滄海控股有限公司
Chanhigh Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2017

ANNUAL REPORT **2018**

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Peng Tianbin *(Chairman)*
Mr. Peng Yonghui *(Chief Executive Officer)*
Mr. Peng Daosheng

Non-executive Director

Ms. Wang Sufen

Independent Non-executive Directors

Mr. Fan Rong
Mr. Shi Weixing
Mr. Yang Zhongkai

AUDIT COMMITTEE

Mr. Fan Rong *(Chairman)*
Mr. Shi Weixing
Mr. Yang Zhongkai

REMUNERATION COMMITTEE

Mr. Yang Zhongkai *(Chairman)*
Mr. Peng Tianbin
Mr. Shi Weixing

NOMINATION COMMITTEE

Mr. Shi Weixing *(Chairman)*
Mr. Peng Yonghui
Mr. Yang Zhongkai

STRATEGY COMMITTEE

Mr. Peng Tianbin *(Chairman)*
Mr. Peng Yonghui
Mr. Fan Rong

AUTHORISED REPRESENTATIVES

Mr. Peng Yonghui
Mr. Tong Tai Alex

COMPANY SECRETARY

Mr. Tong Tai Alex

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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Grand Cayman KY1-1111
Cayman Islands

CORPORATE HEADQUARTERS

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China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor,
Hopewell Centre
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Hong Kong

HONG KONG LEGAL ADVISER

Iu, Lai & Li Solicitors & Notaries
Rooms 2201, 2201A & 2202, 22nd Floor
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No. 18 Harcourt Road
Hong Kong

AUDITOR

RSM Hong Kong
Certified Public Accountants
29th Floor, Lee Garden Two
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Hong Kong

COMPLIANCE ADVISER

Essence Corporate Finance (Hong Kong) Limited
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Central
Hong Kong

PRINCIPAL BANKERS

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China

Bank of China, Ningbo Branch
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Haishu District
Ningbo City
Zhejiang Province
China

STOCK CODE

02017

COMPANY'S WEBSITE

www.chanhigh.com.hk

FINANCIAL HIGHLIGHTS

RESULTS

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**
Revenue	659,324	1,006,339	1,551,858	1,144,539	**733,430**
Gross profit	76,568	132,535	194,626	182,047	**83,540**
Profit before tax	69,738	127,218	150,486	119,851	**27,811**
Profit for the year	51,939	95,179	108,004	80,328	**17,064**
Profit attributable to owners of the Company	51,939	95,179	108,004	80,328	**17,046**

ASSETS AND LIABILITIES

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**
Cash and cash equivalents	31,760	61,482	108,065	371,703	**272,198**
Total assets	1,273,488	1,469,515	1,528,439	1,953,205	**1,865,848**
Total liabilities	1,041,932	1,142,780	1,267,852	1,149,437	**1,047,342**
Total equity	231,556	326,735	260,587	803,768	**818,506**
Equity attributable to owners of the Company	231,556	326,735	260,587	803,768	**811,382**

KEY FINANCIAL RATIOS

	2014	2015	2016	2017	**2018**
Gross margin (%)	11.6%	13.2%	12.5%	15.9%	**11.4%**
Net profit margin (%)	7.9%	9.5%	7.0%	7.0%	**2.3%**
Gearing ratio	1.32	0.94	0.23	0.14	**0.47**

Dear Shareholders,

On behalf of the Board of Chanhigh Holdings Limited, I am pleased to present the audited annual results of our Group for the Year 2018.

In 2018, in the face of the macroeconomic and industry periodic adjustments and changes in our Company's operating environment, the Board and the management of our Company actively responded with diligent work to forge ahead, proactive adoption of measures to adjust, and pursuit of consolidation breakout. During the year, the Company leveraged on the capital strength, business platform and brand recognition for a listed entity to facilitate our business development. The completion of acquisition of several important qualifications in the industry laid down a solid foundation for the diversified development of the construction business in the future. To excel in excellence and advancement, both our Company and our projects received various honors and awards from the industry and governments of district, city and provincial levels. Moreover, our Company vigorously promoted the development of our corporate culture, raising our employees' morale and team cohesion as well as improving the overall caliber of our human resources. However, subject to the unfavorable macroeconomic and financial condition, changes in regulation and control measures, structural and periodic adjustments of the industry, and increasing operating costs over the years, we are sorry that our Company's annual results are unsatisfactory and fall short of expectation.

In 2019, our Company will continue to base on our business foundation and our original mission, setting our guiding principles "through learning, innovation, being pragmatic and taking responsibility, to improve the business combination, to increase the efficiency and return, and to enhance the competitiveness and revenue; and through hard work and preservation, to achieve high-quality and leap-forward development in the future". Quality and reputation are important to our growth and survival. We will undertake strict quality management of construction projects to deliver premium projects which will attract new business opportunities. Further measures will be taken to increase revenue and control costs. In addition to enhancing the qualifications profile, we will recruit high-calibre candidates and improve our existing work force to build up a strong team.

In the coming year, the Board and management will be conscientious, diligent, and pragmatic to strive for better performance and enhancement of our Company's value and reward to our shareholders and return to the society.

Peng Tianbin
Chairman and Executive Director
26 March 2019

INDUSTRY REVIEW

In 2018, the PRC's macroeconomic environment was subject to various changes and the condition was complicated and challenging, and the economic growth was under downward pressure. Market competition of the industry was fierce because the impact of the past and new policies continued to realize and manifest and the industry was under cyclical adjustment.

Coupled with the unfavorable condition of the global economy and macro-adjustment measures, structural adjustment, market consolidation, and local government debts of the PRC, the industry was generally negatively affected. Following the nationwide cancellation of the qualification for urban landscaping enterprises in 2017, the lowered entry barrier increased the competition for urban landscaping projects.

Meanwhile, measures were undertaken by the Central Government to intensify its deleveraging efforts to ease the debt burden of local governments, such as the implementation of regulations that prohibit commercial banks and trusts from financing local governments.

Under the guideline of "structural deleveraging" proposed by the Central Financial and Economic Affairs Commission (中央財經委員會) in April 2018, the central ministries and commissions such as the Ministry of Finance, the State-owned Assets Supervision and Administration Commission of the State Council and Central Bank issued Notice on Regulating Issues against Financial Behaviors of Local Governments and State-Owned Enterprises by Financial Enterprises (Cai Jin [2018] No. 23) (《關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知》(財金[2018]23號)) and Guidance on Regulating the Asset Management Business of Financial Institutions (Yin Fa [2018] No. 106) (《關於規範金融機構資產管理業務的指導意見》(銀發[2018]106號)) to limit the local governments' financing ability.

The lowering of the local governments' financing ability resulted in their reluctance to commence infrastructure construction plans. Accordingly, commencements of numerous government projects were delayed in the short run causing decrease in both number and contract sum of new projects.

Furthermore, the Ministry of Finance issued the Notice on Rectifying the Management of PPP Integrated Information Platform of the Government and Social Capital Cooperation (Cai Ban Jin [2017] No. 92) (《關於規範政府和社會資本合作(PPP)綜合信息平台項目庫管理的通知》(財辦金[2017]92號)) in November 2017, and the Notice on Further Rectifying the Management of PPP Demonstration Projects of the Government and Social Capital Cooperation (Cai Jin [2018] No. 54) (《關於進一步加強政府和社會資本合作(PPP)示範項目規範管理的通知》(財金[2018]54號)) to tighten the criteria of new PPP projects and to eliminate unqualified PPP projects. The tightening of the policies and measures not only led to certain PPP projects being aborted or suspended, the local governments also became more reluctant to commence the approval process of new PPP projects, among which the Group might be qualified for tendering.

In addition, after the continuous rapid growth of infrastructure investment for years since the "Reform and Opening up", substantial progress in infrastructure constructions and establishments can be seen over the country. With the improvement of people's living conditions, demand for infrastructure investment has gradually changed from quantitative to qualitative, thus the operating costs of the business increase year by year.

BUSINESS REVIEW

Operating under such challenging environments, the Group strived to solidify its market presence and maintain its competitive edge by identifying and acquiring relevant qualification of which the Group did not possess. As such, in order to minimize the impact of cancellation of the qualification for urban landscaping, the Company acquired a company holding a First-Grade General Contractor for Water Works and Hydropower Projects Qualification (水利水電工程施工總承包壹級資質) in early 2018. Such an acquisition optimized the Group's qualification portfolio and enabled the Group to participate in bidding for tenders for specific municipal projects in relation to water works, e.g. water utility and drainage constructions.

MAJOR FINANCIAL PERFORMANCE INDICATORS

During the Year 2018, the Group recorded a decline in business. The total revenue decreased by 35.9% or RMB411.1 million to RMB733.4 million (2017: RMB1,144.5 million); and the gross profit decreased by 54.1% or RMB98.5 million to RMB83.5 million (2017: RMB182.0 million). The net profit of the Group decreased by 78.7% or RMB63.2 million to RMB17.1 million (2017: RMB80.3 million). The decline in total revenue was primarily due to the decrease in revenue from all business segments in the Year 2018.

The financial position of the Group has been healthy. As at 31 December 2018, the Group had bank and cash balances of RMB280.1 million (2017: RMB375.9 million) which were mainly denominated in RMB.

RISK MANAGEMENT

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure existing in the Group's business, including investment risk, interest rate risk, liquidity risk etc, and participates in formulating appropriate risk management and internal control measures, and to ensure its implementation in daily operational management.

IMPORTANT RELATIONSHIP

Our Employees

The Group had a total of 431 employees as at 31 December 2018 all of which were based in the PRC. For the Year 2018 Staff Costs were RMB30.7 million. Set forth below is a breakdown of the number of our employees by functions as at 31 December 2018:

Function	Number of employees
Administrative and human resources	53
Engineering	59
Finance and internal audit	31
Operational management	26
Procurement	4
Project management and technical team	220
Quality and safety	34
Senior management	4
Total	431

We believe that our long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, we provide regular training to our employees. We have in-house training programs to train our new joiners, mainly focusing on skills like construction technique and working procedures. The goal of the training programs is to train our employees and to identify talent, with the aim of providing upward mobility within our Group, fostering employee loyalty and incorporating customised mentoring, coaching and training.

During the year, we did not experience any material labour disputes, strikes or other material labour conflicts, receive any complaints, notices or orders from relevant government authorities or third parties, or receive any claims from our employees relating to social insurance or housing provident funds that could materially impaired our business operation or reputation. We made contributions to social insurance and housing provident funds in accordance with the applicable laws and regulations. The details in relation to retirement benefit scheme are disclosed in notes 4(q) and 13 to the consolidated financial statements.

Our Suppliers

For the Year 2018, we made procurement from 699 suppliers across the PRC. Our suppliers are corporate entities or sole proprietors who are principally engaged in the supply or trading of plants and saplings and/or construction materials and/or leasing of equipment and machineries in the PRC. It is our policy to maintain multiple suppliers and seek quotations from at least three suppliers for purchase of major raw materials to avoid over-reliance on any single supplier. In addition, to minimize cost and delivery time and given that certain standardised construction materials such as cements and steels are readily available in the PRC, we tend to make procurement from local suppliers which are in close proximity to the project sites whenever practicable. Our procurement department maintains a list of qualified suppliers. Such list of qualified suppliers are selected based on criteria such as price, quality, record of timely delivery, proximity to the project site, supply capacity and customer service. During the preparation of budget for each project, potential price fluctuations of raw materials are accounted for and any anticipated increase in costs will be taken into consideration and could be passed to our customers, to the extent feasible.

Our Customers

Our customers comprise state-invested enterprises, local governments, property owners and developers in private sector, entities that manage or operate construction projects and construction companies who act as the main contractor of the project and sub-contract a pre-defined section of the project to us. For the Year 2018, we had 202 customers, of which 132 were state-invested enterprises or local governments, and the remaining customers were private enterprises. As we secure projects from major customers mainly through tendering and we are awarded contracts mostly on a one-off basis, the composition of our five largest customers varied from period-to-period.

PROSPECTS

In 2018, the government convened the National Conference on Ecological and Environmental Protection and the scale of the conference is unprecedented. As the importance of ecological construction has been strongly emphasized again, there will be long-term demand for the industry. At the same time, the "Strategic Plan for Rural Revitalization (2018 – 2022)" was issued and it contained a series of major projects, plans and activities. Such plan created a huge room for the development of the landscaping and ecological protection industry, which will accelerate the rolling out of the landscaping projects and promote the sustainable development of the industry. Among these changes and developments, the Company will seek for business opportunities, expand market penetration and create value for shareholders.

Looking ahead, the Company intends to implement the following strategies to further strengthen its core competitive edges, improve efficiency, strive to perfect its existing projects, and grasp the business opportunities in the future:

- to generate more revenue and minimize expenditures, expand business scale and realize growth in turnover;
- to continue to optimize the Group's qualification portfolio, further acquire relevant qualifications to extend business coverage to related areas and build a more cohesive industry chain while recruit more talents and retain competent staff;
- to proactively seek for emerging areas which require the Group's services and turn them into future growth engines;
- to reinforce brand building, strictly maintain quality of the Group's works and projects, continue to accomplish more premium projects, and take these premium projects as a springboard for new business expansion;
- to strengthen risk control and legal compliance and build an effective risk control system to maintain "safe and efficient" operation.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased by 35.9% or RMB411.1 million from RMB1,144.5 million for the Year 2017 to RMB733.4 million for Year 2018, which was primarily due to the deterioration of the results of major business segments of the Group which was in turn caused by (i) the decrease in the total number of projects during the Year 2018; and (ii) certain contracts with high contract value had been substantially completed in the Year 2017 as a result of which the revenue contributed by these high value contracts significantly decreased in the Year 2018 as compared with that of the Year 2017.

The revenue recognised during the year for the projects completed during the Year 2018 and in progress as at the end of 2018 as compared with that of the previous year is tabulated as follows:

	2018			2017		
Business segments	Revenue RMB'000	No. of projects completed during the year	No. of projects in progress as at the year end	Revenue RMB'000	No. of projects completed during the year	No. of projects in progress as at the year end
Landscape construction	278,636	18	36	351,455	11	49
Municipal works construction	266,952	17	41	475,432	17	54
Building works	163,834	6	18	241,709	5	23
Others	24,008	17	15	75,943	15	21
Total	733,430	58	110	1,144,539	48	147

Decrease in the total number of projects during the Year 2018 was mainly attributable to the following reasons:

- the progress of certain construction projects fell behind schedule, and the principal reasons for which include: (i) delay in local government's relocation schedule; (ii) change in project design; or (iii) change in local government's overall implementation plan due to financial or administrative reasons. Owing to the delay in those projects, recognition of revenue was postponed;
- as stated in the paragraph headed "Industry and Business Review" in this section, the nationwide cancellation of the qualification for urban landscaping enterprises in 2017 and the lowering of the entry barrier had increased the competition for urban landscaping projects; and
- as stated in the paragraph headed "Industry and Business Review" in this section, certain changes in government policies made by the Central Government during 2017 and 2018 adversely affected the construction market, especially government-related projects. As a result, the Company decided to terminate negotiation of certain PPP projects in Yunnan Province, Guizhou Province and Xinjiang Uygur Autonomous Region.

Landscape construction

The Group recorded a decrease in revenue from the landscape construction segment, from RMB351.5 million for the Year 2017 to RMB278.6 million for the Year 2018, representing a decrease of 20.7% or RMB72.9 million. The decrease was primarily attributable to (i) the decrease in the total number of landscape construction projects for the Year 2018 as compared with that of the Year 2017; (ii) certain contracts with high contract value had been substantially completed in the Year 2017 as a result of which the revenue contributed by these high value contracts significantly decreased in the Year 2018 as compared with that of the Year 2017.

Municipal works construction

The Group recorded a decrease in revenue from the municipal works construction segment, from RMB475.4 million for the Year 2017 to RMB267.0 million for the Year 2018, representing a decrease of 43.9% or RMB208.4 million. The decrease was primarily attributable to (i) the decrease in the total number of municipal works construction projects for the Year 2018 as compared with that of the Year 2017; and (ii) certain contracts with high contract value had been substantially completed in Year 2017 as a result of which the revenue contributed by these high value contracts significantly decreased in the Year 2018 as compared with that of the Year 2017.

Building works

The Group recorded a decrease in revenue from the building works segment, from RMB241.7 million for the Year 2017 to RMB163.8 million for the Year 2018, representing a decrease of 32.2% or RMB77.9 million. The decrease was primarily attributable to (i) the decrease in the total number of building works projects of the Year 2018 as compared with that of the Year 2017; and (ii) certain contracts with high contract value had been substantially completed in the Year 2017 as a result of which the revenue contributed by these high value contracts significantly decreased in the Year 2018 as compared with that of the Year 2017.

Others

The Group recorded a substantial decrease in revenue from the others segment, from RMB75.9 million for the Year 2017 to RMB24.0 million for the Year 2018, representing a decrease of 68.4% or RMB51.9 million. The decrease was primarily attributable to the decrease in the total number of other projects of the Year 2018 as compared with that of the Year 2017.

Cost of services rendered

Cost of services rendered decreased by 32.6% or RMB311.5 million from RMB956.9 million for the Year 2017 to RMB645.4 million for the Year 2018. Generally, the decrease in cost of services rendered was in line with the decrease in revenue for the year.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit decreased by 54.1% or RMB98.5 million from RMB182.0 million for the Year 2017 to RMB83.5 million for the Year 2018. Gross profit margin of the Group decreased from 15.9% for the Year 2017 to 11.4% for the Year 2018. The decrease in gross profit was primarily attributable to decrease in revenue for the Year 2018 as compared with that of the Year 2017.

Other income and gains

Other income and gains increased by 29.9% or RMB3.1 million from RMB10.1 million for the Year 2017 to RMB13.2 million for the Year 2018. The increase was primarily attributable to exchange gain and increase in government incentives and awards.

Administrative and other operating expenses

The Group's administrative expenses increased by 7.9% or RMB4.5 million from RMB57.3 million for the Year 2017 to RMB61.8 million for the Year 2018. The increase was primarily attributable to an increase in expenses as a result of business expansion during the Year 2018, but was partially offset by a decrease in one-off listing expenses for the Year 2017.

Finance costs

The Group's finance costs increased by 1.9 times or RMB6.9 million from RMB3.6 million for the Year 2017 to RMB10.5 million for the Year 2018, primarily attributable to the increase in average monthly balance of bank borrowings.

Net Current Assets

The table below sets forth selected information for current assets and current liabilities as at 31 December 2018 and 2017, respectively:

	2018 RMB'000	2017 RMB'000
Current Assets		
Trade and other receivables	651,914	701,129
Contract assets	824,942	—
Gross amount due from customers for contract work	—	868,377
Bank and cash balances	280,086	375,852
	1,756,942	1,945,358
Current Liabilities		
Trade payables	410,126	824,213
Accruals and other payables	88,436	80,648
Receipts in advance	—	18,270
Contract liabilities	62,346	—
Gross amount due to customers for contract work	—	16,079
Borrowings	337,085	111,000
Current tax liabilities	104,247	99,227
	1,002,240	1,149,437
Net current assets	754,702	795,921

The Group's net current assets decreased by 5.2% or RMB41.2 million from RMB795.9 million as at 31 December 2017 to RMB754.7 million as at 31 December 2018. The decrease was primarily due to use of net proceeds raised from the Listing for acquisition of subsidiaries.

Trade and other receivables

The following table sets forth an analysis of trade and other receivables as at 31 December 2018 and 2017 indicated:

	2018 RMB'000	2017 RMB'000
Trade and bills receivables		
Trade receivables	455,189	510,331
Allowance for bad and doubtful debts	(10,307)	(11,037)
	444,882	499,294
Bills receivables	3,963	1,910
Allowance for bad and doubtful debts	(59)	—
	3,904	1,910
	448,786	501,204
Other receivables		
Construction contracts performance guarantees and deposit for tender	89,793	119,611
Retention receivables	52,656	62,584
Others	2,981	4,472
	145,430	186,667
Allowance for bad and doubtful debts	(2,404)	(1,396)
	143,026	185,271
Prepayments and deposits	60,102	14,654
	651,914	701,129

The trade and other receivables decreased by 7.0% or RMB49.2 million from RMB701.1 million as at 31 December 2017 to RMB651.9 million as at 31 December 2018. The decrease was primarily due to (i) the decreased in trade and bills receivables of RMB52.4 million resulting from overall decrease in revenue; (ii) the decrease in construction contracts performance guarantees and deposit for tender and retention receivables totaling RMB39.7 million because of increase in use of letter of guarantees instead of cash as performance guarantees and deposit for tender, and expiration of retention period of certain completed projects; and (iii) partially offset by increase in prepayment paid for procurement preparation of certain newly won projects of which the constructions commenced in early 2019.

The following table sets forth the ageing analysis of trade and bills receivables, based on the contract terms for the work certified, net of allowance for bad and doubtful debts, as at 31 December 2018 and 2017:

	2018 RMB'000	2017 RMB'000
0 to 90 days	121,754	110,117
91 to 180 days	43,249	56,909
181 to 365 days	69,408	142,780
Over 1 year but less than 2 years	98,076	93,014
Over 2 years but less than 3 years	58,360	51,524
Over 3 years	57,939	46,860
	448,786	501,204

The table below sets forth a summary of average turnover days of trade and bills receivables for the years indicated:

	2018	2017
Average turnover days of trade and bills receivables (1)	236.4	161.9

Note (1) Average turnover days of trade and bills receivables for the Year 2017 and the Year 2018 is derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables for the relevant period by revenue and multiplying by 365 days.

The average turnover days of trade and bills receivables increased from 161.9 days in the Year 2017 to 236.4 days in the Year 2018, mainly due to lengthy payment approval process of certain government related projects.

Contract assets/liabilities (2017: gross amount due from/to customers for contract work)

	As at 31 December 2017 RMB'000
Gross amount due from customers for contract work	868,377
Gross amount due to customers for contract work	(16,079)
	852,298

Upon the adoption of IFRS 15, amounts previously included as "Gross amount due from customers for contract work" and "Gross amount due to customers for contract work" were reclassified to contract assets and contract liabilities respectively.

	As at 31 December 2018 RMB'000
Contract assets	824,942
Contract liabilities	(62,346)
	762,596

As compared with gross amount due from/to customers for contract work as at 31 December 2017, contract assets, net as at 31 December 2018 decreased by RMB89.7 million because of decrease in total revenue for the year ended 31 December 2018.

Trade payables

The table below sets forth, as at 31 December 2018 and 2017, the ageing analysis of trade payables based on the date of receipt of goods:

	2018 RMB'000	2017 RMB'000
0 to 90 days	**76,488**	75,802
91 to 180 days	**10,614**	14,508
181 to 365 days	**28,999**	212,660
Over 1 year but less than 2 years	**121,703**	260,930
Over 2 years but less than 3 years	**96,931**	223,132
Over 3 years	**75,391**	37,181
	410,126	824,213

The trade payables decreased by 50.2% or RMB414.1 million from RMB824.2 million as at 31 December 2017 to RMB410.1 million as at 31 December 2018. The decreased was primarily due to the decrease in costs of materials consumed and direct labour costs during the year.

The table below sets forth a summary of average turnover days of trade payables for the years indicated:

	2018	2017
Average turnover days of trade payables(1)	**349.0**	328.0

Note (1) Average turnover days of trade payables for the Year 2017 and the Year 2018 is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of service rendered, excluding depreciation and multiplying by 365 days.

The average turnover days of trade payables increased from 328.0 days in the Year 2017 to 349.0 days in the Year 2018, mainly due to the fact that for certain government-related construction projects, the payment schedules for suppliers have been slowed down in response to the lengthy construction fee payment approval process of the respective government-related project owners.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditures

During the Year 2018, the Group acquired (i) several construction licenses including a First-Grade General Contractor for Water Works and Hydropower Project qualification (水利水電工程施工總承包壹級資質), a Second-Grade General Contractor for Highway Construction Projects qualification (公路工程施工總承包貳級) along with a Second-Grade General Contractor for Water Supply and Drainage and Electrical Projects qualification (水利水電工程施工總承包貳級) and a First-Grade General Contractor for Housing Construction Projects qualification (建築工程施工總承包壹級) in the PRC at a consideration of RMB76.0 million, RMB13.6 million and RMB13.5 million respectively; and (ii) property, plant and equipment totaling RMB6.0 million.

Other than the aforesaid capital investment, the Group did not have any other significant capital expenditures during the Year 2018.

Operating lease commitments

As at 31 December 2018 and 2017, the Group had commitments for future minimum lease payments in respect of the Group's offices under non-cancellable operating lease arrangements, which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	2,846	3,388
In the second to fifth year inclusive	460	1,417
Over five years	—	2
Total	3,306	4,807

Capital commitments

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	2018 RMB'000	2017 RMB'000
Consideration paid for an acquisition of a subsidiary	—	68,400
Consideration paid for purchase of property, plant and equipment	3,500	—
	3,500	68,400

INDEBTEDNESS

Borrowings

The following table sets forth total debts as at 31 December 2018 and 2017:

	2018 RMB'000	2017 RMB'000
Short-term bank borrowings	330,900	111,000
Factoring loan with recourse	51,287	—
	382,187	111,000

The average interest rates for bank loans and factoring loan with recourse as at 31 December 2018 were 5.20% and 5.94% per annum respectively. As at 31 December 2018, all borrowings were denominated in RMB.

Except as disclosed above, as at 31 December 2018, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

KEY FINANCIAL RATIOS

The following table sets forth key financial ratios for the year/as at each of the dates indicated:

	For the year ended 31 December	
	2018	2017
Gross profit margin (%) (1)	**11.4**	15.9
Net profit margin (%) (2)	**2.3**	7.0
Return on equity (%) (3)	**2.1**	10.0
Return on total assets (%) (4)	**0.9**	4.1

	As at 31 December	
	2018	2017
Current ratio (5)	**1.8**	1.7
Gearing ratio (6)	**0.5**	0.1
Net debt to equity ratio (7)	**0.1**	Net Cash

Notes:

(1) Gross profit margin for the Year 2017 and the Year 2018 was calculated based on gross profit divided by total revenue for the respective years and multiplied by 100%.

(2) Net profit margin for the Year 2017 and the Year 2018 was calculated based on profit for the year divided by total revenue for the respective years and multiplied by 100%.

(3) Return on equity for the Year 2017 and the Year 2018 was calculated based on the profit for the year for the respective years divided by total equity as at the respective years ends and multiplied by 100%.

(4) Return on total assets for the Year 2017 and the Year 2018 was calculated based on the net profit for the respective years divided by the total assets as at the respective years ends and multiplied by 100%.

(5) Current ratios as at 31 December 2017 and 2018 was calculated based on the total current assets as at the respective year ends divided by the total current liabilities as at the respective year ends.

(6) Gearing ratios as at 31 December 2017 and 2018 was calculated based on the total borrowings as at the respective year ends divided by total equity as at the respective years.

(7) Net debt to equity ratios as at 31 December 2017 and 2018 was calculated based on net borrowings (being total borrowings net of cash and cash equivalents) as at the respective year ends divided by total equity as at the respective years ends.

Return on equity

The return on equity decreased from 10.0% for the Year 2017 to 2.1% for the Year 2018, primarily due to the decrease in profit for the year.

Return on total assets

The return on total assets decreased from 4.1% for the Year 2017 to 0.9% for the Year 2018, primarily due to the decease in profit for the year.

Current ratio

The Group's current ratio improved from 1.7 as at 31 December 2017 to 1.8 as at 31 December 2018, primarily due to the increase in long-term borrowings.

Gearing ratio

The Group's gearing ratio increased from 0.1 as at 31 December 2017 to 0.5 as at 31 December 2018, primarily due to the increase in borrowings.

Net debt to equity ratio

The Group's net debt to equity ratio changed from net cash as at 31 December 2017 to 0.1 as at 31 December 2018, primarily due to the use of cash for daily operation and business acquisition.

MATERIAL ACQUISITIONS AND DISPOSALS

For the Year 2018, save as disclosed in the part headed "USE OF NET PROCEEDS FROM THE LISTING" in the section headed "Report of the Directors", the Group had no other material acquisitions and disposals of subsidiaries, associates and joint ventures.

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2018, the Group did not hold any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the part headed "USE OF NET PROCEEDS FROM THE LISTING" in the section headed "Report of the Directors", the Group had no future plan for material investments or capital assets as at 31 December 2018.

CHARGES ON GROUP ASSETS

As disclosed in note 29 to the consolidated financial statements of the Group for the Year 2018, the trade receivables of RMB5.8 million were pledged with lenders as security of borrowings as at 31 December 2018.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Group is exposed to various types of financial risks including credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Given the Group's operation is mainly in the PRC and the functional currency is RMB, the exchange rate risk is insignificant.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, cash and bank balances and amounts due from related companies. In order to minimise credit risk of trade and bill receivables, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts.

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. The Directors closely monitor amounts due from related companies. The Group has limited credit risk on cash and bank balances because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group does not provide any other guarantees which would expose the Group to credit risk.

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Please refer to note 6 to the consolidated financial statements for details on the analysis based on contractual undiscounted cash flows of the Group's financial liabilities.

Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition. Given the base interest rate of The People's Bank of China is expected to remain stable in the foreseeable future, the relevant risk is considered insignificant.

EXECUTIVE DIRECTORS

Mr. Peng Tianbin (彭天斌), aged 38, is an executive Director and Chairman of the Company. He was appointed as a Director on 1 April 2016 and then was redesignated as an executive Director on 15 March 2017. Mr. Peng TB was the vice general manager of Chanhigh Construction from 2001 to 2005, and was appointed as the chairman of CHHG in 2005. Mr. Peng TB is responsible for overall management, corporate policy making and strategic planning of the Group's business operations. He is currently the general manager, director and legal representative of CHHG.

Mr. Peng TB obtained a diploma in computer application* (計算機應用) in July 2000. He joined the Group in 2001, and has since then obtained over 15 years of experience in the landscape and public work construction industry.

Mr. Peng TB is the son of Mr. Peng DS, an executive Director, and Ms. Wang SF, a non-executive Director, and the brother of Mr. Peng YH, an executive Director and chief executive officer of the Company.

Mr. Peng Yonghui (彭永輝), aged 37, is an executive Director and chief executive office of the Company. He was appointed as a Director on 1 April 2016 and was redesignated as an executive Director on 15 March 2017. He is responsible for overall management, financial operation and internal management of the Group. Mr. Peng YH manages the Group's administrative, human resources and financial departments. He is also in charge of bank financing and other related matters of the Group.

Mr. Peng YH obtained a diploma in highways and urban roads engineering from Changsha University of Science and Technology* (長沙理工大學) in June 2004, and a degree in civil engineering from Wuhan University of Technology* (武漢理工大學) in June 2006 through an online course. Mr. Peng YH obtained an Executive Master of Business Administration from Tsinghua University in June 2017, and was appointed by Tsinghua University School of Economics and Management as an alumni entrepreneur mentor in August 2018. He has the qualifications of senior economist and senior engineer. Mr. Peng YH joined the Group in April 2004.

Mr. Peng YH is the son of Mr. Peng DS, an executive Director, and Ms. Wang SF, a non-executive Director, and the brother of Mr. Peng TB, an executive Director and chairman of the Company.

Mr. Peng Daosheng (彭道生), aged 63, is the founder of the Group and an executive Director. He was appointed as a Director on 1 April 2016, and then was redesignated as an executive Director on 15 March 2017. Since the Group was established, Mr. Peng DS was responsible for its business development and quality control. As Mr. Peng TB and Mr. Peng YH joined the Group, they gradually took over the day-to-day business operations. Mr. Peng DS is now mainly responsible for setting the Group's business directions and focus. He is currently the director and legal representative of Chanhigh Construction.

Mr. Peng DS obtained a bachelor's diploma of civil engineering from Changsha University of Science & Technology* (長沙理工大學) in June 2004. He has over 15 years of experience in the landscape and public work construction industry. In January 2001, Mr. Peng DS established Chanhigh Construction and acted as the general manager. In April 2005, CHHG was established and Mr. Peng DS was appointed as the president of CHHG.

Mr. Peng DS is the spouse of Ms. Wang SF, a non-executive Director, and the father of Mr. Peng TB, an executive Director and chairman of the Company, and Mr. Peng YH, an executive Director and chief executive officer of the Company.

NON-EXECUTIVE DIRECTOR

Ms. Wang Sufen (王素芬), aged 57, was appointed as a Director on 1 April 2016 and was then redesignated as a non-executive Director on 15 March 2017. Ms. Wang SF is responsible for providing objective advice and judgment to the Board in relation to major business decisions.

Ms. Wang SF has over 20 years of experience in the trading business. In October 1994, she established YZTB, which specialises in trading, and is the legal representative and general manager of such company.

Ms. Wang SF is the spouse of Mr. Peng DS, an executive Director, and the mother of Mr. Peng TB, an executive Director and chairman of the Company, and Mr. Peng YH, an executive Director and chief executive officer of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fan Rong (范榮), aged 55, was appointed as an independent non-executive Director on 15 March 2017. He is a member of the Chinese Institute of Certified Public Accountants since 1995. In 1996, Mr. Fan was qualified as a certified public tax collector. Since October 2010, Mr. Fan has been working as a partner of Da Hua Certified Public Accountants* (大華會計師事務所).

Mr. Fan graduated from Anhui Open University* (安徽廣播電視大學) with a bachelor's degree in accountancy in June 1986. In June 2002, Mr. Fan completed Graduate Programs for Advanced Studies of Sun Yat-Sen Business School* (中山大學管理學院).

Mr. Fan worked at Guangzhou Tianhe Accounting Firm* (廣州天河會計師事務所) and Lixin Dahua Accounting Firm Guangzhou Branch* (立信大華會計師事務所廣州分所) before joining Da Hua Certified Public Accountants.

Mr. Shi Weixing (施衛星), aged 56, was appointed as an independent non-executive Director on 15 March 2017.

Mr. Shi graduated from Tongji University* (同濟大學) with a bachelor's degree in architecture (structural engineering) in July 1984. He obtained a master's degree in structural engineering from Tongji University in May 1987, and a doctorate degree in engineering from Tongji University in September 1990. Mr. Shi is currently a professor at Tongji University.

Mr. Yang Zhongkai (楊仲凱), aged 44, was appointed as an independent non-executive Director on 15 March 2017. He is currently the Chairman of partners conference (合夥人會議主席) of King & Ray Law Firm (天津君輝律師事務所).

Mr. Yang studied in Nankai University. In October 2009, Mr. Yang obtained a Master of Arts (International Relations in Economy and Trade) from Flinders University through one of its offshore programs. Mr. Yang obtained an Executive Master of Business Administration from Tsinghua University in June 2017.

Mr. Yang has been serving as the Chairman of partners conference of King & Ray Law Firm since December 2018.

SENIOR MANAGEMENT

Mr. Tong Tai Alex (湯泰), aged 45, is the chief financial officer and the company secretary of the Company. Mr. Tong joined the Group in December 2015 and is in charge of the finance department. He is responsible for overseeing financial management and regulatory compliance, as well as reporting obligations of the Group. Prior to joining the Group, Mr. Tong worked in an international CPA firm for approximately 15 years. Mr. Tong is a member of Hong Kong Institute of Certified Public Accountants. He is also a member of the Chinese Institute of Certified Public Accountant.

Mr. Ge Weilong (葛偉龍), aged 58, the general manager of Ningbo Hong Yuan Construction Limited. He has worked for the Water Resources and Hydropower Corporation of Ninghai Water Conservancy Bureau* (寧海水利局水利水電總公司), Ninghai Gemdale Real Estate Development Co., Ltd.*(寧海金地房地產開發有限公司), Nanjing Zhongzhao Real Estate Investment Co., Ltd.*(南京中兆置業投資有限公司) and Raw Water Group Ningbo Baixi Real Estate Development Co., Ltd.*(原水集團寧波白溪房地產開發有限公司). He holds a diploma in civil engineering from Wenzhou Architecture School* (溫州建築學校) and a diploma in law from School of Humanities, Peking University as well as an engineer certificate. Mr. Ge joined the Group in October 2017.

Mr. Jiang Libo (蔣立波), aged 46, is the general manager of Chanhigh Construction. Mr. Jiang owns a bachelor degree of Jiangnan University* (江南大學) majored in engineering management, and the professional technical titles of senior engineer and senior economist. He joined Chanhigh Construction since September 2007. He is also the tutor of master postgraduate students in Ningbo University* (寧波大學), the vice chairman of Ningbo Civil Construction Entrepreneurs Association* (寧波市民建企業家協會), the executive director of Ningbo Landscape Architecture Association* (寧波市風景園林協會), and the executive director of Ningbo Entrepreneurs Association* (寧波市企業家協會), having been awarded the Excellent Project Manager of Chinese Society of Landscape Architecture* (中國風景園林學會優秀項目經理), the Advanced Worker of Zhejiang Landscape Architecture* (浙江省風景園林學會先進工作者), the Excellent Professional Manager of Ningbo Municipal Industry* (寧波市市政行業優秀職業經理), the Excellent Construction Entrepreneur in Yinzhou District* (鄞州區優秀建築業企業家), the Excellent Entrepreneur of 17th Session in Ningbo (寧波市十七屆優委企業家).

Mr. Yang Jiannan (楊建南), aged 50, is the head of quality control department of the Group. Mr. Yang is responsible for overseeing the quality of production and construction safety of the Group. Mr. Yang graduated from Zhejiang Agricultural University* (浙江農業大學) (predecessor of Zhejiang University) with a bachelor's degree in engineering. Mr. Yang worked in Ningbo Rongshan Sports Ground Engineering Limited* (寧波榮山運動場包房工程有限公司) before joining the Group in August 2010.

COMPANY SECRETARY

Mr. Tong Tai Alex (湯泰), aged 45, was appointed as the company secretary of the Group on 25 June 2016. For further details about Mr. Tong's biography, please refer to the sub-section headed "Senior Management" above.

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the Year 2018.

PRINCIPAL ACTIVITIES

The Group principally provides landscape and municipal works construction and maintenance services to its customers. In addition, the Group undertakes building works and renovation works, and provide other services such as provision of maintenance and heritage building restoration services. During the Year 2018, the Group provided landscape and municipal works construction services mainly to state-invested enterprises and local government. The analysis of the revenue of the principal activities of the Group for the Year 2018 is set out in notes 7 and 9 to the consolidated financial statements.

BUSINESS REVIEW AND RESULTS

A review of the business of the Group is provided in “Management Discussion and Analysis” on pages 6 to 19 and “Chairman’s Statement” on page 5. A discussion on the Group’s future business development is provided in the sub-section headed “Prospect” of section headed “Management Discussion and Analysis” on pages 8 to 9 of this annual report. An analysis of the Group’s performance using financial key performance indicators is provided in the Financial Highlights on page 4 of this annual report.

The results of the Group for the Year 2018 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 68 of this annual report.

FINAL DIVIDENDS

The Board does not recommend a dividend for the Year 2018.

USE OF NET PROCEEDS FROM THE LISTING

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date with net proceeds received by the Company from the Listing in the amount of approximately HK$337.8 million after deducting underwriting commissions and all related expenses.

In line with the change in use of net proceeds from the Listing as described in the Company's announcement dated 8 December 2017, the following table sets forth the Group's use of net proceeds up to the date of this report:

	Adjusted allocation of use of proceeds *(HK$ million)*	Utilised amount up to the date of this report *(HK$ million)*	Remaining amount as at the date of this report *(HK$ million)*
Acquisition of construction companies possessing first-grade qualification and certificates in municipal projects, including but not limited to highway projects and water projects	195.8	120.2 *(Note)*	75.6
Acquisition of or strategic investment in architectural design firm(s) in the Yangtze River Delta possessing first-grade qualification in architectural design	91.4	—	91.4
Acquisition or establishment of a new inspection centre accredited with the qualification(s) to carry out inspection, analysis and testing on the incoming materials to be used for construction, and/or inspection and supervision of construction works	7.9	—	7.9
General working capital	20.2	15.5	4.7
Total	**315.3**	**135.7**	**179.6**

Note:

The Group acquired several construction licenses including a First-Grade General Contractor for Water Works and Hydropower Project qualification (水利水電工程施工總承包壹級資質), a Second-Grade General Contractor for Highway Construction Projects qualification (公路工程施工總承包貳級) along with a Second-Grade General Contractor for Water Supply and Drainage and Electrical Projects qualification (水利水電工程施工總承包貳級) and a First-Grade General Contractor for Housing Construction Projects qualification (建築工程施工總承包壹級) in the PRC at a consideration of RMB76,000,000, RMB13,600,000 and RMB13,500,000 respectively, totaling RMB103.1 million (HK$120.2 million).

The remaining net proceeds of approximately HK$179.6 million are currently held in bank deposits and it is intended to apply the same in the manner consistent with the proposed allocation in the Company's announcement dated 8 December 2017. These remaining net proceeds are expected to be utilised by the end of 2020.

MAJOR CUSTOMERS AND SUPPLIERS

For the Year 2018, the Group's purchases from the largest supplier, accounted for 3.1% of its total procurements, and purchases from five largest suppliers accounted for 39.0% of its total procurements.

For the Year 2018, the Group's revenue contributed by the largest customer accounted for 8.3% of its total revenue, and revenue contributed by the five largest customers accounted for 29.5% of its total revenue.

Except for the customer for which the transaction details are set out in the sub-section headed "Continuing Connected Transactions" to the best knowledge of the Directors, none of the Directors, their respective close associates or any shareholders who own more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's remaining four largest customers or five largest suppliers during the Year 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2018 are set out in note 17 to the consolidated financial statements.

SUBSIDIARIES

Details of the major subsidiaries of the Company as at 31 December 2018 are set out in note 19 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report. This summary does not form part of consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year 2018 are set out in note 24 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the Year 2018 are set out on page 71 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of Cayman Islands Companies Law and the Articles of Association, amounted to RMB432,621,000.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 29 to the consolidated financial statements.

DIRECTORS

The Directors for the Year 2018 and up to the date of this report were:

Executive Directors:

Mr. Peng Tianbin *(Chairman)*
Mr. Peng Yonghui *(Chief Executive Officer)*
Mr. Peng Daosheng

Non-executive Director:

Ms. Wang Sufen

Independent non-executive Directors:

Mr. Fan Rong
Mr. Shi Weixing
Mr. Yang Zhongkai

In accordance with Article 84 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 20 to 22 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received a confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

Each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a service contract with the Company on 15 March 2017 for a term of three years commencing from the Listing Date. For the executive Directors and the non-executive Director, the service contracts, may be terminated by not less than three months' notice in writing served by either party to the other. For the independent non-executive Directors, the service contracts may be terminated by not less than one month's notice in writing served by the Company.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Other than those transactions disclosed in notes 20 and 34 to the consolidated financial statements and the transactions set out in the section headed "Continuing Connected Transactions" in this report, no Director or entity connected with a Director or the Controlling Shareholders had a material interest in, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year 2018.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year 2018.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2018, the Group had 431 full-time employees. The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. The emolument policy of the Group would also make reference to the comparable market practices with reference to the qualifications of the employees.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 13 and 14 to the consolidated financial statements respectively.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Up to the date of this annual report, there were no changes to information which are required to be disclosed and had been disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51 (2) of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND THE ASSOCIATED CORPORATIONS OF THE COMPANY

As at the date of this annual report, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in ordinary Shares

Name of Director	Nature of interest	Number of Shares	Approximate shareholding percentage (%)
Mr. Peng YH	Trustee of the PYH Family Trust and the PTB Family Trust *(Note 1)*	451,170,000	72.95%
	Interests of spouse *(Note 2)*	1,610,000	0.26%
	Beneficial owner *(Note 3)*	214,000	0.03%
Mr. Peng TB	interests under section 317 *(Note 4)*	452,994,000	73.24%
Mr. Peng DS	interests under section 317 *(Note 4)*	452,994,000	73.24%
Ms. Wang SF	interests under section 317 *(Note 4)*	452,994,000	73.24%

Notes:

(1) Vast Base is owned by Mr. Peng YH as trustee of the PYH Family Trust and TEUR is owned by Mr. Peng YH as trustee of the PTB Family Trust. Mr. Peng YH being the trustee of the PYH Family Trust and the PTB Family Trust, is therefore deemed to be interested in the Shares held by the PYH Family Trust and the PTB Family Trust under the SFO.

(2) 1,610,000 Shares are held by the spouse of Mr. Peng YH.

(3) 214,000 Shares are held by Mr. Peng YH in his own capacity.

(4) Pursuant to the Acting-in-Concert Confirmation, each of Mr. Peng DS, Ms. Wang SF and Mr. Peng TB is deemed to be interested in all the Shares of which Mr.Peng YH is interested, by virtue of section 317 of the SFO.

Save as disclosed above, as at the date of this annual report, none of the Directors and the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the Year 2018 and up to the date of this report were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the date of this annual report, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the ordinary Shares

Name of substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding (%)
Vast Base	Beneficial interest *(Note 1)*	226,170,000	36.57%
TEUR	Beneficial interest *(Note 1)*	225,000,000	36.38%
Zhejiang Yongchuang Industrial Co., Ltd.	Beneficial interest *(Note 2)*	35,944,000	5.81%
Mr. Lou Zhangliang	Interest in controlled corporation *(Note 2)*	35,944,000	5.81%

Notes:

(1) Vast Base is wholly owned by Mr. Peng YH as the trustee of the PYH Family Trust. The PYH Family Trust is a discretionary trust set up by Mr. Peng YH whose beneficiaries are Mr. Peng YH and his descendants who carry the "PENG (彭)" surname. On the other hand, TEUR is wholly owned by Mr. Peng YH as the trustee of PTB Family Trust. The PTB Family Trust is a discretionary trust set up by Mr. Peng YH whose beneficiaries are Mr. Peng TB and his descendants who carry the "PENG (彭)" surname. Under the SFO, Mr. Peng YH as a trustee of the PYH Family Trust and the PTB Family Trust is deemed to be interested in all Shares held by Vast Base and TEUR under the PYH Family Trust and the PTB Family Trust.

(2) Zhejiang Yongchuang Industrial Co., Ltd. is owned as to 70% by Mr. Lou Zhangliang, who is therefore deemed to be interested in 5.81% of the issued share capital of the Company held by Zhejiang Yongchuang Industrial Co., Ltd.

Save as disclosed above, and as at the date of this annual report, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the Year 2018, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CONTINUING CONNECTED TRANSACTIONS

Non-Exempt Continuing Connected Transaction

Chanhigh Construction (as contractor) and Canghu (as principal) entered into a framework agreement on 17 July 2016 (the "**Framework Agreement**") in respect of a municipal project under a PPP operated model by Canghu, i.e. Phase I of the construction of Xinyuan – Taihu International Health City supporting infrastructure (鑫遠 • 太湖國際健康城配套基礎設施建設一期工程PPP項目) (the "**XYTH Project**"). The Framework Agreement is of a term from 1 July 2016 to 31 December 2018 with total construction service fees not exceeding RMB340 million.

Parties:	Canghu (as principal) Chanhigh Construction (as contractor)
Date:	17 July 2016
Term:	from 1 July 2016 to 31 December 2018
Services to be provided:	construction work in relation to the XYTH Project, including construction of municipal roads (including bridges), buildings and ancillary greenery landscape
Total construction service fees:	not exceeding RMB340,000,000
Annual caps of construction service fees:	(i) the construction service fees payable by Canghu to Chanhigh Construction from the date of the Framework Agreement to 31 December 2016 shall not exceed RMB90,000,000; (ii) the construction service fees payable by Canghu to Chanhigh Construction from 1 January 2017 to 31 December 2017 shall not exceed RMB170,000,000; and (iii) the construction service fees payable by Canghu to Chanhigh Construction from 1 January 2018 to 31 December 2018 shall not exceed RMB80,000,000.

Canghu is a limited liability company established in the PRC and principally engaged in construction and building works of roads, bridges, water works, municipal public works and landscape projects. 72.7% of the equity interest in Canghu is indirectly owned by CHHG and 20% of the equity interest is owned by a state-owned enterprise, namely Huzhou Nantaihu Municipal Construction Company Limited (湖州南太湖市政建設有限公司) ("**Nantaihu**"), which is an independent third party from the Group. The remaining 7.3% of the equity interest in Canghu is indirectly owned by Mr. Peng TB and his spouse. CHHG is owned as to 20% by Mr. Peng DS, 30% by Mr. Peng TB and 50% by Ms. Wang SF respectively. Mr. Peng DS and Mr. Peng TB are executive Directors and Ms. Wang SF is a non-executive Director. Accordingly, Canghu is a connected person of the Company under the Listing Rules and the transaction under the Framework Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Pursuant to the Framework Agreement, Canghu and Chanhigh Construction had entered into two sub-agreements:

(a) a sub-agreement dated 25 July 2016 in relation to construction of municipal roads, drainage, bridges, roadside lamp posts of the XYTH Project with a total contract sum of RMB150,000,000; and

(b) a sub-agreement dated 27 July 2016 in relation to construction of relocation apartments for the Meidong residents (梅東農民) of the XYTH Project with a total contract sum of RMB135,000,000.

The actual aggregate transaction amount of the continuing connected transactions for the Year 2018 was approximately RMB31,737,000.

Opinion from the independent non-executive Directors on the non-exempt continuing connected transaction

The independent non-executive Directors have reviewed the transaction and confirmed that the non-exempt continuing connected transaction has been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better;

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and

(d) with the annual aggregate value within the relevant annual cap.

The Auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued an unqualified opinion letter containing their findings and conclusions in respect of the continuing connected transactions of the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the Auditor's letter has been provided by the Company to the Stock Exchange.

The Auditor has confirmed that regarding the continuing connected transactions of the Group, nothing has come to their attention that causes them to believe that the continuing connected transactions:

– have not been approved by the Board;

– were not, in all material respects, in accordance with the pricing policies of the Group;

– were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; or

– have exceeded the annual cap.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group are set out in notes 20 and 34 to the consolidated financial statements. Apart from the abovementioned continuing connected transactions, other related party transactions were not regarded as connected transactions or were exempt from reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Cayman Islands Companies Law, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Shares.

NON-COMPETITION UNDERTAKINGS

Each of the Controlling Shareholders has confirmed to the Company that he/she/it has complied with the non-competition undertakings that he/she/it provided to the Company on 15 March 2017 pursuant to the Non-competition Deed. The independent non-executive Directors have reviewed the status of compliance and confirmed that all of these non-competition undertakings have been complied with by the Controlling Shareholders during the Year 2018.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Year 2018, none of the Directors had any interest in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group persists in maintaining good corporate governance and operating in compliance with the laws and integrity through abidance by relevant laws and regulations, industry regulations and business ethics. For the Year 2018 and up to the date of this report, the Company had not been and was not a party to any material legal, arbitral or administrative proceedings, and the Company was not aware of any pending or threatened legal, arbitral or administrative proceedings against the Company or any of the Directors which could have a material adverse effect on the Company's operations or financial condition.

RELATIONSHIPS WITH STAKEHOLDERS

During the Year 2018, coping with the external and internal uncertainties and changes, the Group gained valuable experience, which will help the Group to face and overcome challenges of the future. The Group's sustainable development depends on the supports and efforts of all the parties involved, including the employees, the customers, the suppliers, the business partners and the Shareholders, and in particular the efforts and contributions and dedication of all staff of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group faces certain risks and uncertainties in its operation which, if material, may affect the financial results of the Group.

As most of the operations of the Group are conducted in the PRC, any material change in the PRC's political, economic and social conditions, laws, regulations and policies may have a material adverse effect on the Group

The industry in which the Group is operating its business is subject to the laws and regulations in the PRC. Any change in existing laws and regulations or their interpretation that may affect the business or operations of the Group could lead to additional compliance costs or costly and time-consuming changes to its operations, either of which could materially and adversely affect the business, financial conditions and results of operations of the Group.

Further, the PRC economy has been transformed to a more market-oriented economy. The PRC government has implemented economic reform measures emphasising responsiveness to market forces in the development of the PRC economy. Yet, the PRC government continues to play a very significant role in regulating industries by imposing industrial policies. Despite the implementation of such reforms, the Group cannot predict whether changes in the PRC's political and social conditions, laws, regulations and policies will have any adverse effect on the current or future business, financial conditions and results of operations of the Group.

The failure to obtain or renew the qualifications and certificates necessary for the business operations of the Group would materially and adversely affect the ability of the Group to conduct or expand its business

The Group are required to maintain requisite qualifications and certificates to conduct its business. The Group must comply with the conditions imposed by the relevant authorities to maintain its qualifications and certificates. Any suspension or revocation of these qualifications or certificates may have a material adverse impact on its business and operations. In addition, the Group cannot assure that qualifications or certificates necessary for its business operations will be granted to or renewed in a timely manner, or at all. If the Group experiences delays in obtaining, or are unable to obtain, such required qualifications or certificates, its operations and business and its overall financial performance will be materially and adversely affected. The Group may also not be able to commence new business line if the Group fails to obtain the requisite qualification or certificates. Further, any change in the qualification requirements or certificate conditions may lead to additional compliance costs or result in costly and time-consuming changes to its operations in order to fulfil the new requirements or conditions.

The Group does not have long-term commitments with its major customers and the Group generate its revenue mainly on project-basis which is not recurring in nature

The relationships between the Group and its customers are mainly contract-based with reference to particular project(s). In cases where its customers are local governments, they may form a project company for commencing and managing a new project and organising the tendering process. As such, its major customers do not have long-term commitments with the Group and can vary from period-to-period. In addition, the relationship between the Group and its major customers are non-exclusive and largely dependent on goodwill. The results of operations of the Group will continue to depend on (a) its ability to continue to secure projects from its customers, in particular, the state-invested enterprises and local governments which are major group of its customers; and (b) the financial condition of its major customers. The Group cannot assure that its major customers will be able to continue to maintain strong financial position. If their financial condition significantly deteriorates, they may reduce the number and scale of new projects, thereby reducing business opportunities to the Group. Furthermore, the Group cannot assure that it will be able to maintain or improve business relationships with its existing customers and any of them may terminate their respective business relationships with the Group at any time. Any material difficulty in securing projects from its customers, termination or significant reduction in the number or contract value of the projects secured from them could cause its revenue and profit to decrease significantly. If any of the foregoing events occurs, the financial conditions and results of operations may be materially and adversely affected.

Revenue of the Group derived from such projects is mainly project-based which is not recurring in nature. In the tendering process, the Group has to prepare and submit a tender bid and sign construction contract for new project only if the bid is successful. The tenderer sets its own assessment process and selection criteria over which the Group has limited control or influence. The contract is not necessarily awarded to the lowest priced bid and the tendering process can be highly competitive, especially for high-profile or lucrative project. As such, the Group cannot assure that every bid submitted by the Group in the tenders will be successful. In the event that the bid for major contract is not successful, the Group may lost opportunity to elevate its corporate profile and generate new revenue source, and the business and results of operations of the Group may be materially and adversely affected.

ENVIRONMENTAL POLICIES AND PERFORMANCE

With respect to the environmental protection in the process of engineering and construction contracting, according to such laws and regulations as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), the Environmental Impact Evaluation Law of the PRC (《中華人民共和國環境影響評價法》), the Law of the PRC on the Prevention of the Environmental Pollution of Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Regulations on the Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) and the Regulations on the Administration of the Final Acceptance of the Environmental Protection Facilities of Construction Projects (《建設項目環境保護設施竣工驗收管理規定》), the construction of any project that causes pollution to the environment must comply with the PRC government's regulations on environment protection relating to the construction projects. The PRC government has implemented a mechanism for the evaluation of environmental impact of construction projects. A construction enterprise shall adopt measures to control environmental pollutions and damages caused by dust, waste gas, sewages, solid waste, noises and vibrations at the construction site in accordance with the environmental protection and work safety laws and regulations. For details of the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report on pages 46 to 61 of this annual report. For the Year 2018, the Company has complied with the relevant environmental laws and regulations that have a significant impact on the Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year 2018 or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Under the Article of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indeminified against all actions, costs, charges, losses, damages, and expenses, which he/she may incur or sustain in or about the execution of his/her duties in his/her office. As at the date of this annual report, all Directors were covered under the liability insurance purchased by the Company for its Directors.

CHARITABLE DONATIONS

For the Year 2018, the Group made charitable and other donations approximating RMB146,000.

SUBSEQUENT EVENTS

The material subsequent events are disclosed in note 35 to the consolidated financial statements in this annual report.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advance by the Company to an entity.

AUDIT COMMITTEE

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, the preparation of financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor in matters within the scope of the group audit.

The annual results for the Year 2018 of the Company have been reviewed by the Audit Committee.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry to all Directors, the Directors have complied with the required standard set out in the Model Code during the Year 2018 and up to the date of this report.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 36 to 45 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public during the Year 2018 and up to the date of this report.

AUDITOR

RSM Hong Kong has acted as auditor of the Company for the Year 2018. On 22 November 2018 our auditor changed its Chinese practice name.

RSM Hong Kong shall retire in the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of RSM Hong Kong as auditor of the Company will be proposed at the forthcoming AGM.

The Company was incorporated in the Cayman Islands with limited liability on 1 April 2016 and appointed RSM Hong Kong as the first auditor. The Company has not changed its auditor since its incorporation.

On behalf of the Board

Peng Tianbin
Chairman and Executive Director

Ningbo, the PRC
26 March 2019

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining high standards of corporate governance. The Chairman and the Board believe that effective corporate governance and disclosure practices are not only crucial to the enhancement of the Company's accountability and transparency and investors' confidence, but also critical to the Group's long-term success. The Company has adopted the CG Code as its own code on corporate governance.

The Company has complied with the code provisions set out in the CG Code for the Year 2018.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties with its written terms of reference as set out below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference. All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

Board Composition

As at the date of this annual report, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Mr. Peng Tianbin *(Chairman)*
Mr. Peng Yonghui *(Chief Executive Officer)*
Mr. Peng Daosheng

Non-executive Director

Ms. Wang Sufen

Independent Non-executive Directors

Mr. Fan Rong
Mr. Shi Weixing
Mr. Yang Zhongkai

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

For the Year 2018 and up to the date of this report, the Company has been in compliance with the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge and length of service. The Board diversity policy sets out the approach towards achieving diversity on the Board. Pursuant to the Board diversity policy, all Board appointments will be based on merits and contribution that the selected candidates will bring to the board, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board.

As each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this annual report or otherwise in this annual report, none of the Directors has any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive of the Company.

All Directors, including independent non-executive Directors and non-executive Director, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

Independent non-executive Directors and non-executive Director have the same duties of care and skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

Through active participation at Board meetings and taking the lead in managing issues involving potential conflict of interests, non-executive Director makes various contributions to the effective direction of the Company.

Independent non-executive Directors are experienced professionals with expertise in respective areas of construction industry and related technical know-how, accounting and finance. With their professional knowledge and experience, independent non-executive Directors advise the Company on its operation and management; provide independent opinion on the Company's connected transactions; and participate in various committees' meetings of the Board; and provide adequate checks and balance to protect the interests of the Group and the Shareholders as a whole, and to promote the development of the Group. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as the identity and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular briefings and seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

According to the code provision A.6.5 of the CG Code, the Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

For the Year 2018, according to the records of the Company, all Directors received the training in the form of written materials and briefing/seminars, in respect of updates on corporate governance, laws, rules and regulations, and industry specific.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the organization structure of the Company, Mr. Peng TB and Mr. Peng YH perform Chairman of the Board and the chief executive officer respectively. The chairman focuses on the Group's strategic planning while the chief executive officer has overall executive responsibility for the Group's development and management. This is in compliance with the abovementioned code provision.

The chairman has a clear responsibility to ensure that the Board works effectively and discharges its responsibilities in the best interests of the Company and all key and appropriate issues are discussed by the Board in a timely manner. He takes responsibility for ensuring that the Board receives, in a timely manner, adequate information which must be accurate, clear, complete and reliable.

The chairman is also responsible for ensuring that good corporate practices and procedures are established and encourages all Directors to make a full and active contribution to the Board's affairs, to voice their concerns or different views and ensure that the decisions fairly reflect the consensus. A culture of openness and debate is promoted to facilitate the effective contribution relations between the independent non-executives Directors and the non-executive Director. The chairman holds, at least annually, meetings with the independent non-executive Directors in the absence of the Executive Directors.

Appointment and Re-election of Directors

Each of the executive Directors, non-executive Director and independent non-executive Directors has signed a service contract with the Company for a term of three years commencing from the Listing Date subject to termination as provided in the service contract.

The appointments of executive Directors, non-executive Directors and independent non-executive Directors are subject to the provisions of retirement and rotation of the Directors under the Articles of Association and the applicable Listing Rules.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

In accordance with the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation and shall be eligible for re-election and re-appointment provided that every Director shall be subject to retirement by rotation at least once every three years at every annual general meetings and any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by Shareholders at the next general meeting after appointment.

Board Meetings

The Company intends to hold Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committees meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committees members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committees members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committees meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committees meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by the Directors.

All Directors have access to the advice and services of the Company secretary with a view to ensure the Board procedures and all applicable law, rules and regulations, are followed.

For the Year 2018, four Board meetings were held. The attendance record of each Director for Board meetings, Board Committees meetings, AGM and a conference between the Chairman and independent non-executive Directors is set out in the table below:

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings	Strategic Committee meetings	AGM	Conference between the Chairman and independent non-exective Directors
Executive Director:							
Mr. Peng Tianbin	3/4	N/A	N/A	1/1	2/2	1/1	1/1
Mr. Peng Yonghui	4/4	N/A	1/1	N/A	2/2	1/1	N/A
Mr. Peng Daosheng	4/4	N/A	N/A	N/A	N/A	1/1	N/A
Non-executive Director:							
Ms. Wang Sufen	4/4	N/A	N/A	N/A	N/A	1/1	N/A
Independent Non-executive Director:							
Mr. Fan Rong	4/4	3/3	N/A	N/A	2/2	1/1	1/1
Mr. Shi Weixing	4/4	3/3	1/1	1/1	N/A	0/1	1/1
Mr. Yang Zhongkai	4/4	3/3	1/1	1/1	N/A	1/1	1/1

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding the Directors' securities transactions.

All Directors have confirmed that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct during the Year 2018 and up to the date of this report.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on terms no less exacting than the required standards set out in the Model Code. Each of the relevant employees has been given a copy of the written guidelines.

No incident of non-compliance with these guidelines by the relevant employees was noticed by the Company.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. The Board and the Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Remuneration of Directors and Senior Management

The remuneration of Directors and senior management by band for the Year 2018 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	7
1,000,001 – 1,500,000	3
2,000,001 – 2,500,000	1
	11

Further particulars regarding Directors' and chief executive' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 13 and 14 to the financial statements.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, namely Mr. Fan Rong (chairman), Mr. Shi Weixing and Mr. Yang Zhongkai, all of them are independent non-executive Directors.

The principal duties of the Audit Committee include but not limited to the following:

(1) to act as the key representative body for overseeing the Company's relations with the external auditor;

(2) to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(3) to review the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly report) before submission to the Board, with focus on significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Rules and legal requirements in relation to financial reporting;

(4) to consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(5) to review the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Company's risk management and internal control systems; and

(6) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

For the Year 2018, three Audit Committee meetings were held. At the meetings, the Audit Committee reviewed the annual report for 2017 with external auditors, the interim results for 2018, the activities of the Group's internal control and risk management functions and the effectiveness of the Company's internal audit functions, and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Mr. Yang Zhongkai (chairman), Mr. Shi Weixing and one executive Director namely Mr. Peng TB.

The principal duties of the Remuneration Committee include but not limited to the following:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. to review and approve management's remuneration proposals with reference to corporate goals and objectives of the Board;
3. to consult with the Chairman and/or chief executive officer of the Company about the Remuneration Committee's proposals for other executive Directors;
4. to determine the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
5. to make recommendations to the Board on the remuneration of non-executive Directors;
6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
9. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration; and
10. to report back to the Board on their decisions or recommendation, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

For the Year 2018, one Remuneration Committee meeting was held. At the meeting, the Remuneration Committee reviewed and determined remuneration packages of the Directors and senior management, and thought that the remunerations of whom were reasonable and appropriate. The Remuneration Committee also assessed the performance of executive Directors and approved the terms of executive Directors' service contracts.

Nomination Committee

The Nomination Committee currently comprises three members, including two independent non-executive Directors namely Mr. Shi Weixing (chairman), Mr. Yang Zhongkai and one executive Director namely Mr. Peng YH.

The principal duties of the Nomination Committee include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
3. to assess the independence of independent non-executive Directors;
4. to make recommendations to the Board on the appointment or reappointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive officer; and
5. to review the Board diversity policy.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Board adopted a board diversity policy which recognises and embraces the benefits of having a diverse and inclusive Board, and aims to enhance diversity at Board level continuously, in order to achieve and maintain good corporate governance, a sustainable growth and a competitive edge. Board diversity is considered from a range of diversity perspectives, including but not limited to educational background, professional expertise, industry experience, management function and length of service. These aspects are considered in determining the optimum composition of the Board. The Board believes a diversified board improves effectiveness and enables better decisions to be made due to the lowered risk of bias. The Nomination Committee continues to take these measurable objectives into account when making recommendation of candidates for appointment to the Board.

For the Year 2018, one Nomination Committee meeting was held. All the members of the Nomination Committee attended the meeting. At the meeting, the Nomination Committee reviewed the board diversity policy, the procedure for the selection, appointment and reappointment of directors, the structure, size and composition of the Board, the independence of independent non-executive directors and considered the qualifications of the retiring Directors standing for re-election at the AGM. The Nomination Committee is of the view that the current composition and structure of the Board comply with the applicable regulations and the Board is experienced and have diversified perspectives and views.

Strategy Committee

The Strategy Committee comprises three members, including two executive Directors, namely Mr. Peng TB (chairman), Mr. Peng YH, and one independent non-executive Director, namely Mr. Fan Rong.

The principal duties of the Strategy Committee include but not limited to the following:

1. to review, study and advise the Company's business strategies, and monitor the progress of the application of the net proceeds from the Global Offering and implementation of the Company's business strategies;
2. to research and recommend on the long term development strategy of the Company; and
3. to research and recommend on other significant matters affecting the development of the Company.

The written terms of reference of the Strategy Committee are available on the websites of the Stock Exchange and the Company.

For the Year 2018, two Strategy Committee meetings were held. At the meetings, the Strategy Committee reviewed and advised the Group's business strategies, and monitored the use of the net proceeds from the Global Offering.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and senior management are set out in notes 13 and 14 to the consolidated financial statements in this annual report.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the Year 2018 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the Auditor regarding its reporting responsibilities on the consolidated financial statements of the Company is set out in the "Independent Auditor's Report" on pages 62 to 67 of this report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board oversees the risk management and internal control systems of the Group and review its effectiveness on an annual basis. The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control and risk management system to safeguard Shareholder investments and Company assets. The Board has ensured the adequacy of resources, staff qualification and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

The Group's internal audit department plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the financial condition and internal control of the Company, as well as identifying, evaluating and managing significant risks of the Company and conducting comprehensive audits of all significant subsidiaries of the Company on a regular basis.

The Board considers that the existing internal control system is reasonably effective and adequate.

AUDITOR'S REMUNERATION

The remuneration for the audit services in respect of the consolidated financial statements of the Group for the Year 2018, and non-audit services in respect of the review of the condensed consolidated financial statements for the six months ended 30 June 2018, provided by the Auditor to the Group during the Year 2018 amounted to RMB 0.93 million and RMB 0.34 million respectively.

COMPANY SECRETARY

Mr. Tong Tai Alex (湯泰), the company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

Mr. Tong took not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the Year 2018.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged directors' and officers' liability insurance for its Directors and senior management. The insurance covers the corresponding costs, charges, expenses and liabilities for any legal action against them arising out of corporate activities.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The AGM provides opportunity for the Shareholders to communicate directly with the Directors. The Chairman of the Company and the chairperson of the Board Committees will attend the AGM to answer Shareholders' questions. The Auditor will also attend the AGM to answer questions about the conduct of the audit, the preparation and content of the Auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

DIVIDEND POLICY

The Company currently does not have any dividend policy in place and the Board does not expect to formulate any specific dividend policy in the near future. The declaration of dividends is subject to the discretion of the Board and the approval of the Shareholders. The Directors may recommend a payment of dividends in the future after taking into account operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to the Company's constitutional documents and the Cayman Islands Companies Law, including the approval of the Shareholders. Any future declarations of dividends may or may not reflect the Company's historical declarations of dividends and will be at the absolute discretion of the Directors.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as at date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or any one of the company secretary of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at 17th and 18th Floors, Cang Hai Industry Building, No. 3388 Cang Hai Road, Yinzhou District, Ningbo City, Zhejiang Province, China (email address: chanhigh@chanhigh.com.hk).

CHANGE IN CONSTITUTIONAL DOCUMENTS

For the Year 2018, there were no changes made in the Company's constitutional documents.

ABOUT THIS REPORT

Chanhigh Holdings Limited is pleased to present the 2018 ESG Report to provide an overview of the Group's management of significant issues affecting the operation, including ESG issues.

REPORTING PERIOD

The ESG Report illustrates the Group's policies and performance regarding the environmental and social aspects during the reporting period from 1 January 2018 to 31 December 2018.

REPORTING SCOPE

The ESG Report covers the Group's core and material business units[1] in Zhejiang Province and Hong Kong[2], including the operations of offices. If the scope of specific content varies, it is noted in the relevant section of the ESG Report.

REPORTING BASIS

The ESG Report is prepared in accordance with the ESG Guide to summarise the ESG performance of the Group. The Group has complied with the disclosure requirements of the "comply or explain" provisions set out in the ESG Guide. Some data reported in 2017 has been restated to reflect revised methods of calculation used by business units.

The information contained herein is sourced from official documents and statistics of the Group, as well as the combined control, management and operations information provided by the subsidiaries in accordance with the Group's relevant policies. The ESG Report is prepared and published in both English and Chinese. In the event of contradiction or inconsistency, the English version shall prevail.

INFORMATION AND FEEDBACKS

The Group respects your view on the ESG Report. Should you have any opinions or suggestions, you are welcome to send to us via email to the following address: chanhigh@chanhigh.com.hk

ABOUT THE GROUP

The history of the Group dates back to 2001. The Group is an integrated construction enterprise that starts with municipal works and urban landscaping. Its main businesses include municipal utilities, landscaping projects, housing construction projects, urban and road lighting projects, water conservancy and hydropower projects, municipal conservation and so on. With more than ten years of unremitting efforts, the Group has operations in 18 provinces, 3 municipalities and 3 autonomous prefectures in the PRC.

1 These refer to Chanhigh HK, Chanhigh Construction and Zhejiang Chanhigh Industrial Investment Co., Ltd.
2 It is newly included in 2018 ESG Report

The Group has attained various certifications, the details are as follows:

Subsidiaries	Qualifications
Chanhigh Construction	• the First-Grade Professional Contractor for Building Renovation Projects (建築裝修裝飾工程專業承包壹級) • the First-Grade Professional Contractor for Historic Building Projects (古建築工程專業承包壹級) • the First-Grade Professional Contractor for Urban and Street Lighting Projects (城市及道路照明工程專業承包壹級) • the Second-Grade General Contractor for Construction Projects (建築工程施工總承包貳級) • the Second-Grade General Contractor for Highway Projects (公路工程施工總承包貳級) • the Second-Grade General Contractor for Water Works and Hydropower Projects Qualification (水利水電工程施工總承包貳級) • the First-Grade General Contractor for Municipal Public Works (市政公用工程施工總承包壹級) • the Third-Grade Professional Contrator for Environmental Construction Projects (環保工程專業承包參級)
興鋒盈(福建)建設有限公司 (Xingfengying (Fujian) Construction Co., Ltd.*)	• the First-Grade General Contractor for Water Works and Hydropower Projects Qualification (水利水電工程施工總承包壹級)
寧波銘旺建設有限公司 (Ningbo Mingwang Construction Co., Ltd.*)	• the First-Grade General Contractor for Construction Projects (建築工程施工總承包壹級)[3]

* for identification purpose only

Besides, it has been awarded highly regarded honorary titles in the industry, such as "Landscaping Enterprise with Credit Grade AAA in the PRC", "Top 50 Urban Landscaping Enterprise in the PRC" (全國城市園林綠化企業50 強) and many other honorary titles.

ESG MANAGEMENT APPROACH

The Group is committed to integrating environmental, social and governance factors into its operations in order to create sustainable value for stakeholders and take up the responsibilities as a good corporate citizen.

The Board is responsible for the evaluation and determination of the Group's ESG-related risks and ensuring that the Group has established an applicable and effective system to manage and internally control ESG-related risks. The management reviews the risks and the effectiveness of the internal control system of these aspects and provides confirmation to the Board.

3 The qualification was transferred to (Ningbo Hongyuan Construction Co., Ltd.) which is also one of the Group's subsidiaries, in 2019.

STAKEHOLDER ENGAGEMENT

The Group emphasises the participation of its stakeholders, including staff, customers, suppliers etc. All of them have a substantial impact on the success of its business or activities.

In compiling the ESG Report, the Group consulted its internal stakeholders, to monitor and manage its impact on all aspects of the environment and society. Besides, the Group has established various engagement channels for its stakeholders, including employees, customers, suppliers, shareholders, investors, regulatory authority, media and government departments to understand their concerns regarding the Group's operation. The Group believes that stakeholders engagement has a significant level of influence in developing sustainable development strategies and fulfilling social responsibilities which is the basis for the Group's strategy formulation and decision-making.

Stakeholder	Issues of concern	Engagement Channels
Government	• To comply with laws • Proper tax payment • Promote regional economic development and employment	• Corporate events • Annual, quarterly and interim reports and other published information
Shareholders and Investors	• Low risk • Return on investment • Information disclosure and transparency • Protection of interests and fair treatment of shareholders	• Corporate events • Annual general meeting and other shareholder meetings • Annual, quarterly and interim reports and other published information • Website of the Company and the Stock Exchange, respectively
Employee	• Working environment • Career development opportunities • Self-actualisation • Health and safety	• Training, seminars, briefing sessions • Cultural activities • Intranet and emails
Client	• Comply with laws and high-quality services • Stable relationships • Information transparency • Integrity • Business ethics	• Website, brochures, annual, quarterly reports and other published information • Email and customer service hotline • Social communication channels • Feedback forms
Supplier	• Fair competition • Quality and price • Supplier evaluation	• Supplier rating system • Supplier conference • Site visit
Peer Industries	• Experience sharing • Cooperations • Fair competition	• Conference meeting • Exhibitions • Corporate events
Community	• Community involvement • Social responsibilities	• Community service • Charity and social investment

MATERIALITY ASSESSMENT

The Group has conducted internal and external materiality assessment to identify the issues for disclosure in the ESG Report. The Group's management has conducted a survey with the identified key stakeholders. They have expressed their opinion and recommendation on the related sustainability issues related to the Group's operation.

Consolidating the results from internal and external materiality assessment, the Group has identified the materiality level for the issues based on the importance of the issue to the business and the importance to stakeholders (refer to the table below). We determine the extent of disclosure for specific issues in the ESG Report by reference to the corresponding materiality level.

Materiality Level	Issues
High	Employment
↑	Labour Standards
	Health and Safety
	Product Responsibility
	Anti-corruption
	Community Investment
	Supply Chain Management
	Development and Training
	Emissions
↓	Use of Resources
Low	The Environment and Natural Resource

A. ENVIRONMENTAL SUSTAINABILITY

A1 Emissions

The Group has been accredited with ISO14001:2004 Environmental Management System (in respect of the construction of municipal engineering and the construction conservation of landscaping and correlative management activity). The Group is also committed to complying with requirements stipulated in local environmental laws and regulations, including but not limited to the Law of the PRC on Environmental Protection, the Law of the PRC on Prevention and Control of Water Pollution, the Law of the PRC on Prevention and Control of Atmospheric Pollution and the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Waste. In 2018, the Group was not aware of any material non-compliance with the relevant environmental laws and regulations.

Regarding the operation of the Group, the Group always focuses on municipal and urban landscape projects and offers its customers sophisticated construction services, which is mainly office operation. The type of emissions would be air pollutants and greenhouse gas emissions. There were no significant solid wastes generated from office operation. However, the Group has implemented various measures to minimise the environmental impacts for the construction work undertaken by subcontractors. For instance, the Group has adopted new technology and environmental-friendly process, recycled used water and construction wastes.

Air Pollutant Emission[4]

The air pollutant emissions are as follows:

Air Pollutant Emission	Unit	2017	2018
Nitrogen oxides (NO_x)	kg	1,317.05	1,072.56
Sulphur oxides(SO_x)	kg	41.60	39.72
Particular Matter (PM)	kg	37.29	29.83

The main source of air pollutant emission was company vehicles. In 2018, the decrease of the air pollutant emission volume was caused by the reduction of mobile vehicles uses. Besides, the Group has adopted different measures on the construction sites to mitigate the generation of dust (e.g. applying protective cover on the site, water spraying and plantation.) Considering the emission borne by the projects, the Group has set up corresponding rules for construction workers as they may produce gas emission and harmless waste and discharge waste into water and land during construction.

Greenhouse Gas Emission

Regarding the office operations of the Group, the greenhouse gas emission is mainly generated from fuel consumption of mobile vehicles and purchased electricity. The greenhouse gas emission[5] is as follows:

Greenhouse Gas Emission	Unit	2017	2018[6]
Scope 1[7]	kg CO_2-equivalent	185,110.55	176,728.33
Scope 2[8]	kg CO_2-equivalent	146,548.40	220,970.75
Total	kg CO_2-equivalent	331,658.95	397,699.08
Intensity	kg CO_2-equivalent/sq.m	127.95[9]	144.78

The scope 1 and scope 2 emissions were generated from the fuel combustion of mobile vehicles and purchased electricity respectively. Scope 2 emission constituted 56% of the total greenhouse gas emission in 2018. Compared to 2017, the increase in the greenhouse gas emission intensity was mainly caused by the rise in the electricity consumption of the offices in the PRC.

4 The emissions are estimated with reference to "Technical Guidelines for Air Pollutants Emission Inventory of Road Vehicles (Trial)" (道路機動車大氣污染物排放清單編制技術指南(試行)).

5 The greenhouse gas emission is estimated with reference to "The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard", "2011–2012 Regional Power Grid Average CO2 Emission Factors in China" guideline published by the National Development and Reform Commission of the PRC and "Sustainability Report 2017" published by The Hong Kong Electric Investments. Emissions from construction projects, which are borne by subcontractors, are not included as they are not accessible by the Group.

6 The scope is extended to include the office in Hong Kong.

7 Scope 1 refers to direct emissions from operations that are owned or controlled by the Group.

8 Scope 2 refers to "energy indirect" emissions resulting from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the Group.

9 Restated data

The Group encourages its employees to communicate through telephone and wireless communications in the ordinary course of business to minimise carbon-emissions that may be produced during their business trips by vehicle and plane. Besides, the Group encourages the use of environmental-friendly machines and equipment and disposal of the equipment which does not comply with the emission standards.

A2 Use of Resources

The Group has always attached great importance to the efficient use of resources, to protect the environment and to improve operational efficiency. The Group generally uses resources such as electricity, petroleum, diesel fuel, gas or petroleum gas, water resources and paper. The Group has provided certain guidelines regarding the efficient use of resources in the employee manual and required its employees to enhance their cost consciousness and to use office supplies, water and electricity in an efficient manner. The Group does not consume a significant amount of packaging materials in the ordinary course of business as the Group is not a consumer goods manufacturer. To save the raw material consumption, the construction team will make use of materials available at the project site to build the landscapes there. For instance, dirt dug out from the construction site will be used to create the rockery.

Apart from written guidance, the Group has implemented initiatives on efficient use of resources, for example:

- keeping doors and windows closed when air conditioners are in use, and maintaining the temperature at 25.5°C inside offices
- utilising natural light in offices and installing energy saving lamps
- turning off all lights, computers, office equipment and air conditioners when not necessary to use them
- implementing the 3R principle, which is "Reducing, Reusing and Recycling", in the ordinary course of business

The energy consumption is as follows:

Energy consumption	Unit	2017	2018[10]
Direct Energy Consumption	kWh	737,004.10	703,630.91
Indirect Energy Consumption	kWh	219,679.81	313,823.00
Total	kWh	956,683.91	1,017,453.91
Intensity	kWh/m^2	369.09[11]	370.39

The direct energy consumption refers to the fuel consumed by mobile vehicles, which is still the major contributor to the total energy consumption. It constituted 69% of the total energy consumption in 2018. The indirect energy consumption refers to electricity consumption. There was no significant change in the energy consumption per unit of operating area.

10 The scope is extended to include the office in Hong Kong.

11 Restated data

The main source of water consumption is domestic uses in the office area. The water is supplied by the property management company. Therefore, there is no issue in sourcing water. The Group places "Saving water" label in the office area in order to raise the awareness of the employee in water saving. The performance indicator related to water consumption is as follows:

Water Resource[12]	Unit	2017	2018
Water Consumption	m^3	1,219.69	1,669.00
Intensity	m^3/employee	3.90	3.88

In 2018, water consumption increased by 37%. However, there was no significant change regarding the water consumption for each employee.

A3 The Environment and Natural Resources

The Group has insisted on operating its business in an environmentally friendly manner at all times and implemented various measures to minimise the impact of its production and operation on the environment. In the procurement and selection of materials used in its projects, such as paint, the Group considers chemical components of the products and whether they meet the safety and environmental protection requirements. The Group also assigns its specialists to the construction site to supervise the compliance of environmental protection requirements by the construction teams of its subcontractors. The Group mainly undertakes construction projects on landscape improvement and living environment improvement, which may have a certain impact on the surroundings and people living around the area during their construction. However, its external subcontractors will take active measures to minimise the impact by all means. For example, the construction team adopts the following approaches to reduce its impact on the environment and its consumption of natural resources:

- applying noise-reduction machines in noisy conditions and adopt automated and hermetic technologies to reduce mechanical noise
- filling landscape ponds with rainwater and irrigating landscape plants with an approved natural water source nearby as much as possible in the course of construction
- transplanting existing trees in the construction sites to specific locations and replanting them when the project is almost completed
- To reduce dust, subcontractors spray water on-site when they undergo construction work, dismantling or cleaning up.

B. SOCIAL SUSTAINABILITY

The Group is committed to maintaining a high level of corporate social governance as it is important for the Group in constructing a safe and healthy work environment as well as establishing product quality and social credibility. In the meantime, the Group devotes itself to preserving the sustainable development of its business and community. To promote this business model, the Group exhibits prudence in managing its operations, and is cautious in executing decisions made by the management team.

12 It includes offices in Zhejiang Province only. No data is available on the office in Hong Kong.

EMPLOYMENT AND LABOUR PRACTICES

B1 Employment

The Group is dedicated to promoting fair and ethical labour policies. The Group has established human resource systems relating to compensation and dismissal, recruitment and promotion, working hours, leave application, equal opportunity, diversity, anti-discrimination and other benefits and welfare, and circulated clearly such policies to all employees. The Group has complied with requirements set out in relevant laws and regulations all the times, including the Labour Law of the PRC, the Social Insurance Law of the PRC and the Trade Union Law of the PRC. In 2018, the Group was not aware of any material non-compliance with relevant laws and regulations.

Remuneration and dismissal

The employee remuneration policies were determined with reference to factors such as salary information available in local markets, overall salary standards in the industry, inflation level, operational efficiency of the Group and the employees' qualification, position, length of service and performance. Employee remuneration package comprises basic salary, allowance, bonus and other compensation. The dismissal of employee follows the procedure as set out in the "Labour Contact Management Policy".

Recruitment and Promotion

The Group recruits talents through graduate programmes and experienced hiring. Departments propose annual recruitment plan based on their needs.

Working hours and rest periods

The Group implements five-day work week in the Company headquarters. Specific position works non-standard hours. The Group's statutory holidays are implemented in accordance with national regulations, including sick leave, marriage leave, maternity leave, nursing leave, bereavement leave, lactation leave, work-related injury leave, etc.

Employee benefits and welfare

The Group participates in social insurance and housing provident fund for applicable employees according to the national laws and regulations. Related social insurance includes pension insurance, medical insurance, maternity insurance, unemployment insurance and work injury insurance. Moreover, we provide monetary rewards on major holidays such as the Mid-Autumn Festival and birthdays. The Group also communicates with the employee through different channels, e.g. corporate email, instant message mobile applications such as WeChat, employee gathering, labour union and team exploration activities.

In 2018, we organised various activities to cater for different employee's needs. For instance, tree planting, community services, workshops related to psychological health, celebrations for Dragon Boat Festival, Mid-Autumn Festival and Christmas.

The performance indicators related to employment are as follows:

Workforce Distribution	2017	2018
By Gender		
Male	214	288
Female	99	143
By Age Group		
Below 30	73	89
30-39	134	181
40-49	70	97
50 or above	36	64
By Employment Categories		
Assistant General Manager or Above	8	3
Senior Manager	19	12
Manager	59	17
Assistant Manager	34	23
General Staff	193	371
Operational Staff	Not applicable	5
Total	**313**	**431**

Employee Turnover Rate[13]	2017	2018
By Gender		
Male	13%	27%
Female	30%	23%
By Age Group		
Below 30	71%	28%
30-39	30%	27%
40-49	16%	36%
50 or above	13%	4%
Overall	**35%**	**26%**

B2 Health and Safety

The Group has been in strict compliance with relevant laws and regulations, including but not limited to Work Safety Law of the PRC, Protection Law of the PRC, Emergency Response Law of the PRC and the Regulation on Work-Related Injury Insurances. The Group has established a management system which has been accredited with OHSAS18001:2007 Occupational Health and Safety Management System (in respect of the construction of municipal engineering and the construction conservation of landscaping). In 2018, the Group was not aware of any material non-compliance with the health and safety laws and regulations and there was no case of work-related injury or fatality.

13 Turnover rate = Number of employee left during the year/Average number of employee during the year

The Group has formulated a safety work management handbook to provide for the safety work management of other parties such as the project departments and other departments of the Group. The project departments are not only in charge of organising and implementing the safety work in detail, but are also responsible for supervising and monitoring the execution of safety requirements by construction teams of the subcontractors as per the requirements of the handbook.

The Group has developed an employee manual which provides guidance in respect of employees' responsibilities for their health and safety at the workplace.

Work safety management system

The Group has in place stringent internal safety policies to ensure work safety operations and compliance with the relevant laws and regulations in the PRC. The quality and safety department is responsible for overseeing the compliance with the relevant laws and regulations in the PRC, conducting regular reviews and inspections of safety performance, conducting reviews of any material accidents, and ensuring that the Group maintains the necessary licences, approvals and permits to operate.

The Group implements a multi-tiers work safety management system. The general manager, being the first tier, is responsible for formulating and overseeing the implementation of safety standards and reporting the status to the Directors. The quality and safety department, being the second tier, together with the general manager, deputy general manager, head of the quality and safety department and project managers are responsible for the coordination and organisation of the safety management of the Group. The project team, being the third tier, comprises safety officers, workers and group leaders are responsible for preparing and updating project logbook and inspecting safety management of the projects.

Training

The Group organises vocational training on a regular basis and it is the policy that all staff and workers working on-site are required to attend not less than four days of training covering the Group's safety policies and measures, relevant legal requirements, equipment operations, prevention measures and company protocols in the event of accidents. In addition, all employees of the Group are required to attend a safety seminar and pass an examination covering the Group's production safety guidelines, safety knowledge and protocols on an annual basis.

The Group's safety management system includes a reporting and recording system for safety accidents of its construction sites. All safety accidents must be immediately reported to the general manager of the Group. Personnel from the responsible project team are required to arrive at the site immediately to oversee the handling of the safety accident and ensure evidence of the accident is kept intact. Investigation of the accident will be conducted to find out the underlying cause, to establish accountability and to identify improvement measures.

B3 Development and Training

The Group believes that its employees are valuable assets. Competition for excellent employees is fierce in the construction service industry in the PRC, and the Group offers competitive remuneration to attract and retain the talented ones. Regular review on the remuneration of employees is carried out in order to retain outstanding employees and attract external talents that are valuable.

The Group lays emphasis on the development of its employees and tries its best to help them realise their career goals while making efforts to meet the business targets. The Group monitors its employees in the construction sites for safety purpose, and regularly provides them with safety and skill training. The Group also has corresponding requirements in place for construction site safety management.

The Group will keep upgrading the professional development platform and assessment systems for its employees, roll out the tailor-made leadership and know-how training programmes and offer them with better promotion opportunities that meet their needs.

In 2018, the Executive Director and Chief Executive Officer of the Group led a delegation to Shanghai. They visited the Changfeng Business District (長風生態商務區) and Schneider's Headquarters. The senior management also attended a seminar related to digitalisation, which was delivered by a professor from Tsinghua University. Contents of other training organised in 2018 are as follows:

- Health and safety standardisations of the municipal public construction works
- Introduction to Public-Private partnership (PPP) projects and analysis of the trend of national infrastructure
- Construction laws and case study
- Business etiquette and code of conduct for listing companies employee
- Introduction to the procedure of business activities and public announcement
- Strategy for trade secrets protection and non-competition
- Intellectual property classification in brand management
- Occupational health: counseling and labour protection
- Continuous learning and innovation

The performance indicators related to employee training are as follows:

Percentage of trained employee[14]	2017	2018
By Gender		
Male	100%	60%
Female	100%	85%
By Employment Categories		
Assistant General Manager or Above	100%	100%
Senior Manager	100%	83%
Manager	100%	71%
Assistant Manager	100%	61%
General Staff	100%	69%
Operational Staff	Not applicable	0%
Overall	**100%**	**68%**

Average Training Hours[15] (hours/person)	2017	2018
By Gender		
Male	30.36	12.30
Female	38.18	21.92
By Employment Categories		
Assistant General Manager or Above	72.00	242.33
Senior Manager	72.00	74.50
Manager	72.00	36.71
Assistant Manager	18.00	90.61
General Staff	18.00	6.33
Operational Staff	Not applicable	0.00
Overall	**32.84**	**15.49**

B4 Labour Standards

The Group always respects and strictly complies with all applicable national laws and local regulations as well as relevant labour laws and regulations in the place where it operates, including those relating to preventing child and forced labour. The Group has also developed rigorous and systematic measures for approval and selection, to prevent itself from illegally hiring child labour and ensure that the employment is in compliance with relevant laws and regulations.

The Group arranges the employees' working hours based on the statutory working hour standards and allows them to entitle for paid leaves and sick leaves in accordance with relevant labour laws.

In 2018, the Group was not aware of any material non-compliance with the labour requirements in relation to child and forced labour set out in relevant laws and regulations.

14 Percentage of trained employee = Number of trained employees/Number of employees at the end of the year

15 Average training hours = Total training hours/Total number of employee at the end of the year

OPERATING PRACTICES

B5 Supply Chain Management

The Group has established relevant policies and systems in force for supply chain management, including procedures and criteria of selecting suppliers, and will review and reassess such procedures regularly.

The Group procures its construction machinery, materials and services by means of impartial and open competitions to ensure that the selected products and service providers can satisfy its needs. In addition to the consideration of the quality of products or services as well as business factors in its bidding process for supplier selection, the Group prefers suppliers who proactively fulfil their social responsibilities with an aim to improve the sustainable development of the Group.

The Group is impartial to every product/service provider to facilitate long-term cooperation. Furthermore, the Group reviews its product and service providers regularly based on their pricing, quality and aftersales service, to ensure that it is continuously provided with high-quality products and services. If suppliers are in violation of the Group's provisions or any other regulations, they will be blacklisted and receive no further orders from the Group.

The suppliers mainly provide us with raw materials, including soil and rock, machinery, seedlings, steel, tubes and bitumen. In 2018, there were 699 suppliers in total. The number of suppliers by geographical locations is as follows:

Location	Number of supplier
Anhui Province	7
Beijing	1
Fujian Province	1
Guangdong Province	8
Hainan Province	1
Henan Province	1
Hubei Province	7
Inner Mongolia	2
Jiangsu Province	29
Jiangxi Province	6
Shandong Province	9
Shanghai	10
Sichuan Province	18
Zhejiang Province	599
Total	**699**

B6 Product Responsibility

The Group is committed to providing high-quality services and guarantees that the quality of its projects is in line with quality standards and sustainability requirements. It also pursues to meet higher criteria all the time. The Group strictly abides by the laws and regulations related to health and safety and project quality, for instance, Construction Law of the PRC, Construction Project Quality Control Regulation, Product Safety Law of the PRC, and the Administrative Regulations on the Work Safety of Construction Projects. In 2018, the Group was not aware of any material non-compliance with relevant laws and regulations. As the Group does not produce physical goods, issues relating to advertising and labelling have no significant impact on the Group's operations. The Group has formulated related procedures and measures relating to quality management, complaint handling, intellectual property and customer data protection and privacy matters. The details are illustrated in the following sections.

Quality Management

The Group has always been focusing on quality control in project construction since its incorporation. In respect of human resources, it has a team of project managers with rich experience in undertaking various landscape and municipal works construction projects. In respect of systems, the Group owns a comprehensive quality management system and is accredited with ISO9001 Quality Management System. In respect of the management of technology, operation, human resource and file management, a complete and constantly effective management policy has been established.

The Group also carries out training and has established a management system covering various aspects including management of quality of construction staff, quality control on raw material and site management, so as to ensure the timely and efficient completion of its projects.

Stringent quality control is critical to the Group's reputation and success. As such, it adopts comprehensive quality control measures to ensure work quality. The Group has in place an organisational structure for quality control. The general manager is responsible for setting the overall quality control decisions, managing quality control matters and assessing the effectiveness of the quality control measures. The quality and safety department is responsible for formulating and monitoring the implementation of quality control policies, receiving and reporting quality control issues and making recommendations to enhance work quality. At the project site, in addition to project manager, the quality inspection officer(s) in each project team primarily responsible for day-to-day monitoring of the quality control measures, such as supervising raw materials procurement and carrying out work quality inspections. The following is a summary of the key quality control measures the Group implements:

- Inspection of raw materials: Incoming raw materials are inspected in accordance with the Group's quality standards and the specifications of its customers in the construction contracts. A product certificate is required before using such raw materials for the construction projects;

- Training: Staff are provided with training to ensure their understanding of, and compliance with, the Group's quality standards. In addition, a daily meeting is held with staff working on-site to review construction safety measures and precautions;

- Standardised construction: Standardised construction methods and technique are implemented in the construction projects to facilitate the implementation of such methods and technique by workers on-site;

- On-site inspections and rectification: Periodic inspections and spot checks are conducted on the construction projects, and the Group's personnel are required to implement immediate rectification measures if any quality control issues are identified. Upon rectification, the quality control issues will be inspected again to ensure that such issues have been resolved. Independent construction supervisor appointed by the customers will conduct periodic inspections and spot inspections of the construction projects; and

- Quality control review: After completion of each project and at the end of each quarter, a comprehensive review and analysis of any quality control issues is conducted.

The Group has set rules for the approval of completion of construction projects as well as the repair and maintenance during the warranty period.

The Group has standard procedures in place to deal with client's complaints. Upon receiving any complaint, it will take timely action to keep track of its settlement, ensuring every complaint being handled properly. In 2018, the Group was not aware of any cases of complaints.

The details of workplace health and safety are mentioned in the section "B2 Health and Safety".

In 2018, the study of an "improvement on the passing rate of waterproof membrane installation for basement" by the quality control group from Zhejiang Chanhigh Construction Limited won the First Class Award in the 2018 Zhejiang Municipal Industry Quality Control Results Conference organised by the Zhejiang Municipal Industry Association. (浙江省市政行業協會) Besides, two projects of Zhejiang Chanhigh Construction Limited were awarded the "Yongjiang Construction Cup" (甬江建設杯) from Ningbo Construction Industry Association. It demonstrated the capability of the quality control team of the Group's subsidiaries.

Intellectual Property Management

The Group has been in strict compliance with the laws related to intellectual property protection in the PRC. In order to protect the intellectual property, the Group has implemented protective measures covered various phases of the project. For example, design, construction etc.

In 2018, the research and development team of Zhejiang Chanhigh Construction Co., Ltd, obtained a patent for the bridge construction equipment developed by themselves. The equipment improves the stability and efficiency in hoisting construction materials. In order to raise employees' awareness of intellectual property, the Group encourages the employees to apply a patent for inventions.

Customer Information Protection and Privacy

The Group has formulated the Policy of Confidential Information Protection (檔案保密制度). Only designated personnel is allowed to access the filing room. Personnel is required to obey the related regulations. For example, they are not allowed to discuss the content of the files with outsiders and review documents that are not relevant to their job duties. Strict procedures are applied when the archives needed to be destroyed. If there are any file missing or stolen, it must be reported to the senior management in a timely manner.

B7 Anti-corruption

The Group rigorously complies with regulations regarding anti-corruption and anti-money laundering, including but not limited to the Criminal Law of the PRC and the Anti-Money Laundering Law of the PRC. The Group has a series of practices and employees' code of conduct against corruption and money laundering in effect.

The Group values honesty and integrity and prevents itself from corruption or violation of rules such as bribery, money laundering, extortion and fraud. The Group believes that it is necessary to enhance the morality in the Group, so as to maintain its sustainability and to win the confidence of its employees, customers, suppliers and other business partners.

Paying high attention to anti-fraud, the Group has formed the corporate culture featuring with integrity and fairness inside the Group. It may unconditionally dismiss any employee who is involved in corruption or bribery or deceives the Group by means of forgery, and take legal action against such person whether or not the Group suffers from any loss because of such misconducts.

The Group has whistle-blowing procedures in effect for employees to report directly to the Group's senior management any misconduct and dishonest behaviours, such as bribery, fraud and other offences.

Furthermore, the Group has specified in the employees' handbook that it is entitled to terminate the employment contract with any employee who is bribed with money, gifts or commission, etc., and reserve the right to take further legal actions against such person.

In 2018, the Group had complied with the relevant laws and regulations regarding anti-corruption and money-laundering and had no concluded legal case regarding corrupt practices brought against the Group or its employees.

B8 Community Investment

The Group has been actively involved in charitable activities in the communities and cities where its projects are operating and constructing, and encourages the employees to participate in in-house or external community activities. In 2018, the Group participated in the following activities and made corresponding donations:

Organisation	Contribution Amount RMB'000
Ningbo Enmei Welfare Home(寧波恩美福利院)	4
Ningbo Yinzhou District Red Cross Society(寧波市鄞州區紅十字會)	10
Ningbo Charity Federation(寧波市慈善總會)	122
Ningbo Shanyuan Public Welfare Foundation(寧波市善園公益基金會)	10
Total	**146**

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TO THE SHAREHOLDERS OF CHANHIGH HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Chanhigh Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 132, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

1. Impairment of trade and bills receivables and contract assets

2. Revenue from construction contracts and contract assets/contract liabilities

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Key Audit Matter	How our audit addressed the Key Audit Matter
1. **Impairment of trade and bills receivables and contract assets**	
Refer to notes 5(b), 6(b), 21 and 22 to the consolidated financial statements The Group has trade and bills receivables and contract assets with aggregate values of RMB459,152,000 and RMB827,101,000 before the loss allowance for trade and bills receivables of RMB10,366,000 and contract assets of RMB2,159,000 respectively as at 31 December 2018. No specific credit period was granted for its customers. As at 31 December 2018, the trade and bills receivables of RMB214,375,000 were aged over 1 year which represented 26.2% of the Group's net assets. During the year, a reversal for impairment loss on trade and bills receivables and contract assets based on management's estimate of the lifetime expected credit losses of RMB3,973,000 and RMB494,000 respectively was credited to profit or loss. The loss allowance is estimated by taking into account the credit loss experience, aging of trade receivables, customers' repayment history and financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. Management concluded that there is adequate loss allowance in respect of the trade receivables and contract assets. This conclusion required significant management judgement in assessing the recoverability of trade and bills receivables and contract assets and estimating the amount of expected credit losses.	Our procedures included: – Assessing the grouping of trade and bill receivables and contract assets by considering the nature of the debtors and credit risk characteristics; – Testing the accuracy and completeness of the data used by management to develop the historical loss rates and assessing the sufficiency, reliability and relevance of that data; – Assessing the appropriateness of the impairment loss methodology, testing the calculation of the historical loss rates and evaluating the reasonableness of the forward-looking adjustments made to reflect current and forecast future economic conditions with the assistance of our internal valuation experts; – Testing the ageing of trade and bills receivables on a sample basis; and – Testing the calculation of expected credit loss provisions applying the provision rates to the age categories of the trade and bills receivables and contract assets outstanding at the reporting date.

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Key Audit Matter	How our audit addressed the Key Audit Matter
2. **Revenue from construction contracts and contract assets/contract liabilities**	
Refer to notes 5(a), 6(b) and 22 to the consolidated financial statements The Group provided construction service for municipal work and landscape construction and related services. The Group recognised contract revenue and profit of RMB733,430,000 and RMB83,540,000 respectively for the year ended 31 December 2018. As at 31 December 2018, the Group recorded contract assets and contract liabilities for construction contracts of RMB824,942,000 and RMB62,346,000 respectively. Revenue from the construction contracts is recognised progressively over time. The Group measures progress towards satisfaction of its performance obligation using an input method based on the proportion of the actual costs incurred relative to the estimated total contract costs. In the early stages of a contract, the Group is generally not able to measure the outcome of its performance obligation but expects to recover the contract costs incurred. Revenue is recognised to the extent of those costs until such time that the Group can reliably measure the outcome of the performance obligation. The determination of contract revenues requires significant management judgement and estimation.	Our procedures included: – Evaluating the estimation of revenue and profit recognised on construction contracts, on a sample basis, by: • agreeing the contract sum to signed contracts; • understanding from management and project managers about how the percentage of completion was determined; • agreeing total budgeted costs to approved budgets; • obtaining an understanding from management and project managers how the approved budgets were determined; • challenging the reasonableness of key management judgements in preparing the budgets; and • challenging management's assessment of the Group's ability to deliver contracts within budgeted timescales and any penalty for late delivery of contract works by comparing the progress of the contracts against the terms stipulated in the contracts. – Assessing the reliability of the approved budgets by comparing the actual outcome against management's estimation of completed contracts on a sample basis; and – Checking the calculation of the contract assets/contract liabilities.

OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all the information in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tam Shing Yu.

RSM Hong Kong
Certified Public Accountants
Hong Kong

26 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	7	733,430	1,144,539
Cost of services rendered		(645,383)	(956,924)
Sales related tax and auxiliary charges		(4,507)	(5,568)
Gross profit		83,540	182,047
Other income and gains	8	13,161	10,129
Administrative and other operating expenses		(61,840)	(57,305)
Reversal of/(impairment loss) on trade and other receivables and contract assets, net		3,445	(11,393)
Profit from operations		38,306	123,478
Finance costs	10	(10,495)	(3,627)
Profit before tax		27,811	119,851
Income tax expense	11	(10,747)	(39,523)
Profit for the year	12	17,064	80,328
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		17,064	80,328
Profit for the year and total comprehensive income for the year attributable to:			
Owners of the company		17,046	80,328
Non-controlling interests		18	—
		17,064	80,328
Earnings per share			
Basic and diluted (RMB cents per share)	16	RMB2.8 cents	RMB13.9 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	17	**9,073**	7,834
Intangible assets	18	**99,833**	—
Available-for-sale financial assets	20	**—**	13
Total non-current assets		**108,906**	7,847
Current assets			
Trade and other receivables	21	**651,914**	701,129
Contract assets	22	**824,942**	—
Gross amount due from customers for contract work	22	**—**	868,377
Bank and cash balances	23	**280,086**	375,852
Total current assets		**1,756,942**	1,945,358
TOTAL ASSETS		**1,865,848**	1,953,205

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	24	5,487	5,487
Reserves	26	805,895	798,281
		811,382	803,768
Non-controlling interests		7,124	—
Total equity		818,506	803,768
Non-current liabilities			
Borrowings	29	45,102	—
Total non-current liabilities		45,102	—
Current liabilities			
Trade payables	27	410,126	824,213
Accruals and other payables	28	88,436	80,648
Receipts in advance		—	18,270
Contract liabilities	22	62,346	—
Gross amount due to customers for contract work	22	—	16,079
Borrowings	29	337,085	111,000
Current tax liabilities		104,247	99,227
Total current liabilities		1,002,240	1,149,437
TOTAL EQUITY AND LIABILITIES		1,865,848	1,953,205

Approved by the Board of Directors on 26 March 2019 and are signed on its behalf by:

Peng Yonghui
Director

Peng Tianbin
Director

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	—	—	(7,370)	30,857	237,100	260,587	—	260,587
Total comprehensive income for the year	—	—	—	—	80,328	80,328	—	80,328
Transfer from retained earnings	—	—	—	10,007	(10,007)	—	—	—
Issue of shares for capitalisation of amount due to a director (note 24 (a))	—	159,370	—	—	—	159,370	—	159,370
Shares issued under the global offering and over-allotment (note 24 (c), (d))	1,493	301,990	—	—	—	303,483	—	303,483
Shares capitalisation (note 24 (b))	3,994	(3,994)	—	—	—	—	—	—
Changes in equity for the year	5,487	457,366	—	10,007	70,321	543,181	—	543,181
At 31 December 2017	5,487	457,366	(7,370)	40,864	307,421	803,768	—	803,768
At 1 January 2018	5,487	457,366	(7,370)	40,864	307,421	803,768	—	803,768
Adjustments on initial application of								
– IFRS 9 (note 3(a))	—	—	—	—	(5,941)	(5,941)	—	(5,941)
– IFRS 15 (note 3(a))	—	—	—	—	(3,491)	(3,491)	—	(3,491)
Restated balance at 1 January 2018	5,487	457,366	(7,370)	40,864	297,989	794,336	—	794,336
Total comprehensive income for the year	—	—	—	—	17,046	17,046	18	17,064
Transfer from retained earnings	—	—	—	3,525	(3,525)	—	—	—
Capital injections by non-controlling interests to a subsidiary	—	—	—	—	—	—	7,106	7,106
Changes in equity for the year	—	—	—	3,525	13,521	17,046	7,124	24,170
At 31 December 2018	5,487	457,366	(7,370)	44,389	311,510	811,382	7,124	818,506

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	27,811	119,851
Adjustments for:		
Allowance for trade receivables	—	11,593
Reversal of impairment loss for trade and other receviables and contract assets	(3,445)	—
Depreciation	1,291	661
Amortisation of intangible assets	3,267	—
Loss on disposals of property, plant and equipment	167	—
Interest income	(2,661)	(3,668)
Dividend income from unlisted equity investments	(12)	(9)
Finance costs	10,495	3,627
Operating profit before working capital changes	36,913	132,055
Decrease/(increase) in amount due from/to customers for contract work	—	(167,272)
Increase in contract assets	36,621	—
Decrease in trade and bills receivables	53,088	1,599
(Increase)/decrease in prepayments, deposits and other receivables	(5,809)	13,878
Increase in contract liabilities	27,997	—
Decrease in trade payables	(414,087)	(71,184)
Increase in receipt in advances	—	236
Increase in accruals and other payables	7,788	23,839
Cash used in operations	(257,489)	(66,849)
Income taxes paid	(4,564)	(7,577)
Interest paid	(10,495)	(3,627)
Net cash used in operating activities	(272,548)	(78,053)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit paid for acquisition of a subsidiary	—	(7,600)
Deposit paid for purchase of property, plant and equipment	(6,000)	—
Purchases of property, plant and equipment	(2,746)	(6,047)
Purchases of intangible assets	(95,500)	—
Proceeds from disposals of financial assets	13	51
Proceeds from disposals of property, plant and equipment	49	—
Increase in fixed deposits	(3,739)	(906)
Dividend income from unlisted equity investments	12	9
Interest received	2,661	3,668
Net cash used in investing activities	(105,250)	(10,825)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings raised	385,900	111,000
Repayment of borrowings	(114,713)	(61,000)
Proceeds from capital injections by non-controlling interests to a subsidiary	7,106	—
Proceeds from issue of shares	—	303,483
Repayment to a director	—	(967)
Net cash generated from financing activities	278,293	352,516
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(99,505)	263,638
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	371,703	108,065
CASH AND CASH EQUIVALENTS AT END OF YEAR	272,198	371,703
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances (note 23)	272,198	371,703

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 17th and 18th Floors, Cang Hai Industry Building, No.3388 Cang Hai Road, Yinzhou District, Ningbo City, Zhejiang Province, China. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 19 to the consolidated financial statements.

In the opinion of the directors, as at 31 December 2018, Mr. Peng Daosheng, Ms. Wang Sufen, Mr. Peng Yonghui and Mr. Peng Tianbin (the "Peng Family") is the ultimate controlling parties (the "Controlling Shareholders") of the Company.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Application of new and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are effective for annual periods accounting year beginning on 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) IFRS 9 Financial Instruments; and

(ii) IFRS 15 Revenue from Contracts with Customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("**FVTOCI**") or fair value through profit or loss ("**FVTPL**"), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(a) Application of new and revised IFRSs *(continued)*

IFRS 9 Financial instruments (continued)

(b) Measurement

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognsied in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(a) Application of new and revised IFRSs *(continued)*

IFRS 9 Financial instruments (continued)

(b) Measurement *(continued)*

Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Set out below is the impact of the adoption of IFRS 9 on the Group.

The following table summaries the impact on the Group's opening retained earnings as at 1 January 2018 is as follows:

	Note	RMB'000
Increase in impairment losses for:		
– trade and bills receivables, other receivables and contract assets	(ii)	(5,941)
Attributable to owners of the Company		(5,941)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	Note	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 RMB'000	Carrying amount under IFRS 9 RMB'000
Equity investment	(i)	Available-for-sale	FVTOCI	13	13
Trade and other receivables	(ii)	Loans and receivables	Amortised cost	701,129	697,841

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(a) Application of new and revised IFRSs *(continued)*

IFRS 9 Financial instruments (continued)

(i) This equity investment represents investment that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated this investment at the date of initial application as measured at FVTOCI. As a result, assets with a fair value of RMB13,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI with no fair value gain. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(ii) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of RMB3,288,000 and RMB2,653,000 in the allowance for impairment over these receivables and contract assets respectively was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

For assets in scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9 impairment model requirements at 1 January 2018 results in an additional impairment allowance as follows:

	Note	Trade and bills receivables RMB'000	Other receivables RMB'000	Contract assets RMB'000
Impairment allowance at 31 December 2017 under IAS 39		11,037	1,396	—
Additional impairment/(reversal) recognised at 1 January 2018	(i)	3,302	(14)	2,653
Impairment allowance at 1 January 2018 under IFRS 9		14,339	1,382	2,653

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss. As a result, the Group reclassified reversal of impairment losses amounting to RMB200,000 and impairment losses amounting to RMB11,393,000 recognised under IAS 39, from "other income and gains" and "administrative and other operating expenses" respectively to "reversal of impairment loss/(impairment loss) on trade and other receivables and contract assets, net" in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(a) Application of new and revised IFRSs *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognsied. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

The adoption of IFRS 15 resulted in the following changes to the Group's accounting policies.

The adoption of IFRS 15 does not have a significant impact on how the Group recognises revenue from construction contracts (see note 4(g)).

(i) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less. The Group's revenue from construction contracts has been adjusted for the significant financing component in construction contracts with customers when the period between the recognition of revenue under the cost-to-cost method and the milestone payment is expected to be more than one year.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(a) Application of new and revised IFRSs *(continued)*

IFRS 15 Revenue from Contracts with Customers (continued)

(i) Significant financing component *(continued)*

Previously, the Group did not apply this policy when payments were significantly deferred. Nor the Group apply such a policy when payments were received in advance, which was not common in the Group's arrangements with its customers.

Set out below is the impact of the adoption of IFRS 15 on the Group.

The following table summaries the impact on the Group's opening retained earnings as at 1 January 2018 is as follows:

	RMB'000
Adjustment for the significant financing components	(4,655)
Related tax	1,164
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018	(3,491)
Attributable to owners of the Company	(3,491)

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(a) Application of new and revised IFRSs *(continued)*

IFRS 15 Revenue from Contracts with Customers (continued)

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

	Note	Amounts reported in accordance with IFRS 15	Hypothetical amounts under IAS 18 and 11	Estimated impact of adoption of IFRS 15
		RMB'000	RMB'000	RMB'000
As at 31 December 2018				
Consolidated statement of financial position (extract)				
Gross amount due from contract customers	(i)	—	834,555	834,555
Contract assets	(i), (ii)	824,942	(834,555)	(9,613)
Receipts in advance	(i)	—	29,404	29,404
Gross amount due to contract customers	(i)	—	32,942	32,942
Contract liabilities	(i)	62,346	(62,346)	—
Current tax liabilities	(ii)	104,247	106,650	(2,403)
Retained earnings	(ii)	314,006	321,216	(7,210)
For the year ended 31 December 2018				
Consolidated statement of profit or loss (extract)				
Revenue	(ii)	733,430	738,388	(4,958)
Income tax expenses	(ii)	(10,747)	(11,986)	1,239

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(a) Application of new and revised IFRSs *(continued)*

IFRS 15 Revenue from Contracts with Customers (continued)

(i) Reclassifications were made as at 1 January 2018 to be consistent with the terminology under IFRS 15:

Previously, contract balances relating to construction contracts in progress were presented in the consolidated statement of financial position under "Gross amounts due from customers for contract work" and "Gross amounts due to customers for contract work", and construction cost incurred related to future activities on the contract, which mainly include materials that have been delivered to a contract site for use in a contract but not yet installed, used or applied during contract performance, are recognised as "Gross amount due from customers for contract work". To reflect these changes in presentation the Group has made the following reclassification adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

Contract assets recognised in relation to construction were previously presented as "Gross amount due from customers for contract work".

Contract liabilities for progress billing recognised in relation to construction were previously presented as "Gross amount due to customers for contract work".

(ii) Previously, the Group has not recorded the significant financing component of the contract. The Group adopted IFRS 15 from 1 January 2018 and the Group's revenue from construction contracts with customers has been adjusted for the significant financing component.

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatment	1 January 2019
Annual Improvements to IFRSs 2015 - 2017 Cycle	1 January 2019

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(b) New and revised IFRSs in issue but not yet effective *(continued)*

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under IFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 33, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to RMB3,306,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. investment properties and certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Foreign currency translation *(continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities and of borrowings are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Property, plant and equipment

Property, plant and equipment, including buildings and leasehold land (classified as finance leases), held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land and buildings	Over the shorter of the term of the lease, and 25 years
Leasehold improvement	3 years
Plant and machinery	5-10 years
Office equipment, furniture and fixtures	5-10 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(d) Operating leases

The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(e) Intangible assets acquired separately- Construction licenses

Construction licenses are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 25 years.

(f) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 4(v) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Contract assets and contract liabilities *(continued)*

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "gross amount due from customers for contract work" (as an asset) or the "gross amount due to customers for contract work" (as a liability). Progress billings not yet paid by the customer were included under "trade debtors and bills receivable". Amounts received before the related work was performed were presented as "receipts in advance". These balances have been reclassified as on 1 January 2018 as shown in note 3.

(g) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on real estate assets or land under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

The Group becomes entitled to invoice customers for construction work based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work signed by a third party assessor and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less. A significant financing component in construction contracts with customers is recognised if the period between the recognition of revenue under the cost-to-cost method and the milestone payment is more than one year.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Construction contracts *(continued)*

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised.

Policy prior to 1 January 2018

Revenue from contract revenue contracts was recognised on a similar basis in the comparative period under IAS 11.

(h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVTOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

Equity investments (continued)

Policy prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVTPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into the above category was classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments was recognised in profit or loss. When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(n) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(p) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from construction contracts is recognised in accordance with the policy set out in note 4(g) above.

Maintenance service income is recognised over the period that the service is rendered.

Interest income is recognised as it accrues using the effective interest method.

Dividend income is recognised when the shareholder's right to receive payment are established.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Revenue recognition *(continued)*

Policy prior to 1 January 2018

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group when specific criteria have been met for each of the Group's activities.

Revenue from construction contracts is recognised based on the stage of completion of the contract activity as detailed in note 4(g) above.

Maintenance service income is recognised when the service is rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

(r) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(t) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Taxation *(continued)*

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(u) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(v) Impairment of financial assets and contracts assets

The Group recognises a loss allowance for expected credit losses on trade and other receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Impairment of financial assets and contracts assets *(continued)*

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Impairment of financial assets and contracts assets *(continued)*

Significant increase in credit risk (continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default,

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Impairment of financial assets and contracts assets *(continued)*

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Impairment of financial assets and contracts assets *(continued)*

Measurement and recognition of ECL (continued)

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Policy prior to 1 January 2018

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

In addition, for trade and bills receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade and other receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade and bills receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(x) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) Significant increase in credit risk

As explained in note 4(v), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Revenue and profit recognition

As disclosed in note 4(g) to the consolidated financial statements, revenue from construction contracts are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in note 22 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

In the comparative period, revenue from construction contracts was subject to such estimation uncertainty. In addition, the contract assets arising from construction contracts were included in amounts due from customers for contract work.

During the year, approximately RMB0.7 billion (2017: RMB1.14 billion) of revenue from construction contracts was recognised.

(b) Impairment of trade and bills receivables and contract assets

Prior to the adoption of IFRS 9 on 1 January 2018, the management of the Group assesses at the end of each reporting period whether there is any objective evidence that trade and bills receivables and contract assets are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade and bills receivables and contract assets, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2017, the carrying amount of trade and bills receivables and contract assets is RMB501,204,000 and RMB868,377,000 (net of allowance for doubtful debts of RMB11,037,000 and Nil) respectively.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(b) Impairment of trade and bills receivables and contract assets (continued)

Since the adoption of IFRS 9 on 1 January 2018, the management of the Group estimates the amount of impairment loss for ECL on trade and bills receivables and contract assets based on the credit risk of trade and bills receivables and contract assets. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of trade and bills receivables and contract assets is RMB448,786,000 and RMB824,942,000 (net of allowance for doubtful debts of RMB10,366,000 and RMB2,159,000) respectively.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2018, if the Hong Kong dollar had weakened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB78,000 (2017: RMB368,000) lower, arising mainly as a result of the foreign exchange loss on bank and cash balances denominated in Hong Kong dollar. If the Hong Kong dollar had strengthened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB78,000 (2017: RMB368,000) higher, arising mainly as a result of the foreign exchange gain on bank and cash balances denominated in Hong Kong dollar.

At 31 December 2018, if the US$ had weakened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB575,000 (2017: RMB2,459,000) lower, arising mainly as a result of the net foreign exchange loss on bank and cash balances denominated in US$. If the US$ had strengthened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB575,000 (2017: RMB2,459,000) higher, arising mainly as a result of the net foreign exchange gain on bank and cash balances, trade receivables and trade payables denominated in US$.

6. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's credit risk is primarily attributable to trade and bills receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Trade and bills receivables and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group's trading terms with its customers are mainly based on the contract terms. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade and bills receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables and contract assets as at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Contract assets:			
0 – 90 days past due	0.31%	827,101	(2,159)
Trade and bills receivables:			
0 – 90 days past due	1.30%	123,366	(1,612)
91 – 180 days past due	1.47%	43,893	(644)
181 – 365 days past due	1.75%	70,644	(1,236)
Over 1 year but less than 2 years past due	3.26%	101,379	(3,303)
Over 2 years but less than 3 years past due	3.08%	60,215	(1,855)
Over 3 years past due	3.01%	59,655	(1,716)
		459,152	(10,366)

6. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

Trade and bills receivables and contract assets (continued)

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Prior to 1 January 2018

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade and bills receivables of RMB11,037,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017
	RMB'000
0 to 90 days	110,117
91 to 180 days	56,909
181 to 365 days	142,780
Over 1 year but less than 2 years	93,014
Over 2 years but less than 3 years	51,524
Over 3 years	46,860
	501,204

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

6. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

Trade and bills receivables and contract assets (continued)

Movement in the loss allowance account in respect of trade and bills receivables and contract assets during the year is as follows:

	2018 RMB'000	2017 RMB'000
At 31 December under IAS 39	11,037	—
Impact on initial application of IFRS 9 (note 3)	5,955	—
Adjusted balance at 1 January	16,992	—
(Reversal of impairment losses)/impairment losses recognised for the year	(4,467)	11,037
At 31 December	12,525	11,037

Financial assets at amortised cost

All of the Group's other receivables are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12-month expected losses. They are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Movement in the loss allowance account in respect of other receivables during the year is as follows:

	RMB'000
At 31 December 2017 under IAS 39	1,396
Impact on initial application of IFRS 9 (note 3)	(14)
Adjusted balance at 1 January 2018	1,382
Impairment losses recognised for the year	1,022
At 31 December 2018	2,404

6. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2018					
Trade payables	410,126	—	—	—	410,126
Accruals and other payables	87,418	—	—	—	87,418
Bank loans	340,470	—	—	—	340,470
Factoring loan with recourse	11,975	24,158	27,535	—	63,668
At 31 December 2017					
Trade payables	824,213	—	—	—	824,213
Accruals and other payables	78,830	—	—	—	78,830
Bank loans	114,191	—	—	—	114,191

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

	2018 RMB'000	2017 RMB'000
100 basis points	(381)	1,979
(100) basis points	381	(1,979)

The sensitivity analysis above indicates the net impact on the Group's consolidated profit after tax for the year and the equity that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates.

(e) Categories of financial instruments at 31 December

	2018 RMB'000	2017 RMB'000
Financial assets:		
Financial assets measured at amortised cost	877,252	—
Loans and receivables (including cash and cash equivalents)	—	1,063,458
Available-for-sale financial assets	—	13
Financial liabilities:		
Financial liabilities at amortised cost	879,730	1,014,043

6. FINANCIAL RISK MANAGEMENT *(continued)*

(f) Fair values

Except as disclosed in note 20 to the consolidated financial statement, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statements of financial position approximate their respective fair values.

(g) Transfers of financial assets that are not derecognised in their entirety

At 31 December 2018, the Group entered into a factoring loan agreement (the "Agreement") and transferred certain trade and bills receivables (the "Transferred Trade Receivables") to an independent financing company for financing. Under the Agreement, the financing company has recourse right and the Group has the obligation to reimburse the financing company for loss of receivables if the specified customer has default payment. As the Group has not transferred the significant risks relating to these trade and bills receivables, it continues to recognise in full the carrying amount of the trade and bills receivables and has recognised the cash received on the transfer as secured borrowings (Note 29). The original carrying value of the trade and bills receivables transferred under the Agreement that has not been settled as at 31 December 2018 amounted to RMB5,771,000 (2017: NIL). Accordingly, the carrying amount of the assets that the Group continued to recognise as at 31 December 2018 amounted to RMB5,771,000 (2017: NIL) and that of the associated liabilities as at 31 December 2018 amounted to RMB51,287,000 (2017: NIL) was recorded as borrowings under note 29.

7. REVENUE

The Group's revenue represents the revenue derives from construction contracts and maintenance services over time for the year.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by service line for the year is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major service lines		
– Revenue from construction contracts	720,650	1,076,829
– Maintenance services	12,780	67,710
	733,430	1,144,539

The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11.

7. REVENUE *(continued)*

(b) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue as follows:

	Construction contracts RMB'000	Maintenance services RMB'000
Within one year	723,189	3,834
More than one year but not more than two years	236,539	2,161
More than two years	216,617	1,663
	1,176,345	7,658

8. OTHER INCOME AND GAINS

	2018 RMB'000	2017 RMB'000
Interest income on:		
Bank deposits	**1,873**	1,104
Treasury products (note (a))	**788**	2,564
Total interest income for financial assets that are not at fair value through profit or loss	**2,661**	3,668
Bad debt recovery	**—**	44
Dividend income from unlisted equity investments	**12**	9
Government incentives and awards (note (b))	**7,234**	6,385
Exchange gain	**2,974**	—
Others	**280**	23
	13,161	10,129

Note:

(a) The Group invested in unlisted financial products issued by commercial banks in the PRC. The principals of these investments are guaranteed by the corresponding commercial banks. The investments are denominated in RMB and with maturity periods within three months. The rates of return range from 2.8% to 4.1% per annum.

(b) Government incentives and awards mainly related to the incentive and awards received from the local government authority for the achievement of the Group.

9. SEGMENT INFORMATION

The Group has four operating segments as follows:

Landscape construction	—	Variety of municipal and private landscaping projects such as planting of trees, modifying the layout of land, carrying out foundation work for landscape construction, building and construction of parks, etc.
Municipal works construction	—	Mainly municipal or local government works such as municipal road construction, water and lighting works, etc.
Building works	—	Construction of gas stations, auto repair shops, office building and temporary warehouse, etc.
Others	—	Maintenance and heritage restoration services and undertaking renovation works.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technologies and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements.

Segment revenue is measured in a manner consistent with that in the consolidated statements of profit or loss and other comprehensive income.

The directors assess the performance of the operating segments based on a measure of segment results. Unallocated income, unallocated corporate expenses, finance costs, income tax expense and other major items that are isolated and non-recurring in nature are not included in segment results.

Segment assets mainly consist of current assets and non-current assets as disclosed in the consolidated statement of financial position except unallocated cash and bank balances and other unallocated assets.

Segment liabilities mainly consist of current liabilities as disclosed in the consolidated statement of financial position except current tax liabilities, borrowings, trade and other payables and others.

9. SEGMENT INFORMATION *(continued)*

(i) Information about operating segment profit or loss, assets and liabilities:

	Landscape construction RMB'000	Municipal works construction RMB'000	Building works RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2018					
External revenue	278,636	266,952	163,834	24,008	733,430
Segment results	30,830	39,052	10,444	3,214	83,540
At 31 December 2018					
Segment assets	479,696	440,210	291,039	62,783	1,273,728
Segment liabilities	(23,966)	(35,337)	(1,947)	(1,096)	(62,346)

	Landscape construction RMB'000	Municipal works construction RMB'000	Building works RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2017					
External revenue	351,455	475,432	241,709	75,943	1,144,539
Segment results	65,973	67,695	36,658	11,721	182,047
At 31 December 2017					
Segment assets	559,432	563,709	170,031	76,409	1,369,581
Segment liabilities	(16,484)	(14,831)	(221)	(2,813)	(34,349)

9. SEGMENT INFORMATION *(continued)*

(ii) Reconciliation of operating segment revenue and profit or loss

	2018 RMB'000	2017 RMB'000
Revenue		
Total revenue of reportable segments	733,430	1,144,539
Elimination of intersegment revenue	—	—
Consolidated revenue	733,430	1,144,539
Profit and loss		
Total profits of reportable segments	83,540	182,047
Elimination of intersegment profits	—	—
Unallocated amounts:		
Interest income	2,661	3,668
Government subsidy, incentives and awards	7,234	6,385
Depreciation	(1,291)	(661)
Amortisation of intangible assets	(3,267)	—
Finance costs	(10,495)	(3,627)
Operating lease charges	(3,239)	(2,510)
Net exchange gain/(loss)	2,974	(4,665)
Staff costs	(30,700)	(21,959)
Listing expenses	—	(6,179)
Bad debts	(161)	(733)
Reversal of impairment loss/(impairment loss) on trade and other receivables and contracts assets, net	3,445	(11,393)
Others	(22,890)	(20,522)
Consolidated profit before tax	27,811	119,851

9. SEGMENT INFORMATION *(continued)*

(iii) Reconciliation of segment assets and liabilities

	2018 RMB'000	2017 RMB'000
Assets		
Total assets of reportable segments	**1,273,728**	1,369,581
Bank and cash balances	**280,086**	375,852
Prepayments, deposits and other receivables	**203,128**	199,925
Intangible assets	**99,833**	—
Others	**9,073**	7,847
Consolidated total assets	**1,865,848**	1,953,205
Liabilities		
Total liabilities of reportable segments	**62,346**	34,349
Trade payables	**410,126**	824,213
Accruals and other payables	**88,436**	80,648
Borrowings	**382,187**	111,000
Current tax liabilities	**104,247**	99,227
Consolidated total liabilities	**1,047,342**	1,149,437

(iv) Geographical information

Based on the locations of the customers, all the revenues are earned in the PRC.

The information about the Group's non-current assets by location of assets is detailed below:

	2018 RMB'000	2017 RMB'000
Hong Kong	**742**	913
PRC except Hong Kong	**8,331**	6,921
Consolidated total	**9,073**	7,834

(v) Revenue from major customers:

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

	2018 RMB'000	2017 RMB'000
Municipal works construction and building work customer A	**N/A**	203,135

N/A: Revenue from the customer during the year did not exceed 10% of the Group's revenue.

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	8,692	3,627
Interest on factoring loan with recourse	1,803	—
	10,495	3,627

11. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax - PRC		
Provision for the year	10,747	39,523

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2017: NIL).

On 21 March 2018, the Inland Revenue (Amendment) (No. 7) Bill 2017, which introduces a two-tiered profits tax regime, was substantively enacted. Under the two-tiered profits tax regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25% with effect from the year assessment 2018/2019. Profits above HK$2 million will continue to be subject to the tax rate of 16.5%.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

PRC Enterprise Income Tax ("PRC EIT") has been provided at a rate of 25% (2017: 25%) by all the PRC subsidiaries.

The reconciliation between the income tax expenses and the product of profit before tax multiplied by the PRC EIT rate is as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	27,811	119,851
Tax at the PRC EIT rate of 25% (2017: 25%)	6,953	29,963
Tax effect of income that is not taxable	(1,636)	(61)
Tax effect of expenses that are not deductible	5,430	9,621
Income tax expense	10,747	39,523

As at 31 December 2018, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB17,557,000 (2017: RMB16,429,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing for reversal of the temporary differences and it is probable that such differences will not reverse in foreseeable future.

12. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2018 RMB'000	2017 RMB'000
Auditors' remuneration	1,265	1,318
Amortisation of intangible assets	3,267	—
Cost of services rendered	645,383	956,924
Bad debts written off	161	733
Depreciation of property, plant and equipment	1,291	661
Listing expenses	—	6,179
Loss on disposal of property, plant and equipment	167	—
Net exchange (gain)/loss	(2,974)	4,665
(Reversal of impairment loss)/impairment loss on trade and other receivables and contract assets, net	(3,445)	11,393
Operating lease charges - land and buildings	3,239	2,510

Cost of services rendered includes staff costs and depreciation of approximately RMB9,120,000 (2017: RMB10,508,000) for the year ended 31 December 2018 which are included in the amounts disclosed separately.

13. EMPLOYEE BENEFITS EXPENSE

	2018 RMB'000	2017 RMB'000
Employee benefits expense:		
Salaries, bonuses and allowances	28,710	20,616
Retirement benefit scheme contributions	7,000	7,031
	35,710	27,647

The five highest paid individuals in the Group during the year included three directors (2017: three) and whose emoluments are reflected in the analysis presented in note 14. The emoluments of the remaining two (2017: two) individuals are set out below:

	2018 RMB'000	2017 RMB'000
Basic salaries and allowances	1,714	1,414
Discretionary bonus	—	818
Retirement benefit scheme contributions	154	154
	1,868	2,386

13. EMPLOYEE BENEFITS EXPENSE *(continued)*

The emoluments fell within the following band:

	Number of individuals 2018	2017
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	1	1
	2	2

14. BENEFITS AND INTERESTS OF DIRECTORS

(a) The emoluments of each director were as follows:

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2018					
Executive directors					
Peng DaoSheng	—	1,048	—	—	1,048
Peng Tianbin	—	1,198	—	10	1,208
Peng Yonghui	—	1,796	—	51	1,847
Non-executive director					
Wang Sufen	—	70	—	—	70
Independent non-executive director					
Fan Rong	—	70	—	—	70
Shi Weixing	—	70	—	—	70
Yang Zhongkai	—	70	—	—	70
	—	4,322	—	61	4,383

14. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(a) The emoluments of each director were as follows: *(continued)*

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2017					
Executive directors					
Peng DaoSheng	—	1,384	—	—	1,384
Peng Tianbin	—	1,365	—	23	1,388
Peng Yonghui	—	1,384	—	50	1,434
Non-executive director					
Wang Sufen	—	52	—	—	52
Independent non-executive director					
Fan Rong	—	53	—	—	53
Shi Weixing	—	53	—	—	53
Yang Zhongkai	—	53	—	—	53
	—	4,344	—	73	4,417

Note:

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the year. (2017: Nil)

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	17,046	80,328
Number of shares		
Weighted average number of ordinary shares used in basic and diluted earnings per share calculation (thousand shares)	618,502	576,097

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share for the year ended 31 December 2017 has been adjusted for the effect of the capitalisation issue as more fully explained in note 24(b) to the consolidated financial statements.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1 January 2017	—	—	12,715	1,351	931	14,997
Additions	2,942	272	36	669	2,128	6,047
At 31 December 2017 and 1 January 2018	2,942	272	12,751	2,020	3,059	21,044
Additions	—	—	—	1,101	1,645	2,746
Disposals	—	—	—	(4)	(445)	(449)
At 31 December 2018	2,942	272	12,751	3,117	4,259	23,341
Accumulated depreciation						
At 1 January 2017	—	—	11,538	678	333	12,549
Charge for the year	—	25	219	175	242	661
At 31 December 2017 and 1 January 2018	—	25	11,757	853	575	13,210
Charge for the year	112	102	214	471	392	1,291
Disposals	—	—	—	—	(233)	(233)
At 31 December 2018	112	127	11,971	1,324	734	14,268
Carrying amount						
At 31 December 2018	2,830	145	780	1,793	3,525	9,073
At 31 December 2017	2,942	247	994	1,167	2,484	7,834

18. INTANGIBLE ASSETS

	Construction licenses RMB'000
Cost	
At 1 January 2018	—
Additions	103,100
At 31 December 2018	103,100
Accumulated amortisation and impairment losses	
At 1 January 2018	—
Amortisation for the year	(3,267)
At 31 December 2018	(3,267)
Carrying amount	
At 31 December 2018	99,833
At 31 December 2017	—

During the year ended 31 December 2018, the Group acquired several construction licenses including a First-Grade General Contractor for Water Works and Hydropower Project qualification (水利水電工程施工總承包壹級資質), a Second-Grade General Contractor for Highway Construction Projects qualification (公路工程施工總承包貳級) along with a Second-Grade General Contractor for Water Supply and Drainage and Electrical Projects qualification (水利水電工程施工總承包貳級) and a First-Grade General Contractor for Housing Construction Projects qualification (建築工程施工總承包壹級) in the PRC at a consideration of RMB76,000,000, RMB13,600,000 and RMB13,500,000 respectively. These construction licenses were amortised on straight-line basis over an estimated useful life of 25 years.

19. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation/ establishment	Particular of issued share capital	Equity interests attributable to the Group		Principal activities
			Direct	Indirect	
Chanhigh Investments Limited	British Virgin Islands	United States Dollar 2	100%	—	Investment holding
Chanhigh Hong Kong	Hong Kong	HK$1	—	100%	Investment holding
Chanhigh Landscape	The PRC	RMB152,000,000	—	100%	Provision of services of municipal work and landscape construction and the related services
Xuancheng Landscape	The PRC	RMB100,000	—	100%	Provision of services of municipal work and landscape construction and the related services
Zhe Jiang Chanhigh Industrial Investment Co., Ltd	The PRC	HK$235,000,000	—	100%	Investment holding
寧波滄海小鎮投資管理有限責任公司 (Ningbo Chanhigh Small Town Investment Management Limited)	The PRC	RMB10,000,000	—	100%	Investment holding
寧波鄞州展海企業管理有限公司	The PRC	RMB25,000,000	—	100%	Investment holding
興鋒盈(福建)建設有限公司	The PRC	RMB76,000,000	—	100%	Provision of construction and related services
浙江海穗新茂建設管理有限公司	The PRC	RMB69,800,000	—	89.8%	Dormant
寧波銘旺建設有限公司	The PRC	RMB13,500,000	—	100%	Provision of construction and related services

The above list contains the particulars of subsidiaries which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

As at 31 December 2018, the bank and cash balances of the Group' subsidiaries in the PRC denominated in RMB amounted to RMB262,704,000 (2017: RMB300,228,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

20. FINANCIAL ASSETS AT FVTOCI (2017: AVAILABLE-FOR-SALE FINANCIAL ASSETS)

	2018 RMB'000	2017 RMB'000
Non-current assets:		
Unlisted equity investments	—	13

As at 31 December 2017, the unlisted equity investments were carried at cost as they do not have a quoted market price in an active market and their carrying value cannot be reliably measured.

During the year, the Group disposed of all the unlisted equity investments to a related company.

21. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade and bills receivables		
Trade receivables	455,189	510,331
Allowance for bad and doubtful debts	(10,307)	(11,037)
	444,882	499,294
Bills receivables	3,963	1,910
Allowance for bad and doubtful debts	(59)	—
	3,904	1,910
	448,786	501,204
Other receivables		
Construction contracts performance guarantees and deposit for tender	89,793	119,611
Retention receivables (note 1)	52,656	62,584
Others	2,981	4,472
	145,430	186,667
Allowance for bad and doubtful debts	(2,404)	(1,396)
	143,026	185,271
Prepayments and deposits	60,102	14,654
	651,914	701,129

21. TRADE AND OTHER RECEIVABLES *(continued)*

Included in the trade receivables were amount due from 滄海控股集團有限公司 (Chanhigh Holdings Group Limited ("CHHG")) and 湖州滄湖建設投資有限公司 (Huzhou Canghu Construction Investment Company Limited) ("Huzhou Canghu"), related companies of the Group, of approximately NIL (2017: RMB20,000) and RMB5,771,000 (2017: RMB39,095,000) respectively as at 31 December 2018.

Trade and bills receivables represented the construction contracts and rendering of services receivables from the customers at each of the reporting dates. The Group's trading terms with its customers are mainly based on the contract terms. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by the directors.

The carrying amount of the Group's trade and bills receivables are all denominated in RMB.

The aging analysis of trade and bills receivables, based on the contract terms for the works certified, net of allowance for bad and doubtful debts, is as follows:

	2018 RMB'000	2017 RMB'000
0 to 90 days	121,754	110,117
91 to 180 days	43,249	56,909
181 to 365 days	69,408	142,780
Over 1 year but less than 2 years	98,076	93,014
Over 2 years but less than 3 years	58,360	51,524
Over 3 years	57,939	46,860
	448,786	501,204

Note:

1. The aging analysis of retention receivables past due but not impaired are as follows:

	2018 RMB'000	2017 RMB'000
Not yet due	17,295	20,661
Within 1 year	3,663	26,424
Over 1 year but less than 2 years	27,262	15,499
Over 2 years but less than 3 years	4,436	—
	52,656	62,584

As at 31 December 2018, retention receivables, net of allowance, included in other receivables are RMB51,092,000 (2017: RMB62,028,000), in which RMB17,295,000 (2017: RMB12,450,000) is expected to be recovered after more than twelve months.

22. CONTRACT ASSETS/CONTRACT LIABILITIES (2017: GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK)

	2017 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	5,143,464
Less: Progress billings	(4,291,166)
	852,298
Gross amount due from customers for contract work	868,377
Gross amount due to customers for contract work	(16,079)
	852,298

Upon the adoption of IFRS 15, amounts previously included as "Gross amount due from customers for contract work" and "Gross amount due to customers for contract work" were reclassified to contract assets and contract liabilities respectively.

Contract assets

	31 December 2018 RMB'000	1 January 2018 RMB'000 (restated)	31 December 2017 RMB'000
Arising from performance under			
– construction contracts	834,650	867,081	—
– maintenance services	2,064	1,296	—
	836,714	868,377	—
Adjustment for significant financing components	(9,613)	(4,655)	—
Allowance for impairment loss	(2,159)	(2,653)	—
	824,942	861,069	—
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and other receivables"	498,878	563,232	

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. Payment for maintenance services is not due from the customer until the maintenance services are complete and therefore a contract asset is recognised over the period in which the maintenance services are performed to represent the entity's right to consideration for the services transferred to date.

22. CONTRACT ASSETS/CONTRACT LIABILITIES (2017: GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK) *(continued)*

Contract assets *(continued)*

There were no significant changes in the contract assets balances during the reporting period.

No revenue is recognised during the year from performance obligations satisfied (or partially satisfied) in previous period.

The amount of contract assets that is expected to be recovered after more than one year is about RMB51.0 million (2017: RMB47.9 million).

Contract liabilities

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Billings in advance of performance obligation			
– construction contracts	61,894	33,735	—
– maintenance services	452	614	—
	62,346	34,349	—

Contract liabilities relating to construction contracts/maintenance services are balances due to customers under construction contracts/maintenance services. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method.

There were no significant changes in the contract liabilities balances during the reporting period.

Movements in contract liabilities:

	RMB'000
Balance at 31 December 2017	16,079
Re-classification of receipts in advance upon adoption of IFRS 15	18,270
Balance at 1 January 2018	34,349
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(32,112)
Increase in contract liabilities as a result of billing in advance of construction activities/maintenance services	60,109
Balance at 31 December 2018	62,346

No billings in advance of performance received that is expected to be recognised as income after more than one year (2017: NIL).

23. BANK AND CASH BALANCES

	2018 RMB'000	2017 RMB'000
Cash at banks and on hand	272,198	371,703
Deposits with initial term of over three months	7,888	4,149
	280,086	375,852

The interest rates on deposits with initial terms over three months were 0.3% to 0.4% (2017: 2.0% to 3.5%) per annum for the year ended 31 December 2018.

The carrying amounts of the bank and cash balances are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	262,704	300,228
HK$	2,054	9,803
US$	15,328	65,821
	280,086	375,852

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. SHARE CAPITAL

	Note	The Company		
		No. of shares	Amount	
		'000	HK$'000	RMB'000
Authorised:				
Ordinary share of HK$0.01 per share				
As at 1 January 2017		38,000	380	317
Increase of authorised share capital	(a)	1,962,000	19,620	17,416
At 31 December 2017, 1 January 2018 and at 31 December 2018		2,000,000	20,000	17,733
Issued and fully paid:				
At 1 January 2017		2	—	—
Issue of shares for capitalisation of amount due to a director	(a)	2	—	—
Share capitalisation	(b)	449,996	4,500	3,994
Global offering of shares	(c)	150,000	1,500	1,329
Issuance of shares	(d)	18,502	185	164
At 31 December 2017, 1 January 2018 and at 31 December 2018		618,502	6,185	5,487

Note:

(a) On 15 March 2017, pursuant to a resolution passed by the directors of the Company to capitalise the amount due to a director, Mr. Peng Yonghui which amounted to RMB159,370,000 by allotting and issuing 1,000 ordinary shares to Vast Base Investments Limited and 1,000 ordinary shares to TEUR Holdings Limited credited as fully paid.

On the same date, the authorised share capital of the Company was increased from HK$380,000 to HK$20,000,000 by the creation of additional 1,962,000,000 shares of HK$0.01 each.

(b) Pursuant to written resolutions passed on 15 March 2017, the shareholders of the Company approved that an amount of HK$4,499,960 was capitalised from the share premium account of the Company and applied in paying up in full for allotment and issue to each of Vast Base and TEUR 224,998,000 ordinary shares respectively.

(c) On 30 March 2017, 150,000,000 ordinary shares of HK$0.01 each of the Company (the "New Shares") was issued at HK$2.17 per share as a result of the globe offering of shares of the Company. The premium on the issue of 150,000,000 New Shares, net of listing related expenses, amounting to approximately RMB267,665,000 was credited to the Company's share premium account. These 150,000,000 New Shares were fully paid-up, rank pari passu in all respects with the existing issued and fully paid-up shares of the Company.

(d) On 21 April 2017, the over-allotment option described in the prospectus published by the Company on 21 March 2017 was exercised and, 18,502,000 additional new shares, were issued and allotted by the Company on 26 April 2017 at HK$2.17 per share. The premium on the issue of shares, net of issue costs, amounting to approximately RMB34,325,000 was credited to the Company's share premium account.

24. SHARE CAPITAL *(continued)*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group reviews the capital structure frequently by considering the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts, redemption of existing debts or selling assets to reduce debts.

The Group monitors its capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total equity attributable to owners of the Company. The gearing ratios as at 31 December 2018 and 2017 were as follows:

	2018 RMB'000	2017 RMB'000
Total borrowings	382,187	111,000
Total equity attributable to owners of the Company	818,506	803,768
Gearing ratio	0.47	0.14

The Group overall strategy of gearing remains unchanged during the year.

The increase in gearing ratio during 2018 resulted primarily from the increase of bank borrowings and factoring loan with recourse for operation.

The externally imposed capital requirements for the Group are in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2018, 27.1% of the shares were in public hands.

25. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries	19	—	—
Total non-current assets		—	—
Current assets			
Amounts due from subsidiaries		421,977	372,510
Bank and cash balances		17,299	75,391
Total current assets		439,276	447,901
TOTAL ASSETS		439,276	447,901
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	24	5,487	5,487
Reserves	25(b)	432,621	440,959
Total equity		438,108	446,446
Current liabilities			
Accruals and other payables		1,168	1,455
Total current liabilities		1,168	1,455
TOTAL EQUITY AND LIABILITIES		439,276	447,901

Approved by the Board of Directors on 26 March 2019 and are signed on its behalf by:

Peng Yonghui	**Peng Tianbin**
Director	*Director*

25. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

(b) Reserve movement of the Company

	Share premium RMB'000	Accumulated loss RMB'000	Total RMB'000
At 1 January 2017	—	—	—
Total comprehensive income for the year	—	(16,407)	(16,407)
Issue of shares for capitalisation of amount due to a director (note 24 (a))	159,370	—	159,370
Shares issued under the global offering and over-allotment (note 24 (c), (d))	301,990	—	301,990
Shares capitalisation (note 24 (b))	(3,994)	—	(3,994)
Changes in equity for the year	457,366	(16,407)	440,959
At 31 December 2017 and at 1 January 2018	457,366	(16,407)	440,959
Total comprehensive income for the year	—	(8,338)	(8,338)
At 31 December 2018	457,366	(24,745)	432,621

26. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statements of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Other reserve

Other reserve arose as a result of the group reorganisation as more fully explained in the section headed "Reorganisation" in "History, Development and Reorganisation" section of the prospectus dated 21 March 2017 issued by the Company and represented the difference between the consideration of repurchase of equity interests in Chanhigh Construction by Chanhigh HK over the registered capital of Chanhigh Construction.

(iii) Statutory surplus reserve

The statutory surplus reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

27. TRADE PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	410,126	824,213

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2018 RMB'000	2017 RMB'000
0 to 90 days	76,488	75,802
91 to 180 days	10,614	14,508
181 to 365 days	28,999	212,660
Over 1 year but less than 2 years	121,703	260,930
Over 2 year but less than 3 years	96,931	223,132
Over 3 years	75,391	37,181
	410,126	824,213

The carrying amount of the Group's trade payables are all denominated in RMB.

28. ACCRUALS AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Accrued staff costs	20,823	18,153
Accrued expense	3,694	6,543
Accrued interests	1,226	—
Other tax payables	58,263	52,257
Deposit from suppliers	1,018	1,818
Others	3,412	1,877
	88,436	80,648

29. BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank loans	330,900	111,000
Factoring loan with recourse	51,287	—
	382,187	111,000

The borrowings are repayable as follows:

	2018 RMB'000	2017 RMB'000
Within one year	337,085	111,000
More than one year, but not exceeding two years	19,619	—
More than two years, but not more than five years	25,483	—
	382,187	111,000
Less: Amount due for settlement within 12 months (shown under current liabilities)	(337,085)	(111,000)
Amount due for settlement after 12 months	45,102	—

The carrying amount of the Group's borrowings are denominated in RMB.

The average interest rate per annum at the end of each year were as follows:

	2018 %	2017 %
Bank loans	5.20%	4.93%
Factoring loan with recourse	5.94%	—

As at 31 December 2018, the Group's bank loans of RMB330,900,000 (2017: RMB111,000,000) were arranged at floating rates and expose the Group to cash flow interest rate risk. Bank loans of RMB250,000,000 (2017: RMB50,000,000) were secured by a corporate guarantee from a related company, CHHG, while others of RMB80,900,000 (2017: RMB61,000,000) were unsecured.

As at 31 December 2018, a factoring loan with recourse of RMB51,287,000 (2017: NIL) was arranged at fixed rate and expose the Group to fair value interest rate risk. Such loan was secured by the trade receivables of the Group of RMB5,771,000 and the corporate guarantee from CHHG of RMB600 million.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018 RMB'000	Cash flows RMB'000	Interest expenses RMB'000	31 December 2018 RMB'000
Bank borrowings (note 29)	111,000	211,208	8,692	330,900
Factoring loan with recourse (note 29)	—	49,484	1,803	51,287
	111,000	260,692	10,495	382,187

	1 January 2017 RMB'000	Cash flows RMB'000	Interest expenses RMB'000	31 December 2017 RMB'000
Bank borrowings (note 29)	61,000	46,373	3,627	111,000

31. CONTINGENT LIABILITIES

As at 31 December 2018 and 31 December 2017, the Group did not have any significant contingent liabilities.

32. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	2018 RMB'000	2017 RMB'000
Consideration paid for an acquisition of a subsidiary	—	68,400
Consideration paid for purchase of property, plant and equipment	3,500	—
	3,500	68,400

33. LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within one year	2,846	3,388
In the second to fifth years inclusive	460	1,417
After five years	—	2
	3,306	4,807

Operating lease payments represent rentals payable by the Group for its offices. Leases are negotiated for an average term of 1 to 3 years and rentals are fixed over the lease terms and do not include contingent rentals.

34. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2018 RMB'000	2017 RMB'000
Contract revenues from Huzhou Canghu	30,065	203,135
Rental expenses and building management fee paid to related companies	1,672	1,851

Peng Family is interested in the transactions above to the extent they are ultimate beneficial shareholders of the related companies.

(b) The remuneration of directors and other members of key management during the year was as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	6,036	5,758
Discretionary bonus	—	818
Retirement benefits scheme contributions	215	227
	6,251	6,803

(c) The related company, CHHG has guaranteed bank loans and a factoring loan with recourse made to the Group totalling RMB250,000,000 (2017: RMB50,000,000) and RMB51,287,000 (2017: NIL) at 31 December 2018 respectively.

(d) During the year, the Group disposed of all its unlisted equity investments at cost of RMB13,000 to a related company.

35. EVENTS AFTER THE REPORTING PERIOD

As at the date of this annual report, there was no significant event after the reporting period.

"AGM"	the annual general meeting of the Company
"Acting-in-Concert Confirmation"	an acting-in-concert confirmation dated 20 March 2011 executed by Mr. Peng YH, Mr. Peng TB, Mr. Peng DS and Ms. Wang SF whereby the Peng Family confirmed that, inter alia, it has a common control and influence on the management, operations and voting rights of Chanhigh Construction and its subsidiaries
"Articles of Association"	the articles of association of the Company, as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	audit committee of the Company, comprising all the independent non-executive Directors, namely Mr. Fan Rong, Mr. Shi Weixing and Mr. Yang Zhongkai
"Auditor"	RSM Hong Kong
"Board of Directors" or "Board"	the board of Directors
"Board Committees"	the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee
"BVI"	the British Virgin Islands
"Canghu"	Huzhou Canghu Construction Investment Company Limited (湖州滄湖建設投資有限公司), a limited liability company established in the PRC which is indirectly owned as to 72.7% by CHHG, 20% by Huzhou Nantaihu Municipal Construction Company Limited (湖州南太湖市政建設有限公司) (an Independent Third Party) and 7.3% by Mr. Peng TB and his spouse
"Cayman Islands Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CHHG"	Chanhigh Holding Group Limited (滄海控股集團有限公司), formerly known as Ningbo Chanhigh Investment Ltd. (寧波滄海投資有限公司) and Ningbo Chanhigh Holding Group Ltd. (寧波滄海控股集團有限公司), a limited liability company established in the PRC on 26 April 2005, which is owned as to 30% by Mr. Peng TB, 20% by Mr. Peng DS and 50% by Ms. Wang SF, and a connected person of the Company
"Chanhigh Investments"	Chanhigh Investments Limited (滄海投資有限公司), a limited liability company established in the BVI on 15 March 2016, which is a wholly-owned subsidiary of the Company
"Chanhigh HK"	Chanhigh Hong Kong Limited (滄海香港有限公司), a limited liability company established in Hong Kong on 30 March 2016, which is wholly owned by Chanhigh Investments

"Chanhigh Construction"	Zhejiang Chanhigh Construction Limited (浙江滄海建設有限公司), formerly known as Zhejiang Chanhigh Municipal Landscape Construction Limited (浙江滄海市政園林建設有限公司), Yin County Shanshui Landscape Engineering Limited (鄞縣山水園林工程有限公司), Ningbo Shanshui Landscape Construction Limited (寧波山水園林建設有限公司) and Ningbo Shanshui Construction Limited (寧波山水建設有限公司), a limited liability company established in the PRC on 22 February 2001, which is a wholly-owned subsidiary of Chanhigh HK and an indirect wholly-owned subsidiary of the Company
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China, which for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Company"	Chanhigh Holdings Limited (滄海控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 1 April 2016
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the Peng Family, Vast Base and TEUR
"Director(s)"	the director(s) of the Company
"EIT"	the PRC Enterprise Income Tax
"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), as amended or supplemented from time to time
"ESG"	Environmental, Social and Governance
"ESG Guide"	Appendix 27 to the Listing Rules "Environmental, Social and Governance Reporting Guide"
"ESG Report"	Environmental, Social and Governance Report
"Global Offering"	the Hong Kong Public Offering and the International Placing
"Group"	the Company and its subsidiaries
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars", "HK$" or "HKD"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"IFRS"	the International Financial Reporting Standards, as issued by the International Accounting Standards Board
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange

"Listing Date"	the date on which dealings in the Shares on the Main Board commence, which was 31 March 2017
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules
"Mr. Peng DS"	Mr. Peng Daosheng (彭道生), the founder and an executive Director, a member of the Peng Family, spouse of Ms. Wang SF, and father of Mr. Peng TB and Mr. Peng YH
"Mr. Peng TB"	Mr. Peng Tianbin (彭天斌), an executive Director and chairman of the Company, a member of the Peng Family, son of Mr. Peng DS and Ms. Wang SF, and brother of Mr. Peng YH
"Mr. Peng YH"	Mr. Peng Yonghui (彭永輝), an executive Director and chief executive officer of the Company, a member of the Peng Family, son of Mr. Peng DS and Ms. Wang SF, and brother of Mr. Peng TB
"Ms. Wang SF"	Ms. Wang Sufen (王素芬), a non-executive Director, a member of the Peng Family, spouse of Mr. Peng DS, and mother of Mr. Peng TB and Mr. Peng YH
"Nomination Committee"	nomination committee of the Company, comprising two independent non-executive Directors, namely Mr. Shi Weixing and Mr. Yang Zhongkai and one executive Director, namely Mr. Peng YH
"Peng Family"	Mr. Peng DS, Ms. Wang SF, Mr. Peng TB and Mr. Peng YH
"PPP"	Public-Private-Partnership, a business model in which public infrastructure projects are financed, built and operated by way of partnership between the public sector and the private sector
"PRC"	the People's Republic of China, which excludes Hong Kong, Macau Special Administrative Region and Taiwan
"PRC government"	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
"PYH Family Trust"	The Peng Yong Hui Family Trust, a discretionary trust set up by Mr. Peng YH, the beneficiaries of which shall include Mr. Peng YH and his descendants who carry the "PENG" (彭) surname

"PTB Family Trust"	The Peng Tian Bin Family Trust, a discretionary trust set up by Mr. Peng YH, the beneficiaries of which shall include Mr. Peng TB and his descendants who carry the "PENG" (彭) surname
"Remuneration Committee"	remuneration committee of the Company, comprising two independent non-executive Directors, namely Mr. Yang Zhongkai and Mr. Shi Weixing and one executive Director namely Mr. Peng TB
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	strategy committee of the Company, comprising two executive Directors, namely Mr. Peng TB and Mr. Peng YH, and one independent non-executive Director, namely Mr. Fan Rong
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"TEUR"	TEUR Holdings Limited (天鈺控股有限公司), a company incorporated under the laws of BVI with limited liability on 15 March 2016, and is wholly-owned by Mr. Peng YH as the Trustee of the PTB Family Trust
"Trustee"	Mr. Peng YH, the trustee of the PYH Family Trust and the PTB Family Trust
"Vast Base"	Vast Base Investments Limited (浩程投資有限公司), a company incorporated under the laws of BVI with limited liability on 15 March 2016, and is wholly-owned by Mr. Peng YH as the Trustee of the PYH Family Trust
"Year 2017"	the year ended 31 December 2017
"Year 2018"	the year ended 31 December 2018
"YZTB"	Ningbo Yinzhou Tianbin Trading Limited (寧波市鄞州天賓貿易有限公司), a company owned as to 90.18% by CHHG and as to 9.82% by Ms. Wang SF
"%"	per cent.