one year.

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Bills payable	194,432	227,910
Trade payables	<u>4,794,843</u>	<u>6,253,352</u>
	<u>4,989,275</u>	<u>6,481,262</u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 1 year	2,589,256	4,273,450
1 year to 2 years	870,173	705,233
2 years to 3 years	452,260	698,311
More than 3 years	<u>1,077,586</u>	<u>804,268</u>
	<u>4,989,275</u>	<u>6,481,262</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

11. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS

	Effective interest rate (%)	Maturity	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current					
Bank borrowings					
– unsecured	3.32%-4.80%	2020	2,288,499	1,061,087	1,061,087
Other loans					
– unsecured	3.92%-5.00%	2020	330,000	259,136	259,136
Other loans					
– secured (<i>Note a</i>)	7.50%	2020	70,000	100,000	100,000
			2,688,499	1,420,223	1,420,223
Current portion of long term bank borrowings and other loans					
Bank borrowings					
– unsecured	4.41%-6.62%	2019–2020	657,671	579,962	579,962
Bank borrowings					
– secured (<i>Note a</i>)	5.23%	2019–2020	26,170	–	–
Bank borrowings					
– guaranteed	4.28%-5.15%	2019–2020	23,253	14,963	14,963
Other loans					
– unsecured	4.75%-5.15%	2019–2020	30,500	8,700	8,700
Other loans					
– secured (<i>Note b</i>)	5.70%	2019–2020	265,000	–	–
Lease liabilities	4.41%	2019–2020	32,218	34,833	–
			1,034,812	638,458	603,625
			3,723,311	2,058,681	2,023,848

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

11. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS (CONTINUED)

	Effective interest rate (%)	Maturity	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Non-current					
Long term bank borrowings and other loans:					
Bank borrowings					
– unsecured	4.41%-6.62%	2020–2028	2,030,491	2,364,598	2,364,598
Bank borrowings					
– secured (<i>Note a</i>)	5.23%	2024	73,830	–	–
Bank borrowings					
– guaranteed	4.28%-5.15%	2021–2026	60,367	83,620	83,620
Other loans					
– unsecured	4.75%-5.15%	2020–2023	167,885	457,830	457,830
Other loans					
– secured (<i>Note b</i>)	5.70%	2020–2021	79,750	–	–
Other loans					
– bonds (<i>Note c</i>)	3.65%	2024	599,460	–	–
Lease liabilities	4.41%	2020–2038	310,784	336,981	–
			3,322,567	3,243,029	2,906,048
			7,045,878	5,301,710	4,929,896
Interest-bearing bank borrowings and other loans denominated in:					
– RMB			7,045,878	5,301,710	4,929,896

Note a:

The above secured bank borrowings and other loans are secured by trade and bills receivables with a net carrying value of RMB126,272,000 (31 December 2018: RMB123,630,000) (note 9).

Note b:

The above secured other loans are secured by buildings and other infrastructure with a net carrying value of RMB152,531,000 (31 December 2018: Nil).

Note c:

The Company issued a green corporate bond amounting to RMB600,000,000 with a unit par value of RMB100 each for cash and a term of 5 years on 16 December 2019. The annual interest rate for the green corporate bond was 3.65%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)*31 December 2019***11. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS
(CONTINUED)**

The maturity profile of the interest-bearing bank borrowings and other loans as at the end of the reporting period is as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Analysed into:		
Bank borrowings repayable:		
Within one year	2,995,593	1,656,012
In the second year	640,121	673,463
In the third to fifth years, inclusive	1,216,339	1,306,766
Beyond five years	308,228	467,989
	<u>5,160,281</u>	<u>4,104,230</u>
Other loans repayable:		
Within one year	727,718	367,836
In the second year	263,067	309,250
In the third to fifth years, inclusive	697,103	145,480
Beyond five years	197,709	3,100
	<u>1,885,597</u>	<u>825,666</u>
Total	<u>7,045,878</u>	<u>4,929,896</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

12. SHARE CAPITAL

Shares

	2019 RMB'000	2018 RMB'000
Issued and fully paid: 2,967,542,000 (2018: 2,967,542,000) ordinary shares	2,967,542	2,967,542

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue (thousands)	Share capital RMB'000
At 1 January 2018	2,967,542	2,967,542
Capital contribution	—	—
At 31 December 2018 and 1 January 2019	2,967,542	2,967,542
At 31 December 2019	2,967,542	2,967,542

MANAGEMENT DISCUSSION AND ANALYSIS

As an environmental protection and energy conservation solution provider for coal-fired power generation enterprises, the principal business of the Group includes environmental protection facility concession operation, denitrification catalysts, environmental protection facilities engineering, water treatment business, energy conservation business and renewable energy engineering business. Customers of the Group spread over 30 provinces, autonomous regions and municipal cities in the PRC as well as eleven countries.

I. INDUSTRY OVERVIEW

To review the overall performance of the environmental protection industry in 2019, the following highlights and industry trends are worth mentioning:

1. Consolidate the achievements of Blue Sky Protection Campaign and promote environmental protection treatment in key areas

In March 2019, the 2019 Government Work Report brought forward a set of requirements for key tasks of environmental protection. In respect of pollution treatment of atmosphere, the government shall consolidate the achievements of Blue Sky Protection Campaign, the emission of sulphur dioxide and nitrogen oxide shall decrease by 3%, and PM2.5 concentrations continue to fall in key regions. The government shall accelerate the ultra-low emission upgrade of thermal power and steel industry, implement sewage discharge standard transformation for severely polluted industry, continue to launch air pollution control initiatives in Beijing-Tianjin-Hebei region and its surrounding area, Yangtze River Delta and Fen-Wei Plain, and strengthen the treatment of three major sources of pollution, including industry, coal and motor vehicles. In respect of water pollution treatment, the government will continue making efforts to prevent and control water and soil pollution, bring down the chemical oxygen demand and ammonia nitrogen emissions by 2%, speed up to clean up black and malodorous water bodies, and promote comprehensive treatment in key river basins and nearshore sea areas. In respect of solid waste treatment, the government shall strengthen the disposal of solid waste and urban garbage sorting. As main bodies of pollution prevention and control, enterprises shall fulfill environmental protection obligations in compliance with the laws.

2. *Promote the implementation of ultra-low emission in the steel industry and speed up the ultra-low emission transformation*

In April 2019, Ministry of Ecology and Environment, National Development and Reform Commission (“**NDRC**”), Ministry of Industry and Information Technology, Ministry of Finance and Ministry of Transport released the Opinions on Promoting the Implementation of Ultra-low Emission in the Steel Industry (《關於推進實施鋼鐵行業超低排放的意見》) (the “**Opinion**”). The Opinion proposed that the average emission standard per hour on steel sintering machine head, particulate matter of sintering and pelletizing, sulphur dioxide and nitrogen oxide shall not be higher than 10mg/m³, 35 mg/m³ and 50 mg/m³, respectively, which is far stricter than the American and European standards. The Opinion also specified that around 60% of steel production enterprises in key areas shall complete the renovation by the end of 2020, and over 80% of such enterprises shall complete the renovation by the end of 2025.

3. *Continue to deepen the reform of the formation mechanism of the feed-in tariff for coal-fired power generation and maintain the environmental protection tariff policies*

In October 2019, NDRC issued the Guiding Opinions on Deepening the Reform of the Feed-in Tariff Formation Mechanism for Coal-fired Power Generation (《關於深化燃煤發電上網電價形成機制改革的指導意見》) (the “**Guiding Opinions**”), which further stipulated environmental protection tariff policies definitively. Specifically, the price mechanism of “base price + up and down fluctuations” shall be applied to coal-fired power generation volume and the base price includes tariff for desulfurization, denitration and dust removal. Power network enterprises are still responsible for safeguarding power supply and continuing to implement the prevailing ultra-low emission tariff policies on the basis of implementing base price. The market has been fully opened up for the coal-fired power generation feed-in tariff, including tariff for desulfurization, denitrification, dust removal and ultra-low emission. The Guiding Opinions have provided policy-based guarantee for future development of the environmental protection facility concession operation business of the Company.

Based on the above, the environmental protection industry is currently in significant transition stage, and the most fundamental feature is that the environmental protection industry has moved into the stage of high-quality development from that of high-speed growth. In 2019, the PRC intensively formulated environmental protection policies, made further and greater efforts on environmental protection with the environmental protection policy measures expanding to legal and economic means from administrative means, and motivate thoroughly the third parties' enthusiasm and initiative in environmental protection. The government also published such marketization means as environmental protection tax and discharge permit progressively and further determined environmental protection tariff policies to expose the merits of the dividend policies in a consistent manner. Reviewing the development of environmental protection industry, we have established the overall water, soil, solid waste and air supervision structure, under which the environmental protection industry has entered the comprehensive policy ploughing era from the policy sowing era.

II. BUSINESS OVERVIEW

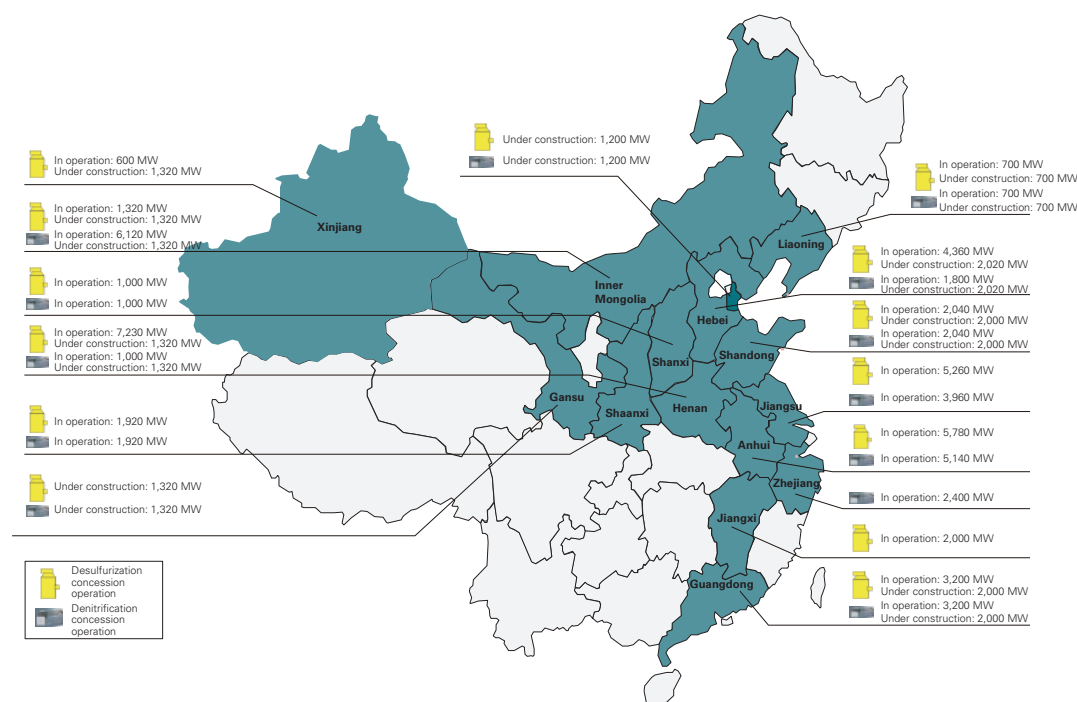
In 2019, the Group recorded steady development in each business segment and maintained the leading position in business segments of environmental protection facilities concession operation and denitrification catalysts. According to the statistics published by China Electricity Council, based on the cumulative installed capacity in operation as of the end of 2019, the Group remained as the PRC's largest flue gas desulfurization and denitrification concession operator. Based on the total output of denitrification catalysts in 2019, the Group remained as the PRC's largest producer of denitrification catalysts.

In 2019, the Group won four projects tendering in operating market of environmental protection facilities outside the system of China Datang Group in respect of its environmental protection facilities concession operation business, achieving significant market breakthroughs. While consolidating its leading position in the environmental protection field of thermal power segment, the Group actively developed environmental protection businesses in steel, cement, metallurgy and other non-electric fields to expand its business scope and influence.

1. Environmental Protection and Energy Conservation Business

1.1. Environmental protection facility concession operation business

The Group's environmental protection facility concession operation business covers desulfurization and denitrification concession operations and its major assets are located along east coast and in the areas with relatively robust economic development and strong demands for electricity. The following map shows the geographical layout and cumulative capacity of the Group's concession operation as at 31 December 2019:



As at 31 December 2019, the cumulative installed capacity in operation for desulfurization concession operations of the Group reached 37,930MW and the cumulative installed capacity for desulfurization concession operation projects under construction reached 10,680MW. The cumulative installed capacity in operation for denitrification concession operations reached 31,800MW and the cumulative installed capacity for denitrification concession operation projects under construction reached 9,360MW. The installed capacity of the Group's desulfurization entrusted operation projects reached 1,960MW.

The table below sets forth the status of the Group's desulfurization and denitrification concession operation projects in operation as at 31 December 2019:

Project location	Project name	Category of concession operation	Installed capacity (MW)
Guangdong	Chaozhou	Desulfurization and denitrification	3,200
Jiangsu	Lvsigang	Desulfurization and denitrification	2,640
	Nanjing	Desulfurization and denitrification	1,320
	Xutang	Desulfurization	1,300
Shandong	Huangdao	Desulfurization and denitrification	1,340
	Binzhou	Desulfurization and denitrification	700
Zhejiang	Wushashan	Denitrification	2,400
Henan	Xuchang	Desulfurization	2,020
	Sanmenxia	Desulfurization and denitrification	2,900/1,000
	Anyang	Desulfurization	1,270
	Shouyangshan	Desulfurization	1,040
	Xinyang	Desulfurization	1,960
	(entrusted)		
Hebei	Wangtan	Desulfurization and denitrification	1,200
	Zhangjiakou	Desulfurization and denitrification	600
	Thermal Power		
	Zhangjiakou	Desulfurization	2,560
	Weixian	Desulfurization and denitrification	1,320
Tianjin	Jixian	Desulfurization and denitrification	1,200
Anhui	Luohe	Desulfurization and denitrification	2,500
	Ma'anshan	Desulfurization and denitrification	1,320
	Hushan	Desulfurization and denitrification	1,320
	Tianjia'an	Desulfurization	640
Shaanxi	Binchang	Desulfurization and denitrification	1,260
	Baoji	Desulfurization and denitrification	660
Inner Mongolia	Tuoketuo	Desulfurization and denitrification	1,320/6,120
Jiangxi	Fuzhou	Desulfurization	2,000
Shanxi	Shentou	Desulfurization and denitrification	1,000
Xinjiang	Hutubi	Desulfurization	600
Liaoning	Shendong	Desulfurization and denitrification	700

The table below sets forth the status of the Group's desulfurization and denitrification concession operation projects under construction as at 31 December 2019:

Project location	Project name	Category of concession operation	Installed capacity (MW)
Guangdong	Leizhou	Desulfurization and denitrification	2,000
Henan	Gongyi	Desulfurization and denitrification	1,320
Hebei	Tangshan Beijiao	Desulfurization and denitrification	700
Liaoning	Huludao	Desulfurization and denitrification	700
Inner Mongolia	Xilinhote	Desulfurization and denitrification	1,320
Xinjiang	Wucaiwan	Desulfurization	1,320
Ningxia	Pingluo	Desulfurization and denitrification	1,320
Shandong	Dongying	Desulfurization and denitrification	2,000

In 2019, the Group won four projects tendering in operating market of environmental protection facilities outside the system of China Datang Group in respect of its concession operation business, including the maintenance project for environmental protection facilities of two coal-fired power plants of State Power Investment Corporation Limited, the maintenance projects for desulfurization concession operation facilities of one coal-fired power plant of Wuhan East Lake High Technology Group Co., Ltd, and the technical service project for environmental protection facilities of Tianjin Tiangang United Special Steel Co.,Ltd..

1.2. Denitrification catalysts business

In 2019, the Group's denitrification catalysts business remained stable, with an increase in 6.1% of average sales unit price calculated based on the delivery volume as compared with 2018. The following table sets forth the breakdown of the key information of the Group's denitrification catalysts business in 2019:

(Unit: m³)

Production volume	Sales volume	Delivery volume	Delivery volume to customers other than China Datang Group
36,074	35,509	40,596	14,533

In 2019, the Group sold 15,940m³ of catalyst to customers other than China Datang Group and entered into 108 contracts, among which, 15 contracts were entered with overseas customers with the aggregate sales volume of 4,738m³, while 69 contracts were entered with customers from non-electric industry such as glass and alumina sectors with the aggregate sales volume of 4,367m³. Meanwhile, the Group has made steady progress in the disposal of waste catalysts with a total amount of 3,878m³ of waste catalysts being disposed in 2019.

1.3. Environmental protection facilities engineering business

In 2019, the Group continued to carry out its environmental protection facilities engineering business, including desulfurization, denitrification, dust removal, ultra-low emission, and industrial site dust management, and actively explore the environmental market of non-electric industry such as petroleum, coking, steel, and cement.

In 2019, the Group entered into two contracts for environmental protection facilities construction projects in non-electric industry with an aggregate amount of RMB30.33 million, among which, there was a contract for the dry desulfurization, denitrification, dust removal and gas comprehensive utilization project of 1 coking plant, marking a major breakthrough by the Company in the field of environmental protection in the coking industry.

The following table sets forth the breakdown of the environmental protection facilities engineering business in the power industry of the Group as at 31 December 2019:

Projects	Projects put into operation in 2019		Projects under construction	
	Number	Capacity (MW)	Number	Capacity (MW)
Desulfurization	2	600	9	5,840
Denitrification	3	3,240	14	14,300
Dust removal	3	4,640	11	8,700
Ultra-low emission	4	1,890	–	–
Industrial site dust treatment	12	14,500	10	13,310
	<u>12</u>	<u>14,500</u>	<u>10</u>	<u>13,310</u>

1.4. Water treatment business

In 2019, the Group entered into 11 contracts for waterworks projects with an aggregate amount of RMB7.3 million, among which, nine contracts have been signed outside the system of China Datang Group, with an aggregate amount of RMB5.7 million.

In 2019, the Group successfully entered into the PetroChina Tarim oilfield sewage treatment project, achieving a significant breakthrough in the field of non-power industrial sewage treatment. The Group also entered into the agent-construction project for municipal sewage treatment in Dulan county, Qinghai Province and created a new business pattern.

2. Overseas Business

In 2019, the Group has cumulatively entered into two overseas projects, including the Gujarat desulfurization engineering project and the NLC desulfurization engineering project in India, recording a contract amount of RMB922 million.

As at 31 December 2019, the Group had five overseas projects under enforcement. Among which, the NPP5A and NPP9 projects in Thailand have been put into operation and the desulfurization project for No. 1 and No.2 generating units in Cuddalore in India ran steadily after officially put into operation desulfurization.

3. Renewable Energy Engineering Business

In 2019, the Group newly entered two contracts for renewable energy engineering projects, all of which were photovoltaic engineering projects with installed capacity of 64MW.

As of 31 December 2019, the cumulative installed capacity in operation for wind power plant of the Group reached 1,614MW, while the cumulative installed capacity in operation for photovoltaic engineering projects of the Group reached 951MW.

4. Research and Development

In 2019, the Group continued to enhance its cultivation of outstanding science and technology innovation achievement. The Group built up its core competitive strength and achieved outstanding results through continuous technological innovation and received a total of 10 provincial, prefecture and industrial level technological awards, among which the Research and Development and Application of Key Technology in the Entire Life Cycle of High Efficiency Coal-fired Gas Denitration Catalyst (高效燃煤燃氣脫硝催化劑全生命週期關鍵技術研發與應用) won the first prize of technological improvement in Jiangsu province, the Development and Application of Key Technology for High-Efficiency Utilization in Full Operation of Exhaust Gas Residual Heat from Integrated Air Heaters (聯合暖風器的煙氣餘熱全工況餘熱利用) won the second prize of science improvement in power construction and the Research and Application of key Technology of green and intelligent coal transportation Island (綠色智慧輸煤島關鍵技術研究與應用) won the second prize of energy innovation.

In 2019, the Group continued to put emphasis on its proprietary development and innovation, commit substantial resources to research and development and persist in promoting the commercialization of technological achievements. The three proprietary technological achievements of the Group, namely the Development and Application of Key Technology for Energy and Water Conservation at the Cold End of Air-wet Cooling Units (空濕冷機組冷端節能節水關鍵技術開發與應用), the Development and Application of Technology for Flat Medium and Low Temperature Denitrification Catalysts (平板式中低溫脫硝催化劑技術研發與應用) and the Research and Engineering Demonstration of Key Technology for Intelligent Denitrification of Ultra-low Emission Thermal Power Units (超低排放火電機組智慧脫硝關鍵技術研究及工程示範) have successfully passed the technical assessment of competent authorities such as the China Energy Research Association and have reached internationally leading and advanced levels.

In 2019, the Group was awarded 123 utility model patent authorizations in aggregate, and 25 invention patent authorizations. As at 31 December 2019, the Group has accumulatively obtained 1,201 patent authorizations, 125 of which were invention patents.

In 2019, the ISO international standard “Technical guidelines for the evaluation of energy savings of thermal power plants” (ISO 50045) independently led by the Group was officially issued, making it the first ISO standard of the coal-fired power industry led by the PRC. As of 31 December 2019, the Group had a total of 42 technical standards being compiled, including 10 industry standards and group standards led by the Group.

III. MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL POSITION AND OPERATING RESULTS

There are inter-segment sales among the Group's segments and sub-segments, and accordingly the Group records intra-segment elimination and inter-segment elimination among these segments/sub-segments for the relevant revenue and cost of sales. In this results announcement, unless otherwise specified herein, (i) all discussion about total revenue, total gross profit and overall gross profit margin are based on the amounts after all intra- and inter-segment elimination among the segments/sub-segments (being the figures reflected in our consolidated statement of profit or loss and other comprehensive income), and (ii) all discussion about the revenue, gross profit and gross profit margin of business segments and sub-segments are based on the amounts before any intra- or inter-segment elimination of such segment or sub-segment.

1. Overview

The Group's revenue decreased by 25.3% from RMB8,588.1 million in 2018 to RMB6,414.6 million in 2019. The Group's profit for 2019 amounted to RMB245.4 million, representing a decrease of RMB537.8 million as compared with RMB783.2 million in 2018. Profit attributable to owners of the parent amounted to RMB218.9 million. As at 31 December 2019, the Group's cash and cash equivalents decreased by 5.8% to RMB1,580.4 million as compared with RMB1,677.7 million as at 31 December 2018. The Group's total assets increased by 3.5% to RMB21,170.8 million as at 31 December 2019 as compared with RMB20,460.0 million as at 31 December 2018. The Group's total liabilities increased by 6.1% to RMB13,936.9 million as at 31 December 2019 as compared with RMB13,140.7 million as at 31 December 2018. The Group's return on total assets for 2018 was 1.2%, as compared with 4.1% in 2018.

2. Results of Operations

2.1. Revenue

The Group's revenue decreased by 25.3% to RMB6,414.6 million in 2019 as compared with RMB8,588.1 million in 2018, primarily due to the saturation of the flue gas pollution treatment market of environmental protection segment in the power industry in the PRC, and the decrease of traditional environmental protection facilities engineering business. Meanwhile, the Group undertook fewer renewable energy projects and coal-fired power projects for promotion of business transformation and upgrade in 2019, resulting in decrease in revenue.

2.2. Cost of sales

The Group's cost of sales decreased by 26.3% to RMB5,334.7 million in 2019 as compared with RMB7,238.1 million in 2018. The level of increase in the Group's cost of sales was slightly higher than the increase in total revenue, which was mainly affected by the increase in prices of raw materials.

2.3. Selling and distribution expenses

The Group's selling and distribution expense decreased by 12.6% to RMB36.9 million in 2019 as compared with RMB42.2 million in 2018.

2.4. Administrative expenses

The Group's administrative expenses increased by 96.7% to RMB549.7 million in 2019 as compared with RMB279.4 million in 2018. This was mainly due to the impairment loss recognised for certain buildings and other infrastructure and machinery as a result of technical innovation and the increase in employee expenses.

2.5. Other income and gains

The Group's other income and gains decreased to RMB132.3 million in 2019 as compared with RMB169.4 million in 2018. This was mainly due to net decrease of exchange gains and net decrease of government grants for the year as compared with that last year.

2.6. Finance costs

The Group's finance costs increased by 26.1% to RMB252.8 million in 2019 as compared with RMB200.5 million in 2018, primarily due to an increase in total short-term borrowings as compared with last year.

2.7. Profit before tax

As a result of the foregoing factors, the Group's profit before tax decreased by 67.7% to RMB303.1 million in 2019 as compared with RMB937.4 million in 2018.

2.8. Income tax expense

The Group's income tax expense was RMB57.8 million in 2019, representing a decrease of 62.5% from RMB154.2 million in 2018. The reason that range of decrease in income tax expense of the Group was slightly lower than the range of decrease in profit before tax was mainly due to the change of tax preferential policy of part of the subsidiaries enjoy as compared to that of last year.

2.9. Profit for the year

The Group's profit for the year decreased by RMB537.8 million from RMB783.2 million in 2018 to RMB245.4 million in 2019. For the year ended 31 December 2019, the Group's profit for the year as a percentage of its total revenue decreased to 3.8% as compared with 9.1% in 2018.

2.10. Profit attributable to owners of the parent

The profit attributable to owners of the parent decreased by RMB547.8 million to RMB218.9 million in 2019 as compared with RMB766.7 million in 2018.

2.11. Profit attributable to non-controlling interests

The profit attributable to non-controlling interests of the Group increased by 60.0% to RMB26.4 million in 2019 as compared with RMB16.5 million in 2018.

3. Results on Business Segments

The following table sets forth a breakdown of the Group's revenue by segment/sub-segment and each segment/sub-segment as a percentage of total revenue for the years ended 31 December 2019 and 2018, as well as the percentage of change:

	For the year ended 31 December				
	2019		2018		
	Revenue	Percentage of total revenue before elimination ⁽¹⁾	Revenue	Percentage of total revenue before elimination ⁽¹⁾	Change
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
Environmental Protection and Energy					
Conservation Solutions:					
Environmental protection facilities					
concession operation	3,274,326	49.5	3,207,649	36.4	2.1
Denitrification catalysts	508,015	7.7	475,814	5.4	6.8
Environmental protection facilities					
engineering	1,441,838	21.8	2,339,520	26.5	(38.4)
Water treatment business	299,164	4.5	329,263	3.7	(9.1)
Energy conservation business	46,495	0.7	290,907	3.3	(84.0)
Total revenue of environmental protection and energy conservation solutions before elimination	5,569,838	84.2	6,643,153	75.3	(16.2)
Intra-segment elimination ⁽²⁾	(184,301)		(148,388)		
Total revenue of environmental protection and energy conservation solutions after intra segment elimination	5,385,537		6,494,765		(17.1)
Inter-segment elimination ⁽³⁾	(155)		(14,895)		
External revenue of environmental protection and energy conservation solution	5,385,382		6,479,870		(16.9)

	For the year ended 31 December				
	2019		2018		Change
	Revenue <i>RMB'000</i>	Percentage of total revenue before elimination ⁽¹⁾ %	Revenue <i>RMB'000</i>	Percentage of total revenue before elimination ⁽¹⁾ %	
Renewable Energy Engineering:					
Total revenue of renewable energy engineering business	763,880	11.5	1,284,967	14.6	(40.6)
Inter-segment elimination	—		—		
	<u>763,880</u>		<u>1,284,967</u>		<u>(40.6)</u>
Thermal power engineering:					
Total revenue of thermal power engineering	113,597	1.7	494,237	5.6	(77.0)
Inter-segment elimination	—		—		
	<u>113,597</u>		<u>494,237</u>		<u>(77.0)</u>
External revenue of thermal power engineering	<u>113,597</u>		<u>494,237</u>		<u>(77.0)</u>
Other businesses:					
Total revenue of other businesses	170,909	2.6	392,990	4.5	(56.5)
Inter-segment elimination ⁽⁴⁾	(19,147)		(63,994)		(70.1)
	<u>151,762</u>		<u>328,996</u>		<u>(53.9)</u>
External revenue of other businesses	<u>151,762</u>		<u>328,996</u>		<u>(53.9)</u>
Total revenue before elimination⁽⁵⁾	<u>6,618,224</u>	<u>100</u>	<u>8,815,347</u>	<u>100</u>	<u>(24.9)</u>
Total intra- and inter-segment elimination ⁽⁶⁾	(203,603)		(227,277)		
Total revenue	<u>6,141,621</u>		<u>8,588,070</u>		<u>(25.3)</u>

Notes:

- (1) Represents the revenue of each business segment or sub-segment (before any intra- or inter-segment elimination) as a percentage of the total revenue before any intra- or inter-segment elimination.
- (2) Intra-segment elimination of revenue from sub-segments under environmental protection and energy conservation solutions segment mainly arises from the intra-segment sales between denitrification catalysts sub-segment to denitrification facilities engineering sub-segment and environmental protection facilities concession operation, respectively.
- (3) Inter-segment elimination of revenue from environmental protection and energy conservation solutions segment mainly arises from the inter-segment sales to other business segments made by the sub segments within environmental protection and energy conservation solutions segment, including the inter-segment sales from denitrification facilities engineering sub-segment to thermal power engineering segment, the inter-segment sales from dust removal facilities engineering sub-segment to thermal power engineering segment, the inter-segment sales from water treatment business sub-segment to thermal power engineering segment and the inter-segment sales from energy conservation business sub-segment to other business segment.
- (4) Inter-segment elimination of revenue from other businesses segment mainly arises from the inter-segment sales between other businesses segment and environmental protection and energy conservation solutions, respectively.
- (5) Represents the aggregate amount of the revenue of all segments/sub-segments before any intra- or inter-segment elimination.
- (6) Represents the aggregate amount of all intra- and inter-segment elimination.

The following table sets forth a breakdown of the Group's gross profit by segment/sub-segment and gross profit margin of each business segment/sub-segment for the years ended 31 December 2019 and 2018, as well as the percentage of change in gross profit:

	For the year ended 31 December				
	2019		2018		Change of gross profit %
	Gross profit ⁽¹⁾ <i>RMB'000</i>	Gross profit margin ⁽²⁾ %	Gross profit ⁽¹⁾ <i>RMB'000</i>	Gross profit margin ⁽²⁾ %	
Environmental Protection and Energy					
Conservation Solutions:					
Environmental protection facilities concession operation	772,927	23.6	978,797	30.5	(21.0)
Denitrification catalysts	145,791	28.7	115,992	24.4	25.7
Environmental protection facilities engineering	130,404	9.0	150,966	6.5	(13.6)
Water treatment business	31,477	10.5	30,774	9.3	2.3
Energy conservation business	3,479	7.5	47,147	16.2	(92.6)
Total gross profit of environmental protection and energy conservation solutions	1,084,078	19.5	1,323,676	19.9	(18.1)
Total gross profit of renewable energy engineering business	25,319	3.3	28,431	2.2	(10.9)
Total gross profit of thermal power engineering	1,159	1.0	27,354	5.5	(95.8)
Total gross profit of other businesses	(29,796)	(17.4)	(14,498)	(3.7)	(105.5)
Total gross profit and overall gross profit margin⁽³⁾	1,079,965	16.8	1,349,957	15.7	(20.0)

Notes:

- (1) Calculated based on the revenue of each segment or sub-segment (before any intra- or inter-segment elimination) minus the cost of sales of such segment or sub-segment (before any intra- or inter-segment elimination).
- (2) Calculated based on the gross profit of each segment or sub-segment calculated according to note (1) divided by the revenue of such segment or sub-segment (before any intra- or inter-segment elimination).
- (3) Total gross profit equals total revenue (being the revenue reflected on our consolidated statement of profit or loss and other comprehensive income) minus total cost of sales (being the cost of sales reflected on our consolidated statement of profit or loss and other comprehensive income). Overall gross profit margin equals total gross profit divided by total revenue.

4. Cash Flows

As at 31 December 2019, the Group's cash and cash equivalents decreased by 5.8% to RMB1,580.4 million as compared with RMB1,677.7 million as at 31 December 2018.

5. Working Capital

As at 31 December 2019, the Group's net current assets decreased by 4.7% to RMB1,884.3 million as compared with RMB1,977.4 million as at 31 December 2018, primarily due to (i) an increase of 39.7% in the Group's prepayments, deposits and other receivables to RMB1,241.6 million as at 31 December 2019 as compared with RMB888.9 million as at 31 December 2018; (ii) a decrease of 23.0% in the Group's trade and bills payables to RMB4,989.3 million as at 31 December 2019 as compared with RMB6,481.3 million as at 31 December 2018; (iii) an increase of 11.4% in the Group's other payables and accruals to RMB1,852.7 million as at 31 December 2019 as compared with RMB1,663.4 million as at 31 December 2018; and (iv) an increase of 84.0% in the Group's short-term interest-bearing bank borrowings and other loans to RMB3,723.3 million as at 31 December 2019 as compared with RMB2,023.8 million as at 31 December 2018, which was partially offset by an increase of 1.7% in the Group's trade and bills receivables to RMB8,541.2 million as at 31 December 2019 as compared with RMB8,398.5 million as at 31 December 2018.

6. Indebtedness

As at 31 December 2019, the Group's borrowings increased by 42.9% to RMB7,045.9 million as compared with RMB4,929.9 million as at 31 December 2018.

7. Capital Expenditure

The Group's capital expenditure decreased by 5.7% to RMB884.0 million in 2019 as compared with RMB937.8 million in 2018. Capital expenditure mainly comprises costs including acquisition or construction of property, plant and equipment and intangible assets.

8. Financial Ratios

The following tables set forth certain of our financial ratios as at the dates and for the periods indicated:

	As at 31 December	
	2019	2018
Current ratio	117.8%	119.4%
Quick ratio	116.2%	117.9%
Liabilities to assets ratio	65.8%	64.2%
Leverage ratio	75.6%	44.4%
	For the year ended 31 December	
	2019	2018
Return on total assets	1.2%	4.1%
Return on equity	3.4%	11.0%

9. Significant Investment

For the year ended 31 December 2019, the Group made no significant investment.

10. Material Acquisition and Disposal

For the year ended 31 December 2019, the Group had no material acquisition or disposal.

11. Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

IV. RISK FACTORS AND RISK MANAGEMENT

Risks on environmental protection and energy conservation policies

The Group provides substantially all of its products and services in the PRC, and the development of its business is greatly dependent on the environmental protection policies of the PRC. Environmental protection industry is one of the major industries that benefit from the constant support of the PRC government. The market demand for the Group's environmental protection and energy conservation products and services and the revenue generated therefrom are directly affected by the environmental protection policies of the PRC. However, there is no assurance that such policies will continue to be available to the Group or there will be no adverse change. If there is any adverse change, it may result in a material and adverse effect on the business prospects, results of operations and financial condition of the Group. The management of the Group is of the view that, given the severity of pollution in the PRC, it is unlikely for the PRC government to revise such environmental protection policies regarding the adverse effect or to withdraw any resources invested in the environmental protection industry. Moreover, the Group, as a trendsetter and leader of the environmental protection and energy conservation for the PRC's electric power industry, has participated in the formulation of various industrial policies and standards, which allows it to catch the latest industry trends and respond in a timely fashion.

Risks on connected transactions with China Datang Group

The Group has been conducting various transactions with China Datang Group, and will continue to enter into such transactions in the future. For the year ended 31 December 2019, the total value of goods sold and services provided by the Group to China Datang Group was approximately RMB5,916.96 million, representing approximately 92.24% of the total revenue of the Group. For the year ended 31 December 2019, the total value of goods purchased and services received by the Group from China Datang Group was approximately RMB1,487.28 million, representing approximately 27.88% of the total cost of the Group. The Group has been actively expanding its client base, for example, during 2019, the Group entered into contracts in the amount of RMB1.802 billion with clients other than China Datang Group, representing 80.47% of the total contract amount of the Group.

Liquidity risks

The Group had negative operating cash flows of RMB183.23 million for the year ended 31 December 2019, it cannot assure that its operating cash flow for any future period will be positive. The Group's ability to generate adequate cash inflows from operating activities in the future will depend in large part on project schedule and billing arrangement, its ability to collect receivables from its customers in a timely manner and the credit terms it can obtain. If the Group is not able to generate sufficient cash flows from its operations or obtain sufficient financing to support its business operation, the Group's growth prospects may be materially and adversely affected. The Group plans to implement diversified measures to collect receivables in order to improve operating cash flow. In addition, the Group has been proactively seeking finance to support the development and expansion of its business. As at 31 December 2019, the Group had available bank facilities of RMB18.659 billion.

Industry risks

The Group's business primarily focuses on the environmental protection and energy conservation for coal-fired power plants, the market demand for its business relies heavily on the growth rate of the coal-fired power generation output in the PRC. In particular, the revenue generated from concession operations will be directly affected by the power generation output of coal-fired power plants. As pollution has become an increasingly severe environmental issue in the PRC, the PRC government has shown considerable concern for the adjustment to the national energy structure and development. Therefore, there can be no assurance that coal-fired power generation output in the PRC will continue to grow at the current pace. If the increase of coal-fired power generation output in the PRC slows down, it may result in a decrease of utilization hours of coal-fired power generation units, or a lower demand for the Group's products and services, which in turn will materially and adversely affect our business prospects, results of operations and financial position. The management of the Group is of the view that, in terms of the power generation portfolio in the PRC, coal-fired power generation still dominates the market. In addition, the vast majority of the Group's concession operations locate in coastal areas or economically developed areas, where the utilization hours of coal-fired power generation are higher than the average level nationwide. The Group plans to actively explore clients in the iron and steel, cement and petro-chemical industries.

Risks on overseas business

The Group is aggressively developing its overseas business, especially in the Belt and Road Initiative countries, deeply explores Southeast Asia, South Asia and other core market, and focuses on the deployment of India, Thailand and other countries. The Group's global business expansion may be hindered by risks such as: lack of availability of overseas financing, possible difficulties in the management of overseas personnel and business operations, lack of understanding of the local business environment, financial and management system or legal system, volatility in currency exchange rates, cultural differences, changes in political, regulatory or economic environments in the foreign countries or other regions, as well as the risk of barriers. If the Group fails to manage the above risks effectively, its overseas expansion may be hindered, which may in turn result in a material and adverse effect on its business prospects, results of operations and financial condition. The management of the Group is of the view that, the PRC government has been actively establishing friendly diplomatic relations with the Belt and Road Initiative countries and improving the overseas investment atmosphere. The Group has extensive experience in project management in certain countries, for instance India and Thailand, which can serve as examples for its future overseas development. Moreover, the Group has established rather mature risk management and internal control systems to mitigate risks on overseas business to the greatest extent possible.

Relevant risks of COVID-19

Since the beginning of 2020, novel coronavirus (“**COVID-19**”) has spread globally. The COVID-19 may have the following impact on the business operation of the Group: the macro economy in the PRC may experience slowdown of growth or downward trend due to the impact of the epidemic, resulting in a decrease in demand for use of electricity in throughout the society, further causing adverse impact on the concession business of the environmental protection facilities of the Group; part of the environmental facilities engineering projects in the PRC was suspended or cancelled, further intensifying the competition of inventory projects in the market, which might adversely affect the engineering business of the Group; there have been significant restrictions on the travel of domestic personnel and transportation of goods, which may lead to postponement of the projects undertaken by the Group or increase in the prices of major raw materials, which in turn may adversely affect the business of the Group; various countries in the world have imposed or may impose immigration restriction policies. The shortage of personnel for overseas projects which may be undertaken by the Group may adversely affect the overseas business of the Group. The Group has adopted a number of response measures to strictly carry out prevention and control of the epidemic as well as “striving to seize opportunities with both hands” for the production and operation, and maintain normal order of production and operation, so as to minimise losses caused by the epidemic.

V. OUTLOOK ON THE GROUP'S FUTURE DEVELOPMENT

Looking forward to 2020, the Group will be faced with both opportunities and challenges.

In terms of favorable factors, firstly, the focus of air pollution control of the PRC extends from the single thermal power industry to more industrial sectors such as petroleum & chemical, steel, and cement. There is a huge market in non-electric industry. Secondly, the further promotion of the Belt and Road Initiative by the PRC will speed up the development of regional economy and promote the international cooperation in production capacity and “going global” of Chinese equipment, which brings about a promising prospect for the environmental protection business of the Group in overseas markets. Thirdly, the Group is being included in the enterprise list of “Double Hundred Actions” launched by the State-owned Assets Supervision and Administration Commission of the State Council for the reform of state-owned enterprises, and will be faced with unprecedented reform opportunities. The implementation of the reform scheme of “Double Hundred Actions of the Reform” will help the Group break institutional constraints to provide new impetus for development.

In terms of unfavorable factors, firstly, power development in the PRC has entered the crucial period of transferring mode, adjusting structure and shifting motivation. The power overcapacity, the long-term high price of coal, and the scaling up of power marketization have certain impact on the profitability of the environmental protection facility concession operation business of the Group; secondly, the environmental protection flue gas pollution treatment market in the power industry is becoming saturated. The traditional environmental protection facilities engineering business is decreasing year by year, and the competition among environmental protection enterprises is intensified, and these enterprises are in urgent need to expand their businesses to non-power areas.

Main Tasks in 2020

In 2020, the Group will continue to unswervingly follow the path of high-quality development, manage the conspicuous contradictions in structure, quality, efficiency, profitability and other aspects effectively, and strive to achieve transformation and upgrading, quality and efficiency improvement. The Group will focus on the following five aspects:

1. Focusing on the major business of scientific and technological environmental protection, and improving profitability constantly

The Group will enhance the development philosophy of “focus on main business and highlight specialization”, and adhere to the eight-character policy of “green, development, service and consolidation” to achieve leaping-over breakthrough in market-based transformation, business expansion, reform and innovation and other aspects. The Group will focus on fields such as efficient and clean utilization of coal-fired power,

pollution treatment in industrial cities and towns and clean energy services, take flue gas treatment as the core business, accelerate business expansion in water and solid waste treatment, and unswervingly follow the path of energy conservation and emission reduction, environmental protection, and resources recycling.

2. *Continuing to deepen internal reform and focusing on optimizing relevant system and mechanism*

The Group will take advantage of the reform opportunity of “Double Hundred Actions”, and focus on the “13th Five-Year” development plan and the development objectives for the next three years. Guided by efficiency improvement and external development, the Group will establish a market-oriented system and mechanism and address constraints and major problems hindering the enterprise survival and development. The Group will make proper plans for the medium and long-term incentives, the improvement of corporate governance system and the reform of mixed ownership. By activating resource element vitality through reform, we can practicably strengthen our innovation capability and market competitiveness, and build a world-class scientific and technological environmental protection enterprise.

3. *Dedicating more efforts in enhancing scientific and technological innovation and accelerating to foster new growth points*

The Group will enhance scientific and technological innovation and technological optimization efforts, strengthen the grasp of policies and future development trends to establish a scientific and technological innovation management mechanism that meets the high-quality development demands and broaden technology acquisition channels. Through the combination of introduction and proprietary research and development, we will be able to speed up the research of advanced technologies and achievement conversion, and ensure an addition of one or two core technologies annually to explore new business growth points.

4. *Accelerating to explore external market and maintaining market competitiveness capability*

The Group will focus on project profitability and risk prevention and control, aim at the target markets and the main advancing direction, promote business transformation and upgrading, and establish new market competitive advantages. Leveraging on existing resources, we will implement the strategy of “introduction, absorption, digestion” plus cooperation to expand the existing business horizontally and in upstream and downstream industry chain with the investment plus operation business model and the exploration of applying capital operation means. We will strengthen overseas business development, concentrate on the main business of flue gas environmental protection and Indian markets, and improve overseas management and control ability and project profitability.

5. *Preventing and addressing significant risks and safeguarding sustained and steady operation*

The Group will continue to seek benefits from “management”, improve various management systems and implement system implementation, compliance management and risk prevention throughout market development, material procurement, financial management, capital operation, safety production, engineering construction and other sectors to effectively prevent and control industry risks, financial risks, legal risks, overseas risks and other significant risk factors. We will put emphasis on addressing the recovery of bills receivables and recover the arrears by making full use of legal actions such as litigation to ensure the recovery of every cent of operation revenue.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2019, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company’s listed securities.

2019 FINAL DIVIDEND AND RELATED CLOSURE OF REGISTER OF MEMBERS

According to the resolutions of the Board passed at the tenth meeting of the second session of the Board on 28 March 2020, the Board proposed to distribute the final dividend for the year ended 31 December 2019 of RMB0.0338 per share of the Company (the “**Shares**”) (before tax) (the “**Proposed 2019 Final Dividend**”) in cash to the shareholders of the Company (the “**Shareholders**”). If the proposal is approved by the Shareholders at the 2019 annual general meeting (the “**2019 AGM**”) to be held on Friday, 19 June 2020, the Proposed 2019 Final Dividend is expected to be distributed on or about Monday, 10 August 2020 to the Shareholders whose names appear on the register of members of the Company on Thursday, 2 July 2020. The Proposed 2019 Final Dividend to be distributed will be denominated and announced in RMB, of which dividends on domestic Shares will be paid in RMB whereas dividends on H Shares will be paid in Hong Kong dollars (the exchange rate of RMB to Hong Kong dollars will be exchanged at the average exchange rate as announced by the People’s Bank of China for a week prior to the date of the 2019 AGM).

In order to ascertain the entitlements of the Shareholders to receive the Proposed 2019 Final Dividend, the register of members of the Company will be closed from Thursday, 25 June 2020 to Thursday, 2 July 2020 (both days inclusive), during which period no transfer of Shares will be effected. To be eligible to receive the Proposed 2019 Final Dividend, all transfer documents must be lodged with the Company’s H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for holders of H Shares), or the Company’s board office in the PRC at No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC, 100097 (for holders of domestic Shares), no later than 4:30 p.m. on Wednesday, 24 June 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE SET OUT IN APPENDIX 14 TO THE LISTING RULES

The Company has always been committed to improving corporate governance since its establishment. According to provisions of the Corporate Governance Code (the “**Code**”) set out in Appendix 14 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), it has established a modern corporate governance structure comprising a number of independently operated bodies including the general meetings, the Board, the supervisory committee and the senior management of the Company in order to provide an effective check and balance. The Company has also adopted the Code as its own corporate governance practices.

For the year ended 31 December 2019, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing his duty. The Company has purchased liability insurance for the Directors.

For the year ended 31 December 2019, the Company has complied with the principles and code provisions contained in the Code. Details of the corporate governance of the Company are set out in the 2019 annual report of the Company (the “**2019 Annual Report**”) which will be published in due course.

COMPLIANCE WITH THE MODEL CODE FOR DEALING IN SECURITIES OF THE COMPANY BY ITS DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in the securities of the Company by its Directors, supervisors and relevant employees of the Company (as defined in the Model Code). According to the specific enquiries of all Directors and supervisors of the Company, the Directors and supervisors of the Company confirmed that they had strictly complied with the standard set out in the Model Code for the year ended 31 December 2019. The Board will examine the corporate governance practices and operation of the Group from time to time to ensure that the Group is in compliance with relevant requirements under the Listing Rules and that the Shareholders’ interests are safeguarded.

SCOPE OF WORK ON THE RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2019 as set out in this results announcement have been agreed by the Group’s auditors, Ernst & Young, to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement

in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this results announcement.

AUDIT COMMITTEE

The Group's 2019 annual results and the consolidated financial statements for the year ended 31 December 2019 prepared in accordance with the IFRSs have been reviewed by the audit committee of the Company.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The Company has been listed on the Main Board of the Stock Exchange since 15 November 2016. The net proceeds from the initial public offering and partial exercise of the over-allotment option, after deducting the underwriting fees and relevant expenses, amounted to approximately HK\$2,032.3 million, which will be used in the ways stated in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 3 November 2016 (the "**Prospectus**").

The following table sets forth the use of net proceeds from the initial public offering as at 31 December 2019:

	Use of net proceeds disclosed in the Prospectus (HK\$ Million)	Actual use of net proceeds up to 31 December 2019 (HK\$ Million)	Unused net proceeds up to 31 December 2019 (HK\$ Million)	Expected time of full utilization of remaining balance
To finance the capital expenditures for expanding the desulfurization and denitrification concession operations	1,219.5	1,219.5	0.0	–
To develop new sources of growth in the revenue and profit, including but not limited to EMC business for coal-fired power plants, water treatment business, and providing customers with overall solution plans of ultralow emissions	304.8	304.8	0.0	–
To repay some of the existing bank loans in order to lower the finance costs and improve the leverage ratio	203.2	203.2	0.0	–
For working capital and other general corporate purposes	203.2	203.2	0.0	–
For research and development expenditures	101.6	10.5	91.1	December 2020
Total	<u>2,032.3</u>	<u>1,941.2</u>	<u>91.1</u>	

SIGNIFICANT SUBSEQUENT EVENT

The COVID-19 outbreak has spread across the PRC since January 2020, the prevention and control of COVID-19 has been ongoing nationwide. According to the current situation, this outbreak will have certain impact on the business operations of the Group. The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impact on the financial position and operating results of the Group. As of the date of the results announcement, this assessment is still under way.

On 28 March 2020, the Board proposed to distribute the final dividend for the year ended 31 December 2019 of RMB0.0338 per Share (before tax) in cash to the Shareholders. The proposal is subject to the approval of the Shareholders at the 2019 AGM.

Apart from above, as of the date of the results announcement, the Group had no other significant events after the reporting period that needs to be disclosed.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.dteg.com.cn>).

The Company will dispatch in due course to Shareholders the 2019 Annual Report containing all the information as required by the Listing Rules, and publish it on the websites of the Company and the Stock Exchange.

By order of the Board
Datang Environment Industry Group Co., Ltd.*
Jin Yaohua
Chairman

Beijing, the PRC, 28 March 2020

As of the date of this announcement, the non-executive Directors are Mr. Jin Yaohua, Mr. Liu Quancheng, Mr. Liu Ruixiang and Mr. Li Zhenyu; the executive Directors are Mr. Hou Guoli and Mr. Wang Yanwen; and the independent non-executive Directors are Mr. Ye Xiang, Mr. Mao Zhuanjian and Mr. Gao Jiaxiang.

* For identification purposes only