远大住工

長沙遠大住宅工業集團股份有限公司
Changsha Broad Homes Industrial Group Co., Ltd.

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

Stock Code: 2163

2019
Annual Report

Contents

Company Profile

Changsha Broad Homes Industrial Group Co., Ltd. and its subsidiaries are the pioneer and leader in the industrialization of construction industry in the PRC. Leveraging on the strong technology capability accumulated throughout years and continuous innovation, research and development efforts, Broad Homes has become a platform to provide comprehensive solutions of industrialization of construction industry in China, which comprises globalized, scalable, professionalized and intelligent manufacturing of prefabricated buildings and services.

Broad Homes is committed to establishing a digitized system covering the entire industry chain of construction in which various elements of the industry chain can be defined and the entire construction process, from design and manufacturing to construction, operation and maintenance, can be simulated in the cyber space by adopting information technology. Such process determines the variables in the construction process, and is driven by data through IoT to guide the operation and implementation of construction process in the physical space. Through bridging the gap between construction industry and industrialized operation, Broad Homes has transformed the traditional scattered construction industry, which relies on handcrafts of workers, into modern industrialized manufacturing, which is intensive and efficient. Moreover, together with other market players along the industry chain, Broad Homes has formulated standards of construction industrialization to establish an industry ecosphere.

As of December 31, 2019, Broad Homes had 15 wholly-owned PC factories and contracted to invest in 86 Joint Factories. As of the end of 2019, the total production capacity of the wholly-owned PC factories and the Joint Factories of Broad Homes was approximately 6.8 million cubic meters. Broad Homes is capable of developing the whole set of PC equipment and conducting overall planning for the construction of PC unit manufacturing factories.

Broad Homes was the first in the industry to possess a technology system covering the entire industry chain with proprietary intellectual property. Early in 1996, the founder and management team of Broad Homes entered the field of construction industrialization. Broad Homes is also among the first batch of enterprises having been named as National Housing Industrialization Bases (國家住宅產業化基地), and the only prefabricated construction enterprise having been selected for the Pilot Demonstration Project of Intelligent Manufacturing 2018 (2018年智能製造試點示範項目) by the MIIT.

On November 6, 2019, the H Shares of the Company were officially listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2163).

Corporate Information

BOARD

Executive Directors

Mr. Zhang Jian *(Chairman)*
Ms. Tang Fen *(President)*
Ms. Shi Donghong *(Vice President, Chief Financial Officer, Secretary to the Board, and Joint Company Secretary)*
Mr. Zhang Kexiang *(Vice President)*
Mr. Tan Xinming *(Vice President)*

Non-executive Director

Mr. Zhang Quanxun

Independent Non-executive Directors

Mr. Chen Gongrong
Mr. Li Zhengnong
Mr. Wong Kai Yan Thomas

Supervisors

Ms. Zhang Mingxin
Mr. Li Gen
Ms. Liu Jing

AUDIT COMMITTEE

Mr. Chen Gongrong *(Chairman)*
Mr. Li Zhengnong
Mr. Wong Kai Yan Thomas

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Li Zhengnong *(Chairman)*
Mr. Zhang Jian
Mr. Chen Gongrong

NOMINATION COMMITTEE

Mr. Zhang Jian *(Chairman)*
Mr. Chen Gongrong
Mr. Li Zhengnong

STRATEGY COMMITTEE

Mr. Zhang Jian *(Chairman)*
Ms. Tang Fen
Ms. Shi Donghong

AUTHORIZED REPRESENTATIVES

Ms. Shi Donghong
Ms. Leung Suet Wing

JOINT COMPANY SECRETARIES

Ms. Shi Donghong
Ms. Leung Suet Wing (ACIS, ACS)

LEGAL ADVISERS

as to Hong Kong law:
Baker & McKenzie

as to PRC law:
Jia Yuan Law Offices

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited

Corporate Information

REGISTERED OFFICE

Intersection of Lusong Road and Dongfanghong Road
Changsha High-tech Development Zone, Changsha
Hunan, PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 248 Yinshuang Road
Yuelu District, Changsha
Hunan, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay, Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of Changsha, Main Branch
Bank of China Limited, Hunan Branch
Shanghai Pudong Development Bank, Changsha Branch
Bank of Communications Co., Ltd., Hunan Branch
China Construction Bank Corporation, Hunan Branch

INVESTORS RELATIONS

ir@bhome.com.cn

COMPANY WEBSITE

www.bhome.com.cn

STOCK CODE

Listed on the Main Board of the Hong Kong Stock Exchange
H Share Stock Code: 2163
H Share Abbreviation: BROAD HOMES

LISTING DATE

November 6, 2019

In this annual report, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

"AGM"	the 2019 annual general meeting of the Company to be held at 10:00 a.m. on May 15, 2020 and any adjournment thereof (if any)
"Articles of Association"	the current prevailing articles of association of the Company
"Audit Committee"	the audit committee of the Company, one of the special committees of the Board
"B-Box"	modular building products of Broad House
"B-house"	prefabricated villa products of Broad House
"B2B"	a business model in which enterprises exchange and transmit data and information and carry out trading activities through private networks or the Internet
"B2C"	enterprises providing consumers with a new shopping environment through the Internet
"Belt and Road Initiative"	the initiative related to the "New Silk Road Economic Belt" and "Maritime Silk Road of the 21st Century" which was initially proposed by Mr. Xi Jinping, the President of the PRC, in September 2014 and was formally proposed by the National Development and Reform Commission of the PRC, Ministry of Foreign Affairs of the PRC and Ministry of Commerce of the PRC on March 28, 2015
"BIM"	the building information model, a process involving the generation and management of digital representations of physical and functional characteristics of places
"Board"	the board of Directors of the Company
"Broad Homes United Program"	the program initiated by our Company, where our Company cooperates with local business partners to set up Joint Factories to manufacture PC units
"cement"	gray powder, made by calcining lime and clay, which hardens when mixed with water and is generally used in producing mortar and concrete
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan region

Definitions

"China Real Estate News"	a Chinese real estate newspaper (and its news website) governed by the MOHURD
"cloud"	a global network of servers, each with a unique function
"Company" or "Broad Homes"	Changsha Broad Homes Industrial Group Co., Ltd. (長沙遠大住宅工業集團股份有限公司), which was established in the PRC on April 30, 2006 as a limited liability company and was converted into a joint stock company with limited liability in the PRC on December 10, 2015
"Company Law"	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"concrete"	an artificial, stonelike material used for various structural purposes, made by mixing cement and various aggregates, such as sand, pebbles, gravel or shale, with water and allowing the mixture to harden
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules
"Creating Value with Our Client"	proposal to assist target customers to optimize products and realize effective connection between technology and market and to provide services to Joint Factories, promote project cooperation and establish a long-term mechanism to ensure profitability
"curing"	the process where the concrete surfaces are kept wet for a certain period after placing of concrete so as to promote the hardening of cement
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	domestic unlisted ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
"forward design"	developing through moving from input, to process, and to output
"Global Offering"	the Hong Kong Public Offering and the International Offering
"gravel"	impure sandstone containing lime and clay

"Group" or "we/us"	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require)
"H Share(s)"	overseas listed foreign investment share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong Dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board
"Independent Third Party(ies)"	party(ies) not connected with us within the meaning of the Hong Kong Listing Rules as far as our Directors are aware after having made all reasonable enquiries
"Industrialization 4.0"	the intelligent era of using information technology to promote industrial transformation (distinguished from the Industrialization 1.0 steam engine era, the Industrialization 2.0 electrification era and the Industrialization 3.0 information era), characterized by the use of IoT information system for the digitalization and intelligentization of supply, manufacturing, and sales information in production, in order to achieve fast, effective and personalized product supply
"Internet +"	"Internet + various traditional industries", leveraging information and communication technologies and Internet platforms to make the Internet and traditional industries deeply integrated to create a new development ecology
"IoT"	internet of things, a network of physical objects embedded with electronics, software, sensors, and network connectivity that enables these objects to collect and exchange data thus to realize intelligent identification, positioning, tracking, monitoring and management
"ISO9001"	a standard for quality management systems maintained by the International Organization for Standardization (ISO) and is administered by accreditation and certification bodies
"JF Partners"	the shareholders of the Joint Factories other than us

Definitions

"Joint Factory(ies)"	the entities established under Broad Homes United Program to manage and operate the PC manufacturing factory. The Joint Factory also refers to the factory it operates and manages as context requires
"Listing"	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Date"	November 6, 2019, the date on which the H Shares were listed and traded on the Main Board of the Hong Kong Stock Exchange
"m"	meter(s)
"m^2" or "sq.m."	square meter(s)
"Main Board"	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the GEM of the Hong Kong Stock Exchange
"MIIT"	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
"MOC"	the Ministry of Construction of the PRC (中華人民共和國建設部)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
"mould"	a device for cutting or molding liquid into a particular shape
"multi-story"	houses and buildings with height between 10 meters (exclusive) and 24 meters (inclusive)
"Nomination Committee"	the nomination committee of the Company, one of the special committees of the Board
"OEM"	original equipment manufacturer, a company that makes a part or subsystem that is used in another company's end product
"Over-allotment Option"	the option granted by the Company in the Global Offering to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until the 30th day after the last day for lodging applications under the Hong Kong Public Offering. The Company issued 167,400 H shares from partial exercise of the over-allotment option on November 28, 2019

"PC" or "prefabricated concrete"	a construction product produced by casting concrete in a reusable mould which is then cured in a controlled environment, transported to the construction site and lifted into place; in contrast, standard concrete is poured into site-specific forms and cured on site
"PC Maker"	the series of software for designing PC units and realizing other functions along the industry chain of prefabricated construction industry, of which PC Maker I is its first generation
"PC Maker I"	a BIM software developed by the Company for designing PC units
"PC-CPS"	cyber-physical-system, an intelligent system to manage the operation and production
"PRC GAAP"	Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC
"prefabricated building"	a type of building that consists of several factory-built components or units that are assembled on-site to complete the unit
"province"	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
"Prospectus"	the prospectus of the Company dated October 24, 2019
"rebar" or "bar"	reinforcing bar, collectively known as reinforcing steel and reinforcement steel, a steel bar or mesh of steel wires used as a tension device in reinforced concrete and reinforced masonry structures to strengthen and aid the concrete under tension
"reinforced concrete"	concrete in which wire mesh or steel bars are embedded to increase its tensile strength
"Reporting Period"	the financial year ended December 31, 2019
"Remuneration and Appraisal Committee"	the remuneration and appraisal committee of the Company, one of the special committees of the Board
"RMB" or "Renminbi"	the lawful currency of the PRC
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)

Definitions

"Share(s)"	the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, comprising H Share(s) and Domestic Share(s)
"Shareholder(s)"	holder(s) of Share(s)
"shear wall"	a vertical element of a seismic force resisting system that is designed to resist in-plane lateral forces, typically wind and seismic loads
"Shenzhen SASAC"	the State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipal (深圳市人民政府國有資產監督管理委員會)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Strategy Committee"	the strategy committee of the Company, one of the special committees of the Board
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"ton(s)"	metric tons
"two-level management strategy"	management model of the Joint Factories with one level being Joint Factories with significant influence and the other being Joint Factories without significant influence
"VAT"	value-added tax
"%"	percent

In this annual report, the terms "associate(s)," "close associate(s)," "connected person(s)," "core connected person(s)," "connected transaction(s)," "controlling shareholder(s)," "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this annual report have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

Words importing the masculine gender include, where applicable, the feminine and neuter genders.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this annual report in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

Financial Summary and Operating Highlights

CONDENSED CONSOLIDATED INCOME STATEMENT

	Year ended December 31,			
	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)
Operating results				
Revenue	3,369,416	2,269,129	1,935,689	1,671,495
Gross profit	1,144,019	724,547	704,930	602,483
Profit from operations	600,612	343,563	372,254	315,390
Profit before taxation	733,676	554,269	238,650	242,948
Profit for the year	676,919	466,304	168,391	197,646
Gearing ratio (%) (Note)	56.5%	60.7%	61.2%	67.9%

Note: Gearing ratio is calculated based on the total liabilities divided by total assets at the end of the respective reporting period.

CONDENSED STATEMENTS OF FINANCIAL POSITION

	As at December 31,			
	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)
Assets				
Total non-current assets	4,853,065	3,473,386	2,724,729	1,969,352
Total current assets	4,714,361	3,852,499	4,246,662	3,827,779
Total assets	9,567,426	7,325,885	6,971,391	5,797,131
Equity				
Total equity attributable to equity shareholders of the Company	4,166,041	2,882,723	2,706,974	1,863,215
Total non-controlling interests	—	—	—	—
Total equity	4,166,041	2,882,723	2,706,974	1,863,215
Liabilities				
Total non-current liabilities	370,664	454,883	441,478	400,977
Total current liabilities	5,030,721	3,988,279	3,822,939	3,532,939
Total liabilities	5,401,385	4,443,162	4,264,417	3,933,916
Total equity and liabilities	9,567,426	7,325,885	6,971,391	5,797,131

FINANCIAL INFORMATION BY BUSINESS SEGMENT

	Year ended December 31,					
	2019			2018		
	PC unit manufacturing	PC equipment manufacturing	Construction contracting	PC unit manufacturing	PC equipment manufacturing	Construction contracting
	(in RMB'000, except percentages)			(in RMB'000, except percentages)		
Revenue	2,303,660	896,768	168,988	854,334	1,226,268	188,527
Gross profit	797,903	304,482	41,634	203,643	466,404	54,500
Gross profit margin	34.6%	34.0%	24.6%	23.8%	38.0%	28.9%

Financial Summary and Operating Highlights

NET CASH GENERATED FROM OPERATING ACTIVITIES

	Year ended December 31,		
	2019 (RMB'000)	2018 (RMB'000)	Year-on-year change (%)
Net cash generated from operating activities	**967,056**	618,296	56.4

FINANCIAL PERFORMANCE HIGHLIGHTS

Our financial performance highlights for the year ended December 31, 2019 are set out below:

Total revenue increased by 48.5% from RMB2,269,129 thousand in 2018 to RMB3,369,416 thousand in 2019.

Total gross profit increased by 57.9% from RMB724,547 thousand in 2018 to RMB1,144,019 thousand in 2019; and gross profit margin increased from 31.9% in 2018 to 34.0% in 2019.

Profit from operations increased by 74.8% from RMB343,563 thousand in 2018 to RMB600,612 thousand in 2019. The increase in profit from operations was far more than that in revenue.

Net profit increased by 45.2% from RMB466,304 thousand in 2018 to RMB676,919 thousand in 2019. Driven by the above factors, our net profit registered substantial growth.

Net cash generated from operating activities increased by 56.4% from RMB618,296 thousand in 2018 to RMB967,056 thousand in 2019. Our net cash generated from operating activities witnessed robust growth in line with the increase in revenue.

Specifically, for our PC unit manufacturing business, revenue increased by 169.6% from RMB854,334 thousand in 2018 to RMB2,303,660 thousand in 2019 and achieved a significant increase in scale and utilization rate of production lines.

MAJOR OPERATING INFORMATION

Revenue, gross profit and gross profit margin of PC unit manufacturing business

	Year ended December 31,		
	2019 (RMB'000)	2018 (RMB'000)	Year-on-year change (%)
Revenue	**2,303,660**	854,334	169.6
Gross profit	**797,903**	203,643	291.8
Gross profit margin	**34.6%**	23.8%	10.8

Financial Summary and Operating Highlights

	Year ended December 31,		
	2019 (%)	2018 (%)	Year-on-year change (%)
Average utilization rate of PC unit manufacturing business	**45.8**	17.4	28.4

Joint Factories	Year ended December 31,		
	2019 (Number)	2018 (Number)	Year-on-year change (Number)
Accumulatively contracted for	**86**	81	5
Contributed	**63**	59	4
Capable of commencing production	**57**	45	12
Profitable	**20**	8	12

OPERATING HIGHLIGHTS

Our operating highlights for the year ended December 31, 2019 are set out below:

Production and sales volume and utilization rate of production lines

The production volume of our PC units increased by 165.8% from 290,015 cubic meters in 2018 to 770,990 cubic meters in 2019; the sales volume of our PC units increased by 177.2% from 294,160 cubic meters in 2018 to 815,409 cubic meters in 2019; and the utilization rate of our PC unit production lines increased from 17.4% in 2018 to 45.8% in 2019.

Turnover days of trade debtors

Our overall turnover days of trade debtors decreased from 269 days in 2018 to 230 days in 2019, of which the turnover days of trade debtors of PC unit manufacturing business decreased from 378 days in 2018 to 204 days in 2019.

Joint Factories

As of December 31, 2019, the Joint Factories we accumulatively contracted for reached 86. We have contributed to 63 Joint Factories, among which, 57 Joint Factories are capable of commencing production and 20 Joint Factories are profitable, representing a significant increase in profitable Joint Factories of 12 in 2019 from 8 in 2018. The overall profitability of Joint Factories was substantially enhanced on an on-going basis.

New contracts and backlog

Our total new contract value in 2018 and 2019 were RMB4,618.3 million and RMB4,023.3 million, respectively. Our total backlog in 2018 and 2019 were RMB4,689.0 million and RMB4,960.7 million, respectively, representing a year-on-year increase of 5.8%. In particular, backlog of PC unit manufacturing business increased by 16.4% from RMB3,220.2 million as at the end of 2018 to RMB3,748.9 million as at the end of 2019.

Chairman's Statement

Dear investors of Broad Homes and friends who care about us:

Best greetings! The year of 2019 witnessed our compliance operation with the rules governing the listed corporations, when we delivered our first-year results as a new player in the capital market.

I'm writing to you in the midst of a critical battle against the COVID-19. In the shadow of the epidemic, cities stand quiet, the economy comes to a standstill, and various businesses are confronted with an array of challenges. For enterprises, the epidemic is an unexpected "grey rhino". Only by continuously strengthening our "comprehensive resistance" can we effectively guard against it. Therefore, rather than elaborating on the specific growth data in the financial statements, I would like to explain to you where our confidence comes from amid the spread of disease and drastic headwinds on global economy, and what strategies and actions we will take in response.

In 2019, Broad Homes officially set foot upon the international capital market, ushering in a new phase in the Company's history. More than 20 years of deep cultivation and accumulation serves as the foundation on which Broad Homes thrives, and a well-thought-out strategic adjustment drives our efforts against adversity.

In 2019, against the backdrop of China's strictly regulated real estate environment and Sino-U.S. trade frictions, Broad Homes still maintained a sound momentum of rapid growth, registering revenues of RMB3.37 billion, representing a year-on-year increase of 48.5%, of which PC units used in prefabricated construction accounted for RMB2.3 billion, up 169.6% year-on-year, and posting a net profit of RMB680 million, representing a year-on-year increase of 45.2%. Behind such growth is our commitment to technological innovation and quality, as well as our digital management transformation-empowered capability to respond to complex market demands. Both perseverance and transformation are key initiatives with far-reaching significance. Compared with the figures in the financial statements, I believe this is a greater source of continued confidence.

In 2019, Broad Homes worked on improving both scale and efficiency. This year, we focused on value creation, advocated putting strivers first, and improved our capability for refined management. The prefabricated building market in the era of Industrialization 4.0 requires capability for both mass customization and cheap and fast delivery. In 2019, Broad Homes' PC-CPS full-process digital system was fully applied, and customization, automation and spontaneous collaboration were achieved for all aspects of prefabricated construction. Leveraging on PC-CPS, we authorize the front line by platformizing the functions of the headquarters and turning it into a service system targeting customers and a resource allocation system platform. In the future, we will continue to deepen innovation and expedite data integration and sharing in collaboration with upstream and downstream players in the industry chain in an effort to upgrade the system to PC-CPS 2.0. We have entered into strategic cooperation agreements with Country Garden Holdings Company Limited, Midea Real Estate Group Co., Ltd. and Jinke Property Group Co., Ltd.. From providing exclusive whole-process prefabricated building solutions to co-developing standards for prefabricated building products, we have shifted from "business cooperation" to the "standard co-construction" in a bid to speed up the standardization, digitalization and intelligentization of prefabricated buildings at the product end and co-create the "good, fast and cheap" core values with customers.

In 2019, Broad Homes actively initiated the change from TO B to TO B + C. The battle against the current epidemic has boosted the public's demand for and attention to health to an unprecedented level, greatly elevating the status of healthy housing with a focus on the health of residents. High-density, high-rise housing, no matter how well they are decorated and supported, is no match for low-density, multi-story and low-rise housing when it comes to safety. The new Land Management Law of the People's Republic of China (《中華人民共和國土地管理法》) came into effect on January 1, 2020 and the No. 1 Central Document was issued in 2020, giving the green light to the circulation of rural collective operating and construction land in the market. A multi-trillion market will be unlocked for nature-friendly, low density, comfortable and healthy rural housing. In 2019, Broad Homes established Broad Module Integration Technology Company. With low-density community planning in rural areas and more healthy and sustainable human settlements in view, Broad Homes launched upgraded Bhouse products, which are fully prefabricated, more industrialized, delivered faster, of better quality, comfortable and environmentally friendly. A nationwide complete network of factories deeply integrated with the promotion of comprehensive Internetization and the operation model enables the efficient integration of social resources and the rapid marketing and implementation capacity. In the future, the countryside will become a major battlefield for construction and development on a par with cities. We will further enrich our product offerings to meet the market demand for modern rural housing, and bring the benefits of green technology, comfort and health to the rural population.

As spring draws near, we will eventually dispel the haze. Since early February 2020, local governments have introduced supportive policies for the real estate industry in rapid succession, from bailing out real estate enterprises on the supply side, paying land transfer fees by installments or postponing the payment of land transfer fees, and lowering the bar for pre-sales to stimulating the demand for housing, deed tax subsidies, and subsidies for home purchases by talents. Market expectations are running high for a shift of housing policies towards relaxation or even active stimulation. With the unveiling of the "RMB25 trillion" investment plan and the transformation and upgrading of the rural housing market, Broad Homes will embrace new opportunities. We will persevere in technological innovation and product upgrading to lay a solid foundation, and focus on research and development investment in new business and new models to prepare ourselves for new development in 2020.

We will continue to pave the way for strivers, doers and responsibility-takers, and put in place a strong incentive and guarantee mechanism, so that every employee can work steadfastly, strive forward, think, strategize, execute and get rewarded. By attaching great importance to talents, we provide a strong driving force for the growth of the Company's earnings. It is extremely difficult to achieve transformation and upgrading while maintaining high growth, which requires great courage and determination, and even more, concerted efforts. Broad Homes has successfully ensured the effective inheritance of values, a more rational and efficient organizational structure, a more robust and diverse talent echelon, a clearer brand array, more accurate product positioning and tempo, and a more balanced and diverse business structure.

All the complexities, whether it is blockchain, AIoT, IoT, consumption upgrading or the "cloud" economy, can't be separated from the essence of business: the continued creation of customer-recognized value. In the journey of 2020, it is more urgent than ever to focus on our mission and pool our strengths. We should further strengthen the construction of "cost power, product power and service power", unswervingly seek benefits from scale, and comprehensively enhance full cycle overall competitiveness. Only by staying united and embracing changes can we make great progress in the future.

We are sincerely grateful for all the efforts, trust, spurs and expectations we have received in the growth of Broad Homes. To believe in Broad Homes is to believe in the power of the modernization of the construction industry, in the new spirit of winning by efficiency in this era, and in the great significance of green building technology for the sustainable development of the natural environment.

Sustainability leads to thrive. Opportunities are always reserved for the few who are prepared, for those who do extremely well on their flagship products, and for those who have bypassed the trap of losing focus. We are ready to scale new heights in delivering technological breakthroughs!

Changsha Broad Homes Industrial Group Co., Ltd.
Chairman
Zhang Jian

Changsha • Hunan
April 20, 2020

Management Discussion and Analysis

OVERVIEW

We are the pioneer and leader in the industrialization of the construction industry in the PRC. Leveraging on our strong technology capability accumulated throughout years and continuous innovation and research and development efforts, we have become a platform to provide comprehensive solutions of the industrialization of the construction industry in the PRC, which comprise globalized, scalable, professionalized and intelligent manufacturing of prefabricated buildings and relevant services. Set out below are the major businesses that we engage in:

- PC unit manufacturing business: with our in-house PC-CPS system, we achieved mass production of customized PC units, and provide PC units to different customers according to the construction progress of different projects;

- PC equipment manufacturing business: we provide equipment specially designed for PC units manufacturing and value-added services to the Joint Factories; and

- Construction contracting business: we act as the construction contractor of prefabricated construction operation for selective projects.

1. BUSINESS REVIEW AND PROSPECT

Business highlights of the Company

In 2019, we focused on quality improvement and efficiency enhancement and strived to promote scale and efficiency. Leveraging the full application of the PC-CPS full-process digital solution for prefabricated construction and with concerted efforts of all the employees, we stepped upon the track of high-quality development. We continued to deepen our in-depth cooperation with strategic customers of brand real estate enterprises, and entered into cooperation agreements with 20 large-scale real estate enterprises, including Country Garden Holdings Company Limited, Midea Real Estate Group Co., Ltd. and Jinke Property Group Co., Ltd.. From providing specialized prefabricated construction full-process solutions to jointly formulating prefabricated construction product standards, we achieved the transformation from “business cooperation” to “standard co-construction” and “Creating Value with Our Client”. Adhering to the “strugglers-oriented” principle, we promote individual specific assessment and quantify individual value, correctly evaluate value, reasonably allocate value, and continuously strengthen staff management efficiency and value construction, to facilitate steady management efficiency improvement. As a result, during the Reporting Period, our revenue increased robustly to RMB3,369,416 thousand, representing a year-on-year increase of 48.5%; our gross profit margin increased from 31.9% in 2018 to 34.0% in 2019, representing a year-on-year increase of 2.1 percentage points; our net profit reached RMB676,919 thousand, representing a year-on-year increase of 45.2%; and our net cash generated from operating activities amounted to RMB967,056 thousand, representing a year-on-year increase of 56.4%.

PC unit manufacturing

In 2019, our PC unit manufacturing business experienced a strong growth momentum. During the Reporting Period, the PC unit manufacturing business recorded revenue of RMB2,303,660 thousand, representing a year-on-year increase of 169.6% and recorded gross profit margin of 34.6% in 2019 from 23.8% in 2018, representing an increase of 10.8 percentage points. During the Reporting Period, revenue from the PC unit manufacturing business as a percentage of total revenue increased from 37.7% in 2018 to 68.4% in 2019, and average utilization rate of production lines increased from 17.4% in 2018 to 45.8% in 2019, representing an increase of 28.4 percentage points. Turnover days of trade debtors of PC unit manufacturing business decreased from 378 days in 2018 to 204 days in 2019.

PC equipment manufacturing

In 2019, PC equipment manufacturing business recorded revenue of RMB896,768 thousand, representing a year-on-year decrease of 26.9%, primarily due to the shift in our business development focus from nationwide layout to facilitating the operation of Joint Factories. We will continue to introduce our PC-CPS management system and an array of value-added services into the Joint Factories to assist Joint Factories to enhance operation. We will also push forward the Broad Homes United Program and select partners for market expansion with more prudence, so as to solve the problem of developing and rapidly occupying local markets with only limited funds and to promote the “Broad Homes Industrial” brand and PC-CPS management system. We believe that our brand and our capability to integrate software and hardware serve as one of the major competitive advantages in the PC unit market. Through the operation of the Joint Factories and relying on the strong production capacity brought about by the integration of our software and hardware, we can not only increase our popularity in the local market, but also empower the Joint Factories with stronger competitiveness. As of December 31, 2019, we secured 86 Joint Factories in total, 57 of which had production capacity and 20 achieved profit.

Construction contracting

In 2019, our construction contracting business recorded revenue of RMB168,988 thousand, representing a year-on-year decrease of 10.4%. We decided to focus on PC unit and PC equipment manufacturing business starting from 2016. This focus change in our business is primarily driven by our intention to concentrate our strengths on PC unit and PC equipment manufacturing and to further develop our PC unit design and production management system. As a result, we did not enter into new contracts regarding construction contracting business and relevant projects came to the final stage successively.

Prospect and strategies

Continue to invest in domestic regional production centers and Joint Factories

We will continue to implement our strategy of “Scale plus Profits”. We plan to leverage on the network of our wholly-owned PC factories and the Joint Factories to integrate our technology centers in various regions to achieve national coverage.

We intend to continue to lead the market through establishing regional production centers nationwide. Regional production center is a combination of wholly-owned PC factory and technology center, where our PC unit manufacturing capability is enhanced with full support from our strong research and development capability of technology centers while the research results of the technology centers can be quickly applied in real time manufacturing in our PC unit manufacturing factories and in turn promotes the application and development of our technology. The regional production centers will serve as regional benchmark for our PC units manufacturing and provide technical support to the wholly-owned factories and Joint Factories in the region. As of December 31, 2019, we had established seven regional production centers in provinces of Hunan, Zhejiang, Anhui, Jiangsu, Guangdong, Tianjin and Shanghai. We plan to complete the expansion of all seven existing regional production centers by the end of 2020. Meanwhile, we will build new regional production centers in 14 cities which we believe to have promising market potentials, and further enhance our leadership in the prefabricated construction industry in China by enlarging our production scale and profitability. All regional production centers are and will be wholly-owned by us. Among these new regional production centers, those in Wuhan, Jinan and Zhengzhou are intended to be built with investment.

When building new regional production centers, we intend to firstly build our technology centers which constitute an important part of our regional production centers if no factory has yet been established in that area. We plan to establish a nationwide technology network comprising 20 technology centers in China in the future, so that we are able to allocate our technological resources collectively and provide technological support to all of our wholly-owned and Joint Factories. As such, we will be able to provide our clients with integrated prefabricated construction solutions with higher quality.

Currently we have conducted preparation work such as local market research, feasibility study and location selection for the expansion and establishment of five regional production centers. As of December 31, 2019, we had contracted to invest in 86 Joint Factories in various cities across China in total. We plan to further increase the number of the Joint Factories to realize a full coverage of major prefabricated construction markets in China with funds generated from our business operation and other financial resources available.

Upgrade our digital intelligent platform

We will continue to enhance our capability in research and development, upgrade our soft skills in intelligent manufacturing and forge our core competitiveness. Taking advantage of the intelligent design software of PC Maker I, we plan to continue to build our platform-level PC-CPS intelligent manufacturing management system by optimizing BIM design, construction standards and operational tools, and conducting research and development of artificial intelligent manufacturing systems.

We plan to build a self-serviced quick design platform for prefabricated building design to provide designers and design institutes with rapid design tools at various stages and in various disciplines, prefabricated design resources, and data interface standards for accessibility to manufacturing management systems and their conversion tools. We also plan to develop a project management system of virtual design to provide value-added services including online design project management, virtual team operations management and design optimization.

We have utilized "Internet +" to realize intelligent design and manufacturing of PC units through PC Maker I. We mainly use the data and information of BIM model to informationize the whole process and digitize our entire operation. We plan to establish a virtual PC factory operations management system and an intelligent construction site project management system to be integrated into the PC-CPS management system platform. Leveraging on the mass data and user base in various aspects of prefabricated construction, we also plan to create an online trading platform to direct and attract traffic of suppliers and potential cooperation platforms of component parts, construction materials, electrics and mechanical equipment, logistics and semi-finished products.

In addition, we plan to extend our business along upstream and downstream of the industry chain, establish an industry level massive data platform, and promote the full integration of the internet platform systems of the industry.

Continue to focus on strategic clients

We focus on developing clients who are among the top 50 real estate developers in China. Adhering to our philosophy of "Creating Value with Our Client", we plan to assist our target clients to optimize products and realize the effective integration of technologies and market. We also plan to provide services to the Joint Factories, promote project cooperation and establish a long-term systematic mechanism to ensure profitability.

We plan to establish a nationwide resource linkage and a customer response system, to provide customized comprehensive solutions of prefabricated construction to our customers, and provide all-round technology service and product support, so as to help our customers to quantify and control the progress of fund utilization and increase the turnover rate. Meanwhile, we believe that we are able to create an overall connection among the product demand of strategic clients, procurement demand of our projects in various locations and demand for information sharing, thus forming a client-reliance on multiple dimensions. In addition, we believe that we are able to adopt a nationwide layout strategy to achieve a rapid expansion in scale magnitude.

Expand in overseas markets

We plan to promote and export full fabricated villa products to certain developed countries and regions in, for instance, Europe, North America and Persian Gulf area. Full fabricated villa products can substantially reduce construction effort on-site and can be constructed in a more efficient, environmental-friendly and energy-saving manner as compared with traditional buildings. We believe that such products will create market demand as they are in line with the value orientation of the people in the developed countries and popular islands for tourists.

We plan to seize the opportunities brought by the Belt and Road Initiative to develop and build social housing in countries along the Belt and Road Initiative and other developing countries through exporting full sets of prefabricated building products and relevant construction management, technologies, equipment and services. We expect that the Belt and Road Initiative will bring a tide of fast growth opportunities in both infrastructure projects and livelihood projects of countries and regions along the relevant routes, thus driving urbanization demand and progress. Other developing countries are in the process of urbanization, as a result of which we believe that there will be continuous increase in demand for housing construction, including the demand for prefabricated buildings, in those countries and regions.

Based on our long-term experience, we have developed matured management, technology, equipment and service systems, and built a platform-level PC-CPS intelligent manufacturing management system, which are able to promote the transformation of construction industry from Industrialization 1.0 to 4.0. In the future, we intend to export full sets of prefabricated building products as well as full sets of management, technologies, equipment and service systems to target countries.

Develop module integration services

We plan to split our businesses into two principal business units, being B2B and B2C. Our prefabricated business department will be responsible for the B2B unit, which is primarily engaged in PC unit and PC equipment manufacturing business. Meanwhile, we will set up a B2C module integration technology division to be mainly responsible for B-house business and the new product of B-BOX business, which primarily target at C-end consumers by adopting the online and offline "Internet +" mode for providing one-stop service for production, sales, installation and after-sales service leveraging the establishment of an information platform system and our self-operated factories and Joint Factories across the nation. The forty-year period since reform and opening up in China witnessed the four decades of urbanization, when vast rural population continuously poured into cities, resulting in an ever-intensifying contradiction in housing among the urban population. With the implementation of such policies as the integration of urban and rural areas and the construction of beautiful countryside as advocated by the government, a growing number of urban elites expect to own an ideal house in proximity to cities. According to incomplete statistics, the rural consumption market will reach RMB6 trillion in 2020, of which living is the major component of expenditure for rural residents. In our country, the area of self-built houses in villages and around cities has exceeded 1.3 billion square meters, and more than 2.2 million new rural houses are built every year.

The Ministry of Housing and Urban-Rural Development of the PRC issued the Notice on Carrying out the Pilot Work of Rural Housing Construction (關於開展農村住房建設試點工作的通知) on February 2, 2019, pursuant to which, provinces and cities across the country successively rolled out relevant documents on rural housing construction management to guide the rural housing construction management in a unified and standardized manner. The official implementation of the new Land Administration Law of the PRC (中華人民共和國土地管理法) on January 1, 2020 and policies such as the confirmation of rural land rights significantly promoted the development of the rural self-built housing market, and at the same time laid a legal basis for standardizing rural self-built housing systems.

Trial launch of our upgraded B-house products was unveiled on January 28, 2020 and received instant market attention. In the past few days, we secured orders in various regions.

2. RESULTS OF OPERATIONS

The table below sets out a summary of our consolidated results of operations for 2019.

	Year ended December 31, 2019 (RMB'000)	2018 (RMB'000)
Revenue	**3,369,416**	2,269,129
Cost of sales	**(2,225,397)**	(1,544,582)
Gross profit	**1,144,019**	724,547
Net valuation gains on investment properties	**20,284**	53,871
Other income	**64,321**	32,044
Sales and distribution expenses	**(217,928)**	(111,746)
General and administrative expenses	**(232,332)**	(229,182)
Research and development expenses	**(177,752)**	(125,971)
Profit from operations	**600,612**	343,563
Finance costs	**(102,404)**	(72,412)
Fair value changes on financial assets at fair value through profit or loss	**12,600**	–
Share of profits less losses of associates	**(35,062)**	(98,321)
Gains on disposal of subsidiaries	**–**	108,439
Gains on loss of significant influence in associates	**248,188**	261,494
Gains on disposal of partial interest in associates	**7,580**	–
Gains on disposal of associates	**2,162**	11,506
Profit before taxation	**733,676**	554,269
Income tax	**(56,757)**	(87,965)
Profit for the year	**676,919**	466,304

Revenue

Our revenue increased from RMB2,269.1 million in 2018 to RMB3,369.4 million in 2019, representing a year-on-year increase of 48.5%. We have posted strong revenue growth.

The table below sets out a breakdown of revenue by business segment for 2019 and 2018 (in absolute terms and as a percentage of our total revenue):

	Year ended December 31,			
	2019		2018	
Revenue:	Amount (RMB'000)	As a percentage of total revenue (%)	Amount (RMB'000)	As a percentage of total revenue (%)
Sales of PC units	2,303,660	68.4	854,334	37.7
Sales of PC equipments	896,768	26.6	1,226,268	54.0
Revenue from construction contracts	168,988	5.0	188,527	8.3
Total	3,369,416	100	2,269,129	100

Revenue from PC unit manufacturing business increased from RMB854.3 million in 2018 to RMB2,303.7 million in 2019, representing a year-on-year increase of 169.6%; and revenue from PC unit manufacturing business as a percentage of total revenue rose from 37.7% in 2018 to 68.4% in 2019, primarily due to a substantial improvement in the capacity utilization rate of our PC unit manufacturing business, which increased from 17.4% in 2018 to 45.8% in 2019.

Revenue from PC equipment manufacturing business decreased from RMB1,226.3 million in 2018 to RMB896.8 million in 2019, representing a year-on-year decrease of 26.9%; and revenue from PC equipment manufacturing business as a percentage of total revenue decreased from 54.0% in 2018 to 26.6% in 2019, primarily due to a shift from rapid layout expansion stage to facilitating Joint Factories to enhance operation and achieve benign operation stage under the Broad Homes United Program, leading to a corresponding deceleration in expansion and construction progress of Joint Factories and PC equipment manufacturing business.

Revenue from construction contracting business decreased from RMB188.5 million in 2018 to RMB169.0 million in 2019, representing a year-on-year decrease of 10.4%; revenue from construction contracting business as a percentage of total revenue decreased from 8.3% in 2018 to 5.0% in 2019, primarily due to the fact that starting from 2016, we concentrated our efforts on the development of PC unit and PC equipment manufacturing, and further developed PC unit design and production management systems, and decided to focus on PC unit and PC equipment manufacturing business. For the years ended December 31, 2018 and 2019, all projects of construction contracting business entered the final stage successively.

Cost of sales

Our cost of sales increased from RMB1,544.6 million in 2018 to RMB2,225.4 million in 2019, representing a year-on-year increase of 44.1%. This is mainly due to the fact that our revenue increased significantly and our cost of sales increased accordingly.

The table below sets out a breakdown of the cost of sales by business segment for 2019 and 2018 (in absolute terms and as a percentage of our total cost of sales):

	Year ended December 31,			
	2019		2018	
Cost of sales:	Amount (RMB'000)	As a percentage of total cost of sales (%)	Amount (RMB'000)	As a percentage of total cost of sales (%)
Sales of PC units	1,505,757	67.7	650,691	42.1
Sales of PC equipments	592,286	26.6	759,864	49.2
Revenue from construction contracts	127,354	5.7	134,027	8.7
Total	2,225,397	100	1,544,582	100

The cost of sales of PC unit manufacturing business increased from RMB650.7 million in 2018 to RMB1,505.8 million in 2019, representing a year-on-year increase of 131.4%. This is mainly due to the fact that revenue from our PC unit manufacturing business increased significantly and our cost of sales increased accordingly. However, the cost of sales grew at a much slower pace than revenue did due to an increase in scale and a significant reduction in the allocation of fixed expenses such as depreciation and amortization, which led to an increase in gross profit margin.

The cost of sales of PC equipment manufacturing business decreased from RMB759.9 million in 2018 to RMB592.3 million in 2019, representing a year-on-year decrease of 22.1%, primarily due to the fact that in 2019, revenue from our PC equipment manufacturing business decreased compared with 2018, and the cost of sales decreased by basically the same percentage as revenue.

The cost of sales of construction contracting business decreased from RMB134.0 million in 2018 to RMB127.4 million in 2019, representing a year-on-year decrease of 5.0%, primarily due to the fact that our construction contracting business has entered the final stage, resulting in a decrease in revenue, and the cost of sales decreased by basically the same percentage as revenue.

Gross profit and gross profit margin

Our overall gross profit increased from RMB724.5 million in 2018 to RMB1,144.0 million in 2019, representing a year-on-year increase of 57.9%. Our gross profit margin rose from 31.9% in 2018 to 34.0% in 2019, representing an increase of 2.1 percentage points.

The table below sets out a breakdown of gross profit by business segment for 2019 and 2018, and as a percentage of revenue (i.e., gross profit margin) of each business segment:

	Year ended December 31,			
	2019		2018	
Gross profit:	Amount (RMB'000)	Gross profit margin (%)	Amount (RMB'000)	Gross profit margin (%)
Sales of PC units	**797,903**	**34.6**	203,643	23.8
Sales of PC equipments	**304,482**	**34.0**	466,404	38.0
Revenue from construction contracts	**41,634**	**24.6**	54,500	28.9
Total	**1,144,019**	**34.0**	724,547	31.9

The gross profit of PC unit manufacturing business increased from RMB203.6 million in 2018 to RMB797.9 million in 2019, representing a year-on-year increase of 291.8%. The gross profit margin rose significantly from 23.8% in 2018 to 34.6% in 2019. This is mainly due to a significant increase in the scale of our PC unit manufacturing business, a substantial improvement in the utilization rate of production lines, and a significant reduction in the allocation of fixed costs such as depreciation and amortization.

The gross profit of PC equipment manufacturing business decreased from RMB466.4 million in 2018 to RMB304.5 million in 2019, representing a year-on-year decrease of 34.7%. The gross profit margin decreased slightly from 38.0% in 2018 to 34.0% in 2019, primarily due to a slight decrease in revenue from royalties of the use of intellectual property from our PC equipment manufacturing business collected from customers for the use of intellectual property rights and discounts offered to Joint Factories for repeat purchase of equipment in 2019.

The gross profit of construction contracting business decreased from RMB54.5 million in 2018 to RMB41.6 million in 2019, representing a year-on-year decrease of 23.6%. The gross profit margin decreased slightly from 28.9% in 2018 to 24.6% in 2019, primarily due to a decrease in cost of sales corresponding to the decrease in revenue of construction contracting business.

Valuation gains on investment properties

For the years ended December 31, 2018 and 2019, we recorded valuation gains on investment properties of RMB53.9 million and RMB20.3 million, respectively, mainly due to a substantial increase in the value of our investment property (mainly commercial real estate). Property interests are recorded based on the relevant valuations as disclosed in the Property Valuation Report (where applicable) of the Prospectus.

Other income

Our other income consists primarily of government grants and gains or losses on disposal of assets.

The table below sets out a breakdown of the main components of our other income for 2019 and 2018:

	Year ended December 31,	
	2019 (RMB'000)	2018 (RMB'000)
Government grants	**68,433**	34,184
Losses on the disposal of property, plant and equipment	**(2,324)**	(1,514)
(Net losses)/Gains on disposal of investment properties	**(5,715)**	369
Others	**3,927**	(995)
Total	**64,321**	32,044

For the years ended December 31, 2018 and 2019, we enjoyed VAT refunds, and we applied for and received grants from local government departments and the central government of China, mainly including industry development funds and government subsidies for the development and construction of property, plant and equipment. Although the government usually provides grants annually, except for VAT refunds, these grants are not provided on a regular basis but on a case-by-case basis in accordance with applicable national and local laws and regulations. Our government grants increased from RMB34.2 million in 2018 to RMB68.4 million in 2019, representing a year-on-year increase of 100.2%, mainly due to an increase in VAT refunds resulting from a significant increase in revenue from our PC unit manufacturing business.

For the years ended December 31, 2018 and 2019, we incurred losses on the disposal of assets, mainly due to the partial disposal of the machinery and equipment related to the construction contracting business.

Sales and distribution expenses

Our sales and distribution expenses mainly include freight, staff remuneration, fees including operation cost and promotion fee, after-sale service fee and depreciation and amortization, etc. For the years ended December 31, 2018 and 2019, our sales and distribution expenses were RMB111.7 million and RMB217.9 million, respectively, accounting for 4.9% and 6.5% of our total revenue for the same periods, respectively. The increase in sales and distribution expenses was mainly due to an increase in freight for PC units caused by a substantial increase in revenue from our PC unit manufacturing business, as well as an increase in the remuneration that we are required to pay to market personnel and after-sales service fee caused by an increase in the scale of our operations.

The table below sets out a breakdown of our sales and distribution expenses for 2019 and 2018:

	Year ended December 31,	
	2019 (RMB'000)	2018 (RMB'000)
Freight	**121,614**	44,058
Staff remuneration	**42,460**	28,013
After-sale service fee	**16,041**	2,626
Fees including operation cost and promotion fee	**17,053**	13,789
Depreciation and amortization	**3,591**	922
Others	**17,169**	22,338
Total	**217,928**	111,746

General and administrative expenses

Our general and administrative expenses consist primarily of remuneration for administrative staff and amortization and depreciation. For the years ended December 31, 2018 and 2019, our general and administrative expenses were RMB229.2 million and RMB232.3 million, respectively, accounting for 10.1% and 6.9% of our total revenue for the same periods, respectively. The bad debt provision decreased from RMB78.1 million for the year ended December 31, 2018 to RMB14.8 million for the year ended December 31, 2019, mainly due to the implementation of our proactive collection policies and measures, which accelerated the collection of trade debtors and bills receivable. Meanwhile, the increase in the number and salary of administrative staff was in line with the expansion of our business.

The table below sets out a breakdown of our general and administrative expenses for the periods indicated:

	Year ended December 31, 2019 (RMB'000)	2018 (RMB'000)
Staff remuneration	**86,941**	47,481
Includes: share-based payment	**16,368**	13,868
Business taxes and surcharges	**32,160**	36,179
Depreciation and amortization	**36,986**	22,050
Bad debt provision	**14,783**	78,120
Office expenses, travel expenses	**16,372**	10,434
Rental fee	**2,086**	2,516
Others	**43,004**	32,402
Total	**232,332**	229,182

Research and development expenses

Our research and development expenses consist primarily of staff remuneration, material costs, and design and testing fees. For the years ended December 31, 2018 and 2019, our total research and development expenses were RMB207.7 million and RMB289.4 million, respectively. The increase in total research and development expenses was primarily attributable to our enhanced investment in research and development of new products, new processes, product innovation and the PC-CPS management system, for which RMB126.0 million and RMB177.8 million of our research and development expenses were incurred, respectively, and RMB81.8 million and RMB111.6 million of our research and development expenses were capitalized, accounting for 39.4% and 38.6% of our research and development expenses for the same year, respectively.

The table below sets out a breakdown of our research and development expenses for the periods indicated:

	Year ended December 31, 2019 (RMB'000)	2018 (RMB'000)
Staff remuneration	**115,361**	108,144
Material costs	**138,756**	68,365
Depreciation and amortization	**17,937**	11,555
Design and testing fee	**7,700**	15,675
Others	**9,630**	3,984
Total research and development expenditure	**289,384**	207,723
Capitalization of research and development expenditure	**(111,632)**	(81,752)
Total	**177,752**	125,971

Profit from operations

In summary, our profit from operations for the year ended December 31, 2019 was RMB600.6 million, compared with RMB343.6 million for the same period in 2018. In 2019, our profit from operations increased significantly by 74.8% as compared to that in 2018.

Finance costs

Our finance costs consist primarily of interest expenses on bank loans and other borrowings, interest expenses and interest on lease liabilities. For the years ended December 31, 2018 and 2019, our finance costs were RMB72.4 million and RMB102.4 million, respectively, representing a year-on-year increase of 41.4%. The increase in finance costs was mainly due to an increase in loans and interest expense caused by expansion of our business, and our first-time application of IFRS 16 on January 1, 2019, which increased the interest on our lease liabilities.

The table below sets out a breakdown of our finance costs for the periods indicated:

	Year ended December 31, 2019 (RMB'000)	2018 (RMB'000)
Interest on bank loans and other borrowings	**107,207**	72,030
Interest on discounted bills	–	5,649
Interest on lease liabilities	**2,562**	–
Interest income	**(5,236)**	(5,267)
Net foreign exchange gain	**(2,129)**	–
Total	**102,404**	72,412

Gain or loss on fair value change of financial assets

For the year ended December 31, 2019, we recorded gain or loss on fair value change of financial assets of RMB12.6 million while we did not record any gain or loss on fair value change of financial assets during the same period in 2018, primarily attributable to the increase of valuation of financial assets at fair value through profit or loss.

Share of profits less losses of associates

In 2019, we continued to cooperate and invest with selected local partners in Joint Factories to manufacture PC units through the Broad Homes United Program. Our share of profits less losses of associates was calculated by the profit less loss attributable to us from our associates pursuant to our equity interests in such associates. As some of the Joint Factories were under construction or at the trial or during start-up stage and had not yet recorded any profit in their operations, we recorded a loss on our investment in the associates as a whole during the above periods. For the years ended December 31, 2018 and 2019, we recorded negative share of profits less losses of associates of RMB98.3 million and RMB35.1 million, respectively, and recorded year-on-year decrease in losses of 64.3%, primarily due to the continued operating improvement of Joint Factories.

Gains on disposal of subsidiaries

In 2018, we disposed of three subsidiaries and recorded gains of RMB108.4 million, while in 2019, we did not dispose of any subsidiaries, and there was no relevant proceed.

Gains on loss of significant influence in associates

In late 2017, we adjusted the management model of Joint Factories and formulated the “two-level management strategy” on Joint Factories. Since early 2018, we started to implement the “two-level management strategy”. Subject to the consent of the JF Partners, we withdrew from participating in the decision-making process of the key operational management of certain Joint Factories, to better respond to the challenges imposed on our limited management resources with our implementation of Broad Homes United Program. As a result, for the years ended December 31, 2018 and 2019, 30 and 17 Joint Factories that we had made the capital contribution to were re-measured as financial assets at fair value through profit or loss, respectively and the Company confirmed that, the re-measurement and reclassification criteria of the above Joint Factories complied with the reclassification criteria as disclosed in the section headed “Development of the ‘Two-level Management Strategy’ on Our Portfolio of Joint Factories” of the Prospectus. We recorded gains on loss of significant influence in associates of RMB261.5 million and RMB248.2 million. The fair value of Joint Factories as financial assets at fair value through profit or loss was determined by valuation. The valuer appointed by us determined the fair value of the relevant financial assets using the comparable transactions method and the comparable company method under the market approach according to the different development stages of the Joint Factories. Among the Joint Factories re-measured as financial assets at fair value through profit or loss, 44 were in the start-up stage while 3 were in the rapid development stage and all of these 3 Joint Factories were profitable. Under the market approach, accumulated losses incurred by a company in the start-up stage cannot be considered as an impairment of the initial investment. On the other hand, the prefabricated construction industry is supported by government policies and has a good prospect. According to the valuation results obtained by the professional body using the above valuation approach, such proceeds were recorded because the fair value of the financial assets exceeded the amount of interests held in the associates before the loss of significant influence over the target companies.

Gains on disposal of partial interest in associates

For the year ended December 31, 2019, as a result of the sale of a portion of our equity interest in an associate to an independent third party, we recorded RMB7.6 million in gains on disposal of partial interest in associates. For details, please refer to “Gains on Disposal of Partial Interest in Associates” under the financial information section of the Prospectus. In 2018, we did not record any relevant gains or losses.

Gains on disposal of associates

In 2018, as we stopped producing one of our products, we disposed of an associate and recorded a gain of RMB11.5 million from the disposal. For details, please refer to “Gains on Disposal of Associates” under the financial information section of the Prospectus. For the year ended December 31, 2019, we recorded RMB2.2 million of gains on disposal of associates due to the deregistration of two associates and the transfer of the entire interest in a Joint Factory to independent third parties.

Profit before taxation

In summary, our profit before taxation for the year ended December 31, 2019 was RMB733.7 million, representing a year-on-year substantial increase of 32.4% compared to RMB554.3 million for the same period in 2018.

Income tax

Our income tax expense consists primarily of corporate income tax and movements in deferred tax assets. For the years ended December 31, 2018 and 2019, our income tax was RMB88.0 million and RMB56.8 million, respectively, and the effective tax rate was 15.9% and 7.7%, respectively. The substantial decrease in the effective tax rate was mainly due to the fact that in 2019, four of our subsidiaries were recognized as high-tech enterprises and enjoyed a preferential income tax rate of 15% and another 7 subsidiaries enjoy preferential income tax policies for being small and low-profit enterprises.

Profit for the year

In summary, our profit for the year ended December 31, 2019 was RMB676.9 million, representing a substantial increase of 45.2% compared to RMB466.3 million for the same period in 2018.

3. WORKING CAPITAL AND CAPITAL RESOURCES

We have met our capital needs through cash flows from operations and financing. As at December 31, 2018, our balance amounted to RMB296.5 million while as at December 31, 2019, our cash and cash equivalents were RMB1,084.8 million. The table below sets out our cash flows for the years indicated:

	Year ended December 31,	
	2019 (RMB'000)	2018 (RMB'000)
Net cash generated from operating activities	**967,056**	618,296
Net cash used in investing activities	**(1,307,209)**	(785,560)
Net cash generated from/(used in) financing activities	**1,129,410**	(212,203)
Net increase/(decrease) in cash and cash equivalents	**789,257**	(379,467)
Effect of foreign exchange rate changes	**(982)**	—
Cash and cash equivalents at the beginning of the year	**296,475**	675,942
Cash and cash equivalents at the end of the year	**1,084,750**	296,475

Net cash generated from operating activities

Net cash generated from operating activities mainly includes our profits and non-cash items (such as depreciation and amortization) during the year and is adjusted according to changes in working capital.

For the year ended December 31, 2019, the net cash generated from operating activities was RMB967.1 million, mainly due to profit before income tax of RMB733.7 million, which was adjusted according to the following aspects: (i) non-cash items, mainly including RMB159.1 million in depreciation and amortization, and equity-settled share-based payment expenses of RMB16.4 million, gains on loss of significant influence in associates of RMB248.2 million, gains on disposal of interests in associates and gains on disposal of partial interest in associates of RMB9.7 million, share of profits less losses of associates of RMB35.1 million, bad debt provision and inventory depreciation provision of RMB14.8 million, valuation gain of investment properties of RMB20.3 million, valuation gain on financial assets at fair value of RMB12.6 million, and expenditure on other non-cash items of RMB2.9 million, (ii) changes in working capital, mainly including a decrease of RMB108.4 million in inventory, an increase of RMB510.7 million in trade and other receivables, an increase of RMB548.5 million in trade and other payables, a decrease of RMB366.8 million in contract assets, a decrease of RMB269.5 million in contract liabilities and income tax paid of RMB60.0 million, and (iii) financing activities items, mainly including expenditure on finance costs of RMB112.5 million.

Net cash used in investing activities

For the year ended December 31, 2019, net cash used in investing activities was RMB1,307.2 million, mainly attributable to (i) the acquisition of property, plant and equipment, lease prepayments/right-of-use assets and intangible assets of RMB970.2 million, (ii) the acquisition of financial assets at fair value through profit or loss and interests in associates of RMB485.6 million, (iii) the final payment in respect of the disposal of subsidiaries in 2018 of RMB69.9 million, (iv) proceeds from the disposal of investment property of RMB53.4 million, and (v) proceeds from the disposal of interests in associates of RMB17.8 million and income from other investment activities of RMB7.7 million.

Net cash generated from/(used in) financing activities

For the year ended December 31, 2019, the net cash generated from financing activities was RMB1,129.4 million, mainly due to (i) payment of borrowings and interest of RMB1,717.3 million, (ii) loans and borrowings proceeds of RMB2,279.1 million, (iii) payment of dividends of RMB365.6 million, (iv) payment of principal and interest on lease liabilities of RMB22.4 million, and (v) proceeds from issuance of H Shares of RMB955.6 million.

Borrowings

Our total borrowings as at December 31, 2019 was RMB2,618.7 million, an increase of RMB676.9 million compared to RMB1,941.8 million as at December 31, 2018, mainly due to an upswing in our PC unit manufacturing business, which required us to expand production, increase investment and replenish liquidity in advance. As at December 31, 2019, we had approximately RMB4,780 million (lines of credit) in bank facilities (of which approximately RMB1,574.1 million are still unused).

Capital expenditures

Our previous capital expenditures were mainly due to the acquisition of property, plant and equipment, right-of-use assets/lease prepayment and intangible assets, the acquisition of financial assets at fair value through profit or loss, and the acquisition of interests in associates. Our capital expenditures in 2018 and 2019 were RMB975.0 million and RMB1,455.8 million, respectively.

Net current liabilities

We recorded approximately RMB135.8 million in net current liabilities as at December 31, 2018, compared with approximately RMB316.4 million as at December 31, 2019, mainly due to a significant increase in our use of cash to meet our huge financing needs for business expansion and research and development activities. We plan to continue to improve our net current liability position through the following measures: (i) improving our capital management primarily through the use of equity financing, while reducing the use of short-term borrowings to meet financing needs, so to support business expansion; (ii) expanding financing channels and reducing the use of our own funds for long-term investments; and (iii) coordinating with customers on the settlement of trade debtors and bills receivable and notes receivable and expedite the implementation of customers' projects so as to timely recognize received advances as revenues.

Pledge of assets

For the year ended December 31, 2018, our restricted and pledged bank deposits were RMB187.3 million, while for the year ended December 31, 2019, our restricted and pledged bank deposits were RMB277.8 million. Details of pledge of our other assets are set out in note 24 to the consolidated financial statements.

Off-balance sheet commitments and arrangements

As of December 31, 2019, we had no off-balance sheet arrangements other than financial guarantee contracts as disclosed in note 33(e) to the consolidated financial statements.

Future plan for significant investments and capital assets

For the year ended December 31, 2019, save as those disclosed in this annual report, the Group did not have any significant investment or capital asset acquisition approved by the Board.

Major acquisitions and disposals of subsidiaries and associates

During the year ended December 31, 2019, the Group did not make any major acquisitions, disposals of subsidiaries and associates.

Employees and remuneration policy

In 2019, we had 4,296 full-time employees (annual average). We expect to continue to employ more people in mainland China. According to our human resources strategy, we offer competitive remuneration to employees. During the Reporting Period, our total remuneration expenses (including share-based remuneration expenses) were RMB564.8 million, an increase of 27.3% compared with RMB443.6 million for the year ended December 31, 2018. The increase was mainly due to the expansion of our PC unit manufacturing business, hiring of additional staff, and pay rises. Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may not be used by the Group to reduce the existing level of contributions.

4. COMMITMENTS

Operating Leases

We have initially applied IFRS 16 using the modified retrospective approach. Under this approach, we adjusted the opening balances as of January 1, 2019 to recognize lease liabilities relating to these leases. From January 1, 2019 onwards, future lease payments are recognized as lease liabilities in the statement of financial position. For details, please refer to note 32 to the consolidated financial statements.

Capital Commitments

Save as operating lease commitments, our capital commitments in relation to acquisition of property, plant and equipment as of the dates indicated, are set forth below:

	Year ended December 31,	
	2019 (RMB'000)	2018 (RMB'000)
Contracted for	**179,814**	90,587
Total	**179,814**	90,587

5. FINANCIAL RATIOS

The following table sets forth the summary of key financial ratios as of the dates indicated:

	Year ended December 31,	
	2019	2018
Current ratio[1]	**0.9**	1.0
Quick ratio[2]	**0.9**	0.9
Loan-to-equity ratio[3]	**62.9%**	67.4%
Return on total assets[4]	**8.0%**	6.5%
Return on equity[5]	**19.2%**	16.7%
Interest coverage ratio[6]	**8.2**	8.7

Notes:

(1) Current ratio equals to current assets divided by current liabilities as of the end of the year.

(2) Quick ratio equals to current assets (excluding inventories) divided by current liabilities as of the end of the year.

(3) Loan-to-equity ratio equals to total interest-bearing bank and other borrowings divided by total equity as of the end of the year.

(4) Return on total assets equals to annual/annualized profits divided by average of total assets at the beginning and end of the year.

(5) Return on equity equals to annual/annualized profits divided by average of total equity at the beginning and end of the year.

(6) Interest coverage ratio equals to profit before interest and taxation divided by finance costs.

Current Ratio

As at December 31, 2018 and 2019, our current ratios were 1.0 and 0.9, respectively. For further details regarding the movements of our current assets and current liabilities, please refer to the section headed "Management Discussion and Analysis – Working capital and capital resources – Net Current Liabilities".

Quick Ratio

As at December 31, 2018 and 2019, our quick ratios were 0.9 and 0.9, respectively. For further details regarding the movements of our current assets and current liabilities, please refer to the section headed "Management Discussion and Analysis – Working capital and capital resources – Net Current Liabilities".

Loan-to-equity ratio

As at December 31, 2018 and 2019, our loan-to-equity ratios were 67.4% and 62.9%, respectively. Such movement is primarily attributable to the fact that we introduced financial investment by the issuance of H shares in 2019 and our profits increased.

Return on Total Assets

For the years ended December 31, 2018 and 2019, our returns on total assets were 6.5% and 8.0%, respectively. Return on total assets for 2019 recorded a year-on-year increase of 1.5 percentage points.

Return on Equity

For the years ended December 31, 2018 and 2019, our returns on equity were 16.7% and 19.2%, respectively. Return on equity for 2019 recorded a year-on-year increase of 2.5 percentage points.

Interest Coverage Ratio

For the years ended December 31, 2018 and 2019, our interest coverage ratios were 8.7 times and 8.2 times, respectively. Interest coverage ratio for 2019 remained flat as compared with the same period of last year.

6. CREDIT RISK

Our credit risk is primarily attributable to trade receivables, bills receivable, other receivables and contract assets. We have limited exposure to credit risks from our cash and cash equivalents and restricted and pledged deposits since the counterparties are banks which we assess with low credit risk. Furthermore, we believe that we are exposed to limited bad debt risks. Our major customers are investment entities and large-scale real estate developers controlled by the government, the credit risk of which is assessed to be insignificant.

We have established credit policies to continuously monitor our credit risks. Our credit risk is mainly affected by the individual characteristics of each customer rather than the industries or country in which the customers operate, and therefore concentration of credit risk primarily arises when we have significant exposure to individual customers. In this regard, we conduct individual credit assessment on customers requiring credit over a certain amount to manage the risks. Those assessments focus on the payment history and the current payment ability of customers, and take into account information specific to the customer as well as in relation to economic environment in which the customer operates. Trade debtors are due within 30 days from the date of billing. Normally, we do not obtain collateral from customers. We continuously monitor the condition of our receivables balance.

7. CONTINGENT LIABILITIES

As of December 31, 2019 and 2018, we did not have any significant contingent liabilities.

8. LIQUIDITY RISK

Our objective is to ensure continuity of sufficient funding and funding flexibility by utilizing a variety of bank and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that our outstanding borrowing obligation is not exposed to excessive repayment risk in any one year. Our subsidiaries may arrange their liquidity, including short-term investment of cash surplus and obtaining loans to satisfy their cash requirement, at their discretion according to their operating conditions and business needs, subject to the approval from the Board in the event beyond their entitlement. We constantly monitor current and expected liquidity requirements to ensure that we maintain sufficient cash reserve and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer terms.

Moreover, we actively and regularly review and manage our capital structure and adjust our capital structure in light of changes in economic condition. As of December 31, 2018 and 2019, we did not make any changes in the objectives, policies or process of capital management.

9. INTEREST RATE RISK

Our risk from interest rate movements primarily arises from long-term borrowings. We are exposed to cash flow interest rate risk and fair value interest rate risk relating to our borrowings with floating rates and fixed rate, respectively. Our management control our interest rate risk by reviewing the borrowings with fixed rates and floating rates. During the Reporting Period, we did not consider it necessary to use interest rate swaps to hedge our exposure to interest rate risk.

During the year ended December 31, 2019, balance of fixed-rate borrowings amounted to RMB1,524.1 million, with the fixed interest rate ranging from 0% to 5.6% per annum and balance of floating-rate borrowings amounted to RMB1,094.6 million, with floating interest rate ranging from 4.35% to 5.94% per annum.

10. CURRENCY RISK

In respect of cash at bank and on hand denominated in foreign currencies other than the functional currency, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. No material foreign exchange exposure and foreign currency risk are recognised as at December 31, 2019.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

For details, please refer to note 35 to the consolidated financial statements.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Zhang Jian (張劍先生), aged 56, is the founder of the Company, and has been the chairman of the Board and an executive Director since the date of the incorporation of the Company in April 2006. Mr. Zhang takes charge of the overall affairs of the Board, participates in the formulation and implementation of the business and operation strategies of the Company and makes significant business and operational decisions of the Company through the Board.

Since March 1996, Mr. Zhang has served as an executive director of Hunan Broad Lingmu House Equipment Co., Ltd. ("**Broad Lingmu**"), responsible for formulation of strategies, business operation and investment decision-making. Since April 2008, he has served as the chairman of board of Hunan Dazheng Investment Co., Ltd. ("**Dazheng Investment**"), responsible for investment and management affairs. Since April 2013, he has served as a general partner of Changsha High-tech Development Zone Daxin Investment Management Partnership (Limited Partnership) ("**Daxin Investment**"), responsible for investment and management affairs.

Before joining the Group, Mr. Zhang taught thermal engineering at Harbin University of Science and Technology (哈爾濱理工大學) from July 1985 to September 1988. He served as the head of Chenzhou Hot Spring Heating Equipment Factory* (郴州溫泉採暖設備廠) from June 1988 to September 1992 and was mainly responsible for research, development and management. He served as an executive director and the president of Broad Air-Conditioner Co., Ltd.* (遠大空調有限公司) (a company mainly engaged in the research, development, production and sales of air-conditioners) from September 1992 to July 2002 and was mainly responsible for formulation of strategies and the overall management and operation.

Mr. Zhang served as a representative of the Eighth National People's Congress of the PRC from March 1993 to February 1998 and a representative of the Ninth National People's Congress of the PRC from March 1998 to February 2013. Mr. Zhang was awarded the China Invention Gold Award* (中國發明金獎) by the Organizing Committee of International Exhibition of Patent, New Technology and New Products* (國際專利及新技術新產品展覽會組織委員會) in November 1990, the Invention Silver Award of the Foire Internationale de Paris by Foire Internationale de Paris in 1991, the Invention Gold Award of the 22nd International Exhibition of Geneva by the International Advisory Committee for Inventions in April 1994, the National Technology Advancement Award by National Science and Technology Commission in December 1996, the Grand Prize of the 110th Concours Lépine International Paris by Association des Inventeurs et Fabricants Francais in 2011, and the Real Estate Representative for the 40th Anniversary of China's Reform and Opening-up by Leju Finance (樂居財經) in December 2018.

Mr. Zhang obtained a bachelor's degree in thermal engineering from Harbin Institute of Technology (哈爾濱工業大學) in July 1985.

Ms. Tang Fen (唐芬女士), aged 43, is an executive Director and the president of the Company. She takes charge of the overall management and operation of the Company. Ms. Tang joined the Group in August 2006, and previously served as the general manager of the investment and cooperation affairs department and vice president of the Company successively.

Since September 2015, Ms. Tang has been the vice president of the seventh session of the council for China Real Estate Association, responsible for exercising the functions and powers as the vice president.

Before joining the Group, Ms. Tang served as an assistant to director of event planning of China Golden Eagle TV Art Festival Organizing Committee* (中國金鷹電視藝術節組委會) from July 2000 to March 2003 and was mainly responsible for the planning and implementation work of the China Golden Eagle TV Art Festival. She served as a vice president of Hunan Yunda Real Estate Development Co., Ltd.* (湖南運達房地產開發有限公司) (a company mainly engaged in real estate development) from March 2003 to July 2006 and was mainly responsible for sales and investment solicitation.

Ms. Tang was awarded the title of Outstanding Entrepreneur of Changsha High-tech Zone from 2014 to 2017 by the CPC Changsha High-tech Zone Work Committee and Changsha High-tech Zone Management Committee.

Ms. Tang graduated from Changsha Electric Power College* (長沙電力學院) majoring in computer and application in June 2001 and Changsha University of Science and Technology (長沙理工大學) majoring in accounting (correspondence) in June 2004.

Ms. Shi Donghong (石東紅女士), aged 43, is an executive Director, a vice president, the chief financial officer, the secretary of the Board and the joint company secretary of the Company. She is responsible for the overall financial management, corporate development and board secretarial work of the Company. Ms. Shi joined the Group in December 2007, and previously served as the finance manager, deputy manager of strategy office and manager of capital operation department of the Company successively.

Before joining the Group, Ms. Shi served as the store ledger accountant, cashier, financial team leader as well as financial executive of Broad Lingmu successively and was mainly responsible for financial work from February 1997 to November 2007.

Ms. Shi was awarded the title of Outstanding Entrepreneur of Changsha High-tech Zone from 2014 to 2016 by the CPC Changsha High-tech Zone Work Committee and Changsha High-tech Zone Management Committee and the title of Five-star Management Talent in May 2018 by China Association of Chief Financial Officers.

Ms. Shi graduated from China Central Radio and TV University* (中央廣播電視大學) majoring in accounting in November 2005. She obtained a master's degree in business administration from Asia International Open University (Macau) in September 2010. Ms. Shi was granted the qualification of Senior International Finance Manager by the International Financial Management Association in April 2010 and the qualification of Chief Financial Officer (總會計師) by China Association of Chief Financial Officers in December 2010.

Directors, Supervisors and Senior Management

Mr. Zhang Kexiang (張克祥先生), aged 56, is an executive Director and a vice president of the Company. He is responsible for the data operation center of the Company. Mr. Zhang joined the Group at the time of the incorporation of the Company in April 2006, and previously served as the manager of manufacture department of the Company, responsible for management affairs.

Before joining the Group, Mr. Zhang served as an engineer in the technical division of Changsha Shipyard* (長沙船舶廠) (a company mainly engaged in shipbuilding business) from July 1984 to October 1996 and was mainly responsible for technical research and development. He served as the head of the Pressure Vessel Branch of Changsha Shipyard* (長沙船舶廠壓力容器分廠) from October 1996 to December 1998 and was mainly responsible for management. He served as the head of the management division of Broad Lingmu from December 1998 to December 2004 and was mainly responsible for production management. He served as the on-board general manager of Changsha Noah Cruise Co., Ltd.* (長沙挪亞游輪有限公司) (a company mainly engaged in cruise operation) from December 2004 to April 2006 and was mainly responsible for management.

Mr. Zhang obtained a bachelor's degree in ship and marine engineering from Huazhong University of Science and Technology (華中科技大學) in July 1984. Mr. Zhang was also granted the title of engineer by Hunan Provincial Department of Personnel in July 1992.

Mr. Tan Xinming (譚新明先生), aged 44, is an executive Director and a vice president of the Company. He is responsible for procurement management and construction management of the Company. Mr. Tan joined the Group at the time of the incorporation of the Company in April 2006, and previously served as the secretary of the chairman's office, procurement manager and construction general manager of the Company successively.

Before joining the Group, Mr. Tan successively served as a financial manager and the secretary of the chairman's office of Broad Lingmu, responsible for financial management affairs and the administration of the chairman's office from July 2003 to March 2006.

Mr. Tan served as a strategic consultant for procurement alliance of China Real Estate Chamber of Commerce from October 2015 to October 2018.

Mr. Tan graduated from Hunan College of Finance and Economics* (湖南財經學院) majoring in accounting in December 1998. Mr. Tan was also granted the qualification of certified public accountant by the Chinese Institute of Certified Public Accountants in September 2004.

Non-executive Director

Mr. Zhang Quanxun (張權勳先生), aged 46, is a non-executive Director of the Company. He is mainly responsible for participating in major decision-making of the Company and offering professional advice and judgment to the Board.

Since June 2013, Mr. Zhang has served as a vice president of Shenzhen Yuanzhi Fuhai Investment Management Limited, responsible for facilitating the development of various businesses, participating in the establishment, assessment, investment decision-making and fund-raising of all projects, as well as the external liaison and maintenance of relationships with limited partners and shareholders. Since May 2015, Mr. Zhang has served as a director of Shenzhen Tellus Holding Co., Ltd.* (深圳市特力（集團）股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 000025)). Since November 2017, he has served as a supervisor of Shenzhen High-tech Investment Group Co., Ltd.* (深圳市高新投集團有限公司).

Before joining the Group, Mr. Zhang served as a deputy director of Xiamen Productivity Promotion Center* (廈門市生產力促進中心) (an institute mainly engaged in investment and project management in science and technology industry) from August to November 2008. From December 2008 to January 2011, Mr. Zhang successively served as the vice director of business department of plastic packaging, and the director of business department of plastic packaging as well as the strategic development department of Shenzhen Tongchan Packaging Group Co., Ltd.* (深圳市通產包裝集團有限公司) (a company mainly engaged in the production and sales of packaging products and investment in packaging industry). From January 2011 to February 2013, Mr. Zhang served as the head of the strategic research and merges and acquisitions department of Shenzhen Yuanzhi Investment Limited*(深圳市遠致投資有限公司) (a company mainly engaged in industrial investment and the development and management of investment and assets).

Mr. Zhang obtained a bachelor's degree in economics and a master's degree in business administration from Xiamen University (廈門大學) in July 1994 and December 2005, respectively.

Directors, Supervisors and Senior Management

Independent Non-executive Directors

Mr. Chen Gongrong (陳共榮先生), aged 57, is an independent non-executive Director of the Company. He is mainly responsible for supervising and offering independent advice and judgment to the Board.

Mr. Chen successively served as a teaching assistant, lecturer and associate professor at Hunan College of Finance and Economics* (湖南財經學院) from July 1985 to December 1999, and has successively served as an associate professor and professor in Hunan University since January 2000, responsible for teaching accounting. Mr. Chen served as an independent director of several listed companies, responsible for participating in the board decision-making, namely Vatti Co., Ltd.* (華帝股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002035) and mainly engaged in the research, manufacturing and sales of gas cookers, water heaters, range hoods, etc.) from October 2007 to May 2013, Hunan Corun New Energy Co., Ltd.* (湖南科力遠新能源股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600478) and mainly engaged in the research, manufacturing, development, production and sales of continuous strip of nickel foam and relevant product series) from July 2008 to June 2014, Hunan Zhenghong Science and Technology Development Co., Ltd.* (湖南正虹科技發展股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 000702) and mainly engaged in the research, manufacturing, production and sales of various types of feeds) from March 2009 to March 2015 and Hunan Mendale Hometextile Co., Ltd.* (湖南夢潔家紡股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002397) and mainly engaged in the research, development, design, production and sales of home textiles) from August 2012 to August 2018.

Mr. Chen also currently serves as an independent director responsible for participating in the board decision-making of several listed companies, namely China South Publishing & Media Group Co., Ltd.* (中南出版傳媒集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 601098)) since September 2013, Hunan Friendship & Apollo Commercial Co., Ltd. (湖南友誼阿波羅商業股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002277)) since May 2015, Hunan Gold Corporation Limited* (湖南黃金股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002155)) since May 2015 and Changlan Electric Technology Co., Ltd. (長纜電工科技股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002879) and mainly engaged in the research, development, production and sales of power accessories, cable fittings and other auxiliary materials) since April 2019.

Mr. Chen obtained a bachelor's degree in financial accounting from Hunan College of Finance and Economics* (湖南財經學院) in June 1985 and a doctorate degree in accounting from Hunan University (湖南大學) in March 2010. Mr. Chen was also granted the title of professor by Hunan Provincial Department of Personnel in May 2006.

Mr. Li Zhengnong (李正農先生), aged 57, is an independent non-executive Director of the Company. He is mainly responsible for supervising and offering independent advice and judgment to the Board. Since February 2005, Mr. Li has served as a professor at the School of Civil Engineering of Hunan University, mainly responsible for teaching and research as the director of the key laboratory for building safety and energy efficiency education division.

Mr. Li obtained a doctorate degree of science in structural engineering from Wuhan University of Industry* (武漢工業大學) in July 1995. Mr. Li was also granted the title of professor by Zhejiang Provincial Department of Personnel in October 2003.

Mr. Wong Kai Yan Thomas (王佳欣先生), aged 49, is an independent non-executive Director of the Company. He is mainly responsible for supervising and offering independent advice and judgment to the Board.

Since March 2018, Mr. Wong has served as the managing director of the asset management department of VPower Group International Holdings Limited (a company listed on the Hong Kong Stock Exchange (stock code: 01608)), responsible for managing the fund investment, determining the investment goals and developing and implementing the asset management plans and strategies and an independent non-executive director of YCIH Green High-Performance Concrete Company Limited (a company listed on the Hong Kong Stock Exchange (stock code: 01847)).

Before joining the Group, from June 1995 to May 1997, Mr. Wong served as an auditor of BDO; from July 1997 to January 2004, Mr. Wong served as the financial officer of Kong Sun Holdings Limited (a company listed on the Hong Kong Stock Exchange (stock code: 00295) and mainly engaged in investment business); from March 2004 to April 2008, Mr. Wong served as a consultant of Pioneer International Enterprise Limited; from July 2008 to December 2017, Mr. Wong served as a joint authorized representative and joint company secretary of CRRC Corporation Limited (a company listed on the Hong Kong Stock Exchange (stock code: 01766) and mainly engaged in railway equipping business); from November 2015 to December 2017, Mr. Wong served as a director, a vice president and the chief financial officer of CRRC (Hong Kong) Co., Limited (a company mainly engaged in trade and investment business).

Mr. Wong obtained a bachelor's degree of business in accounting from the University of Wollongong in Australia in May 1995 and a master's degree of science in investment analysis from the Hong Kong University of Science and Technology in May 2011. Mr. Wong became a member of CPA Australia in March 1999 and a member of Hong Kong Institute of Certified Public Accountants in July 1999.

SUPERVISORS

Ms. Zhang Mingxin (張明鑫女士), whose former name was Zhang Mingxing (張明星), aged 41, is the chairman of the Supervisory Committee of the Company, responsible for directing the work of the Supervisory Committee, coordinating Supervisors to jointly supervise the operating and financial activities of the Company. Ms. Zhang is also the administrative director of the Company, responsible for administration services of the Company. Ms. Zhang joined the Group at the time of the incorporation of the Company in April 2006 and previously served as the secretary of the president's office, the head of personnel department of the supply chain division, a procurement engineer and the director of the administrative services division of the Company successively.

Before joining the Group, Ms. Zhang successively served as an office director and cashier of Changsha Wangcheng District Film Distribution and Screening Company* (長沙市望城區電影發行放映公司) (a company mainly engaged in film distribution and screening business) from August 1996 to September 2001 and was mainly responsible for capital management. She served as a data management officer of Broad Lingmu from October 2001 to April 2006 and was mainly responsible for data management.

Ms. Zhang graduated from China Central Radio and TV University* (中央廣播電視大學) in April 2005, majoring in administration management.

Directors, Supervisors and Senior Management

Mr. Li Gen (李根先生), aged 35, is a non-employee representative Supervisor, responsible for the joint supervision of the Company's operational and financial activities. Mr. Li is also the manager of the capital center of the Company, responsible for the capital-operational work of the Company. Mr. Li joined the Group in October 2010 and previously served as a financing manager of the strategy research office and a manager of the capital operation department successively.

Before joining the Group, Mr. Li served as an investment manager in Changsha Wanjiali Road Branch of Zhongtai Securities Company Limited* (中泰證券股份有限公司) (a company mainly engaged in securities business) from March to September 2010, and was mainly responsible for security investment.

Mr. Li obtained a bachelor's degree in measuring and control technology and instruments from Central South University (中南大學) in June 2007 and a master's degree in business administration from Central South University (中南大學) in December 2009.

Ms. Liu Jing (劉景女士), aged 38, is an employee representative Supervisor, responsible for the joint supervision of the Company's operational and financial activities. Ms. Liu Jing is also the branding director of the Company, responsible for the coordination of brand development and implementation of promotion projects of the Group. Ms. Liu Jing joined the Group in October 2012, and she has been serving as the branding director of the Company since then.

Before joining the Group, Ms. Liu Jing served as the assistant to the chairman of Hunan Future Investment Group Co., Ltd.* (湖南未來投資集團有限公司) (a company mainly engaged in real estate development and investment) from November 2007 to September 2012 and was mainly responsible for assisting the chairman on day-to-day operational work.

Ms. Liu Jing obtained a bachelor's degree of arts from Xiangtan University (湘潭大學) in June 2003, majoring in English.

SENIOR MANAGEMENT

The senior management of the Company consists of Mr. Zhang Jian, Ms. Tang Fen, Ms. Shi Donghong, Mr. Zhang Kexiang and Mr. Tan Xinming. For their biographical details, please see "Directors" above.

JOINT COMPANY SECRETARIES

Ms. Shi Donghong (石東紅女士) is the joint company secretary of the Company. Please refer to the section headed "Directors" above for her biographical details.

Ms. Leung Suet Wing (梁雪穎女士) is the joint company secretary of the Company. Ms. Leung is an assistant manager of TMF Hong Kong Limited, which is a corporate secretarial services provider. From June 2011 to June 2013, Ms. Leung had successively served as an associate and the officer of corporate services department of Tricor Services Limited. Ms. Leung has extensive knowledge and experience in the fields of corporate governance, regulation and compliance of listed companies, and has accumulated and possesses more than eight years of experience in professional company secretarial industry. Ms. Leung is currently serving as a joint company secretary of several companies listed on the Hong Kong Stock Exchange. Ms. Leung obtained a master's degree in accounting and corporate governance from City University of Hong Kong in July 2016, and became a member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom respectively in December 2016.

The Board is pleased to present the report of the Directors and the audited consolidated financial statements of the Group for the year ended December 31, 2019.

GLOBAL OFFERING AND USE OF PROCEEDS FROM LISTING

The H Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on November 6, 2019, and the Company issued a total of 122,035,400 H Shares in Global Offering (including 167,400 H Shares issued upon partial exercise of the Over-allotment Option) at an offer price of HK$9.68 per Share with a nominal value of RMB1.00 each. For details, please refer to the announcements of the Company dated November 5, 2019 and November 28, 2019. Net proceeds from the Global Offering (including the partial exercise of the Over-allotment Option) aggregated to approximately HK$1,111.7 million (net of underwriting commission and related Listing expenses). As at December 31, 2019, balance of the utilized net proceeds was approximately HK$1,008.7 million[1].

Net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in the same manner as set out in the Prospectus. The table below sets out the planned use of net proceeds and the actual use as at December 31, 2019:

Use of Proceeds	Allocation of Net Proceeds (%)	Allocation of Net Proceeds (HK$ million)	Amount Utilized (as at December 31, 2019) (HK$ million)	Amount Unutilized (as at December 31, 2019) (HK$ million)	Expected Time for Utilization of Unutilized Amount
(I) Expanding PC Unit Manufacturing Business	45	500.2	20.4	479.8	Before December 31, 2022
(1) Establishing Wholly-owned Regional Production Centers in Key Strategic Regions	36	400.2	0.7	399.5	Before December 31, 2020
(2) Expanding Factories and Upgrading Equipment in Existing Regional Production Centers	9	100.0	19.7	80.3	Before December 31, 2022
(II) Expansion in Overseas Market	20	222.3	–	222.3	Before December 31, 2021
(III) Developing and Expanding Intelligent Equipment Business	15	166.8	1.5	165.3	Before December 31, 2022
(IV) Developing and Establishing an Intelligent Service Platform in the Prefabricated Construction Industry	10	111.2	0.7	110.5	Before December 31, 2021
(V) Working Capital and Other General Corporate Purposes	10	111.2	81.0	30.2	Before December 31, 2020
Total	100	1,111.7	103.6	1,008.7[1]	

Note:

(1) Net proceeds from offering were approximately HK$1,111.7 million, of which approximately HK$103.6 million had been utilized as at December 31, 2019, approximately HK$0.6 million were obtained through deposits and approximately HK$1,008.7 million were unutilized as at December 31, 2019.

PRINCIPAL BUSINESS

The Company is primarily engaged in the industrialization of construction industry in the PRC, including prefabricated concrete unit manufacturing ("**PC Unit Manufacturing**") and prefabricated concrete equipment manufacturing ("**PC Equipment Manufacturing**"). The Group is also engaged in construction contracting business. An analysis of the principal business of the Company for the year ended December 31, 2019 is set out the section headed "Management Discussion and Analysis" and note 4 to the consolidated financial statements in this annual report.

SUBSIDIARIES

Details of the subsidiaries of the Company are set in note 16 to the consolidated financial statements of this annual report.

RESULTS

The results of the Group for the year ended December 31, 2019 are set out in the consolidated statement of comprehensive income as set out on pages 125 to 126 of this annual report.

DIVIDEND POLICY

The Articles of Association provide that dividends may be paid in cash, stock or a combination of cash and stock. Any proposed dividend distribution shall be formulated by the Board and subject to Shareholders' approval. The Company does not currently have a fixed dividend payout ratio. The amount of dividends to be declared and distributed will depend on the following factors: the Company's overall business condition, results of operation, financial results, working capital, capital requirements, future prospect, cash flow and any other factors which the Board may deem relevant. The Company may declare interim dividend after taking into account the relevant factors that our Board deems relevant. The profit after tax of the Company used for dividend distribution will be the lesser of (i) the net profit determined in accordance with PRC GAAP or (ii) the net profit determined in accordance with IFRSs. The Articles of Association further provide that after the general meeting has passed a resolution on the profit distribution plan, the Board must complete the dividend (or share) distribution within two months after the general meeting.

FINAL DIVIDEND

The Board has proposed the payment of a final dividend for the year ended December 31, 2019 of RMB0.5 per Share (tax inclusive), being approximately RMB243,819,700 in total. Pursuant to the Articles of Association, dividends of Domestic Shareholders shall be denominated and declared in Renminbi and paid in Renminbi, whereas those to H Shareholders shall be denominated and declared in Renminbi and paid in Hong Kong dollars. After the profit distribution plan is resolved at the AGM, the dividends shall be paid within two months from the conclusion of the AGM. The final dividend is subject to approval by the Shareholders at the AGM to be held on Friday, May 15, 2020 and is expected to be paid on Wednesday, June 24, 2020 to the Shareholders whose names appear on the register of members on Tuesday, May 26, 2020 (the "**Record Date**"). In case there is any change in the share capital of the Company before the AGM, the dividend paid on each Share will be adjusted accordingly and the total profit available for distribution will remain unchanged.

In order to ascertain Shareholders' entitlement to receive the final dividend, the register of members of the Company will also be closed from Thursday, May 21, 2020 to Tuesday, May 26, 2020 (both days inclusive). In order to qualify for receiving the final dividends (subject to approval by the Shareholders), all duly completed transfer forms accompanied by the relevant Share certificates of H Shareholders shall be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Wednesday, May 20, 2020.

To the best knowledge of the Directors, there was no arrangement under which the Shareholders waived or agreed to waive any dividend.

TAX REDUCTION OR EXEMPTION

H Shareholders shall be taxed for the dividends distributed by the Company in accordance with the Enterprise Income Tax Law of the PRC, the Individual Income Tax Law of the PRC and other relevant laws, regulations and rules. However, H Shareholders may enjoy tax relief in accordance with the provisions of applicable tax treaties entered into by the countries/regions where they belong to by virtue of residential identification and the PRC. Pursuant to the Enterprise Income Tax Law of the People's Republic of China and its implementing regulations, the Company shall withhold and pay enterprise income tax at a tax rate of 10% for the income of a non-resident enterprise deriving from PRC. Any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organisations or entities, shall be deemed as shares held by non-resident enterprise shareholders and therefore, the dividends entitled to shall be subject to withholding enterprise income tax. Pursuant to the Notice on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) issued by the State Administration of Taxation on June 28, 2011, where the non-resident individual shareholders obtain dividend and bonuses from the shares issued in Hong Kong by non-foreign-invested enterprise, individual income tax shall be withheld and remitted by the withholding agent according to the domain of "interest, dividends and bonuses". Accordingly, for individual H Shareholders who are Hong Kong or Macau residents or whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% when paying the final dividend to H Shareholders whose names appear on the H Share register of members of the Company at the Record Date. Where the dividend tax rate is not 10%, it will be handled according to the following requirements:

(1) for residents of countries which have entered into a treaty with China in respect of a tax rate lower than 10%, such H shareholder individuals may by themselves or entrust the Company to file tax returns with the competent tax authorities to be entitled to the agreed tax rate, and shall keep relevant information for inspection. To the extent that the information is duly provided, the Company will withhold and pay individual income tax according to the provisions of PRC tax laws and such tax treaties upon approval by the competent tax authorities;

(2) for residents of countries which have entered into a treaty with China in respect of a tax rate of 10% or more but less than 20%, the Company will withhold and pay the individual income tax according to the agreed effective tax rate;

(3) for residents of countries which have not entered into any tax treaties with the PRC and in any other circumstances, the Company will withhold and pay individual income tax at the rate of 20%.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the Shareholders or any disputes over the mechanism of withholding.

BUSINESS REVIEW

The business review of the Group during the year is set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report, which includes an analysis of the Group on major risks and uncertainties it is exposed to, the performance of the Group and the expected development trends of the business of the Group with key financial indicators as well as the Group's environmental policies and performance. Such review and discussion constitutes an integral part of this Report of the Directors. Significant events taking place subsequent to the current financial year which have a material impact on the Company are set out in the section headed "Significant Events after the Reporting Period" of this annual report.

The Group is not aware of any significant relationships with its employees, customers and suppliers, which have a significant impact on the Group and are the basis of its success.

FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the past four financial years is set out on page 11 of this annual report, which does not constitute part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2019, the turnover of the Group's top five customers accounted for 15.05% of the Group's total revenue, while the turnover of the Group's single largest customer accounted for 3.31% of the Group's total revenue.

Major Suppliers

For the year ended December 31, 2019, the turnover of the Group's top five suppliers accounted for 15.55% of the Group's total purchase for the year ended December 31, 2019, while the turnover of the Group's single largest supplier accounted for 3.97% of the Group's total purchase.

During the Reporting Period, none of the Directors, any of their respective close associates or any Shareholders who, to the best knowledge of the Directors, own more than 5% of the Company's issued shares, had interests in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of the changes in property, plant and equipment of the Company and the Group for the year ended December 31, 2019 are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of the changes in the Company's share capital during the Reporting Period are set out in notes 30(a) and 30(b) to the consolidated financial statements.

RESERVES

Details of the changes in the reserves of the Company and the Group for the year ended December 31, 2019 are set out in the consolidated statement of changes in equity on page 129.

DISTRIBUTABLE RESERVE

As of December 31, 2019, the Company's distributable reserve was approximately RMB568.11 million (as of December 31, 2018: RMB709.46 million).

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and the Group as at December 31, 2019 are set out in notes 24 and 31(b) to the consolidated financial statements.

LIST OF DIRECTORS AND SUPERVISORS

During the Reporting Period and up to the date of this annual report, the list of the Directors and the Supervisors is set out below:

Executive Directors:
Mr. Zhang Jian *(Chairman)*
Ms. Tang Fen *(President)*
Ms. Shi Donghong *(Vice President, Chief Financial Officer, Secretary of the Board and Joint Company Secretary)*
Mr. Zhang Kexiang *(Vice President)*
Mr. Tan Xinming *(Vice President)*

Non-executive Director:
Mr. Zhang Quanxun

Independent Non-executive Directors:
Mr. Chen Gongrong
Mr. Li Zhengnong
Mr. Wong Kai Yan Thomas (Appointed on March 23, 2019)

Supervisors:
Ms. Zhang Mingxin
Mr. Li Gen
Ms. Liu Jing

During the year ended December 31, 2019, none of the directors resigned from their positions as Directors.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Company are set out on pages 38 to 44 of this annual report. Since the Listing Date to the date of this annual report, there was no change in information of Directors, Supervisors or president of the Company subject to disclosure in accordance with Rule 13.51B(1) of the Hong Kong Listing Rules.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received confirmation of their independence from each independent non-executive Director in accordance with Rule 3.13 of the Hong Kong Listing Rules, and the Company believes that all independent non-executive Directors are independent parties from the Listing Date to December 31, 2019.

SERVICE CONTRACTS AND ENGAGEMENT LETTERS OF DIRECTORS AND SUPERVISORS

The Company has entered into a service contract with each Director on October 11, 2019 with the term of office commencing from the date when they are elected as Directors of the second session of the Board at the general meeting of the Company till the expiry of the term of office of the second session of the Board, and are subject to re-election upon expiry of their terms of office. The Company has also entered into a service contract with each Supervisor on October 11, 2019 with the term of office commencing from the date when they are elected as Supervisors at the general meeting or the employee congress (as the case may be) of the Company till the expiry of the term of office of the second session of the Supervisory Committee, and are subject to re-election upon expiry of their terms of office.

The Company confirmed that no Director or Supervisor has entered into a service contract with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the year ended December 31, 2019 and up to the date of this annual report, none of the Directors or Supervisors had a material interest, directly or indirectly, in any transactions, arrangements or contracts to which the Company, any of its subsidiaries or fellow subsidiaries is a party and are material to the business of the Group.

MANAGEMENT CONTRACTS

During the Reporting Period and up to the date of this annual report, the Company has not entered into or executed any contracts regarding the management and administration of all or any material part of its business.

MATERIAL CONTRACTS

Save as those disclosed in this annual report, during the Reporting Period, the Company or any of its subsidiaries did not have any material contracts with controlling shareholders or their subsidiaries under Appendix 16 to the Hong Kong Listing Rules, nor did the controlling shareholders or their subsidiaries have any significant contracts to provide services to the Company or its subsidiaries.

REMUNERATION POLICY

The Company has established a Remuneration and Appraisal Committee in accordance with the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules to review the remuneration policy of the Group and the remuneration structure of the Directors and senior management of the Group. The Board determines the remuneration of the Directors, Supervisors and senior management of the Group with reference to the recommendations of the Remuneration and Appraisal Committee after taking into account the Group's operating results, personal performance and comparable market practices.

Details of the remuneration of the Directors, Supervisors and the five highest paid individuals during the Reporting Period are set out in notes 8 and 9 to the consolidated financial statements.

The Company confirms that none of the Directors have waived or agreed to waive any remuneration, nor has the Group paid any remuneration to any Director as an inducement to join or upon joining the Group or as compensation for loss of office.

EQUITY-LINKED AGREEMENTS

The Group did not enter into and did not have any equity-linked agreements.

RETIREMENT AND EMPLOYEE BENEFIT SCHEME

Details of the Company's retirement and employee benefit scheme are set out in note 6(b) to the consolidated financial statements.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of December 31, 2019, the Directors, Supervisors and the chief executives of the Company had the following interests and/or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to be notified to the Company and the Hong Kong Stock Exchange according to the Model Code:

Name of the Directors, Supervisors and the chief executive	Class of Shares	Nature of interest	Number of Shares held	Approximate percentage of the total issued Shares of the Company %	Approximate percentage of the total issued Domestic Shares of the Company %	Approximate percentage of the total issued H Shares of the Company %	Long position/ Short position/ Lending pool
Mr. Zhang Jian	Domestic Shares	Beneficial owner	171,507,840	35.17	46.91	–	Long position
		Interest held by controlled corporations	101,912,160 (Note 2)	20.90	27.88	–	Long position
Ms. Tang Fen	Domestic Shares	Beneficial owner	1,800,000 (Note 3)	0.37	0.49	–	Long position
Ms. Shi Donghong	Domestic Shares	Beneficial owner	1,800,000	0.37	0.49	–	Long position
		Interest held by spouse	9,012,000 (Notes 3 and 4)	1.85	2.46	–	Long position
Mr. Zhang Kexiang	Domestic Shares	Beneficial owner	840,000 (Note 3)	0.17	0.23	–	Long position
Mr. Tan Xinming	Domestic Shares	Beneficial owner	840,000 (Note 3)	0.17	0.23	–	Long position
Mr. Zhang Quanxun	Domestic Shares	Interest held by controlled corporations	25,404,000 (Note 5)	5.21	6.95	–	Long position

Notes:

(1) The above disclosure is primarily based on the information published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

(2) Broad Lingmu directly holds 66,176,160 Domestic Shares, Daxin Investment directly holds 18,600,000 Domestic Shares, Dazheng Investment directly holds 12,000,000 Domestic Shares, and Fuyang Shangjiu directly holds 5,136,000 Domestic Shares. Broad Lingmu is wholly owned by Mr. Zhang Jian. Mr. Zhang Jian is the general partner of Daxin Investment and holds 66% partnership interest in Daxin Investment. Mr. Zhang Jian directly holds 0.3% interest and indirectly holds 70.9% interest (through Broad Lingmu) in Dazheng Investment. Mr. Zhang Jian indirectly holds approximately 99.33% partnership interest (through Broad Lingmu) in Fuyang Shangjiu. Therefore, Mr. Zhang Jian is deemed to be interested in the Domestic Shares held by Broad Lingmu, Daxin Investment, Dazheng Investment and Fuyang Shangjiu, for the purpose of Part XV of the SFO.

(3) Each of Ms. Tang Fen, Ms. Shi Donghong, Mr. Zhang Kexiang and Mr. Tan Xinming has been granted certain Shares through Daxin Investment and Dazheng Investment, being employee stock ownership platforms of the Company.

(4) Mr. Zhou Bin (周斌先生), the spouse of Ms. Shi Donghong, directly holds 3,876,000 Domestic Shares, and Fuyang Shangjiu directly holds 5,136,000 Domestic Shares. Mr. Zhou Bin is the general partner of Fuyang Shangjiu. Therefore, Ms. Shi Donghong is deemed to be interested in 9,012,000 Domestic Shares for the purpose of Part XV of the SFO.

(5) Yuanzhi Fuhai directly holds 25,404,000 Domestic Shares. The general partners of Yuanzhi Fuhai is Shenzhen Yuanzhi Fuhai Investment Management Limited* (深圳市遠致富海投資管理有限公司) which is ultimately controlled by the State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen and Shenzhen Jiahe Investment Management Partnership (Limited Partnership)* (深圳佳合投資管理企業(有限合夥)) which is ultimately controlled by Mr. Zhang Quanxun and Mr. Cheng Houbo (程厚博先生). Therefore, Mr. Zhang Quanxun is deemed to be interested in such Domestic Shares held by Yuanzhi Fuhai for the purpose of Part XV of the SFO.

Save as those disclosed above, as of December 31, 2019, none of the Directors, Supervisors or the chief executive of the Company had any interests and/or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (as defined under Part XV of the SFO) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to be notified to the Company and the Hong Kong Stock Exchange according to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the Reporting Period was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

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

As at December 31, 2019, as far as the Directors are aware, the following persons (other than the Directors, the Supervisors and chief executive of the Company) had interests and/or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of substantial Shareholder	Class of Shares	Nature of interest	Number of Shares held	Approximate percentage of the total issued Shares of the Company %	Approximate percentage of the total issued Domestic Shares of the Company %	Approximate percentage of the total issued H Shares of the Company %	Long position/ Short position/ Lending pool
Broad Lingmu	Domestic Shares	Beneficial owner	66,176,160	13.57	18.10	–	Long position
		Interest held by controlled corporations	17,136,000 (Note 3)	3.51	4.69		
Daxin Investment	Domestic Shares	Trustee	18,600,000 (Note 4)	3.81	5.09	–	Long position
Yuanzhi Fuhai	Domestic Shares	Trustee	25,404,000 (Note 5)	5.21	6.95	–	Long position
Changsha Changtou Industry Investment Co., Ltd.* (長沙市長投產業投資有限公司)	H Shares	Beneficial owner	22,922,700	4.70	–	18.78	Long position
Hunan Caixin Industry Fund Management Co., Ltd. (湖南省財信產業基金管理有限公司)	H Shares	Beneficial owner	22,719,600	4.66	–	18.62	Long position
Zoomlion Heavy Industry Science and Technology Co., Limited	H Shares	Interest held by controlled corporations	34,379,000 (Note 6)	7.05	–	28.17	Long position
Zoomlion H.K. Holding Co., Limited	H Shares	Interest held by controlled corporations	34,379,000 (Note 6)	7.05	–	28.17	Long position

Name of substantial Shareholder	Class of Shares	Nature of interest	Number of Shares held	Approximate percentage of the total issued Shares of the Company %	Approximate percentage of the total issued Domestic Shares of the Company %	Approximate percentage of the total issued H Shares of the Company %	Long position/ Short position/ Lending pool
Zoomlion International Trading (H.K.) Co., Limited	H Shares	Beneficial owner	34,379,000 (Note 6)	7.05	–	28.17	Long position
Midea Real Estate Holding Limited	H Shares	Interest held by controlled corporations	8,429,100 (Note 7)	1.73	–	6.91	Long position
Midea Construction (BVI) Limited	H Shares	Interest held by controlled corporations	8,429,100 (Note 7)	1.73	–	6.91	Long position
Midea Construction (Hong Kong) Limited	H Shares	Beneficial owner	8,429,100 (Note 7)	1.73	–	6.91	Long position

Notes:

(1) The above disclosure is primarily based on the information published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

(2) According to section 336 of the SFO, the Shareholders of the Company are required to file disclosure of interests forms when certain criteria are fulfilled. If the Shareholder's shareholding in the Company changes, unless certain criteria are fulfilled, the Shareholder need not notify the Company and the Hong Kong Stock Exchange. Therefore, the latest shareholder's shareholding in the Company may be different from that filed with the Hong Kong Stock Exchange.

(3) Broad Lingmu directly holds 66,176,160 Domestic Shares, Daxin Investment directly holds 18,600,000 Domestic Shares, Dazheng Investment directly holds 12,000,000 Domestic Shares, and Fuyang Shangjiu directly holds 5,136,000 Domestic Shares. Broad Lingmu is wholly owned by Mr. Zhang Jian. Mr. Zhang Jian is the general partner of Daxin Investment and holds 66% partnership interest in Daxin Investment. Mr. Zhang Jian directly holds 0.3% interest and indirectly holds 70.9% interest (through Broad Lingmu) in Dazheng Investment. Mr. Zhang Jian indirectly holds approximately 99.33% partnership interest (through Broad Lingmu) in Fuyang Shangjiu. Therefore, Mr. Zhang Jian is deemed to be interested in the Domestic Shares held by Broad Lingmu, Daxin Investment, Dazheng Investment and Fuyang Shangjiu, and Broad Lingmu is deemed to be interested in the Domestic Shares held by Dazheng Investment and Fuyang Shangjiu, for the purpose of Part XV of the SFO.

(4) Daxin Investment is an employee stock ownership platform of the Company.

(5) The general partners of Yuanzhi Fuhai are Shenzhen Yuanzhi Fuhai Investment Management Limited* (深圳市遠致富海投資管理有限公司) and Shenzhen Jiahe Investment Management Partnership (Limited Partnership)* (深圳佳合投資管理企業(有限合夥)). Shenzhen Yuanzhi Fuhai Investment Management Limited* (深圳市遠致富海投資管理有限公司) is ultimately controlled by Shenzhen SASAC through Shenzhen Yuanzhi Investment Limited* (深圳市遠致投資有限公司); and Shenzhen Jiahe Investment Management Partnership (Limited Partnership)* (深圳佳合投資管理企業(有限合夥)) is ultimately controlled by Mr. Zhang Quanxun and Mr. Cheng Houbo (程厚博先生). The limited partner of Yuanzhi Fuhai holding over one third of partnership interest in Yuanzhi Fuhai is Shenzhen Yuanzhi Fuhai Merger Acquisition Investment Fund Partnership (Limited Partnership)* (深圳遠致富海併購投資基金合夥企業(有限合夥)), which is also ultimately controlled by Shenzhen SASAC through Shenzhen Yuanzhi Investment Limited* (深圳市遠致投資有限公司).

(6) Zoomlion International Trading (H.K.) Co., Limited directly holds 34,379,000 H Shares. Zoomlion Heavy Industry Science and Technology Co., Limited holds 100% equity interests of Zoomlion H.K. Holding Co., Limited, which holds 100% equity interests of Zoomlion International Trading (H.K.) Co., Limited. Therefore, Zoomlion Heavy Industry Science and Technology Co., Limited and Zoomlion H.K. Holding Co., Limited are deemed to be interested in the 34,379,000 H Shares held by Zoomlion International Trading (H.K.) Co., Limited, for the purpose of the SFO.

(7) Midea Construction (Hong Kong) Limited directly holds 8,429,100 H Shares. Midea Real Estate Holding Limited holds 100% equity interests of Midea Construction (BVI) Limited, which holds 100% equity interests of Midea Construction (Hong Kong) Limited. Therefore, Midea Real Estate Holding Limited and Midea Construction (BVI) Limited are deemed to be interested in the 8,429,100 H Shares held by Midea Construction (Hong Kong) Limited, for the purpose of the SFO.

Save as those disclosed above, as at December 31, 2019, as far as the Directors are aware, no other persons (other than the Directors, the Supervisors and chief executive of the Company) had interests and/or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

During the period from the Listing Date to December 31, 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's H Shares.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Articles of Association and the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

NON-COMPETITION AGREEMENT AND UNDERTAKINGS

For details on non-competition agreement and undertakings, please refer to the section headed "Non-competition Agreement and Undertakings" as set out under the section headed "Relationship with the Controlling Shareholders" in the Prospectus.

Mr. Zhang Jian (the controlling shareholder of the Company) and his spouse Ms. Liu Hui confirmed that they had complied with the Non-competition Agreement and Undertakings during the period from the Listing Date to December 31, 2019. The independent non-executive Directors have reviewed their relevant undertakings and believed that they fully complied with the Non-competition Agreement and Undertakings.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, none of the Directors or their associates had any interest in any business which directly or indirectly compete or may compete with the businesses of our Group during the period from the Listing Date to December 31, 2019.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the period from the Listing Date to December 31, 2019, the Company did not have any non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The related-party transactions described in note 33 to the consolidated financial statements do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

CHARITABLE DONATIONS

During the Reporting Period, the Group made charitable donations and other donations of RMB1,151,730.

COMPLIANCE WITH LAWS AND REGULATIONS

As the Group's primary business operations are conducted in China, the Group is subject to relevant laws and regulations in the PRC, including but not limited to general laws and regulations relating to quality, safety in production, environmental protection, intellectual property rights and labor and personnel. At the same time, as a joint stock company incorporated in China with limited liability and listed on the Hong Kong Stock Exchange, the Company is governed by relevant domestic laws and regulations such as the Company Law, as well as Hong Kong laws and regulations such as the Hong Kong Listing Rules, the SFO, etc..

The Group has implemented internal control and risk management to ensure compliance with such laws and regulations. For the year ended December 31, 2019, to the best knowledge of the Board, the Group did not violate any relevant laws and regulations which had a significant impact on the Group's development, performance and business.

MATERIAL LEGAL PROCEEDINGS

For the year ended December 31, 2019, the Group were not involved in any material legal proceedings or arbitrations. To the best knowledge of the Directors, there was no material legal proceeding or claim which is pending or threatening against the Group.

PERMITTED INDEMNITY PROVISIONS

The Group has arranged for appropriate insurance for potential legal proceedings against the Directors, Supervisors and senior management due to their positions.

SUBSEQUENT EVENTS

Save as those disclosed in note 35 to the consolidated financial statements, from the end of the Reporting Period to the date of this annual report, there were no significant matters with an impact on the Company.

Report of the Directors

AUDIT COMMITTEE

The Company has established an Audit Committee in accordance with Rule 3.21 and the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2019 together with the management and the Company's external auditors.

CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance practices. Details of the corporate governance practices adopted by the Group are set out in the Corporate Governance Report on pages 62 to 80 of this annual report.

PUBLIC FLOAT

According to information publicly available to the Company and to the knowledge of the Directors, at least 25% of the total issued shares of the Company (i.e. the minimum public float required by the Hong Kong Listing Rules) are held by the public at any time from the Listing Date to December 31, 2019 and up to the date of this annual report.

AUDITOR

KPMG was appointed as the auditor of the Company for the year ended December 31, 2019. KPMG has audited the financial statements prepared in accordance with IFRSs as of December 31, 2019 and issued an unqualified audit report thereon.

A resolution on re-appointment of KPMG as auditor of the Company will be submitted at the AGM.

The Company did not change auditor in the past three years.

By order of the Board
Changsha Broad Homes Industrial Group Co., Ltd.
Chairman
Zhang Jian

Changsha • Hunan,
March 26, 2020

Report of the Supervisory Committee

Dear Shareholders:

During the Reporting Period, the Supervisory Committee, in strict accordance with the requirements of the Company Law and other relevant laws and regulations, the Articles of Association and the Rules of Procedure of the Supervisory Committee, and following the principle of integrity and accountability towards the Company and all of its Shareholders, earnestly fulfilled its supervisory duties and proactively carried out various tasks to perform supervision and inspection upon the compliance operation of the Company, the Company's finance, the implementation of the resolutions passed by the general meetings of the Company, the Board's processes of making material decisions and the compliance of the Company's operation and management as well as the performance of their duties by the Directors and the management personnel of the Company. Members of the Supervisory Committee discharged their duties in diligence with good faith and dedication, thereby bringing a significant contribution to the constant improvement of corporate governance and continuous optimization and upgrading of the Group, and realizing the purpose of securing stable and sustainable high-quality development of the Group.

I. WORK CARRIED OUT BY THE SUPERVISORY COMMITTEE

1. Meetings Convened

During the Reporting Period, the Supervisory Committee convened two meetings in total:

(1) On March 20, 2019, the second meeting of the second session of the Supervisory Committee was convened by means of on-site voting, at which the Proposal in Relation to the Distribution of Accumulated Profits Prior to Listing (《關於上市前滾存利潤分配方案的議案》), the Proposal in Relation to Confirmation of Connected Transactions During 2016 to 2018 (《關於確認2016-2018年度關聯交易情況的議案》), the Proposal in Relation to Amendments to the Rules of Procedure of the Supervisory Committee of Changsha Broad Homes Industrial Group Co., Ltd. (Draft) (《關於修訂〈長沙遠大住宅工業集團股份有限公司監事會議事規則(草案)〉的議案》), the Proposal in Relation to Deciding the Shareholders Dividend Plan for the Next Three Years After Listing of the Company (《關於制訂〈公司上市後三年內股東分紅回報規劃〉的議案》) and the Proposal in Relation to Engagement of Auditors for the Initial Public Offering and Listing of the Company (《關於聘請公司本次首次公開發行並上市審計機構的議案》) were approved and filed into resolutions.

(2) On May 16, 2019, the third meeting of the second session of the Supervisory Committee was convened, at which the Proposal in Relation to the Work Report of the Supervisory Committee for 2018 (《關於公司2018年度監事會工作報告的議案》), the Proposal in Relation to the Final Financial Accounts Report of the Company for 2018 (《關於公司2018年度財務決算報告的議案》), the Proposal in Relation to the Profit Distribution Plan of the Company for 2018 (《關於公司2018年度利潤分配預案的議案》) and the Proposal in Relation to the Limit of Financing and Guarantees of the Company and its Subsidiaries for 2019 (《關於公司及其子公司2019年度融資及擔保額度的議案》) were approved and filed into resolutions.

2. Discharging of responsibilities

During the Reporting Period, the members of the Supervisory Committee attended all the general meetings and Board meetings of the Company and supervised over the procedures and substance of relevant meetings and raised suggestions and advice thereon. Besides, they also performed supervision on the Company's decision-making process during its operation, compliance operation, financial status and the discharging of responsibilities of the Directors and management personnel of the Company during the daily operation of the Company. Reasonable suggestions and advice put forward by the Supervisory Committee were adopted by the Company, which satisfyingly safeguarded the legitimate interests of the Company and its Shareholders.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE

1. Opinions with Respect to the Compliance Operation of the Company

In 2019, in line with the requirements of the Company Law and other laws and regulations, and the Articles of Association and other relevant regulatory framework, the Supervisory Committee exercised supervision over the convening procedures of the general meetings and the Board meetings, the resolutions passed thereon, the Board's implementation of the resolutions passed by the general meetings and the performance of duties by the senior management.

The Supervisory Committee is of the opinion that, the Company carried out operations and decision-making process in strict accordance with the Company Law and other laws and regulations, and the Articles of Association and other relevant regulatory framework. The Board operated in a normative manner with procedures in compliance with laws and decisions made in a rational means, and maintains an objective and prudent examining perspective towards the Company's operation, to reach legal and rational decisions and implement various resolutions passed by the general meetings with due care. The Directors and senior management faithfully performed their duties in diligence and did not breach any laws, regulations or the Articles of Association or committed any acts detrimental to the interests of the Company. All resolutions passed by the general meetings were properly implemented.

2. Opinions with Respect to the Finance of the Company

The Supervisory Committee carefully considered the financial report of the Company for 2019 and accompanying information prepared in accordance with the International Financial Reporting Standards and audited by the independent auditors of the Company with unqualified opinions. The Supervisory Committee is of the opinion that, the financial report of the Company for 2019 gave an objective and true view of the Company's financial position and operating results.

In the new year, the Supervisory Committee will continue to comply with the requirements of relevant laws, regulations and the Articles of Association, discharge its supervisory duties and give full play to its supervision and counterbalance functions based closely on the development of the Company, so as to consistently enhance the corporate governance ability of the Company and effectively safeguard and protect the legitimate rights and interests of the Shareholders and the Company.

Changsha Broad Homes Industrial Group Co., Ltd.
Chairman of the Supervisory Committee
Zhang Mingxin

Changsha • Hunan
March 26, 2020

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report as set out in the annual report of the Company for the year ended December 31, 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining a high level of corporate governance to safeguard the rights and interests of Shareholders and enhance corporate value as well as the accountability assumed by the Board towards the Shareholders. The H Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on November 6, 2019. As a company incorporated in the PRC and listed on the Hong Kong Stock Exchange, the Company complies with the relevant requirements of the Hong Kong Listing Rules and meanwhile takes the Company Law and applicable laws, regulations and regulatory requirements in both mainland and Hong Kong as its basic guidelines of corporate governance.

The Company has adopted the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules as its own corporate governance standards. The Directors are of the opinion that, throughout the period from the Listing Date to December 31, 2019, the Company has complied with all the applicable code provisions under the Corporate Governance Code. The Company will continue to review and supervise over its corporate governance practice to ensure compliance with the Corporate Governance Code.

BOARD

Overview

The Board is responsible for the overall leadership of the Group, and it oversees the Group's strategic decisions and monitors the Group's 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 special Board committees, including the Strategy Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee. The Board has assigned responsibilities as stipulated in their terms of reference to each special Board committee.

All the Directors shall ensure that they perform their duties in the principle of integrity, in compliance with applicable laws and regulations and in any event for the benefit of the interests of the Company and its Shareholders as a whole.

The Company has arranged appropriate insurances in respect of legal action against its Directors, and it will review the coverage of such liability insurances on an annual basis.

Board composition

The Board currently comprises nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. Details are as follows:

Executive Directors:
Mr. Zhang Jian *(Chairman)*
Ms. Tang Fen *(President)*
Ms. Shi Donghong *(Vice President, Chief Financial Officer, Secretary of the Board and Joint Company Secretary)*
Mr. Zhang Kexiang *(Vice President)*
Mr. Tan Xinming *(Vice President)*

Non-Executive Director:
Mr. Zhang Quanxun

Independent Non-Executive Directors:
Mr. Chen Gongrong
Mr. Li Zhengnong
Mr. Wong Kai Yan Thomas

The biographical details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report. Save as disclosed in the biographies of the Directors as set out under the section headed "Directors, Supervisors and Senior Management" of this annual report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director, Supervisor or chief executive.

The Board comprises renowned experts in the fields of, among other things, industry, finance, management and asset management. The Nomination Committee will review the structure of the Board at least once each year. The Board consists of three independent non-executive Directors, of whom Mr. Chen Gongrong is qualified as an accountant and also serves as the chairman of the Audit Committee. The Company believes that, throughout the period from the Listing Date to December 31, 2019, the composition of the Board had been in compliance with Rules 3.10(1) and 3.10(2) of the Hong Kong Listing Rules, which requires that the board of directors should include at least three independent non-executive directors and at least one of them shall own appropriate professional qualifications or accounting or related financial management expertise, and Rule 3.10A of Hong Kong Listing Rules, which requires that independent non-executive directors shall account for at least one third of the board of directors, as well as Rule 3.21 of Hong Kong Listing Rules with respect to the qualifications of members of the audit committee. In addition, the name list of independent non-executive Directors is disclosed in all of the corporate communications published in accordance with the Hong Kong Listing Rules.

The Company has received the annual confirmation letter issued by each of the independent non-executive Directors in respect of their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules to confirm their independence. Therefore, the Company considers the independent non-executive Directors to be independent.

All of the Directors (including non-executive Directors and independent non-executive Directors) have brought a wide spectrum of valuable business experience, knowledge and specialized skills to the Board for its efficient and effective functioning. Through active participation in Board meetings, the non-executive Directors have played a positive role in customary issues that involve potential conflict of interests. The independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee.

As regards the Corporate Governance Code provision requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant undertakings as well as their identity and the commencing time and duration of their offices in the issuer, Directors have agreed to disclose their aforesaid information to the Company in due course. Details of the biographies of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report .

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Company provides necessary induction to all Directors to ensure that they have a proper understanding of the Company's operations and businesses as well as their responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Hong Kong Listing Rules and other relevant legal and regulatory requirements from time to time. The Company also provides the Directors 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.

The Company encourages all Directors to participate in continuous professional development, to develop and update their knowledge and skills. The joint company secretaries of the Company update and provide written training materials on roles, functions and duties of directors from time to time.

Prior to the Listing Date, all Directors, Supervisors and senior management of the Company participated in trainings on continuous obligations and responsibilities upon Listing provided by the overseas lawyers of the Company for Listing of the Company.

According to materials provided by the Directors, during the year ended December 31, 2019, the Directors received the following trainings:

Name of Director	Nature of continuous professional development courses
Executive Directors	A, B
Mr. Zhang Jian	A, B
Ms. Tang Fen	A, B
Ms. Shi Donghong	A, B
Mr. Zhang Kexiang	A, B
Mr. Tan Xinming	A, B
Non-Executive Director	
Mr. Zhang Quanxun	A, B
Independent Non-Executive Directors	
Mr. Chen Gongrong	A, B
Mr. Li Zhengnong	A, B
Mr. Wong Kai Yan Thomas	A, B

Notes:

A: Participation in seminars, meetings, forums and/or training courses.

B: Reading materials provided by external parties or the Company include but not limited to the latest materials on the business of the Company and the duties of Directors, latest updates on corporate governance and regulation and other applicable regulatory requirements.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As required by code provision A.2.1 of the Corporate Governance Code, the roles of chairman of the board of directors and chief executive officer should be separate and performed by different individuals.

The chairman of the Board and the president of the Company are currently served by Mr. Zhang Jian and Ms. Tang Fen respectively, being two different positions with expressly stipulated duties. The chairman of the Board is responsible for providing strategic advice and guidance for the development of the Group, leading the Board and guaranteeing effective operation of the Board in accordance with sound corporate governance practice and procedures, as well as advocating an open and active discussing culture to promote the Directors (especially the non-executive Directors) to effectively contribute to the Board and ensure the constructive relationship between the executive Directors and non-executive Directors. The president is responsible for the daily operation of the Group and implementing the objectives, policies and strategies assigned by the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to the Articles of Association, Directors shall be elected at general meetings with a term of office of three years. Upon the expiry of the term of office, a Director shall be eligible to offer himself/herself for re-election and re-appointment.

The Company entered into a service contract with each Director on October 11, 2019, with a term of office starting from the date on which they were appointed as Directors to the second session of the Board by the general meeting and terminating upon expiry of the term of the second session of the Board. They shall be eligible for re-election and re-appointment upon expiry of their terms.

The Company confirmed that no Director has entered into a service contract with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The procedures underlying the appointment, re-election, re-appointment and removal of the 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 appointment, re-election, re-appointment and succession planning of Directors.

BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly and convenes at least four Board meetings per annum, approximately one meeting for every quarter. Notice of a regular Board meeting shall be served on all Directors at least 14 days before the date of the meeting to provide all Directors with an opportunity to attend the regular meeting and discuss matters in the agenda for such regular meeting.

According to the Articles of Association and the terms of reference of each special committee under the Board, the Company will issue appropriate notice for extraordinary board meetings and meetings of the special committees of the Board. The meeting notice shall include the agenda and accompanying board and special committee papers and shall be served at least five days prior to an extraordinary Board meeting and three days prior to a meeting of the special committee under the Board to ensure that Directors have sufficient time to review the papers and to prepare adequately for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed on the meeting and given an opportunity to express their views to the Board or the special committees under the Board prior to the meeting. The joint company secretaries or the Board office shall keep meeting minutes and provide copies of minutes of such meetings to all Directors for reference and record.

Minutes of the Board meetings and special committee meetings will be recorded in details for the matters considered by the Board and the special committees and the decisions reached thereby, including any concerns raised by the Directors. Draft minutes of each Board meeting and special committee meeting will be sent to each Director for consideration within a reasonable time after the date on which the meeting is held. Minutes of Board meetings are available for inspection by all the Directors.

During the Reporting Period, the Board convened five Board meetings and three general meetings. The table below sets out the attendance of each Director at the Board meetings and general meetings:

Director	Number of actual attendance at Board meetings/Number of required attendance at Board meetings	Number of actual attendance at general meetings/Number of required attendance at general meetings
Mr. Zhang Jian	5/5	3/3
Ms. Tang Fen	5/5	3/3
Ms. Shi Donghong	5/5	3/3
Mr. Zhang Kexiang	5/5	3/3
Mr. Tan Xinming	5/5	3/3
Mr. Zhang Quanxun	5/5	3/3
Mr. Chen Gongrong	5/5	3/3
Mr. Li Zhengnong	5/5	3/3
Mr. Wong Kai Yan Thomas (Note)	3/3	2/2

Note: Pursuant to the resolution passed at the 2019 first extraordinary general meeting of the Company on March 23, 2019, Mr. Wong Kai Yan Thomas has been serving as a Director since approval thereat.

Save for the above Board meetings, the chairman and the independent non-executive Directors convened a meeting without attendance of other Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Hong Kong Listing Rules as its own code of conduct regarding securities transactions by Directors. Upon specific enquiry to all Directors and Supervisors, they confirmed that they have complied with the code of conduct as set out in the Model Code throughout the period from the Listing Date to December 31, 2019.

Since the Listing Date, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company when dealing with the Company's securities.

DELEGATION BY THE BOARD

The Board is responsible to the general meeting of the Company and reserves the decision-making rights for all material matters, including: deciding on the Company's business plans and investment plans; within the scope authorized by the general meeting, deciding, among others, the Company's external investment, purchase and sale of assets, assets mortgage, wealth management entrustment, bank credit and connected transactions; deciding on the provision of security for the third parties; deciding on the establishment of the Company's internal management bodies and on the establishment or closing of the Company's branches or representative offices; and engaging or dismiss the Company's general manager, secretary to the board of directors; deputy general manager, financial controller and other senior management members. Directors have recourse to seek independent professional advice in performing their duties at the Company's expense. They are also encouraged to consult with the Company's senior management independently.

The senior management of the Company is responsible for the Group's daily management, administration and operation. The delegated functions and responsibilities are periodically reviewed by the Board to ensure the rationality of the delegation arrangement. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

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

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

(c) To develop, review and monitor the codes of conduct and compliance manual for Directors and employees;

(d) To develop and review the corporate governance policy and practice of the Company and to make recommendations and report the same to the Board;

(e) To review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report; and

(f) To review and monitor the Company's compliance with its whistleblowing policies.

Throughout the period from the Listing Date to December 31, 2019, the Board has performed the above duties.

SPECIAL COMMITTEES UNDER THE BOARD

The Board has established four special committees under the Board, including the Strategy Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee. All the special committees under the Board have written terms of reference with a clear division of rights and responsibilities. The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee are available for inspection on the websites of the Hong Kong Stock Exchange and of the Company.

Audit Committee

The Audit Committee comprises three members, namely Mr. Chen Gongrong (chairman), an independent non-executive Director, Mr. Li Zhengnong, an independent non-executive Director and Mr. Wong Kai Yan Thomas, an independent non-executive Director. Mr. Chen Gongrong possesses appropriate accounting or finance management-related expertise.

Set forth below are the principal duties of the Audit Committee:

1. To make recommendations to the Board regarding the appointment, reappointment and removal of the external audit firm, and to approve the remuneration and terms of engagement of the external audit firm, and handle any question of its resignation or dismissal;

2. To review and monitor the external audit firm's independence, objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the audit firm the nature, scope and method of the audit and the relevant reporting obligations before the audit commences; to develop and implement policy on engaging an external audit firm to provide non-audit services; to be responsible for the communication between the internal audit department and external audit firm;

3. To monitor the truthfulness, completeness and accuracy of the financial statements, annual reports and accounts, half-year reports and quarterly reports (if any) of the Company, and to review significant financial reporting opinions contained therein;

4. To examine the Company's financial controls, internal control and risk management systems;

5. To discuss the risk management and internal control system with the management to ensure that the management has performed its duty to have an effective risk management and internal control system;

6. To review the financial and accounting policies and practices of the Company;

7. To review the Company's risk management strategies and solutions for key risk management issues;

8. To confirm the list of the Company's connected parties, conduct an overall review of connected transactions and regular inquiries of the overall state of connected transactions.

Throughout the period from the Listing Date to December 31, 2019, the Audit Committee convened one meeting for the purpose of discussing and considering the followings:

1. Issues in relation to the financial auditing for 2019.

2. Reviewing the financial reporting system, compliance procedure, internal supervision (including the adequacy of resources, qualifications, training courses and budgets of employees in the Company's accounting and financial reporting departments), risk management systems and procedures, and the renewal of external auditors. The Board has not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor.

The Audit Committee has reviewed the annual results of the Company for the year ended December 31, 2019.

The table below sets forth the attendance of each member of the Audit Committee at the meeting:

Name of Director	Actual attendance/Required attendance
Mr. Chen Gongrong	1/1
Mr. Li Zhengnong	1/1
Mr. Wong Kai Yan Thomas	1/1

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely Mr. Zhang Jian (chairman), an executive Director, Mr. Chen Gongrong, an independent non-executive Director and Mr. Li Zhengnong, an independent non-executive Director.

Set forth below are the principal duties of the Nomination Committee:

1. To formulate the standards, procedures and methods for selection of directors and senior management of the Company and submit the same to the Board for consideration;

2. To review the structure, size, composition and member qualifications (including skills, expertise and experience) of the Board at least once each year, and to make recommendations for any change to the Board for complying with the strategy of the Company. The Committee shall maintain a Board membership diversity policy;

3. To identify individuals suitably qualified to become directors, and to examine the candidates for directors, general manager and secretary to the Board and make recommendations;

4. To screen the candidates for other management members and provide advice to the Board;

5. To evaluate the overall skill, expertise and experience of directors and senior management and assess the independence of the independent non-executive directors;

6. To make recommendations to the Board on the appointment or reappointment of directors and succession plan for directors, in particular the chairman of the Board and the general manager;

7. To review the Board diversity policy and any measurable objective for implementing such Board diversity policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives, and to make disclosure of such diversity policy or its summary and its review results in the corporate governance report of the Company annually.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties. The recommendations of the Nomination Committee will then be put to the Board for decision.

Throughout the period from the Listing Date to December 31, 2019, the Nomination Committee did not convene any meeting.

NOMINATION POLICY OF THE DIRECTORS

The Company has formulated the procedure for nomination of candidates of Directors by the Shareholders. In accordance with the relevant requirements in Article 104 of the Articles of Association, a shareholder independently or shareholders collectively holding at least 3 percent of the total outstanding voting shares of the Company may propose to the general meeting candidates for the position of director who is not an employee representative in the form of a written proposal, provided that the number of persons nominated complies with the Articles of Association and does not exceed the number of persons to be elected. The shareholder(s) shall submit the aforesaid proposal to the Company at least 14 days before the date the general meeting is to be held.

A candidate of director must comply with the relevant qualification requirements set out in the Company Law, the Articles of Association and other applicable laws and regulations. The Nomination Committee has the right to review director candidates and make recommendations according to the Articles of Association, the Terms of Reference for the Nomination Committee of the Board of Directors and other relevant rules and regulations of the Company.

BOARD DIVERSITY POLICY

To achieve sustainable and balanced development, the Company recognizes and believes that the Board diversity policy is beneficial for enhancing the performance of the Company. The Company deems that boosting diversity at the Board level is a must for realizing its strategic goals and pursuing sustainable development. The Company has formulated the Board diversity policy, which outlines the principles for the Board to fulfill diversity. The Company is committed to selecting the best candidate for each position based on the diversity principle, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All the appointment(s) of the Board members will be based on meritocracy and all candidates will be evaluated in line with appropriate conditions with due consideration given to the benefit of Board diversity. The Nomination Committee will review the Board diversity policy and measurable objectives to ensure its effectiveness.

The Nomination Committee is mainly responsible for identifying persons with appropriate qualifications to serve as directors taking full consideration of the Board diversity policy in the selection process. The appointment of all members of the Board will give due regard to the benefits of the Board diversity policy and will be based on the merits of each candidate and objective criteria.

The Nomination Committee considers that the Board is sufficiently diverse and therefore, it did not establish any measurable objectives for the Board diversity policy.

REMUNERATION AND APPRAISAL COMMITTEE

The Remuneration and Appraisal Committee comprises three members, namely Mr. Li Zhengnong (chairman), an independent non-executive Director, Mr. Chen Gongrong, an independent non-executive Director and Mr. Zhang Jian, an executive Director.

Set forth below are the principal duties of the Remuneration and Appraisal Committee:

1. To make recommendations to the Board on the Company's remuneration policies and structure for all directors and senior management and on the establishment of a formal and transparent procedure for formulating such remuneration policies;

2. To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

3. To determine the remuneration packages (including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) for all executive directors and senior management and to make recommendations to the Board on the remuneration for non-executive directors;

4. To formulate administrative measures for the performance appraisal of the senior management of the Company, prepare appraisal plans and determine appraisal purposes;

5. To review and approve performance-based remuneration by making reference to the corporate objectives approved from time to time by the Board;

6. To examine and approve compensation payable to the executive directors and senior management for any loss or termination of office or appointment to ensure that the compensation conforms to relevant contractual terms or, in case the compensation does not conform to relevant contractual terms, is fair and reasonable and no undue burden is placed on the Company;

7. To examine and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that the arrangements conform to relevant contractual terms or, in case the arrangements do not conform to relevant contractual terms, are otherwise reasonable and appropriate;

8. To ensure that no director or any of his/her associates (as defined under the Hong Kong Listing Rules) is involved in deciding his/her own remuneration.

Throughout the period from the Listing Date to December 31, 2019, the Remuneration and Appraisal Committee did not convene any meeting.

STRATEGY COMMITTEE

The Strategy Committee comprises three members, namely Mr. Zhang Jian (chairman), an executive Director, Ms. Tang Fen, an executive Director and Ms. Shi Donghong, an executive Director.

Set forth below are the principal duties of the Strategy Committee:

1. To conduct research into the strategic development plan of the Company and making recommendations thereof;

2. To conduct research into the material investment and finance plans which are subject to the approval of the Board under the Articles of Association and making recommendations thereof;

3. To conduct research into the material capital operations and assets operating projects which are subject to the approval of the Board under the Articles of Association and making recommendations thereof;

4. To conduct research into other material businesses which may influence the development of the Company and making recommendations thereof;

5. To supervise the implementation of the above matters.

Throughout the period from the Listing Date to December 31, 2019, the Strategy Committee did not convene any meeting.

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

For the year ended December 31, 2019, the remuneration of the Directors, Supervisors and the senior management of the Company falls within the following bands:

Bands (RMB)	Number of individuals
0-100,000	3
100,001-500,000	4
500,001-1,000,000	1
1,000,001-1,500,000	1
1,500,001-2,000,000	1
2,000,001-2,500,000	–
2,500,001-3,000,000	–
3,000,001-3,500,000	–
3,500,001-4,000,000	–
4,000,001-4,500,000	2

For details of remuneration of the Directors and five highest paid individuals for the year ended December 31, 2019, please refer to notes 8 and 9 to the consolidated financial statements contained in this annual report.

Corporate Governance Report

DIRECTORS' FINANCIAL REPORTING RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended December 31, 2019 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 has provided all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors are 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 auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report from page 117 to page 124 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

Overview

The Company completed the initial public offering of its H Shares on November 6, 2019 which were listed on the Main Board of the Hong Kong Stock Exchange. Through a series of strict standardized governance, the Company has constructed an internal control system in compliance with the listing regulatory requirements and relevant regulatory stipulations and implemented various risk management measures to effectively control and manage the risks in the Company's operating activities.

The internal rules and policies that the Company has formed to regulate and guide our operation include marketing management measures, factory accounting manual, intellectual property management measures, capital budgeting management measures, credit business management measures, recruitment management rules, information disclosure measures, management system of connected transactions, document management measures, confidentiality system, etc. In particular, for quality control, we have established supplier management measures, purchase and biding management procedures, rules for security risk valuation and management and other internal rules.

The Board acknowledges that it is the responsibility of the Board for maintaining adequate internal control system and risk management system and reviewing the effectiveness of such systems on an annual basis. Such internal control systems and risk management system are designed to properly and effectively manage various risks confronted by the Company instead of totally eliminating risks involved in business operation and the Company can only exert due efforts and guarantee to this end.

Procedures and major characteristics of internal control and risk management

The Board assumes overall responsibilities for evaluating and determining the nature and extent of the risks that the Company is willing to bear in achieving its strategic goals, and establishing and maintaining an appropriate and effective risk management and internal control system.

The internal audit team is responsible for independently reviewing the adequacy and effectiveness of the risk management and internal control system. The internal audit team inspects key issues related to accounting practices and all major internal control issues, and provides findings and improvement suggestions to the Audit Committee.

The Board reviewed the report prepared by the management and internal audit results with the support of the Audit Committee and the management. The Board considered that the Company's risk management and internal control system during the Reporting Period was effective and adequate.

The Group's risk control center plays an important role in monitoring the internal governance of the Company. The primary responsibilities of the risk control center are to regulate and review the financial condition and internal control of the Company, and to conduct regular and comprehensive audit on all branches and subsidiaries of the Company.

Relevant departments of the Company are responsible for implementing risk management policies and routine risk management. In order to standardize the Group's risk management and to set transparency and risk management performance standards, relevant departments are responsible for (i) collecting risk data on their operations and work; (ii) conducting risk assessment, including identification, ranking, measurement and classification of all major risks that may potentially affect the achievement of the objectives; (iii) preparing risk management reports for the general manager's review; (iv) continuously monitoring major risks related to the Company's operations; (v) implementing appropriate measures in response to the risks when necessary; and (vi) formulating and implementing appropriate mechanisms to promote the application of our risk management framework.

At the subsidiary level, the Company and its major operating subsidiaries have established an array of agreement procedures for internal control and reported the actual investigation results on the physical monitoring and internal control of different procedures of the Group, including, among others, environmental control, risk assessment, internal control, information and communication, anti-fraud, reporting and disclosure, connect person and connected transactions, taxation, sales and collection management, procurement and payment management, inventory management, fixed asset management, personnel and compensation management, capital management, contract management, research and development and intangible asset management, information system management and insurance.

RISKS IN OPERATION

Strategy-related risks: during the process of exploring new markets at home and abroad, as the construction market of the target cities may differ in terms of their local economies and level of industrial development, local government's policies and support, the types of construction projects to be developed and their cycles of development, market expansion progress did not meet our expectation. The Company will strengthen the investigation and analysis of the administrative, regulatory and tax environment in the target cities, get familiar with the local government, business practices, regulations and customer preferences, select the best geographical location, recruit and train employees with rich local experience, and improve the professional capacity and resource allocation in management, development and operation in a timely manner to ensure effective control in the process of business expansion.

Market risks: customers pay by installment upon achieving certain project milestones or with regard to project progress. In case that payment cannot be made on time, the cash flows of the Company will be affected. The Company has established a systematic supervision mechanism to keep track of goods supply progress of customers' projects, the cost and expenditure dynamics related to major raw materials, equipment and labor in real time, and the time difference between collecting the receivables from customers and payments to suppliers, in order to identify abnormalities in time, and take measures to control the impact of receivables from customers on working capital.

Business operation risks: the demand in the prefabricated building market is increasing rapidly, which may lead to simultaneous supply to multiple customer projects during the construction peak season. The production capacity of local factories may not be able to meet the supply demand during the peak season. Meanwhile, production layout across the nation may be imbalanced with short supply during the peak season and low capacity utilization during slack season. The Company will communicate and keep a close eye on the progress of customer projects in real time, foresee the supply cycle of customer projects, adjust the factory layout, strengthen equipment maintenance and addition, schedule employee's rotation and coordinate human resources nationwide, optimize the allocation of resources and ensure the supply of production capacity at peak seasons while controlling the impact of new costs during peak supply periods to maintain profit margins.

Products and service quality-related risks: issues relating to product supply and technical service quality may affect customer experience and evaluation of the Company's brand. The management of the Company regards quality as the foundation of the Company, and continuously improves the relevant systems within the Company. It has conducted full-process monitoring on all products and services through the CPS system, and urged the quality control personnel in all business lines to supervise the quality of products and services throughout the life cycle.

MAJOR MEASURES OF INTERNAL CONTROL AND RISK MANAGEMENT

The Company has adopted a number of internal control policies, measures and procedures to reasonably ensure the achievement of certain objectives, including effective and efficient operation, reliable financial reporting and compliance with relevant laws and regulations. The following is a summary of internal control policies, measures and procedures that the Company has implemented or plans to implement:

- The Company has established a Compliance Department and a Legal Office to be responsible for the overall internal control, corporate governance and legal compliance of the Group.

- The Compliance Department and the Legal Office are responsible for promulgating and revising internal control policies, measures and procedures to ensure that the Company maintains sound and effective internal control and complies with applicable laws and regulations. The Compliance Department also oversees the implementation of internal control policies, measures and procedures and conducts regular compliance reviews of the business process at different stages.

- The Compliance Department organizes monthly/annual internal control self-examination of each business department of the Company, and provide the internal control self-assessment report containing its risks and improvement suggestions to the heads of relevant business departments.

- The person-in-charge of each business department is responsible for implementing relevant internal control policies, measures and procedures and regularly checking the implementation of relevant policies, measures and procedures.

- The Company has implemented relevant internal control policies, measures and procedures at the product development or production stage in each business department, provided trainings for relevant employees on such policies, measures and procedures and solved their problems, submitted suggestions and proposed amendments to relevant policies, measures and procedures to the Compliance Department, and conducted regular inspections on the implementation of relevant policies, measures and procedures.

- The Company has adopted a number of measures and procedures in various areas of our business operations (such as project management, quality assurance, intellectual property protection, environmental protection and occupational health and safety). We provide employees with regular trainings on such measures and procedures.

- The Compliance Department has established a complaint reporting mechanism for our Directors, senior management, employees, customers and other business partners, and has conducted independent and fair investigations on reported complaints for the purpose of appropriate follow-up. The Compliance Department has also established an online platform through which our employees can report their complaints and problems. In addition, the Compliance Department has set up a "Whistleblowing Policy", which stipulates the whistleblowing channels, responsible persons, investigation procedures and feedback of results, and expressly prohibits retaliation against whistleblowers. The Compliance Department evaluates the effectiveness and potential vulnerabilities of the Company's internal control system based on the complaints received, so as to improve our internal control policies, measures and procedures accordingly.

The Company has formulated an information disclosure policy to provide comprehensive guidelines for the Directors, officers, senior management and relevant employees of the Company in handling confidential data, supervising data disclosure and responding to inquiries.

The Company has implemented control procedures to ensure that unauthorized access to and use of inside information are strictly prohibited.

The Board has reviewed the effectiveness of the Group's internal audit system and risk management and internal control system through the Audit Committee, including the aforementioned system and the adequacy of resources, employee qualifications and experience of the Company's accounting and financial reporting functions, as well as the adequacy of training courses and budgets for the aforementioned employees.

For the year ended December 31, 2019, upon review, the Board considered that the Group's risk management and internal control systems (including financial, operational and compliance controls) were effective and adequate. The review also covered financial reports and employee qualifications, experience and related resources.

Corporate Governance Report

AUDITOR'S REMUNERATION

The approximate remuneration of the auditor for the audit services (relating to Listing and annual audit) and non-audit services (relating to preparation of the environmental, social and governance report) provided to the Company during the year ended December 31, 2019 is set out below:

Type of service	Amount (RMB)
Audit services	9,260,000
Non-audit services	150,000
Total	9,410,000

JOINT COMPANY SECRETARIES

Ms. Shi Donghong ("**Ms. Shi**") is the joint company secretary of the Company and is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, and the applicable laws, rules and regulations are followed.

In order to maintain good corporate governance and ensure compliance with the Hong Kong Listing Rules and applicable Hong Kong laws, the Company also engaged Ms. Leung Suet Wing ("**Ms. Leung**") from TMF Hong Kong Limited as another joint company secretary of the Company to assist Ms. Shi to discharge her duties as company secretary of the Company. Ms. Leung's primary contact person in the Company is Mr. Yin Zhankui.

The Company confirmed that Ms. Shi and Ms. Leung had undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules for the year ended December 31, 2019.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with 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 its information, which will enable Shareholders and investors to make the informed investment decisions.

The Company's annual general meeting provides an opportunity for direct communication between the Shareholders and the Directors. The chairman of the Board and the chairmen of the special committees under the Board will attend the annual general meeting to answer shareholders' questions. The auditors will also attend the annual general meeting and answer questions on the conduct of the audit, the preparation and content of the auditor's report, accounting policies and independence of the auditors.

In order to promote effective communication, the Company adopts the Shareholders communication policy with an aim to establish the mutual relationship and communication between the Company and the Shareholders, and maintains a website (www.bhome.com.cn) on which the Company will publish the latest data, financial information, corporate governance practices and other information on its business operations and development for public inspection.

The Company will strengthen communication with Shareholders and investors through roadshows, reverse roadshows, analyst conferences, results presentation, media press conferences, telephone conferences, etc..

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each issue at general meetings, including the election of Director.

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

1. Convening extraordinary general meetings and Shareholders' class meetings

According to the Articles of Association, the Company shall convene an extraordinary general meeting within two months from the date when a Shareholder individually or Shareholders jointly holding at least 10 percent of the Company's Shares (the number of Shares held by the Shareholders shall be counted based on the date of the written request) request convening extraordinary general meetings in writing;

Shareholders requesting the convening of a Shareholders' class meeting shall do so by the procedures set forth below:

(I) two or more shareholders holding in aggregate at least 10 percent of the Shares carrying the voting right at the meeting to be held may sign one or more written requests of identical form and content requesting that the Board convenes a class Shareholders' meeting and stating the topics to be discussed at the meeting. The Board shall convene the class Shareholders' meeting as soon as possible after having received the aforementioned written request. The shareholding referred to above shall be calculated as of the day on which the written request is made.

(II) if the Board fails to issue a notice to convene such meeting within 30 days after having received the aforementioned written request, the Shareholders who made such request may themselves convene the meeting within four months after the Board received the request. The procedures for the Shareholders to convene such meeting shall, to the extent possible, be identical to the procedures for the Board to convene the Shareholders' meetings.

2. Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to the Board secretary office at the headquarters of the Company at ir@bhome.com.cn.

3. Procedures for submitting proposals at general meetings

A shareholder alone or shareholders together holding at least 3 percent of the shares of the Company may submit extempore motions in writing to the convener 10 days prior to the date of such meeting. The convener shall issue a supplementary notice of the general meeting and make an announcement of the contents of such extempore motion within two days after receipt of the motion, and submit such extempore motion to the general meeting for consideration. The contents of such an extempore motion shall fall within the authority of the general meeting, and contain a clear topic and a specific resolution.

DIVIDEND POLICY

For details of the dividend policy of the Company, please refer to the section headed "Dividend Policy" in the "Report of the Directors" of this annual report.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company made amendments and restatement to the Articles of Association in accordance with the Hong Kong Listing Rules on the Listing Date, which was effective and published on the websites of the Hong Kong Stock Exchange and the Company on November 6, 2019. The Company exercised partial Over-allotment Option of 167,400 H shares on November 28, 2019, which were allotted and issued on December 3, 2019 and updated the relevant articles of the Articles of Association accordingly. The amended Articles of Association has been published on the websites of the Hong Kong Stock Exchange and the Company on December 3, 2019.

STATEMENT BY THE BOARD OF DIRECTORS

The Board of Directors and all directors of the Company guarantee that the information contained in this report does not contain any false statements, misleading representations or material omissions, and all of them jointly and severally take responsibility as to the truthfulness, accuracy and completeness of the contents of this report.

BASIS OF PREPARATION

This report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**Guidelines**") as set out in Appendix 27 to the Hong Kong Listing Rules for the reporting period from January 1, 2019 to December 31, 2019. Previous activities relating to certain reporting aspects are also considered retrospectively. This report will be published on the website of the Hong Kong Stock Exchange and the official website of the Group.

RELEASE CYCLE

This report is prepared annually and covers the reporting period from January 1, 2019 to December 31, 2019. This is the first Environmental, Social and Governance Report issued by the Group, for which the next reporting period (2020) is expected to be released in April 2021.

REPORTING SCOPE

The reporting entities are Changsha Broad Homes Industrial Group Co., Ltd. and its subsidiaries. The information in respect of their policies, social responsibilities and environmental protection efforts cover all the businesses of the Group.

SOURCE

The information in this report is derived from the internal documents and related statistics of Changsha Broad Homes Industrial Group Co., Ltd. and its subsidiaries.

REPRESENTATIONS

For ease of presentation, Changsha Broad Homes Industrial Group Co., Ltd. is hereinafter referred to as "Broad Homes", "the Group" or "we".

Environmental, Social and Governance Report

1 EXECUTIVE'S ADDRESS

Clothing, food, housing and travel are the eternal needs of mankind. Housing is not only an indispensable habitat to live and work in, but also a warm place to enjoy family harmony. With the maturity of economic development, our requirements for the quality and performance of house also trend higher. With the original aspiration of increasing productivity, improving quality and reducing waste, we stepped into China's construction industrialization field in 1996.

We have realized pretty early that, it is unsustainable for China, as the country that has the most demand for housing in the world, to develop the construction industry with the traditional technology, extensive production methods and relatively backward management technology. To meet the growing needs of people for a better life, we must take the road of sustainable development by adhering to technological innovation, consolidating the foundation of manufacturing and opening up to embrace cooperation.

Since the official establishment of Broad Homes in 2006, we have been committed to providing integrated solutions for the industrialization of construction industry in the PRC. The efficiency of the construction industrialization is much higher than that of the traditional method, which not only improves economic efficiency, but also reduces material waste and saves resource consumption, thus promoting energy conservation and emission reduction for the entire society. Rather than only in pursuit of commercial value, we make an effort with a bit of idealism to do something more meaningful and valuable. The progress of mankind is actually a process of increasing efficiency. Through the research and promotion of prefabricated construction, we assist customers to reduce the manpower required for on-site operations in the traditional way, lower the labor intensity of on-site operations, improve the environment for on-site operations, shorten the entire operation period and increase labor productivity, thus successfully leading the construction industry towards sustainable development.

As the construction industry involves a wide range and a long industrial chain, including planning and design, manufacturing, construction and installation, Broad Homes puts more emphasis on the supply chain management. Through strict supplier selection and procurement control, it strengthens control over the quality of products from the source. We are willing to reach long-term strategic cooperation with suppliers and customers that values quality, reject the brutal and extensive development model, and commit to the modern transformation of the construction industry.

For years, Broad Homes has adhered to the development of new technologies and relied on technological innovation to promote the green development of the industry. In 2007, the MOC admitted Broad Homes Industrial as the first batch of National Housing Industrialization Bases (國家住宅產業化基地). In addition, the technology center of Broad Homes has been rated by Hunan Province as Hunan Provincial Enterprise Technology Center in 2016.

Environmental, Social and Governance Report

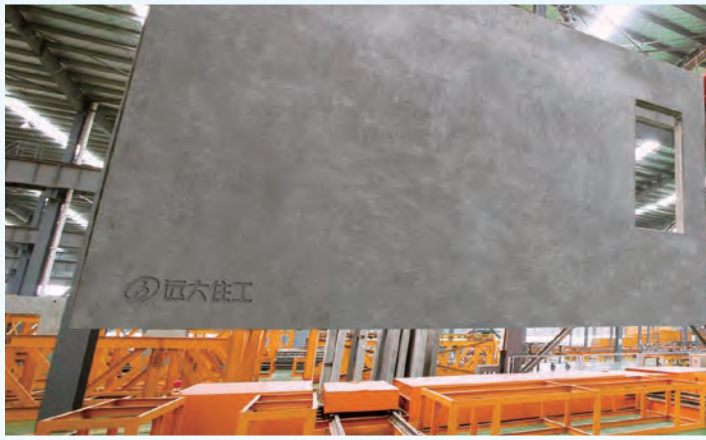
We believe that the construction industrialization will experience four industrial revolutions. The first one was mainly to replace manpower with machines, which took approximately 10 years, after which the construction industry established a set of industrial standards to achieve the transition to construction industrialization 2.0 and improved the organizational efficiency of the construction industry through standardization and scaling up. After 2008, the third and fourth revolutions in the construction industry were achieved through the Industrial Internet of Things, and real smart manufacturing was realized through informationization and intelligence. Broad Homes also took the lead to participate in such revolutions. We have established the whole-process digitized information system in the prefabricated construction industry in China, launched the unique intelligent manufacturing management system (i.e. PC-CPS) that makes possible the mass production of customized products, and realized the data sharing and synergy of full lifecycle construction at each stage through nine modules. We are the first to utilize the whole-process digitized information system in the prefabricated construction industry in China to realize the intelligent manufacturing driven by massive data. Capitalizing on the first class PC unit manufacturing capability as well as advanced software and systems such as PC Maker and PC-CPS, we have connected each step of the construction industry chain covering design, manufacturing, construction, operation and maintenance, and have become a standardized portal for industrialization and intelligent service platform in the construction industry. We dedicate ourselves to the realization of the digitized design, digitized factory and digitized construction site, and lead the revolution of Industrialization 4.0.

Development of an enterprise depends on talent. We regard employees as our valuable wealth, attach importance to the welfare benefits and development demands of each employee, and promote the establishment and development of the Group's training system to provide employees with an exclusive development path and assist their comprehensive growth. We are also well aware that one swallow does not make a spring, so we pay attention to the talent training of the entire industry. In 2016, we opened the Broad Academy and adopted an "Opening-up Strategy" in respect of the sharing of industry knowledge system and carried out in-depth cooperation with industry enterprises through the joint industrial plan of "Exporting Brand, Exporting Technology, Exporting Management and Participating in investment" to strive to train talents for the industry and promote the continuous and deepening reform of the industry.

Remain true to our original aspiration and keep our mission firmly in mind. Successful listing is both an opportunity and a challenge for us, but it will never be the end. As the pioneer and early mover of green building in the PRC, we will consistently uphold the corporate values of "No Speculation and Upholding Professionalism and Dedication", and corporate development strategies that parallel economic efficiency and social benefits, improve quality and reduce waste to shoulder responsibility with practical actions.

By order of the Board
Zhang Jian
Chairman

Changsha • Hunan
April 20, 2020



2 ABOUT US

Broad Homes is the pioneer and leader in the industrialization of construction industry in the PRC. Since entering the field of construction industrialization in 1996, we have made consistent investment in research and development and technological innovation. Leveraging on our strong technology capability and established market reputation accumulated for 30 years, we have successfully become a platform to provide comprehensive solutions of industrialization of construction industry in China, which comprise globalized, scalable, professionalized and intelligent manufacturing of prefabricated buildings and services.

Broad Homes has three major businesses: PC unit manufacturing business, PC equipment manufacturing business and construction contracting business. For the PC unit manufacturing business, we provide customers with comprehensive solutions for prefabricated construction, including PC unit design, manufacturing and assembling consultation. For the PC equipment manufacturing business, we sell PC equipment and provide related services to customers. For the construction contracting business, as a selected general construction contractor, we perform the construction contract in accordance with designs and timetable provided by architectural design organization and the project owner.

Broad Homes is committed to establishing a digitized system covering the entire industry chain of construction in which various elements of the industry chain can be defined and the entire construction process, from design and manufacturing to construction, operation and maintenance, can be simulated in the cyber space by adopting information technology. Through bridging the gap between construction industry and industrialized operation, we have transformed the traditional scattered construction industry, which relies on handcrafts of workers, into modern industrialized manufacturing, which is intensive and efficient. Moreover, together with other market players along the industry chain, we have formulated standards of construction industrialization to establish an industry ecosphere.

Under our dual-engine driven model with combination of wholly-owned factories and Joint Factories, we have achieved a rapid asset-light expansion throughout the country. Led by our founder and Chairman Mr. Zhang Jian and senior management team, we have become the largest PC unit manufacturer in China with a leading market position particularly in Hunan Province and Eastern China. In the future, we plan to continue to implement the "Scale + Benefit" strategy to achieve nationwide layout through the integration of technology centers in various regions, and seize the opportunities brought by the Belt and Road Initiative to promote the full sets of prefabricated building products and relevant construction management, technologies, equipment and services to countries along the Belt and Road Initiative. Meanwhile, we will continue to focus on customer development and adhere to our philosophy of "Creating Value with Our Client". Relying on our technology systems, brand value and customer strengths accumulated for years, together with seizing the huge potential arising from the explosive growth in prefabricated construction industry in the PRC, and practice of the concepts of energy saving, green and environmental protection, We believe that we can continue to be the leader in the prefabricated construction industry in China, to lead the industrial construction revolution to new heights.

3 ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") OVERVIEW

ESG Strategy of the Group

The Group has been adhering to the original aspiration of green development. Under the leadership of the founder and chairman Mr. Zhang Jian, the Group is committed to promoting the modernization of construction industry in the PRC, guiding the transformation of production methods in the industry, and reducing the large amount of waste water, waste residue and mold use generated by the traditional construction industry. The Group consistently keeps corporate social responsibility in mind and infiltrates the concept of sustainable development into every aspect of corporate governance and operations with commitment to the common achievement of economic, social and environmental benefits.

ESG Governance Structure of the Group

The Group has established a top-down ESG governance structure and an ESG report working commission, which is led by high-ranking managerial personnel and includes intermediate level managers. The working commission consists of representatives from all regular management divisions of the Group, including the Board Office, Human Resources Institute, Administration Centre, Design and Craft Department, Operations Management Department, Brand Strategy Department, Product Department, Market and Service and Human Finance Department. The working commission reports to the Board on a regular basis for recommendations and advice and is responsible for communicating and implementing the strategies, measures and feedback of the Group on issues related to ESG, which is an indispensable link for the sustainable development of the Group.

Stakeholder Engagement

The Group's ESG stakeholders mainly include the employees, suppliers, customers, shareholders, investors, government, and the communities where the Group operates. The Group believes that listening to and understanding the opinions of stakeholders will provide a solid foundation for the long-term development of the Group. In this regard, the Group actively explores various channels to maintain good communication with stakeholders, to enhance the stakeholders' understanding of the development and operational policies, and to provide more opportunities for them to put forward suggestions so that the Group can provide them with timely and effective feedback regarding their concerns. In this way, the Group ensures that it is cooperating and working alongside stakeholders to achieve mutual benefits.

Environmental, Social and Governance Report

Stakeholders	Government	Shareholders	Employees	Customers	Suppliers	Community
Target & Focus	• Respond to state policies • Operate according to laws and regulations • Pay taxes in accordance with applicable tax laws • Promote employment	• Business strategy & financial performance • Protect shareholder's legal rights • Business sustainability • Corporate transparency	• Payment and welfare • Guarantee of rights and interests • Career development • Safety and health • Corporate culture	• Product quality • Privacy protection • Customized services • Prefabrication consulting services	• Abide by commercial ethics and state laws and rules • Be transparent and fair • Fulfill commitments, achieve mutual benefits and enable win-win cooperation	• Encourage community engagement • Participate in public welfare activities • Promote the community's development
Method of communication and exchange	• Participate in discussion for formulation of relevant policies and industry standards • Contribute corporate experience • Guide and influence public policies actively • Engage in dialogue with the local government	• Enhance information disclosures • Board meeting, shareholders' meeting and investors' meeting • Direct communication among shareholders	• Employee representative on the board of supervisors • Labour union • Employee representative conference • Employee survey and provision of timely feedback • Enhance information disclosure	• Communicate during the service offering process • Customer survey and feedback • Complaint hotline • Enhance information disclosures	• Announce the supplier management rules • Contract negotiation • Daily business exchange • Enhance information disclosures	• Exchange ideas with local government and organisation • Actively participate in public welfare activities • Enhance information disclosures
Key actions	• Implement state policies, abide by state laws and regulations • Accept supervision and check-ups • Create more posts to boost the employment rate • Participate in affordable housing construction projects • Declare taxes in a timely manner	• Convene shareholder meetings regularly • Convene meetings of the board of directors regularly • Convene meetings with investors • Disclose statutory issues in a timely manner	• Enhance training for employees in respect of culture and technical skills • Improve employees living and working environment • Guarantee employees' rights and benefits, upgrade their welfare level • Health and safety guarantees for employees • Establish a labour union	• Standardise production • Improve return and exchange and quality control system • Conduct regular customer satisfaction surveys • Respond to customer complaints and provide them with feedback in a timely manner • Earnestly protect customer privacy	• Set up an open and transparent bid invitation system • Set up a communication platform for suppliers • Perfect the supplier selection system • Offer equal opportunities to suppliers	• Encourage good deeds • Be passionate about public welfare, and contribute to society • Conduct blood donation and volunteer activities for employees
Key performance indicators	• Affordable housing construction • Number of persons employed	• Stock value, dividend returns • Stock market value	• Employee training • Remuneration and welfare system	• Customer satisfaction • Product pass rate • Customer privacy solutions	• Contract performance rate • Assessment of suppliers	• Examples of good deeds • Investments in social welfare causes • Employee volunteer activities

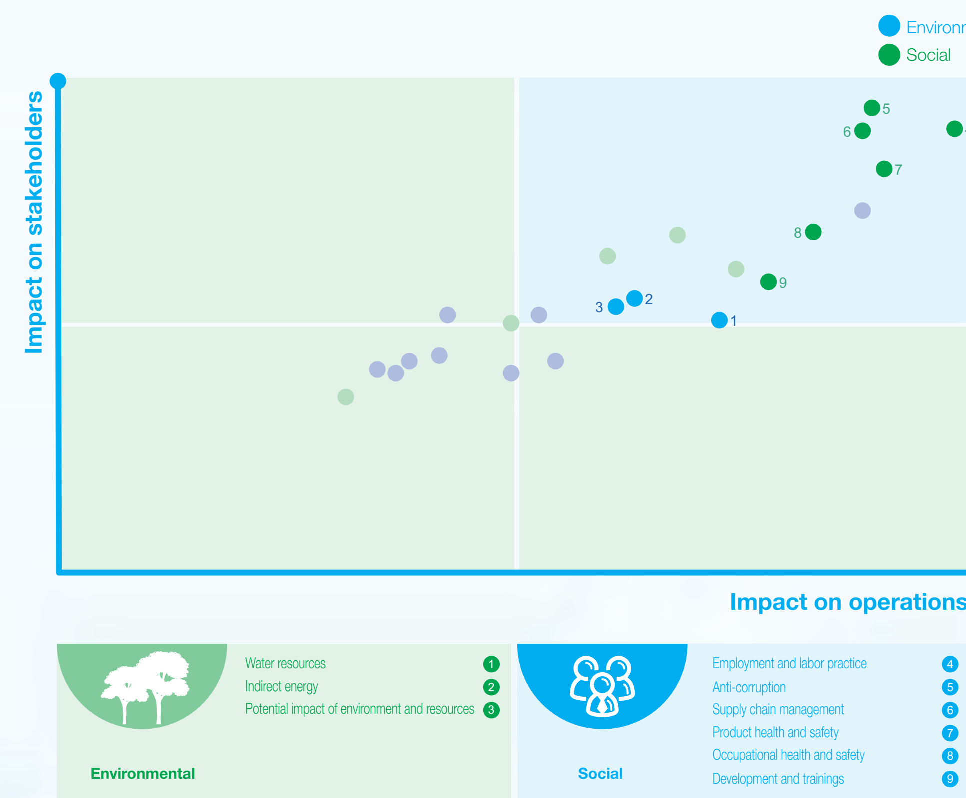
Materiality Assessment

During the reporting year, we obtained the results of the materiality assessment on each aspect of ESG from internal stakeholders, including directors, senior management and middle management through face-to-face interviews and questionnaires. We will also continually pay attention to all stakeholders, constantly review and update the materiality assessment, and include external stakeholders when the conditions are appropriate, so as to achieve a more accurate and thorough understanding of the demands of various parties, and to provide guidance and direction to the enterprise's business operations and controls over environmental and social governance.

Based on the analysis and summary of the results of the materiality assessment from all stakeholders, we have formed the following materiality assessment matrix, which covers business operations, the business environment, society, governance and the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange. The Group puts its focus on social aspects such as employment and labour practices, supply chain management, anti-corruption, and environmental aspects such as water resources and indirect energy.

We have fully considered the importance of each key performance indicator to the operation and the stakeholders. After comprehensive evaluation, we have selected the following indicators as the major influential aspects of the Group's sustainable development. While taking all environmental and social responsibilities into consideration, the Group has paid more attention to the following areas.

Assessment of Materiality to Broad Homes



Environmental, Social and Governance Report

4 ENVIRONMENTAL PROTECTION

Environmental Policy

Since its establishment, environmental protection has been considered as one of the cores of the Group's development strategy. The Group strives to promote the development of industrial buildings. Through the innovation of production methods and construction craft, it realizes a green industrial building system featuring low-energy, low-pollution and low-waste that is different from traditional construction modes. Although it is not a highly polluting industry in which the Group operates and our production craft and process do not involve heavy pollution, we continue to emphasize the importance of environmental protection in our daily operations and development, actively implement the green and low-carbon development strategy, and effectively reduce the negative impact on the environment during production and construction to continuously improve the benefits from environmental protection of the Group.

The Group strictly abides by laws and regulations that have material impacts on the development of the Group, such as the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Environmental Impact Assessment, the Law of the People's Republic of China on Prevention and Control of Water Pollution, the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution, and the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste. With green development as the mission and local companies as the management unit, the general manager of the local company is responsible for organizing, formulating and implementing a number of internal management system on environmental compliance and pollution control, such as the Regulations on Energy Saving and Consumption Reduction, Hazardous Waste Management System, Waste Management Measures and Regulations on Control of Noise, Waste Water and Waste Gas. The detailed rules specify the process of treatment, reuse and discharge of production wastewater, and the responsible person of the local company then reports directly to the Chairman of the Company and the Group to ensure that the goal of 100% up-to-standard discharge of production pollutants and 100% pollution-free disposal of solid waste is achieved. Starting from the details of the use of electrical appliances, water conservation, paperless office and official cars management, we have made specific regulations on daily actions of our employees to effectively reduce the use of water, electricity, paper and gasoline, and reduce energy consumption; and also strengthen the awareness of energy conservation and consumption reduction for all employees, which help to guide all employees to form good habits of conservation and environmental protection, thus laying a solid foundation for the sustainable development of the Company.

At the end of the reporting year, five subsidiaries of the Group have achieved the ISO14001 environmental management system certification, which affirms our daily work and achievements in environmental management, and also represents an incentive to continuously optimize and develop our environmental management system to achieve higher standards and goals.

4.1 Emissions

Reducing wooden formwork and achieving environmental protection

At present, rising temperatures, rising sea levels and increasing frequency in abnormal climatic phenomena are all damaging consequences of increasing greenhouse gas emissions. This topic of common concern to all mankind is also one of the topics that the Group attaches great importance to. The Group emphasizes energy conservation and emission reduction in the production process and starts from its own to reduce greenhouse gas emissions. The carbon emissions within the Group mainly come from the purchased electricity consumed in the production and operation of the plants and automobile fuel, with a total amount of approximately 12,365 tons (2018: approximately 10,166 tons).

During this reporting year, the carbon emissions statistics of the Group are as follows. Among them, indirect carbon dioxide emissions from purchased electricity account for more than 90% of the total carbon dioxide emissions of the Group, which is our focus for reducing the Group's carbon emissions.

Items	Carbon dioxide emissions (tons)	Percentage
Purchased electricity, net	11,488.88	90.22%
Natural gas consumption	256.71	2.02%
Diesel	988.19	7.76%
Total	12,733.78	100.00%

The Group is not responsible for the transportation of the sales process, so the use of petrol all comes from official cars. However, the Group was listed on the Hong Kong Stock Exchange in November 2019. Prior to that, detailed statistics on the usage of vehicle fuel and mileage of business vehicles were not carried out in accordance with the "Guidelines". Considering that retrospective statistics are difficult to combine accurate disclosure with the principle of time efficiency, relevant data have not been disclosed in the reporting year. We have established a collection system of relevant information to facilitate disclosure in future reports. Similarly, during the reporting year, diesel oil consumption came from the Group's production consumption.

Other greenhouse gas emissions	Emissions (kg)
CH^4	9.04
N_2O	2.80

In the construction process, wood, as a traditional sample material, is consumed in a significant amount. The wooden samples are light in weight and convenient to disassemble and install with good construction performance. Its application has played a positive role in improving the quality of building structural engineering. However, in the traditional operation methods, building contractors generally use on-site moulding. The turnover rate of wooden samples is generally low, and the wood consumption is huge. Generally, a set of wood sample can only be reused 3 to 5 times in the construction process. Huge wood consumption puts tremendous pressure on the environment. The Group applies a new construction production method. The completion of the production of precast PC unit in the factory enables the use of samples to be concentrated at the factory stage, which greatly promotes the reuse of wooden samples in loops and lessens wood consumption by 75% as compared to traditional methods, making strong contributions to reducing carbon emissions and the greenhouse effect.

Disposal classifications

The hazardous waste of the Group is mainly discarded diesel barrels, which are recovered by diesel suppliers. Non-hazardous waste mainly includes concrete slag generated from the production of PC units and domestic garbage generated by employees during their daily work. Among them, concrete is one of the largest used raw materials in production. The compliance disposal and discharge of concrete slag is also one of the topics of concern to the Group.

In order to further standardize and comply with the management of waste discharge, we have implemented classified waste management, including hazardous waste, general waste and recyclable waste. Among them, hazardous waste refers to the solid, semi-solid, liquid and gaseous wastes that are identified as to some extent having toxicity, decay, flammability, explosiveness, chemical reactivity or pollution to the environment according to the uniform regulations of the state, such as waste chemical reagent thinner, paints, waste paint buckets, asphalt residues, etc. After collecting, sorting, labeling and registering such waste, local companies will hand over them to professionally qualified agency for treatment. We strictly prohibit the hazardous waste from being mixed into the non-hazardous waste for storage, and have set up the “Emergency Preparedness and Response Control Procedures” to respond to emergencies during the storage of hazardous waste. Since the Group does not contract for construction business in actual construction projects, there did not exist relevant hazardous waste generated during the year. General waste refers to solid, semi-solid (muddy) waste that is not classified as hazardous waste generated in the production process, daily life, business activities and other activities, such as domestic waste, construction waste. For this sort of waste, since there is no possibility to cause pollution and recycle, local companies will request garbage classification according to the requirements of local governments, and the separated domestic garbage will be transported by the cleaning company or the sanitation department to the municipal waste disposal stations for uniform processing. The concrete slag is transported and processed by a professionally qualified cleaning company. The recyclable waste refers to waste with recycling value generated in the production process and life. The recycling of such waste is part of our practice of green development. Each local company clarifies the types of waste that can be recycled in its production and office activities, and guides employees to carry out classified distribution by setting up classification collection boxes and system specifications. The supplier’s recycling and internal waste utilization are considered in turn. The remaining recyclable waste will be recovered by the recycling department in a unified way, so as to maximize the turnover rate and recycling rate of internal materials of the Group.

The Group was listed on the Hong Kong Stock Exchange in November 2019. Prior to that, detailed statistics on the emissions of non-hazardous waste such as waste concrete and domestic waste were not carried out in accordance with the requirements of the Guidelines. Considering that the emissions of non-hazardous waste such as waste concrete and domestic waste generated by the Group are all disposed of by qualified third parties, and domestic waste is transported by the third parties to government designated locations for disposal, and retrospective statistics cannot meet the principles of accurate disclosure and time efficiency, relevant data have not been disclosed in the reporting year and we have established a collection system of relevant information to facilitate disclosure in future reports.

Monitoring wastewater discharge

The Group's wastewater discharge mainly comes from washing ground wastewater, motor vehicle washing wastewater, other production wastewater and domestic sewage. For wastewater discharge, under the guidance of the Group, local companies have formulated strict prevention and monitoring systems based on the premise that production wastewater/domestic sewage is separated from surface runoff, mainly including:

- Production wastewater must be recycled. Fixed triple-deck sedimentation tanks and triple-deck cleaning tanks are set up in the main sewage source area of the PC factory workshop. The sewage from cleaning the equipment is reused as cleaning water after passing through the triple-deck sedimentation to reduce waste water disposal;
- Instead of being poured into sewage pipes or drainage ditches or sedimentation tanks, chemical waste liquids (paints, etc.) and oil during the production process can be collected in containers and temporarily stored in warehouses and shall be processed by the Administration Department after reaching a certain amount;
- Oil and chemicals that have dropped on the ground should be wiped clean with a rag and are forbidden to wash into the sewer with water;
- It is forbidden to pour the residual oil and leftovers from the canteen into sewage pipes and sedimentation tanks; it is forbidden to use phosphorus-containing detergents to wash dishes;
- Oil drains or filters should be set up in the sewage outlet of the canteen and cleaned up in time. The filtered domestic garbage is implemented according to the "Waste Management Procedures";
- The drainage pipes of the canteens, washrooms and shower cubicles should be equipped with a filter screen and connected to the municipal sewage pipelines to ensure smooth drainage;
- The septic tank of the toilet should be conducted anti-permeability treatment;
- Special rainwater pipelines should be set up, and it is forbidden to discharge sewage into rainwater pipelines;
- Production and domestic garbage are not allowed to be stacked in the open air to ensure that rainwater is not polluted.

To ensure that the wastewater control system is fully implemented, the Group also requires local companies to conduct a wastewater monitoring system, including:

- Each local company should set up several wastewater discharge outlets in the Company's office building and workshop and mark them;

- The Manufacturing Department should entrust an environmental monitoring station to monitor the wastewater discharge of the Company once a year in accordance with the Integrated Wastewater Discharge Standard. For those failing to meet the standards, we shall analyze the reasons and take measures to make improvement;

- Wastewater discharge shall comply with the Class II standard of the Integrated Wastewater Discharge Standard and the Wastewater Quality Standards for Discharge to Sewers.

Thanks to the joint efforts of the Group and its subsidiaries, there was no failure to meet the wastewater discharge monitoring standards, and the goal of 100% up-to-standard discharge of production and domestic wastewater was achieved during the reporting year.

4.2 Use of Resources

The Group regards resource conservation as a vital part of its development strategy and operational approach and is committed to constantly monitoring and improving our environmental protection performance. The resources used by the Group mainly include electricity, water, diesel and steel. The emphasis of our effective resource utilization and consumption is on water and steel conservation.

Preserving resources through innovation

The Group is committed to improving resource utilization and reducing resource consumption through technology and process innovation. In terms of water resources and steel consumption, the Group has achieved a certain degree of improvement in resource utilization through craft and product characteristics.

The improvement of water resource use efficiency is mainly attributable to the application of the dry implementation process in the rough surface moulding process of precast units. Currently, there are three main moulding processes for the rough surface of precast units: retarder plus garment wash process, machined pattern and one-off moulding of PE film. Its characteristics and principal effects are as follows:

Name of process	Materials used	Working principle	Environmental effect
Retarder plus garment wash process	Retarder	Apply retarder on freshly poured the concrete surface or the mould surface and then rinse the surface of the unit with water to achieve a rough surface after the concrete is solidified	As the retarder is a chemical agent, the wastewater after flushing can be discharged after special treatment; tremendous waste of water resources is caused during the flushing process
Machined pattern	Sand blasting machine, bush hammer, etc.	Treat the surface of the unit with mechanical equipment, and chip the concrete on the surface of the unit to expose the aggregate to achieve a rough surface	A large amount of dust will be generated, which will pollute the factory environment and affect the health of operators
One-off moulding of PE film	Polyethylene mould	Polyethylene plastic is used to make concave-convex mould, which are fixed on the side wall of precast units mould to achieve a rough surface after demoulding	It will cause no adverse effects on the factory environment and the external environment, and there is possibility to recycle polyethylene mould, which has certain positive environmental benefits

Since 2017, the Group has applied the one-off moulding of PE film manufacturing process in surface roughening for PC units. This has delivered significant benefits in terms of water savings. Take a 3,550*2,800*200mm PC shear wall as an example. This PC unit uses about 2 m^3 of concrete, and needs surface roughening on four sides. The surface area treated is 2.54 m^2, and the amount of water needed for flushing is about 0.5 tons, that is, on average, 0.25 tons of water are needed to flush 1 m^3 of concrete. Based on the rough calculation and take the Tianjin plant, one of Group's local companies, for example. In the second half of 2019, it produced a daily average of about 1,000 m^3 of wall panels, of which about 65% required surface roughening. If the retarder plus water washing method is used, according to the above data, 162.5 tons of water would be required for flushing, which is a great waste of water resources. At the same time, the use of large amounts of retarders will pollute the working environment of the plant and have a great adverse impact on the external ecological environment. During the reporting year, the Group consumed about 370,000 cubic meters of water, with a water consumption density of 0.111 cubic meters per RMB1,000 of operating revenue. The water consumption density decreased compared to 2018, reflecting the significant effect of technological innovation on reducing water consumption. In addition, the Group has also put up signs reminding staff to save water at water sites to deepen their awareness of water conservation.

	2019	2018
Water consumption (m^3)	**370,542.61**	347,742.71
Water consumption density (m^3/RMB1,000 operating revenue)	**0.11**	0.15

In terms of steel consumption, compared with traditional building units, PC units are prefabricated in factory by means of industrial production. Thanks to the first BIM platform-based forward design software PC Maker I in the field of Chinese prefabricated buildings and the intelligent manufacturing management system PC-CPS launched by the Group in 2018, the quality and workmanship of units were significantly and effectively improved. We were able to guarantee structural mechanics more reasonably and precisely, and reduce discreteness, thereby indirectly reducing the use of steel consumables.

Electricity consumption was the main form of resource consumption in the Group's production and office processes. On the one hand, we leverage regulations to drive implementation. For example, in the Regulations on Energy Conservation and Consumption Reduction, we have made specific provisions on the air conditioning temperature in winter and summer and on the lights off when people leave. We explicitly stipulated in the Employee Handbook that anyone who leaves the lights, the fan, the air-conditioner, the computer or any other electrical appliance or equipment on in an empty office or production area when he or she gets off work would be subject to strict inspection and punishment; on the other hand, we used frequency converters to control the motors of main equipment in our production process such as transition carriage, curing kilns, concrete spreader and feeding funnel, so as to reduce energy consumption. Meanwhile, through continuous technological improvements and breakthroughs, we improved production efficiency and resource utilization. In addition, the Group's administrative department regularly organizes training on energy conservation and consumption reduction to continuously strengthen employees' awareness.

During the reporting year, the Group used a total of 13.06 million kWh of electricity (2018: 10.79 million kWh), with a power consumption density of 3.88 kWh per RMB1,000 of operating revenue (2018: 4.76 kWh per RMB1,000 of operating revenue).The power consumption density decreased compared with last year, and environmental efficiency steadily improved.

	2019	2018
Power consumption (kWh)	**13,078,097.88**	10,791,822.62
Power consumption density (kWh/RMB1000 of operating revenue)	**3.88**	4.76

As there is no outer packaging used in the Group's PC units and other finished products, the Group does not use or consume packaging materials during business process.

4.3 Environment and natural resources

The field of housing industrialization in which the Group operates is a recognized green field in the construction industry. By replacing traditional cast-in-place concrete that needs to be cast, poured and cured at the site with PC units, we significantly reduce the workload at the construction site and greatly reduce the dust and noise pollution caused by construction at traditional construction sites. Nevertheless, the Group still regards the further reduction of noise and dust pollution as an important part of its work.

Dust and noise reduction

For the Group, noise comes mainly from the operation of production equipment, equipment maintenance and motor vehicles. In order to reduce the impact of local plants on the lives of people in adjacent communities and residential areas, the Group strictly keeps the noise levels at the boundaries of production sites below 60 decibels during the day and below 50 decibels at night. Meanwhile, we have formulated the following provisions for noise control and prevention:

- The requirements of the Standards for Noise at the Boundaries of Industrial Enterprises shall be complied with in respect of noise at the boundaries of production sites; the requirements of the Limits of Noise Emitted By Stationary Road Vehicles and the Allowable Noise Limits for Motor Vehicles shall be complied with in respect of the noise of motor vehicles;

- For the noise pollution prevention and control facilities of construction projects, the "three simultaneities" system for environmental protection must be adhered to;

- When a new project is built or new equipment is introduced, the equipment department shall make an environmental impact assessment in time, and select equipment with high efficiency and low noise pollution as far as possible, so as to reduce environmental noise;

- Where construction noise is emitted to the surrounding living environment within the city limits, the standards for emission of environmental noise from production sites as stipulated by the State shall be complied with;

- Where machinery and equipment which may produce significant environmental noise pollution are used in the production process within the city limits, the production unit must file a report on the project name for the product, the production site and duration, the value of the environmental noise that may be produced, and measures taken to prevent and control environmental noise pollution with the competent administrative department for environmental protection of the people's government at or above the county level in the place where the product is produced 15 days in advance;

- In urban areas where noise-sensitive buildings are concentrated, it is forbidden to conduct production operations at night that cause environmental noise pollution. If it is really necessary to conduct production at night in excess of noise standards due to production process requirements or other special needs, an application shall be submitted to the relevant departments before production, and nighttime production can only be conducted after approval;

- Where a production site that emits strong noise is located close to a residential area, it must be enclosed with a fence not less than 1.8m in height;

- Equipment that emits strong noise on the production site should be located on the side far away from the residential area, and measures should be taken to reduce noise;

- Production machinery which is likely to produce noise and vibration shall be operated in strict accordance with the equipment operating procedures. In order to reduce noise, it is strictly prohibited to operate against rules.

We entrust environmental monitoring stations in places where our subsidiaries are located to carry out noise monitoring on our subsidiaries' production sites near residential areas and fill in the Noise Pollution Monitoring Record. Where the requirements of the standards are not met, the causes will be analyzed and measures will be taken for improvement.

For the Group, dust pollution comes mainly from concrete batching plants during the production of PC units in local plants. Due to the extensive impact of industrial dust on the environment, employee health and plant equipment, the Group has made the following requirements for the batching plant facilities of local plants:

First, during the procurement process for batching plant facilities, we must ensure that equipment provided by suppliers meet the national environmental standards, and explicitly prohibit the procurement of substandard products; second, we require the provision of pulse jet bag filters in the silos and main structure of the batching plant to remove dust; third, the batching plant must be in a closed indoor environment to prevent dust from being blown around by the wind.

Other than the above, we are not involved in any business activity that consumes large amounts of natural resources or has a significant impact on the environment. We are well aware of the possible impact of daily business operations on the environment, and will continue to strengthen our own system building under the guidance of environmental management system standards, ensure that all applicable environmental related laws and regulations are complied with, and contribute to the common environmental cause of mankind.

5. SOCIAL RESPONSIBILITY

5.1 Employment

We have developed a standardized recruitment process to give employees reasonable compensation, a non-discriminatory working atmosphere and fair and just promotion opportunities. Meanwhile, we offer a wide range of training programs to different employees to meet their diversified development needs, and lay a solid talent foundation for the future development of the enterprise while helping employees grow.

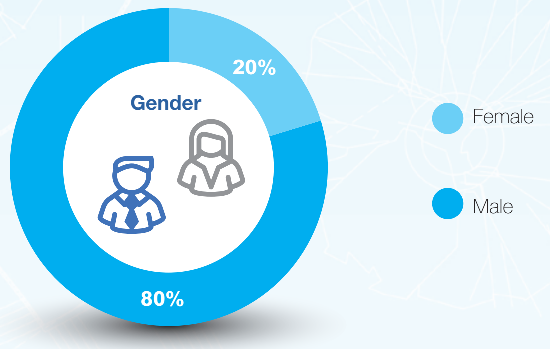
Laws and protection of staff's rights and interests

The Group and its subsidiaries protect the legitimate rights and interests of employees in strict accordance with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China and other relevant national laws and regulations, and pay employee compensation and contributions to social security and housing provident funds on time and in full. As at the end of the reporting period, all employees of the Group except employees re-employed after retirement were covered by "five social insurances and one housing fund".

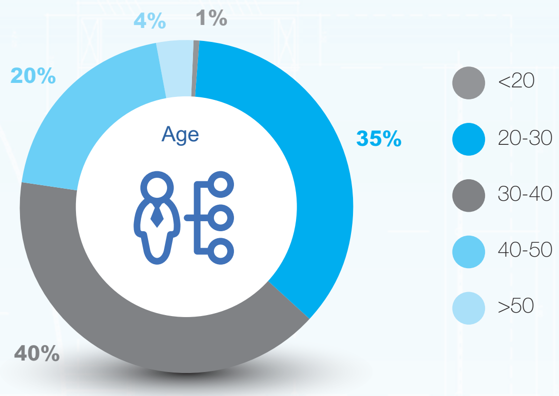
Fair and impartial recruitment

Employees are one of the most important sources of the enterprise's core competitiveness. The Group adheres to the principles of "fair competition, openness and transparency", and search far and wide for talents through online recruitment, internal recommendation, We Media recruitment, campus job fairs, and labor market job fairs. Meanwhile, the Group actively carries out joint school-running activities, cooperates with colleges, universities and technical schools, and runs the "Broad Homes Class" to cultivate talents who better conform to the Group's technical standards and value orientation.

The principle of equality runs through the whole process of the Group's human resources management. With the deepening and continuous development of the Group's two-wheel drive consisting of wholly-owned factories and Joint Factories, the Group's demand for labor is increasing day by day. While providing a large number of jobs and opportunities for society, we always select and employ applicants on the principle of equality. In terms of promotion, training, compensation and benefits, employees will not be discriminated against on the basis of age, gender, physical or mental health, marital status, family status, race, color, national origin, religion, political affiliation and sexual orientation. As at the end of the reporting period, the Group and its subsidiaries employed a total of 3,411 full-time employees (employees who enter into labor contracts with the Company), of whom male employees account for a much higher proportion (80%) of all employees than female employees, which is mainly due to the fact that the Group operates in the traditional industry and does not deviate from the Group's principle of equal employment.



Gender
20%
80%
Female
Male



Age
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<20
20-30
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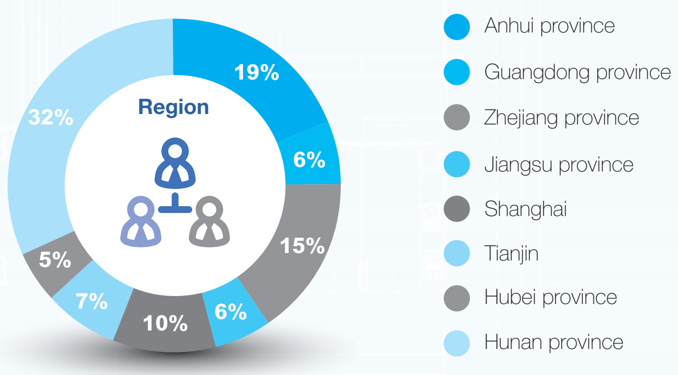

Region
19%
6%
15%
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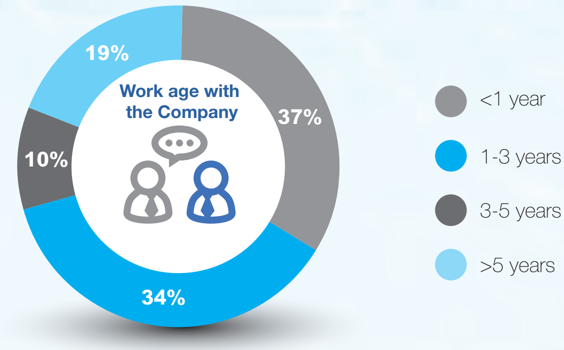
Anhui province
Guangdong province
Zhejiang province
Jiangsu province
Shanghai
Tianjin
Hubei province
Hunan province



In terms of employee turnover, the Group recorded a turnover rate of 69% during the current reporting year. In view of the fact that the Group's workforce has an average employee tenure of more than two years, and high turnover rates have always been an inherent problem in the construction industry, the Group's turnover rate in the reporting year was more attributable to the high turnover rate of local plants. The Group provides employees with competitive salaries and various employee benefits in daily work, including meal allowances, communication allowances and holiday benefits, so as to effectively improve the sense of belonging of employees, make employees feel the care and warmth of the enterprise, and reduce employee turnover in the construction industry under the circumstance.

5.2 Employee Health and Safety

We regard occupational health and safety as one of our important social responsibilities. Broad Homes' business operations involve machining, power use, welding, lifting, loading and transportation processes. For this reason, our employees may be exposed to a variety of work-related injuries and accidents. We attach great importance to safety controls to minimize accidents that may cause casualties in the manufacturing process. We have put in place a safety management system and set up a production safety management committee which advises on and reviews workplace safety procedures. We abide by the relevant laws and regulations such as the Production Safety Law of the People's Republic of China, the Basic Norms for Work Safety Standardization of Enterprises, the Labor Law of the People's Republic of China, and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, and strive to provide a safe, healthy and comfortable working environment for employees.

Occupational safety and system guarantee

The Group adheres to the basic policy of "safety first, prevention first and comprehensive management" for its production process management, and strives to reduce the risk of accidents in production and operation with stricter standards and a more rigorous attitude.

Through the Common Hazards in Plants and Preventive Measures, the Group clarifies the main risks that plant employees may face during production and operation, classifies hazards into being injured by machinery or equipment, being struck by or against objects, electric shocks, falling from high places or into foundation pits, and pressure vessel explosions, and puts forward specific prevention requirements for different risks, so as to inform and warn plant employees about risks and nip accidents in the bud.

The operation of machinery and equipment is one of the main tasks for employees at the Group's plants in their daily work. We have put forward more detailed specifications for equipment safety management, including:

- Pre-job training for operators: meet the requirements of "four understand's" and "three can's". Four understand's: understand the principle of equipment, understand the structure of equipment, understand the performance of equipment, and understand the use of equipment; Three can's: can operate, can maintain, and can troubleshoot;

- Formulate safety operating procedures: meet the requirement of "three tightened's" before entering the production area and the requirement of "five not allowed's" during operation. Three tightened's: the neckline shall be tightened, the cuffs shall be tightened, and the hem shall be tightened; five not allowed's: operators are not allowed to operate without wearing a safety helmet, not allowed to engage in horseplay at work or leave their posts without permission, not allowed to suddenly accelerate in excess of permitted load and perform rapid impact operations, not allowed to operate in spite of a fault and perform maintenance and repair during operation, and not allowed to disassemble machinery at will;

- Develop a maintenance system: equipment maintenance shall meet the requirements of "three musts" and "four nos". Three musts are: responsible persons are a must for equipment maintenance, plans are a must for equipment maintenance and execution, and records are a must for equipment maintenance plan execution. Four nos are "no spill-over" of equipment, "no dust running" of equipment, "no dripping" of equipment" and "no leaking" of equipment;

- Install safety protection devices: the factory must meet the requirements of "three addition" safety protection devices for relevant equipment. Three addition: protective devices shall be added to the transmission, rotation and pressure parts of the mechanical equipment 2 meters or less; protective devices shall be added to the rotating shafts of transmission belts, bright gears, grinding wheels, electric saws close to the ground, flywheel, etc.; protective devices shall be added to the parts that may be contacted by the personnel of motor and power transmission device;

- Perform routine inspection before use: do "three checks" before operating equipment. Three checks: first, check whether equipment is in a normal state; second, check whether the effect of equipment maintenance is OK; third, check whether safety devices for equipment are effective.

In order to give employees in different positions and with different responsibilities clues about operating procedures and safety risks for specific machinery, the Group has published more targeted safety operating procedures and relevant operating instructions for 13 kinds of equipment that may be involved in the production process, which give detailed and rigorous explanations in terms of prevention, operation, troubleshooting and maintenance, etc., and provide more professional guidance and a stronger guarantee for employees regarding operating procedures and occupational safety.

Safety training for all employees

On the basis of system guarantee, the Group implements safety practices, conducts regular safety inspection and evaluation on all local plants under the Group, and requires local plants to carry out safety training and disaster drills, so as to effectively improve the safety awareness and safety protection level of employees through a combination of learning and practice. According to statistics, during the reporting year, the Group and its subsidiaries conducted a total of 655 safety education-related training sessions and drills, with 8,342 person participating, including 453 safety training sessions for new employees. All new employees are required to undergo training with a coverage ratio of 100%.

The Group has achieved initial results in building its occupational health and safety management system, which has been certified to ISO45001: 2018. During the reporting year, a total of 27 employees of the Group were injured at work due to accidents, 448 working days were lost due to work-related injuries, and no serious injuries or deaths occurred to the full-time employees (employees who enter into labor contracts with the Group) of the Group.


认 证 证 书

证书号：USA19S23397R0M

兹证明

长沙远大住宅工业集团股份有限公司

统一社会信用代码：9143010078801 8504U

注册地址：长沙高新开发区麓松路与东方红路交汇处

生产/办公地址：湖南省长沙市岳麓区岳麓大道与东庆路交汇处西南角

职业健康安全管理体系符合标准

ISO 45001:2018

职业健康安全管理体系适用范围

预制混凝土构件的设计开发和生产（有许可要求除外）

及其所涉及场所的相关职业健康安全管理活动

北京东方纵横认证中心有限公司

Picture 1: The Group has achieved ISO45001:2018 certification for its occupational health and safety management system

5.3 Development and Training

We always believe that our employees are one of our most valuable assets. They have contributed greatly to our success. We provide internal and external training for employees to improve their understanding of our corporate culture, strategy, management system and IT skills, and provide training for individual employees according to their respective job types. Meanwhile, we have set up Broad Homes Training Center, which provides systematic training on prefabricated buildings for our employees and managers and technical workers at Joint Factories, so as to cultivate talents for the prefabricated construction industry.

Varied training with different emphases

The Group arranges and manages the training business of the Group and its subsidiaries as a whole through the Training Management System. In terms of arrangements for training, the Group makes a point of tailoring teaching to fit individuals and combining theory and practice. For employees in different positions and with different needs, the Group tailors training to their career planning and the grades of their jobs, so as to help employees better adapt to new positions and improve skills through training. The Group encourages local plants to provide training that is more diverse in form and richer in content, including but not limited to new employee orientation, professional competence training for office positions, workers' skills training, workshops, management seminars, and live courses. Meanwhile, we also provide online training in line with the trend of the times, and encourage active participation by employees to help employees learn and grow. In 2019, the Group held a total of 299 training sessions, with 30,487 participants per session. The training covered all employees, and the average number of training hours per employee was 378.1 hours/year.

Training type	Number of participants	Total training time (hours)
New employee orientation	2,639.00	19,323.40
Quality and safety training	8,515.00	71,640.23
Job skills training	17,375.00	1,227,589.60
Others	1,958.00	17,892.00
Total	30,487.00	1,336,445.23

Training methods	Number of participants	Total training time (hours)
Online training	8,509.00	10,588.00
Offline training	17,848.00	96,704.23
Combination of online and offline training	4,130.00	1,229,153.00
Total	30,487.00	1,336,445.23

Picture 2: In December 2019, the Group's Liu'an plant held a technical symposium on promoting research through competition

Partnering to cultivate industry talent

We appreciate the importance of talent cultivation and knowledge sharing. In May 2016, we set up Broad Homes Training Center, the first in China to provide systematic training on prefabricated buildings, providing training courses for employees while cultivating talents for the prefabricated construction industry. Broad Homes Training Center provides comprehensive training courses, namely the B-Learning Course, for our employees and employees at Joint Factories. The B-learning Course was specially developed by us to provide the practical skills training required for different operational and managerial positions through PC-CPS. The B-learning Course consists of a two-month course at Broad Homes Training Center and a two-month internship at a PC plant. Through the B-Learning Course, employees will acquire basic knowledge of PC unit manufacturing and PC-CPS, and have the opportunity to practice at a plant. Only after completing the course and practice can the relevant employees perform their duties in specific positions. After completing the B-Learning Course and passing the examination, students will receive a course certificate from Broad Homes Training Center. As of the end of the reporting year, we had provided systematic training to thousands of managers and skilled workers in 53 companies. We believe that a high-quality talent team will support our continuous technological innovation in the future and strengthen our leading position in the market.

In addition, we are working with leading academic institutions, real estate developers and leading companies in China to explore the functional performance of PC units and study the structure of building materials. As of the end of the reporting year, we had signed cooperation agreements with well-known architectural design firms, well-known enterprises, and colleges and universities, including scientific research institutes, such as China Academy of Building Research, Tongji University, and Hunan University to continuously improve our professionalism through cooperative R&D and technical exchanges. This is also conducive to boosting the commercialization of scientific and research findings by colleges and universities and promoting the common prosperity and progress of the industry.

5.4 Labor Rights and Interests

Freedom of choice in employment and prohibition of child labor

The Group and its subsidiaries, in accordance with national laws and regulations such as the Law on the Protection of Minors and the Provisions on the Prohibition of Using Child Labor, explicitly prohibit the employment of persons under the age of 18, and conduct rigorous scrutiny during the recruitment process to avoid the misuse of child labor. Adolescents and children are the hope for the future of the country. Their healthy growth requires protection by people from all walks of life. Therefore, we are strongly opposed to and determined to prevent the use of child labor.

We fully respect the employees' freedom of choice of employment. During employees' employment periods, we will not keep their valid documents, collect deposits from them, force them to work or withhold their pay. We have set up an internal supervision mechanism and disclosed the email address, address and telephone number for complaints and reports, so as to ensure that no violations occur. There were no cases of child labor or forced labor in the Group during the reporting period.

5.5 Supply Chain Management

The supply chain runs through the starting point, process and ending point of an enterprise's production and operation, and steady and continuous supply is of significant economic and social value for an enterprise. We strictly control the selection of suppliers for material procurement and service outsourcing, lay down explicit provisions on the selection of suppliers, the procurement process, material management and quality inspection through a detailed procurement system and supply chain process management system, continuously consolidate and expand our partnership with suppliers through good communication, and leverage our economies of scale to reduce procurement costs and ensure stable supply.

Fair and transparent trading

The Group's procurement process follows the principle of "be open, fair and impartial, and eliminate corruption through transparent trading". We manage supply and procurement mainly through the PC-CPS supply chain module. The main focus of the headquarters' procurement work is to set procurement prices and manage the procurement module through the supply chain module, so as to ensure the implementation of relevant policies and supervise procurement activities. Local plants conduct specific procurement work independently through the supply chain module, including bidding procedures, the signing and filing of procurement contracts, and payment settlement.

Our suppliers (and potential suppliers) can register accounts on the supplier side of the PC-CPS supply chain module. After we conduct preliminary screening according to the built-in standards of the system, qualified suppliers will become our candidate suppliers. Candidate suppliers can obtain information on our procurement needs through the supply chain module, and can also submit their bids through the supply chain module. After receiving bids submitted by suppliers, local plants will select suppliers according to the procurement policy. As prices vary from place to place, the procurement department at the headquarters provides different benchmark prices for raw materials based on local prices. Once the cost reported or determined by the system exceeds the benchmark price, the procurement department at the headquarters will step in to determine whether the increase is reasonable. The headquarters and local plants interact with each other to ensure that suppliers are selected in a fair and impartial manner.

Responsible and high-quality procurement

When it comes to comprehensive consideration of procurement, we always puts quality first. As far as PC unit manufacturing is concerned, our raw materials mainly include cement, steel, sand and gravel. As far as cement and rebars are concerned, we mainly purchase products with a good brand reputation from local traders near PC plants, for we believe that well-known brands generally represent good product quality. As far as sand and gravel are concerned, we mainly purchase cost-effective products that meet our quality requirements from local suppliers near PC plants. As for transportation cost, we never compromise in selecting raw materials because of distance and we generally purchase from suppliers with long-term cooperative relationships with us in China, for we believe that suppliers with long-term cooperative relationships with us can provide reliable and cost-effective products. As for PC equipment manufacturing business, we purchase equipment from different OEM service providers according to the technological complexity of equipment. As for technologically sophisticated equipment that requires high precision production technology, we purchase from well-known equipment suppliers in China. As for technologically unsophisticated equipment, we purchase cost-effective products that meet our quality requirements in China. As for construction contracting business, we engage third-party subcontractors to provide construction services for the projects that we undertake as the general contractor. We closely monitor the quality of the subcontractor's works during the construction process, are responsible to the project owner for the performance of the subcontractor, and ensure that the quality of the works meets the standards.

We also implement the quality responsibility system of "whoever purchases will be responsible" to emphasize the importance of the quality of purchased materials. If there are quality problems in purchased materials, units and personnel who are responsible for design and type selection, supplier selection and procurement implementation will be held accountable according to the principle that powers and responsibilities are matched.

Based on strict quality requirements, we do not often change suppliers, but maintain long-term relationships with major suppliers with excellent supply quality, so as to leverage our economies of scale and ensure stable and efficient supply. As of the end of the reporting period, 31 raw material suppliers and 11 OEM equipment suppliers had cooperated with us for more than three years.

5.6 Product responsibility

Quality assurance

We regard product quality as the source of vitality of the enterprise, and strictly abide by relevant laws and regulations such as the Product Quality Law of the People's Republic of China and the Advertising Law of the People's Republic of China. Under the leadership of Chairman Mr. Zhang Jian and the management, we have formed a "non-speculative, professional, and dedicated" philosophy and a quality-focused corporate culture. We are committed to making higher-quality products and providing more professional services for customers in the spirit of craftsmanship. We implement strict quality control measures throughout the production process, adopt a full-process quality management system to monitor the quality of products at all stages such as the delivery of design, raw material inspection, production and product delivery, and set a target pass rate at each stage, including a 99.5% pass rate for raw materials (the ratio of the quantity of conforming raw materials to the total quantity of raw materials received) and a 99.9% pass rate for finished products (the ratio of the number of conforming PC units produced to the total number of PC units produced).


认证证书

证书号：USA19Q43395R0M

兹证明

长沙远大住宅工业集团股份有限公司

统一社会信用代码：91430100788018504U

注册地址：长沙高新开发区麓松路与东方红路交汇处

生产/办公地址：湖南省长沙市岳麓区岳麓大道与东庆路交汇处西南角

质量管理体系符合标准

ISO 9001:2015

质量管理体系适用范围

预制混凝土构件的设计开发和生产（有许可要求除外）

签发：

北京东方纵横认证中心有限公司

Picture 3: The Group has achieved ISO9001:2015 certification for its quality management system

In order to ensure the quality of our raw materials and products, we have put in place a quality-oriented procurement and accountability-oriented procurement system in the aforementioned procurement management, and set up a standard laboratory for precast concrete in each plant to test the quality and function of raw materials and products. We have also set up a quality management department to ensure the overall control and management of product quality and constantly improve our quality management system. As of the end of the reporting period, we had achieved ISO9001: 2015 certification for our quality management system.

Pursuing innovation and leading the industry

We are the pioneer and leader for construction industrialization in China. As early as 1996, our founders and management team entered the field of construction industrialization. For more than 30 years, our founders and management team have accumulated experience, focused on technology research and development, and driven our development forward. Relying on our first-class manufacturing capabilities for PC units, as well as advanced software and systems such as PC Maker and PC-CPS, we have opened up every link of the industry chain, including design, manufacturing, construction, operation and maintenance, and formed our unique advantage in technological innovation. As at the end of the reporting period, the Group and its 12 subsidiaries were all national high-tech enterprises. As at the end of the reporting period, we possessed 696 patents and had 539 patents pending in China. We possess several world-class core technologies, including, complete PC equipment research and development and manufacturing technology, fully prefabricated residential construction technology and integral utility tunnel composite prefabrication technology. We are committed to improving the quality of our products and services through these technologies.

Broad Homes was the first to conduct the seismic test on fully prefabricated building in 2015. The results of the test have shown that the seismic level of our fully prefabricated residential buildings is in accordance with the national standards in China. In 2016, we built the first prefabricated underground utility tunnel in China with our latest integral utility tunnel composite prefabrication technology, through which a construction progress of 45-meter main test section was completed in as few as five days, setting a new record of construction speed in China.

Broad Homes has participated in the development of a number of national and provincial standards. As of the end of the reporting period, we had compiled and participated in compiling three current national and industry standards. In 2014, we participated in the compilation of the Technical Regulations on Prefabricated Concrete Structures, being the first systematic national industrial standards for prefabricated construction currently in use. As of the end of the reporting period, we and Joint Factories had participated in the formulation of 35 local standards in 12 provinces and cities including Hunan, Anhui, Zhejiang and Jiangsu, and also participated in the formulation of eight industrial group and association standards. Active participation in the development of industry standards will open up more possibilities for us to promote our technology system and maintain our leading position in the industry.

In January 2019, Broad Homes appeared in a video released by the State Council Information Office as one of Changsha's "name cards" to the world. Behind this name card is the Group's years of experience in the prefabricated construction industry. As the only prefabricated construction enterprise selected by the Ministry of Industry and Information Technology for the 2018 Intelligent Manufacturing Pilot Demonstration Project, we have received many honors, but we only regard honors and awards as a spur to keep going, and have never stopped the pace of innovation and exploration.

Overview of our awards obtained in recent years:

Awards received	Awarding units
2019 Elite Award, Digital Innovation Pioneer Enterprise Award (2019年精瑞人居獎、數字創新先鋒企業獎)	Ministry of Science and Technology, National Office for Science &Technology Awards
No. 1 of the Top 10 Strategic Supplier of Integrity in China's Real Estate Industry Chain – Prefabricated Building Structure (PC) in 2019 (2019年中國房地產產業鏈戰略誠信供應商裝配式建築結構類(PC)TOP10之第一位)	China Real Estate Chamber of Commer
Enterprises with Outstanding Environmental Contribution in 2019 (2019年度環境突出貢獻企業)	China Environment News
2019 China's Special Contributing Enterprise to Better Life (2019中國美好生活特別貢獻企業)	Leju Finance
2019 Leading Brand Among China's Prefabricated Construction Enterprises (2019年中國裝配式建築企業領先品牌)	China Real Estate News, China Real Estate Think Tank
2019 Hunan Province Construction Industry Science and Technology Innovation Excellent Enterprise (2019年湖南省建設行業科技創新優秀企業)	Construction Technology and Building Energy Conservation Association of Hunan Province, Housing Industrialization Promotion Association of Hunan Province
No. 1 Among the "First-choice Brands" in Prefabricated Construction of China's Top 500 Real Estate Developers in 2018 (2018年中國房地產開發企業500強「首選品牌」中的裝配式施工類排名第一)	China Real Estate Association, China Real Estate Appraisal Center
Prize of Temple of Heaven for China Prefabricated Construction 2018 (2018中國裝配式建築天壇獎)	China Real Estate News, China Thinktank and China Real Estate Business Academy
2017 Subcategory of International Carbon-Value Award – Ecological Practice Award (2017年國際碳金分項獎—生態實踐獎)	World Economic and Environmental Conference
2013 Elite Science and Technology Award (2013年精瑞科學技術獎)	Ministry of Science and Technology of the PRC and the National Office for Science & Technology Awards

Protecting privacy and serving in good faith

We believe that the good maintenance and management of customer privacy is the key to building long-term trust and friendly cooperation between the two sides. We strictly abide by the relevant laws and regulations on personal data and privacy protection, and have prepared the Information Security and Confidentiality Manual, which requires employees to improve their professional sensitivity, faithfully perform their duty of confidentiality, and seek approval from their superiors for access to customers' confidential information, so as to ensure that customer information is effectively protected.

In addition, during the reporting year, we communicated with directly-operated companies, asking their senior management personnel to make return visits. Vice presidents of sales, factory directors and other senior management personnel communicated directly with customers at project sites to hear customers' comments and suggestions regarding the timeliness of supply, product quality and after-sales service of the Group, and solved problems for customers in time in an effort to improve customer satisfaction and promote long-term stable cooperation.

5.7 Combat against corruption

Promoting integrity and continually raising the alarm

Improper acts in commercial activities, such as embezzlement, bribery, sacrificing the interests of the enterprise, violating the principle of fair trade, and damaging the reputation of the enterprise, will seriously disrupt the normal management order of the enterprise and hinder the sustainable and healthy development of the Group. Therefore, the Group firmly opposes and expressly prohibits these improper acts.

On the basis of the Anti-Unfair Competition Law, we have formulated the Group Risk Management System, the Group Compliance Supervision System and the Group Internal Audit System, which are implemented with no place out of bounds, no ground left unturned, and no tolerance shown. We insist on the combination of macro planning and the actual situation of the enterprise, the combination of addressing the symptoms and the root cause, the combination of near-term goals and long-term goals, and the combination of inheritance and innovation. We will strengthen the Group's internal integrity and democratic supervision mechanism.

Taking multiple measures and putting prevention first

In order to raise the anti-corruption awareness of the Group's employees, the Group expressly stipulates in the Code of Conduct section of the Employee Handbook that "abuse of the Company's resources for personal gains, embezzlement and corruption" are bad acts that the Group has zero tolerance for, and employees who commit such acts will have their labor contracts directly terminated. We regularly educate employees about professional ethics to warn them against corruption, so as to nib improper acts in the bud.

Meanwhile, we have put in place a complaint and whistle-blowing system and implementation measures, set up a department for handling complaints and reports, and disclosed the email account, address and telephone number for complaints and whistle-blowing. We handle complaints and whistle-blowing in accordance with the "acceptance, preliminary investigation, filing, investigation, processing, and objection" procedure to ensure that all acts of injustice and violations of rules and disciplines can be effectively reported and efficiently processed. During the reporting period, we didn't find any improper business practices such as corruption, bribery, extortion, fraud, and money laundering.

5.8 Community Investment

We actively participate in activities for the public good and encourage employees to participate to make positive contributions to community building. We pursue the realization of the Group's social benefits at a higher level, and endeavor to create a heartwarming and responsible Broad Homes.

Devoting ourselves to the public good and giving back to society

In November 2016, we officially joined the Society of Entrepreneurs and Ecology (SEE) to lend our strong support to SEE's activities for the public good. A group of volunteers composed of our employees came to SEE. Through experiential activities for the public good, we called on more employees and more "Broad Homes" associates to pay attention to environmental activities for the public good.

We performed meritorious acts for the public good by fully supporting the endogenous development of desert areas, committing ourselves to growing "Ren millet" and purchasing water-saving millet. 93.15% of Alxa's land area has become desert. Compared with water-intensive crops grown by locals such as corn which require extensive irrigation, desert millet watered by drip irrigation can save one ton of oasis groundwater per jin (=1/2 kilogram), increase farmers' income by RMB1 and raise the yield per mu (=0.0667 hectares) by 1/3. Broad Homes committed itself to growing 20 mus of millet, which could save more than 9,350 tons of water. In the Group's Discovery Hall, we set up a section dedicated to SEE environmental activities for the public good, where we distributed cartoon books about environmental activities for the public good to employees free of charge, so as to vigorously promote the concept of environmental protection and carry forward public spirit.

In September 2019, we joined hands with SEE Foundation and Tencent Charity to support the "Jingcao Tongxing" project in Hunan by assisting people who fought in the front line for environmental protection in Hunan, and contributing to the protection of biodiversity in Hunan. In three days, we gathered 1,889 person-times of love and strength, and raised RMB152,649.99, outperforming other enterprises in Hunan Province. We donated RMB100,000 to SEE Conversation (阿拉善SEE生態協會) to support the protection of ecological environment as well. In the meanwhile, we concern about education and donated RMB150,000 to colleges during the reporting year.

Picture 4: The Group's employees participate in the "Jingcao Tongxing" project, donate money and spread love

We regularly organize employees to participate in voluntary blood donation events to reach out to more patients in need of help, and convey love and warmth with blood. During the reporting year, a total of 30 of our employees donated 6,000 ml of blood.


REFERENCE TABLE FOR ESG GENERAL DISCLOSURES

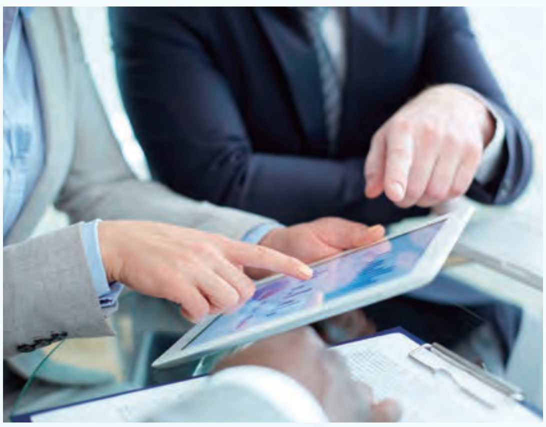
Major scope, aspect, general disclosures and key performance indicators			Index	
Aspect	**Descriptions**		**Chapter**	**Page**
A. Environmental	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.		4.1	88-92
	KPI A1.1	The types of emissions and respective emissions data.		89-91
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		89
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		Note 1
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		Note 2
	KPI A1.5	Description of measures to mitigate emissions and results achieved.		88-92
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.		90-91

Major scope, aspect, general disclosures and key performance indicators			Index	
Aspect	**Descriptions**		**Chapter**	**Page**
A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		4.2	92-94
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).		94
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).		94
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.		92-94
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.		92-94
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.		Note 1
A3: Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		4.3	95-96
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		95-96

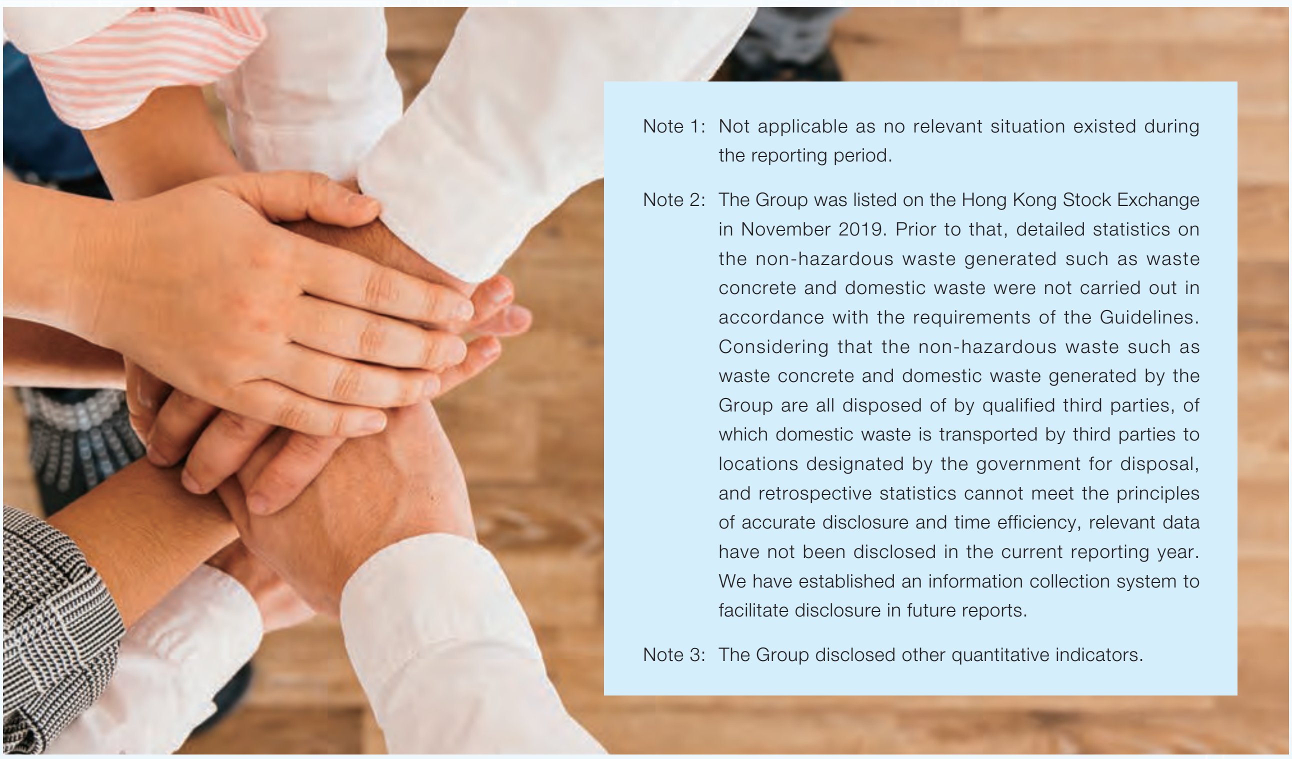
Major scope, aspect, general disclosures and key performance indicators			Index	
Aspect	**Descriptions**		**Chapter**	**Page**
B. Society				
B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		5.1	97-99
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.		97-99
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.		99
B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		5.2	99-101
	KPI B2.1	Number and rate of work-related fatalities.		101
	KPI B2.2	Lost days due to work injury.		101
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.		99-101

Major scope, aspect, general disclosures and key performance indicators			Index	
Aspect	**Descriptions**		**Chapter**	**Page**
B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.		5.3	102-103
	KPI B3.1	The percentage of employees trained by gender and employee category (such as senior management and middle-level management).		102-103
	KPI B3.2	The average training hours completed per employee by gender and employee category.		102
B4: Labor Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.		5.4	104
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.		104
	KPI B4.2	Description of steps taken to eliminate child and forced labour practices when discovered.		Note 1
B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.		5.5	105-106
	KPI B5.1	Number of suppliers by geographical region.		Note 3
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.		105

Major scope, aspect, general disclosures and key performance indicators			Index	
Aspect	**Descriptions**		**Chapter**	**Page**
B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.			106-109
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.		Note 1
	KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	5.6	Note 3
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.		106-107
	KPI B6.4	Description of quality assurance process and recall procedures.		106
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.		108-109
B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.			109
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	5.7	Note 1
	KPI B7.2	Description of preventive measures and whistle– blowing procedures, how they are implemented and monitored.		109



Major scope, aspect, general disclosures and key performance indicators			Index	
Aspect	**Descriptions**		**Chapter**	**Page**
B8: Community	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		5.8	110
	KPI B8.1	Focus areas of contribution (such as education, environmental matters, labor requirements, health, culture and sports).		110
	KPI B8.2	Resources contributed to the focus areas (such as money or time).		110



Note 1: Not applicable as no relevant situation existed during the reporting period.

Note 2: The Group was listed on the Hong Kong Stock Exchange in November 2019. Prior to that, detailed statistics on the non-hazardous waste generated such as waste concrete and domestic waste were not carried out in accordance with the requirements of the Guidelines. Considering that the non-hazardous waste such as waste concrete and domestic waste generated by the Group are all disposed of by qualified third parties, of which domestic waste is transported by third parties to locations designated by the government for disposal, and retrospective statistics cannot meet the principles of accurate disclosure and time efficiency, relevant data have not been disclosed in the current reporting year. We have established an information collection system to facilitate disclosure in future reports.

Note 3: The Group disclosed other quantitative indicators.

To the shareholders of Changsha Broad Homes Industrial Group Co., Ltd.
(Incorporated in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Changsha Broad Homes Industrial Group Co., Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 125 to 221, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2019 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 ("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 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, 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.

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition	
Refer to note 4 to the consolidated financial statements and the accounting policies on pages 160 to 162.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's revenue is principally derived from the sales of prefabricated concrete unit ("PC Unit") and prefabricated concrete equipment ("PC Equipment"), which contributed more than 90% of the Group's revenue for the year ended 31 December 2019. Revenue is recognised when: (1) for PC Unit, the Group satisfies the performance obligation by transferring the control over PC Unit products to the customer, which is the point of time when the Group delivers the products to the designated place and the customer accepts the products and signs on the goods delivery note in accordance with terms and conditions as set out in the contract with the customer;	Our audit procedures to assess the revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition of PC Unit and PC Equipment; • inspecting key customer contracts, on a sample basis, to identify performance obligations and terms and conditions relating to goods acceptance and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • for revenue of PC Unit, comparing, on a sample basis, revenue transactions recorded during the year with the underlying sales orders, goods delivery notes signed by customers, invoices and transportation settlement forms to assess whether the related revenue was recognised in the appropriate accounting period;

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition	
Refer to note 4 to the consolidated financial statements and the accounting policies on pages 160 to 162.	
The Key Audit Matter	**How the matter was addressed in our audit**
(2) for PC Equipment, the Group satisfies the performance obligation by transferring the control over PC Equipment products to the customer, which is the point of time when the Group delivers the products to the designated place, installs the products and provides the initial operator training in accordance with the terms and conditions as set out in the contract with the customer. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there may be an incentive for management to recognise revenue in the incorrect accounting period, either earlier or later, to meet its performance expectations or targets.	• for revenue of PC Equipment, comparing, on a sample basis, revenue transactions recorded during the year with the underlying sales orders, equipment installation and acceptance notes, invoices and training completion reports to assess whether the related revenue was recognised in the appropriate accounting period; • obtaining external confirmations, on a sample basis, directly from customers to confirm the trade debtor balances at the year end and transactions recorded during the year; • comparing, on a sample basis, specific revenue transactions recorded before and after the year end date with the underlying transportation settlement forms and goods delivery notes signed by the customers to assess whether the related revenue had been recognised in the appropriate accounting period; • obtaining the sales return list after the year end, identifying significant sales returns, inspecting the relevant documents in relation to the sales returns, including sales return agreements, sales return invoices and relevant goods receipt notes, on a sample basis, and assessing whether these sales returns are recorded in the appropriate accounting period; • inspecting underlying documents, on a sample basis, for journal entries in relation to recognition of revenue of PC Unit and PC Equipment which met the specific risk-based criteria; and • assessing whether the disclosures of revenue in the financial statements meets the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (CONTINUED)

Capitalisation of development expenditures	
Refer to note 14 to the consolidated financial statements and the accounting policies on page 149.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads. We identified capitalisation of development expenditures as a key audit matter because significant management judgment is involved in the determination of whether the Group meets the capitalisation criteria and the amount that can be capitalised with reference to the Group's technical and commercial feasibility of product or technique developed.	Our audit procedures to assess capitalisation of development expenditures included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to capitalisation of development expenditures including the approval of establishment of and budget of the project, assessment of capitalisation of development expenditure and the final acceptance of the project; • assessing the Group's accounting policies in relation to capitalisation of development expenditures with reference to the requirements of the prevailing accounting standards; • inquiring research and development employees, on a sample basis, to obtain an understanding of technical and commercial feasibility of the product or technique developed; and to understand if any project was suspended; • inspecting the technical and commercial feasibility analysis on a sample basis, and assessing whether the analysis was appropriately prepared; • on a sample basis, inspecting the supporting documents of capitalised development expenditures, including reports of staff salaries on development activities, material pick-up notes and expense reimbursement forms to assess the accuracy of capitalised development expenditures; and • assessing whether the disclosures of development expenditures in the financial statements meets the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (CONTINUED)

Loss allowance for trade debtors	
Refer to note 21 to the consolidated financial statements and the accounting policies on pages 150 to 153.	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 December 2019, the Group's trade debtors totalled RMB2,372 million, against which loss allowance of RMB109 million was recorded. Under IFRS 9, management measures loss allowance at an amount equal to lifetime expected credit loss, which takes into account loss given default, probability of default, and forward-looking information. According to the past experience of the Group, the credit loss patterns of different customer groups are significantly different. The Group clusters customers into customer groups based on a number of factors and the Group estimates loss allowance for trade debtors for each of the customer groups with similar loss patterns. We identified the loss allowance for trade debtors as a key audit matter because trade debtors and loss allowance are material to the Group's financial statements and because the recognition of expected credit loss is inherently subjective and requires significant management judgement.	Our audit procedures to assess the loss allowance for trade debtors included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, segmentation of customer groups for trade debtors and customer credit risk assessment, estimate of expected credit loss and making of related loss allowance; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards; • obtaining an understanding of the key data and assumptions adopted by the management in the expected credit loss model, including the basis of segmentation of the trade debtors based on customer credit risk characteristics, aging of trade debtors, historical default data, and the assumptions involved in management's estimated loss rates; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of category of customer groups and aging of debtors by comparing a sample of individual items with the related goods delivery notes, and obtaining historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and • recalculating the loss allowance, on a sample basis, to assess if this is consistent with the Group's policies.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included 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 THE 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 directors are assisted by the Audit Committee 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. This report is made 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 scepticism 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.

- 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.

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

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 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 Tse, Wong Pui.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
26 March 2020

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Revenue	4	3,369,416	2,269,129
Cost of sales		(2,225,397)	(1,544,582)
Gross profit		1,144,019	724,547
Net valuation gains on investment properties	11	20,284	53,871
Other income	5	64,321	32,044
Sales and distribution expenses		(217,928)	(111,746)
General and administrative expenses		(232,332)	(229,182)
Research and development expenses		(177,752)	(125,971)
Profit from operations		600,612	343,563
Finance costs	6(a)	(102,404)	(72,412)
Fair value changes on financial assets at fair value through profit or loss		12,600	–
Share of profits less losses of associates	17	(35,062)	(98,321)
Gains on disposal of subsidiaries		–	108,439
Gains on loss of significant influence in associates	17	248,188	261,494
Gains on disposal of partial interest in associates		7,580	–
Gains on disposal of associates		2,162	11,506
Profit before taxation	6	733,676	554,269
Income tax	7	(56,757)	(87,965)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Profit for the year		**676,919**	466,304
Other comprehensive income for the year (after tax)			
Items that will not be reclassified to profit or loss:			
Reclassification of property, plant and equipment to investment properties		**–**	247
Total comprehensive income for the year		**676,919**	466,551
Earnings per share (RMB)			
Basic and diluted (RMB)	10	**1.76**	1.28

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 132 to 221 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in Renminbi)

	Note	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current assets			
Investment properties	11	310,169	324,033
Property, plant and equipment	12	1,756,894	1,173,956
Lease prepayments	13	–	280,325
Intangible assets	14	262,758	161,616
Right-of-use assets	15	366,529	–
Interest in associates	17	378,644	663,808
Financial assets at fair value through profit or loss	18	1,740,938	833,357
Deferred tax assets	29	37,133	36,291
Total non-current assets		4,853,065	3,473,386
Current assets			
Inventories	19	265,664	375,689
Contract assets	20(a)	564,554	929,992
Trade and other receivables	21	2,521,624	2,062,994
Restricted and pledged bank deposits	22	277,769	187,349
Cash and cash equivalents	23	1,084,750	296,475
Total current assets		4,714,361	3,852,499
Total assets		9,567,426	7,325,885
Current liabilities			
Short-term borrowings	24(a)	2,345,233	1,543,894
Trade and other payables	25	2,406,703	1,933,213
Contract liabilities	20(b)	237,976	497,102
Lease liabilities	26	22,211	–
Deferred income	27	4,839	4,538
Current taxation	29(a)	13,759	9,532
Total current liabilities		5,030,721	3,988,279
Net current liabilities		(316,360)	(135,780)
Total assets less current liabilities		4,536,705	3,337,606

The notes on pages 132 to 221 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in Renminbi)

	Note	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current liabilities			
Long-term borrowings	24(b)	**273,460**	397,888
Lease liabilities	26	**43,335**	–
Deferred income	27	**38,958**	44,475
Deferred tax liabilities	29(b)	**14,911**	12,520
Total non-current liabilities		**370,664**	454,883
NET ASSETS		**4,166,041**	2,882,723
CAPITAL AND RESERVES			
Share capital	30(b)	**487,639**	304,670
Reserves	30(c)	**3,678,402**	2,578,053
Total equity attributable to equity shareholders of the Company		**4,166,041**	2,882,723
TOTAL EQUITY		**4,166,041**	2,882,723

Approved and authorised for issue by the board of directors on 26 March 2020.

Zhang Jian
Chairman

Shi Donghong
Chief Financial Officer

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 132 to 221 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company					
	Notes	Share capital RMB'000 (note 30(b))	Capital reserve RMB'000 (note 30 (c)(i))	Statutory surplus reserve RMB'000 (note 30 (c)(ii))	Fair value reserve (non-recycling) RMB'000 (note 30 (c)(iii))	Retained earnings (note) RMB'000	Total equity RMB'000
Balance at 1 January 2018		304,670	1,501,701	37,523	4,961	858,119	2,706,974
Changes in equity for 2018							
Profit for the year		–	–	–	–	466,304	466,304
Other comprehensive income		–	–	–	247	–	247
Total comprehensive income		–	–	–	247	466,304	466,551
Equity settled share-based transactions	28	–	13,868	–	–	–	13,868
Appropriation for surplus reserve	30(c)(ii)	–	–	77,978	–	(77,978)	–
Appropriation of profit	30(d)	–	–	–	–	(304,670)	(304,670)
Balance at 31 December 2018 and 1 January 2019		304,670	1,515,569	115,501	5,208	941,775	2,882,723
Changes in equity for 2019							
Profit for the year		–	–	–	–	676,919	676,919
Other comprehensive income		–	–	–	(3,185)	3,185	–
Total comprehensive income		–	–	–	(3,185)	680,104	676,919
Conversion of capital reserve to share capital	30(b)	60,934	(60,934)	–	–	–	–
Issuance of H Shares	30(b)	122,035	833,600	–	–	–	955,635
Equity settled share-based transactions	28	–	16,368	–	–	–	16,368
Appropriation for surplus reserve	30(c)(ii)	–	–	24,917	–	(24,917)	–
Appropriation of profit	30(d)	–	–	–	–	(365,604)	(365,604)
Balance at 31 December 2019		487,639	2,304,603	140,418	2,023	1,231,358	4,166,041

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 132 to 221 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Operating activities			
Profit before taxation		733,676	554,269
Adjustments for:			
Depreciation and amortisation	6(c)	159,137	108,493
Loss on disposal of property, plant and equipment	5	2,361	1,514
Equity-settled share-based payment expenses	6(b)	16,368	13,868
Impairment losses	6(c)	14,783	78,120
Amortisation of government grants	27	(5,216)	(6,709)
Finance costs		112,531	91,246
Gain on disposal of subsidiaries		–	(108,439)
Share of profits less losses of associates		35,062	98,321
Gains on disposal of associates		(2,162)	(11,506)
Gains on disposal of partial interest in associates		(7,580)	–
Gains on loss of significant influence in associates		(248,188)	(261,494)
Fair value changes on financial assets at fair value through profit or loss		(12,600)	–
Net valuation gains on investment properties		(20,284)	(53,871)
Loss/(Gains) on disposal of investment properties	5	5,715	(369)
Changes in working capital:			
Decrease in inventories		108,454	203,811
Increase in trade and other receivables		(510,686)	(182,317)
Increase in trade and other payables		548,496	219,395
Decrease in contract assets		366,766	187,116
Decrease in contract liabilities		(269,546)	(230,884)
Increase in deferred income		–	12,849
Cash generated from operations		1,027,087	713,413
Income tax paid		(60,031)	(95,117)
Net cash generated from operating activities		967,056	618,296

The notes on pages 132 to 221 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Investing activities			
Payment for purchase of property, plant and equipment, right-of-use assets/lease prepayments and intangible assets		**(970,184)**	(524,934)
Payment for purchase of financial assets at fair value through profit or loss		**(294,308)**	(91,049)
Payment for interest in associates		**(191,292)**	(359,007)
Proceeds from sales of financial assets at fair value through profit or loss		**–**	28,000
Proceeds from disposal of property, plant and equipment		**2,192**	1,905
Proceeds from sales of interest in associates		**17,800**	5,004
Proceeds from sales of investments in subsidiaries		**69,900**	144,892
Proceeds from disposal of investment properties		**53,401**	4,362
Proceeds from other investing activities		**5,282**	5,267
Net cash used in investing activities		**(1,307,209)**	(785,560)
Financing activities			
Proceeds from loans and borrowings	23(b)	**2,279,055**	1,622,275
Repayment of loans and borrowings	23(b)	**(1,602,144)**	(1,434,019)
Interest paid	23(b)	**(115,213)**	(95,789)
Payment for dividends		**(365,604)**	(304,670)
Proceeds from issuance of H Shares	30	**955,636**	–
Capital element of lease rentals paid	23(b)	**(19,758)**	–
Interest element of lease rentals paid	23(b)	**(2,562)**	–
Net cash generated from/(used in) financing activities		**1,129,410**	(212,203)
Net increase/(decrease) in cash and cash equivalents		**789,257**	(379,467)
Effect of foreign exchange rate changes		**(982)**	–
Cash and cash equivalents at the beginning of year		**296,475**	675,942
Cash and cash equivalents at the end of year	23	**1,084,750**	296,475

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 132 to 221 form part of these financial statements.

1 GENERAL INFORMATION

Changsha Broad Homes Industrial Group Co., Ltd. ("the Company") was established in Changsha, Hunan Province, People's Republic of China (the "PRC") on 30 April 2006 as a limited liability company. The registered office and principal place of business of the Company is No. 248 Yinshuang Road, Yuelu District, Changsha, Hunan Province, PRC.

The Company and its subsidiaries (together, "the Group") are principally engaged in the industrialisation of construction industry in the PRC, including prefabricated concrete unit manufacturing ("PC Unit Manufacturing") and prefabricated concrete equipment manufacturing ("PC Equipment Manufacturing"). The Group is also engaged in construction activities.

The H shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 November 2019.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Financial Reporting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 2(c) 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 financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries and the Group's interest in associates.

The financial statements have been prepared on the going concern basis. As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB312,323 thousand. Taking into the Group's available banking facilities, history of obtaining external financing and the Group's expected cash flows from operations, management believes that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, it is appropriate to prepare the financial statements on a going concern basis.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except for investment properties (see note 2(h)) and investments in debt and equity securities (see note 2(f)), which are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for current accounting period of the Group.

Except for IFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 12 and lease prepayments as disclosed in note 13. For an explanation of how the Group applies lessee accounting, see note 2(j)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

b. Lessee accounting and transitional impact (Continued)

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.0%~5.5%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 32(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	69,029
Less: commitments relating to leases exempt from capitalisation:	
– Short-term lease and other leases with remaining lease term ending on or before 31 December 2019	(13,459)
Less: total future interest expenses	(3,795)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	51,775
Total lease liabilities recognised at 1 January 2019	51,775

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

b. Lessee accounting and transitional impact (Continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease RMB'000	Reclassification of lease prepayments RMB'000	**Carrying amount at 1 January 2019 RMB'000**
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:				
Right-of-use assets	–	53,763	280,325	**334,088**
Lease prepayments	280,325	–	(280,325)	**–**
Total non-current assets	3,473,386	53,763	–	**3,527,149**
Trade and other receivables	2,062,994	(1,988)	–	**2,061,006**
Total current assets	3,852,499	(1,988)	–	**3,850,511**
Lease liabilities (current)	–	20,965	–	**20,965**
Current liabilities	3,988,279	20,965	–	**4,009,244**
Net current liabilities	(135,780)	(22,953)	–	**(158,733)**
Total assets less current liabilities	3,337,606	30,810	–	**3,368,416**
Lease liabilities (non-current)	–	30,810	–	**30,810**
Total non-current liabilities	454,883	30,810	–	**485,693**
Net assets	2,882,723	–	–	**2,882,723**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of comprehensive income, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 23(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 23(c)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

c. *Impact on the financial result, segment results and cash flows of the Group (Continued)*

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	600,612	24,810	(26,478)	598,944	343,563
Finance costs	(102,404)	2,562	–	(99,842)	(72,412)
Profit before taxation	733,676	27,372	(26,478)	734,570	554,269
Profit for the year	676,919	27,372	(26,478)	677,813	466,304
Reportable segment profit for the year ended 31 December 2019 (note 4(b)) impacted by the adoption of IFRS 16:					
– PC Unit Manufacturing	386,494	27,372	(26,478)	387,388	129,662
– Total	659,615	27,372	(26,478)	660,509	485,535

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

c. *Impact on the financial result, segment results and cash flows of the Group (Continued)*

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	1,027,087	(22,320)	1,004,767	713,413
Net cash generated from operating activities	967,056	(22,320)	944,736	618,296
Capital element of lease rentals paid	(19,758)	19,758	–	–
Interest element of lease rentals paid	(2,562)	2,562	–	–
Net cash generated from/(used in) financing activities	1,129,410	22,320	1,151,730	(212,203)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

d. *Leasehold investment properties*

Under IFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of IFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply IAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

e. Lessor accounting

In addition to leasing out the investment property referred to in paragraph d. above, the Group does not lease out any other assets as the lessor of operating leases.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-Group balances, transactions and cash flows and any unrealised profits arising from intra-Group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-Group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(r) or(s) depending on the nature of the liability.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (Continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

In the Company's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)), unless the investment is classified as held for sale (or included in a disposal Group that is classified as held for sale).

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(m)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statements of comprehensive income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statements of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (Continued)

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable (see note 2(m)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the Company's statements of financial position, investments in associates and joint venture are accounted for under the equity method, unless classified as held for sale (or included in a disposal Group that is classified as held for sale).

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 31(e). These investments are subsequently accounted for as follows, depending on their classification.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other investments in debt and equity securities (Continued)

Investments other than equity investments

Non-equity 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 (see note 2(w)(vi)).

– fair value through other comprehensive income (FVOCI) – 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.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (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 FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(w)(v).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(w)(iv).

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 2(j)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in note 2(j).

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(m)). The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that the future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in profit or loss in the period in which it is incurred.

Construction in progress represents buildings and various machinery, plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 2(m)). Cost comprises direct costs of construction as well as interest charges during the periods of construction.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment (Continued)

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Plant and buildings	20 – 25 years
Machinery equipment	10 – 12 years
Electronic equipment	3 – 5 years
Motor vehicles	4 – 8 years
Office furniture	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Leased Assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased Assets (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(m)(ii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment properties are carried at fair value in accordance with note 2(h).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased Assets (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property and lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was accounted for as if held under a finance lease (see note 2(h)); and

– land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased Assets (Continued)

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019 (Continued)

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 2(i). Impairment losses were accounted for in accordance with the accounting policy as set out in note 2(m). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2(w)(iv).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased Assets (Continued)

(ii) As a lessor (Continued)

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(j)(i), then the Group classifies the sub-lease as an operating lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

(k) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	5 years
Capitalised development costs	5 – 10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Lease prepayments

Lease prepayments represent cost paid to the relevant government authorities for land use rights. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (see note 2(m)). The cost of lease prepayments is charged to profit or loss on a straight-line basis over the respective periods of the rights, which range from 40 to 50 years.

(m) Credit losses and impairment of assets

(i) Credit losses from financial assets measured at amortised cost and contract assets

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and restricted and pledged bank deposits) and contract assets as defined in IFRS 15 (see note 2(o)).

Other financial assets measured at fair value, including units in bond funds, equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets measured at amortised cost and contract assets (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade debtors and contract assets are always measured at an amount equal to lifetime ECLs. ECLs 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 and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets measured at amortised cost and contract assets (Continued)

Significant increases in credit risk (Continued)

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are Grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets measured at amortised cost and contract assets (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2(w)(vi) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired:

– Investment properties;

– Property, plant and equipment;

– Intangible assets;

– Right-of-use assets (policy applicable from 1 January 2019)/Lease prepayments (policy applicable prior to 1 January 2019);

– Interest in associates; and

– Investments in subsidiaries in the Company's statements of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(n) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(w)) 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 2(m)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(p)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(w)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(p)).

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.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(w)).

(p) 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 (see note 2(o)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(m)(i)).

(q) 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. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(m)(i).

(r) Trade and other payables

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(y)).

(t) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of the selected current employee services received in exchange for the grant of the restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the granted shares measured as at the grant date, and recorded in the capital reserve until each unlocking date and record it under reserves attributable to equity shareholders of the Company. The proceeds received from the employees is firstly recorded as other payables.

During the vesting period, the number of restricted share that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of restricted share that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the restricted share is released (when it is included in the amount recognised in share capital for the shares issued) or the restricted share is forfeited or cancelled (when it is released directly to retained profits).

(iii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Provisions and contingent liabilities (Continued)

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer or the lessee has the right to use the asset 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.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of PC units and PC equipments

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue and other income (Continued)

(ii) 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 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 output method, i.e. based on the completion of a physical proportion of the contract work.

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 in accordance with the policy set out in note 2(v)(ii).

(iii) Rendering of PC unit designing service

The Group recognises revenue from rendering of PC unit designing services over the period of the service.

(iv) Rental income from operating lease

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(v) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue and other income (Continued)

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(m)(i)).

(vii) Government grants

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset by way of being recognised in other revenues.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies: (Continued)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Useful lives of property, plant and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(a) Critical accounting judgements in applying the Group's accounting policies (Continued)

(ii) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amounts of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in the future years.

(b) Sources of estimation uncertainty

Notes 11, 28 and 31 contain information about the assumptions and their risk factors relating to valuation of investment properties, fair value of equity settled share-based payment and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Revenue recognition

As explained in policy note 2(w), 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 20 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.

(ii) Net realisable value of inventories

As described in policy note 2(n), net realisable value of inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions. Management reassesses these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realisable value.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(b) Sources of estimation uncertainty (Continued)

(iii) Impairment of receivables and contract assets

As described in policy note 2(m), the Group's management determines the loss allowance for expected credit losses on trade debtors, bills receivable, other receivables and contract assets based on an assessment of the present value of all expected cash shortfalls. These estimates are based on the information about past events, current conditions and forecasts of future economic conditions, all of which involve a significant degree of management judgement. The Group's management reassesses the loss allowance at each reporting period end. If the current conditions of the debtors or the future economic conditions were to deteriorate, actual loss allowance would be higher than estimated.

(iv) Determining the lease term

As explained in policy note 2(j), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the design, manufacturing and sale of PC units and PC equipments and carrying out construction activities for others. Further details regarding the Group's principal activities are disclosed in note 4(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
– Sales of PC units	**2,303,660**	854,334
– Sales of PC equipments	**896,768**	1,226,268
– Revenue from construction contracts	**168,988**	188,527
	3,369,416	2,269,129

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 4(b)(i).

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (Continued)

(ii) The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations that are unsatisfied under the Group's existing contracts is RMB11,332 thousand (2018: RMB81,732 thousand). This amount represents revenue expected to be recognised in the future from construction contracts entered into by the customers with the Group.

The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 to 24 months.

The above amount also does not include any amounts of completion bonuses that the Group may earn in the future by meeting the conditions set out in the Group's construction contracts with customers, unless at the reporting date it is highly probable that the Group will satisfy the conditions for earning those bonuses.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- PC Unit Manufacturing and PC Unit designing services: this segment primarily derive its revenue from the design, manufacturing and sale of PC units.
- PC Equipment Manufacturing: this segment primarily derive its revenue from the manufacturing and sale of PC equipments which producing PC units and the licensing of using the Group's patents and brands.
- Construction contracts: this segment primarily derive its revenue from construction activities.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following basis:

The measure used for reporting segment profit is "EBIT" i.e. "earnings before interest and taxes.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

	Year ended 31 December 2019			
	PC Unit Manufacturing RMB'000	PC Equipment Manufacturing RMB'000	Construction contracts RMB'000	Total RMB'000
Disaggregated by timing of revenue recognition				
Point in time	2,303,660	896,768	–	3,200,428
Over time	–	–	168,988	168,988
Revenue from external customers	2,303,660	896,768	168,988	3,369,416
Inter-segment revenue	–	–	76,741	76,741
Reportable segment revenue	2,303,660	896,768	245,729	3,446,157
Reportable segment profit	390,048	242,904	26,663	659,615
Finance costs	(99,411)	–	(2,993)	(102,404)
Depreciation and amortisation for the year	(154,347)	(2,756)	(2,034)	(159,137)
Reportable segment assets	5,432,639	620,323	2,229,028	8,281,990
Capital expenditure	918,650	5,806	8,900	933,356
Reportable segment liabilities	1,961,841	1,441,704	334,581	3,738,126

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

	Year ended 31 December 2018			
	PC Unit Manufacturing RMB'000	PC Equipment Manufacturing RMB'000	Construction contracts RMB'000	Total RMB'000
Disaggregated by timing of revenue recognition				
Point in time	854,334	1,226,268	–	2,080,602
Over time	–	–	188,527	188,527
Revenue from external customers	854,334	1,226,268	188,527	2,269,129
Inter-segment revenue	–	–	178,627	178,627
Reportable segment revenue	854,334	1,226,268	367,154	2,447,756
Reportable segment profit	129,662	348,812	7,061	485,535
Finance costs	(68,874)	(1,431)	(2,107)	(72,412)
Depreciation and amortisation for the year	(99,457)	(2,935)	(4,693)	(107,085)
Reportable segment assets	3,499,593	730,034	2,122,962	6,352,589
Capital expenditure	439,831	77,829	5,626	523,286
Reportable segment liabilities	1,440,499	1,059,971	639,273	3,139,743

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue	3,446,157	2,447,756
Elimination of inter-segment revenue	(76,741)	(178,627)
Consolidated revenue	3,369,416	2,269,129
Profit		
Reportable segment profit	659,615	485,535
Elimination of inter-segment profits	–	–
Finance costs	(102,404)	(72,412)
Unallocated head office and corporate expenses	(59,003)	(33,533)
Fair value changes on financial assets at fair value through profit or loss	12,600	–
Share of profits less losses of associates	(35,062)	(98,321)
Gains on disposal of associates	2,162	11,506
Gains on loss of significant influence in associates	248,188	261,494
Gains on disposal of partial interest in associates	7,580	–
Consolidated profit before taxation	733,676	554,269

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

	2019 RMB'000	2018 RMB'000
Assets		
Reportable segment assets	**8,281,990**	6,352,589
Elimination of inter-segment assets	**(834,146)**	(523,869)
Interest in associates	**378,644**	663,808
Financial assets at fair value through profit or loss	**1,740,938**	833,357
Consolidated total assets	**9,567,426**	7,325,885
Liabilities		
Reportable segment liabilities	**3,738,126**	3,139,743
Elimination of inter-segment liabilities	**(834,146)**	(523,869)
Current loans	**2,277,155**	1,429,400
Non-current loans	**220,250**	397,888
Consolidated total liabilities	**5,401,385**	4,443,162

(ii) Geographic information

The geographical location of revenue is based on the selling location. All of the Group's revenue from external customers is from the PRC. The geographical location of the non-current assets is based on the physical location of the assets. All of the non-current assets which are commonly used by the Group are physically located in the PRC.

5 OTHER INCOME

	2019 RMB'000	2018 RMB'000
Government grants (note)	**68,433**	34,184
Loss on disposal of property, plant and equipment	**(2,324)**	(1,514)
(Loss)/Gains on disposal of investment properties	**(5,715)**	369
Others	**3,927**	(995)
	64,321	32,044

Note: Government grants mainly represent operating subsidies and amortisation of government grants for development and construction of property, plant and equipment (note 27). There were no unfulfilled conditions and other contingencies attached to these grants.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2019 RMB'000	2018 RMB'000
Interest on bank loans and other borrowings	107,207	72,030
Interest on discounted bills	–	5,649
Interest on lease liabilities	2,562	–
Interest income	(5,236)	(5,267)
Net foreign exchange gain	(2,129)	–
	102,404	72,412

(b) Staff costs:

	2019 RMB'000	2018 RMB'000
Salaries, wages, bonuses and other benefits	526,107	409,068
Equity-settled share-based payment expenses (note 28)	16,368	13,868
Contributions to defined contribution retirement plan	22,293	20,673
	564,768	443,609

Staff costs includes remuneration of directors and senior management (note 8 and note 9).

Pursuant to the relevant labour rules and regulations in the PRC, the Company and its subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the Company and its subsidiaries in the PRC are required to make contributions to the Schemes based on certain percentages of the eligible employee's salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

6 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items:

	2019 RMB'000	2018 RMB'000
Amortisation		
– lease prepayments (note 13)	–	8,491
– intangible assets (note 14)	14,037	12,429
Depreciation		
– property, plant and equipment (note 12)	113,208	94,136
– right-of-use assets*	31,892	–
Impairment losses		
– trade and other receivables and contract assets	13,212	78,120
– inventories	1,571	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17*	–	33,816
Auditors' remuneration		
– audit services	2,300	1,085
– non-audit services	150	–
Cost of inventories	2,098,403	995,813

* The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of comprehensive income represents:

	2019 RMB'000	2018 RMB'000
Current tax – PRC income tax		
Provision for the year	55,208	82,022
Deferred tax		
Origination and reversal of temporary differences	1,549	5,943
	56,757	87,965

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 RMB'000	2018 RMB'000
Profit before taxation	**733,676**	554,269
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned (note (i))	**183,419**	138,567
Tax effect of tax concessions (note (ii))	**(38,332)**	(46,813)
Tax effect of non-deductible expenses	**6,740**	19,208
Share of profits less losses of associates	**8,766**	24,580
Impact on loss of significant influence in associates	**(32,386)**	(30,890)
Temporary differences for which no deferred tax assets was recognised	**(36,385)**	19,283
Tax effect of non-taxable income	**(2,617)**	(8,877)
Additional deduction for qualified research and development expenses (note (iii))	**(32,448)**	(27,093)
Actual income tax expense	**56,757**	87,965

Notes:

(i) Effective from 1 January 2008, under the PRC Corporate Income Tax Law, the PRC's statutory income tax rate is 25%. The Group's subsidiaries in the PRC are subject to PRC income tax at 25% unless otherwise specified.

(ii) According to the income tax law and its relevant regulations, entities that qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15% for the years from 2019 to 2021.

The 15% preferential tax rate applicable to high-technology enterprises is subject to renewal approval jointly by the relevant authorities, upon expiry of the three-year grant period, according to the then prevailing income tax regulations. The Company and certain of its subsidiaries have begun the renewal approval process. It is probable that they are qualified as high-technology enterprises. Management therefore believes 15% represents the best estimate of the annual tax rate of these entities for the year ending 31 December 2020.

(iii) Under the income tax law and its relevant regulations, a 75% additional tax deduction is allowed for qualified research and development expenditure from 1 January 2018 to 31 December 2021.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation are as follows:

	Directors' fee RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to retirement scheme RMB'000	Share incentive scheme (note 28) RMB'000	2019 Total RMB'000
Chairman						
Zhang Jian	–	600	–	19	–	619
Executive directors						
Tang Fen	–	313	600	22	3,228	4,163
Shi Donghong	–	280	500	22	3,228	4,030
Zhang Kexiang	–	295	350	15	646	1,306
Tan Xinming	–	242	250	33	1,291	1,816
Non-executive director						
Zhang Quanxun	–	–	–	–	–	–
Independent non-executive directors						
Li Zhengnong	80	–	–	–	–	80
Chen Gongrong	80	–	–	–	–	80
Wong Kai Yan Thomas	100	–	–	–	–	100
Supervisors						
Zhang Mingxin	–	141	15	19	–	175
Li Gen	–	128	70	14	–	212
Liu Jing	–	175	60	22	–	257
	260	2,174	1,845	166	8,393	12,838

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	Directors' fee RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to retirement scheme RMB'000	Share incentive scheme (note 28) RMB'000	2018 Total RMB'000
Chairman						
Zhang Jian	–	650	–	14	–	664
Executive directors						
Tang Fen	30	263	500	17	2,632	3,442
Shi Donghong	30	264	400	17	2,632	3,343
Zhang Kexiang	30	257	350	12	526	1,175
Tan Xinming	30	197	350	39	1,053	1,669
Huang Yumin	30	–	–	–	–	30
Independent non-executive directors						
Li Zhengnong	80	–	–	–	–	80
Chen Gongrong	80	–	–	–	–	80
Yuan Aiping	80	–	–	–	–	80
Supervisors						
Zhang Mingxin	30	132	20	15	–	197
Yao Zixiang	30	–	–	–	–	30
Liu Jing	30	118	–	17	–	165
	480	1,881	1,620	131	6,843	10,955

Note:

These represent the estimated value of restricted shares granted to the directors under the Company's share incentive scheme. The value of these restricted shares is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(t)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of restricted shares granted, are disclosed under note 28.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2018: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2018: two) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and other benefits	436	348
Discretionary bonuses	360	439
Contributions to retirement scheme	55	56
Share incentive scheme	2,583	2,105
	3,434	2,948

The emoluments of the two (2018: two) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
Nil – RMB1,000,000	–	–
RMB1,000,001 – RMB1,500,000	1	1
RMB1,500,001 – RMB3,000,000	1	1

10 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB676,919 thousand (2018: RMB466,304 thousand) and the weighted average number of shares of 384,314,856 (2018: 365,604,000 after adjusting for the conversion of capital reserve to share capital in 2019), calculated as follows:

Weighted average number of ordinary shares

	2019 RMB'000	2018 RMB'000
Issued ordinary shares at 1 January	304,670,000	304,670,000
Number of shares increased due to conversion of capital reserve to share capital	60,934,000	60,934,000
Effect of issuing of shares (note 30(b))	18,710,856	–
Weighted average number of ordinary shares	384,314,856	365,604,000

There were no potential dilutive ordinary shares during the year and therefore dilutive earnings per share are the same as the basic earnings per share.

11 INVESTMENT PROPERTIES

	Commercial real estate RMB'000
Balance at 1 January 2018	273,574
Fair value adjustment	53,871
Disposals	(3,412)
Balance at 31 December 2018	324,033
Balance at 1 January 2019	**324,033**
Fair value adjustment	**20,284**
Disposals	**(34,148)**
Balance at 31 December 2019	**310,169**

Fair value adjustment of investment properties is recognised in the line item "Net valuation gains on investment properties" on the face of the consolidated statement of comprehensive income.

As at 31 December 2019, the Group was applying for certificates of ownership for certain properties with carrying amounts RMB310,169 thousand (2018: RMB324,033 thousand). The directors of the Group are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

The Group leases out its investment properties and has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the asset.

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 3 to 20 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. Certain leases include variable lease payment terms that are based on the revenue of tenants.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**6,649**	4,465
After 1 year but within 2 years	**7,495**	8,318
After 2 year but within 3 years	**5,775**	9,060
After 3 year but within 4 years	**5,301**	6,275
After 4 year but within 5 years	**4,455**	5,456
After 5 years	**17,735**	16,376
	47,410	49,949

12 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Office furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
Balance at 1 January 2018	375,072	733,591	21,797	25,212	19,279	78,645	1,253,596
Additions	3,512	113,122	3,169	1,435	2,495	223,845	347,578
Transferred from construction in progress	38,149	41,019	–	–	–	(79,168)	–
Disposals	–	(13,347)	(596)	(892)	(2,203)	(11,045)	(28,083)
Balance at 31 December 2018	416,733	874,385	24,370	25,755	19,571	212,277	1,573,091
Balance at 1 January 2019	**416,733**	**874,385**	**24,370**	**25,755**	**19,571**	**212,277**	**1,573,091**
Additions	**19,814**	**207,559**	**2,481**	**2,100**	**1,269**	**472,720**	**705,943**
Transferred from construction in progress	**402,687**	**227,051**	**–**	**–**	**–**	**(629,738)**	**–**
Disposals	**(131)**	**(7,356)**	**(798)**	**(672)**	**(936)**	**–**	**(9,893)**
Balance at 31 December 2019	**839,103**	**1,301,639**	**26,053**	**27,183**	**19,904**	**55,259**	**2,269,141**
Accumulated depreciation:							
Balance at 1 January 2018	(51,811)	(227,352)	(12,027)	(10,779)	(7,887)	–	(309,856)
Depreciation charge for the year	(13,481)	(70,991)	(2,944)	(1,484)	(5,236)	–	(94,136)
Written back on disposals	–	3,155	531	438	733	–	4,857
Balance at 31 December 2018	(65,292)	(295,188)	(14,440)	(11,825)	(12,390)	–	(399,135)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Plant and buildings RMB'000	Machinery equipment RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Office furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Balance at 1 January 2019	**(65,292)**	**(295,188)**	**(14,440)**	**(11,825)**	**(12,390)**	**–**	**(399,135)**
Depreciation charge for the year	**(17,600)**	**(94,900)**	**(2,907)**	**(1,733)**	**(1,349)**	**–**	**(118,489)**
Written back on disposals	**65**	**3,541**	**782**	**609**	**380**	**–**	**5,377**
Balance at 31 December 2019	**(82,827)**	**(386,547)**	**(16,565)**	**(12,949)**	**(13,359)**	**–**	**(512,247)**
Net book value:							
Balance at 31 December 2019	**756,276**	**915,092**	**9,488**	**14,234**	**6,545**	**55,259**	**1,756,894**
Balance at 31 December 2018	351,441	579,197	9,930	13,930	7,181	212,277	1,173,956

As at 31 December 2019, property, plant and equipment with carrying amounts RMB408,121 thousand (2018: RMB332,523 thousand) were pledged as collateral for certain bank loans and other borrowings (see note 24).

As at 31 December 2019, the Group was applying for certificates of ownership for certain properties with carrying amounts RMB246,357 thousand (2018: RMB46,839 thousand). The directors of the Group are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

13 LEASE PREPAYMENTS

	2018 RMB'000
Cost:	
At 1 January	425,491
Purchase	16,731
Disposal of a subsidiary	(123,859)
At 31 December	318,363
Accumulated amortisation:	
At 1 January	(40,488)
Charge for the year	(8,491)
Disposal of a subsidiary	10,941
At 31 December	(38,038)
Net book value:	
At 31 December	280,325

The lease prepayments represent payments for land use rights of land located in the PRC. The period for the land use rights is between 10 and 50 years.

As at 31 December 2018, certain lease prepayments with carrying amounts RMB102,097 thousand were pledged as collateral for certain bank loans and other borrowings (see note 24).

As at 31 December 2019, all lease prepayments are accounted for in accordance with IFRS 16 and are reclassified to right-of-use assets.

14 INTANGIBLE ASSETS

	Software RMB'000	Capitalised development costs RMB'000	Total RMB'000
Cost:			
Balance at 1 January 2018	14,591	93,693	108,284
Additions	9,163	81,752	90,915
Disposals	(85)	(1,408)	(1,493)
Balance at 31 December 2018	23,669	174,037	197,706
Balance at 1 January 2019	**23,669**	**174,037**	**197,706**
Additions	**8,197**	**111,840**	**120,037**
Disposals	**–**	**–**	**–**
Balance at 31 December 2019	**31,866**	**285,877**	**317,743**
Accumulated amortisation:			
Balance at 1 January 2018	(8,050)	(15,615)	(23,665)
Amortisation for the year	(2,537)	(9,892)	(12,429)
Written back on disposal	4	–	4
Balance at 31 December 2018	(10,583)	(25,507)	(36,090)
Balance at 1 January 2019	**(10,583)**	**(25,507)**	**(36,090)**
Amortisation for the year	**(3,697)**	**(15,198)**	**(18,895)**
Written back on disposal	**–**	**–**	**–**
Balance at 31 December 2019	**(14,280)**	**(40,705)**	**(54,985)**
Net book value:			
Balance at 31 December 2019	**17,586**	**245,172**	**262,758**
Balance at 31 December 2018	13,086	148,530	161,616

15 RIGHT-OF-USE ASSETS

The Group leases assets including plants, buildings and land use rights. Information about leases for which the Group is a lessee is presented below.

	Property, plant and equipment RMB'000	Land use rights RMB'000	Total RMB'000
Cost:			
Balance at 31 December 2018	–	–	–
Impact on initial application of IFRS 16	53,763	280,325	334,088
Balance at 1 January 2019	53,763	280,325	334,088
Additions	35,029	30,840	65,869
Modifications after initial recognition	(1,011)	–	(1,011)
Disposals	(832)	–	(832)
Balance at 31 December 2019	86,949	311,165	398,114
Accumulated depreciation:			
Balance at 1 January 2019			
Depreciation for the year	(24,810)	(7,082)	(31,892)
Written back on disposals	307	–	307
Balance at 31 December 2019	(24,503)	(7,082)	(31,585)
Net book value:			
Balance at 31 December 2019	62,446	304,083	366,529

As at 31 December 2019, certain land use rights with carrying amounts RMB193,568 thousand were pledged as collateral for certain bank loans and other borrowings (see note 24).

(Expressed in Renminbi unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interests Held by the Company	Proportion of ownership interests Held by the subsidiary	Principal activities
Hunan Broad Engineering Design Co., Ltd. (湖南遠大工程設計有限公司) (i)	21 September 1994 the PRC	RMB10,000,000/ RMB3,000,000	100%	–	Engineering design and consulting service
Hunan Broad Construction & Industrial Co., Ltd. (湖南遠大建工股份有限公司) (i)	13 October 1999 the PRC	RMB200,000,000/ RMB200,000,000	98%	2%	Construction contract
Ningxiang Broad Homes Industrial Co., Ltd. (寧鄉遠大住宅工業有限公司) (i)	4 February 2010 the PRC	RMB60,000,000/ RMB60,000,000	100%	–	PC unit manufacturing
Xiangtan Broad Homes Industrial Co., Ltd. (湘潭遠大住宅工業有限公司) (i)	11 June 2010 the PRC	RMB60,000,000/ RMB60,000,000	100%	–	PC unit manufacturing
Yueyang Broad Homes Industrial Co., Ltd. (岳陽遠大住宅工業有限公司) (i)	21 February 2012 the PRC	RMB30,000,000/ RMB30,000,000	100%	–	PC unit manufacturing
Changsha Broad Homes Industrial Anhui Co., Ltd. (長沙遠大住宅工業安徽有限公司) (i)	5 November 2012 the PRC	RMB30,000,000/ RMB30,000,000	100%	–	PC unit manufacturing
Changsha Broad Homes Industrial (Jiangsu) Co., Ltd. (長沙遠大住宅工業(江蘇)有限公司) (i)	29 November 2012 the PRC	RMB30,000,000/ RMB30,000,000	100%	–	PC unit manufacturing
Broad Homes Industrial (Tianjin) Co., Ltd. (遠大住宅工業(天津)有限公司) (i)	28 October 2013 the PRC	RMB100,000,000/ RMB100,000,000	100%	–	PC unit manufacturing
Broad Homes Industrial (Hangzhou) Co., Ltd. (遠大住宅工業(杭州)有限公司) (i)	4 November 2013 the PRC	RMB100,000,000/ RMB100,000,000	100%	–	PC unit manufacturing
Broad Homes Industrial (Shanghai) Co., Ltd. (遠大住宅工業(上海)有限公司) (i)	13 December 2013 the PRC	RMB100,000,000/ RMB100,000,000	100%	–	PC unit manufacturing
Hunan Broad Construction Industrial Technology Labor Services Co., Ltd. (湖南遠大建工技術勞務有限公司) (i)	17 February 2014 the PRC	RMB10,000,000/ RMB10,000,000	–	100%	Subcontracting construction services
Chenzhou Broad Homes Industrial Co., Ltd. (郴州遠大住宅工業有限公司) (i)	2 July 2014 the PRC	RMB30,000,000/ RMB30,000,000	100%	–	PC unit manufacturing
Changsha Broad Bathroom Co., Ltd. (長沙遠大整體浴室有限公司) (i)	17 July 2014 the PRC	RMB10,000,000/ RMB10,000,000	100%	–	Manufacture of bathroom
Guangzhou Broad Homes Industrial Co., Ltd. (廣州遠大住宅工業有限公司) (i)	17 February 2016 the PRC	RMB30,000,000/ RMB30,000,000	100%	–	Cement product, PC unit and other construction materials manufacturing
Changsha Broad Homes Industrial Fuyang Co., Ltd. (長沙遠大住宅工業阜陽有限公司) (i)	6 May 2016 the PRC	RMB30,000,000/ RMB30,000,000	100%	–	PC unit manufacturing
Lu An Broad Homes Industrial Co., Ltd. (六安遠大住宅工業有限公司) (i)	26 December 2016 the PRC	RMB30,000,000/ RMB30,000,000	100%	–	PC unit manufacturing
Changsha Broad Homes Intelligent Technology Co., Ltd. (長沙遠大住工智能科技有限公司) (i)	16 July 2018 the PRC	RMB30,000,000/ RMB7,000,000	100%	–	Research, development and transfer of intelligent technology

(Expressed in Renminbi unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interests Held by the Company	Held by the subsidiary	Principal activities
Beijing Parallel System Information Technology Co., Ltd. (平行系統(北京)信息技術有限公司) (i)	8 August 2018 the PRC	RMB30,000,000/ RMB9,657,770	100%	–	Technological promotion services
Broad Homes Industrial (Nanjing) Co., Ltd. (遠大住宅工業(南京)有限公司) (i)	25 September 2018 the PRC	RMB50,000,000/ –	100%	–	PC unit manufacturing
Maanshan Broad Homes Industrial Co., Ltd. (馬鞍山遠大住宅工業有限公司) (i)	29 September 2018 the PRC	RMB30,000,000/ –	–	100%	PC unit manufacturing
Wuhan Broad Homes Industrial Co., Ltd. (武漢遠大住宅工業有限公司) (i)	11 January 2019 the PRC	RMB100,000,000/ RMB41,555,660	100%	–	PC unit manufacturing
Shenzhen Broad Homes Industrial Co., Ltd. (深圳遠大住宅工業有限公司) (i)	4 March 2019 the PRC	RMB30,000,000/ RMB11,497,108	100%	–	PC unit manufacturing
Huizhou Broad Homes Industrial Co., Ltd. (惠州遠大住宅工業有限公司) (i)	16 April 2019 the PRC	RMB30,000,000/ RMB7,397,108	–	100%	PC unit manufacturing
Changsha Broad Homes Modules Technology Co., Ltd. (長沙遠大模塊科技有限公司) (i)	25 January 2019 the PRC	RMB100,000,000/ RMB9,390,103	100%	–	Technological promotion services
Hunan Broad Homes Intelligent Equipment Co., Ltd. (湖南遠大住工智能裝備有限公司) (i)	5 May 2019 the PRC	RMB30,000,000/ -	100%	–	Manufacturing and sales of intelligent equipment
Changsha Parallel Digital Technology Co., Ltd. (長沙平行數字科技有限公司) (i)	14 June 2019 the PRC	RMB100,000,000/ -	100%	–	Digital services and information technology consultation services
Chengdu Broad Homes Industrial Technology Co., Ltd. (成都遠大住宅工業科技有限公司) (i)	6 November 2019 the PRC	RMB300,000,000/-	100%	–	PC unit manufacturing
Zhengzhou Broad Homes Industrial Technology Co., Ltd. (鄭州遠大住宅工業科技有限公司) (i)	26 November 2019 the PRC	RMB100,000,000/ -	100%	–	PC unit manufacturing
Jiaozuo Broad Homes Industrial Co., Ltd. (焦作遠大住宅工業有限公司) (i)	11 December 2019 the PRC	RMB100,000,000/ -	–	100%	PC unit manufacturing

Notes:

(i) The English translation of the Company names is for reference only. The official names of these companies are in Chinese. These companies were all limited liability companies under the law of the PRC.

(ii) In 2018, the Company lost control in three of its subsidiaries due to sales of its investment to third-parties. Gain of RMB108,439 thousand has been recognised in 2018 as a result of these disposals.

All companies comprising the Group have adopted 31 December as their financial year end date.

17 INTEREST IN ASSOCIATES

The principal associates of the Group includes Suzhou Jiasheng Broad Homes Industrial Co., Ltd.* (蘇州嘉盛遠大建築工業有限公司), Chengdu Chengtou Broad Construction Technology Co., Ltd.* (成都城投遠大建築科技有限公司), Changde Broad Homes Industrial Co., Ltd.* (常德遠大建築工業有限公司) and other associates that manufacture PC units. None of these associates was individually material to the Group's financial condition or results of operations for the years ended 31 December 2019 and 2018. All of the above associates are accounted for using the equity method in 2019 and 2018. The Purpose of the investment in the associates is to enable the Group to expand PC units business in the PRC.

* The English translation of the associates' names is for reference only. The official names of these companies are in Chinese.

Aggregate information of associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**378,644**	663,808
Aggregate amounts of the Group's share of those associates		
Losses from operations	**(35,062)**	(98,321)
Other comprehensive income	**–**	–
Total comprehensive income	**(35,062)**	(98,321)

In 2019, of the total 17 associates, 15 associates have commenced their operations. The directors are of the opinion that the accumulated losses incurred in the associates which are in their respective initial operation period or are yet to commence their operations is not considered to be an indication of impairment. Nevertheless, the recoverable amount of the Group's investment in associates, which is the greater of its fair value less costs of disposal and value in use, is estimated by the Group at the end of each year. The valuation techniques are in consistent with those disclosed in note 31. The recoverable amount of respective associates exceed its carrying amount as at 31 December 2019. By considered the factors and estimation above, no impairment loss has been recognised for the Group's interest in associates in 2019 (2018: Nil).

Since 2018, the Company started to implement the "two-level management strategy" for the entities established under Broad Homes United Program to manage and operate the PC manufacturing factory ("Joint Factories").

17 INTEREST IN ASSOCIATES (CONTINUED)

In order to reallocate the limited management resources and motivate the shareholder(s) other than the Company ("JF Partners") of certain Joint Factories, after negotiation and subject to the consent of the JF Partners, the Company no longer holds the decision-making rights in the key management decisions of these Joint Factories in the board meetings or shareholder's meetings and ceased to appoint directors and to be entitled to nominate directors. Instead, the Company obtained information about the operation and financial performance of these Joint Factories by presenting in the regular meetings of them, the financial data provided quarterly as well as the data generated from the operation of PC-CPS, an intelligent system to manage the operation and production, in case PC-CPS is installed in these Joint Factories.

As a result of loss of significant influence over these Joint Factories, a gain of approximately RMB248,188,000 (2018: approximately RMB261,494,000) has been recognised as a result of the remeasurement of these investment from interest in associates to financial assets at fair value through profit or loss.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 **RMB'000**	2018 RMB'000
Financial assets at fair value through profit or loss		
– Equity investment	**1,740,938**	833,357

Notes: The equity investment was the Group's investment in the Joint Factories as disclosed in note 17.

19 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	2019 **RMB'000**	2018 RMB'000
Raw materials	**120,876**	102,423
Work in progress	**63,839**	179,259
Finished goods	**80,018**	92,456
Consignment stock	**2,502**	1,551
	267,235	375,689
Less: provision for impairment of inventories	**(1,571)**	–
	265,664	375,689

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss was presented in note 6(c).

20 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 RMB'000	2018 RMB'000
Arising from performance under construction contracts	577,370	944,135
Less: loss allowance provision	(12,816)	(14,143)
	564,554	929,992
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and other receivables" (note 21)	2,330,294	1,732,585

The Group's construction contracts include payment schedules which require stage payments over the construction period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. The Group also typically agrees to a five year retention period for 5% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

(b) Contract liabilities

	2019 RMB'000	2018 RMB'000
Billings in advance of performance	237,976	497,102

When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the project exceeds the amount of the deposit. The Group typically receives a 10% to 50% deposit before the manufacturing of PC units and PC equipments.

21 TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade debtors	2,371,709	1,807,123
Bills receivable	68,593	6,900
Less: allowance for doubtful debts	(110,008)	(81,438)
	2,330,294	1,732,585
Other receivables	80,839	228,163
Less: allowance for doubtful debts	(5,735)	(25,342)
	75,104	202,821
Prepayments	58,063	81,887
Prepaid expenses (note)	2,482	14,251
Value added tax recoverable	37,476	19,501
Prepaid income tax	9,064	14
Others	9,141	11,935
	2,521,624	2,062,994

Note: On the date of transition to IFRS 16, prepaid lease payments of RMB1,988 thousand previously included in "Prepaid expenses" were adjusted to right-of-use assets recognised at 1 January 2019. See note 2(c).

All of the trade debtors, bills receivable and other receivables are expected to be recovered or recognised as expense within one year.

Ageing analysis

As at the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 month	264,213	260,812
Over 1 month but less than 1 year	1,229,844	722,569
1 to 2 years	465,842	589,471
2 to 3 years	299,722	121,680
3 to 4 years	59,973	34,031
4 to 5 years	10,700	4,022
More than 5 years	–	–
	2,330,294	1,732,585

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

Ageing analysis (Continued)

Trade debtors and bills receivable are due within 30 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 31(a).

As at 31 December 2019, certain trade and other receivables with carrying amounts RMB42,085 thousand was pledged as collateral for certain bank loans and other borrowings (2018: nil) (see note 24).

22 RESTRICTED AND PLEDGED BANK DEPOSITS

The pledged bank deposits primarily represent cash maintained at banks as security for guarantees of payment relating to the issuance of bills payable to certain vendors of the Group, and for bank deposits and for receivables that have been factored to banks. Upon maturity of the bills payable, maturity of bank deposits or upon full repayment of the receivables, the restriction on the bank deposits is released.

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2019 RMB'000	2018 RMB'000
Cash at bank	**1,084,750**	296,475

Cash at bank includes deposits of RMB314,548 thousand (2018: nil) placed at banks in mainland China and Hong Kong with original maturities of three months or less. These deposits are guaranteed for principal repayment with fixed or determinable returns.

23 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

	Bank loans and other borrowings RMB'000 (Note 24)	Lease liabilities RMB'000 (Note 26)	Total RMB'000
At 31 December 2018	1,941,782	–	1,941,782
Impact on initial application of IFRS 16	–	51,775	51,775
At 1 January 2019	1,941,782	51,775	1,993,557
Changes from financing cash flows:			
Proceeds from loans and borrowings	2,279,055	–	2,279,055
Repayments of loans and borrowings	(1,602,144)	–	(1,602,144)
Interest paid	(115,213)	–	(115,213)
Capital element of lease rentals paid	–	(19,758)	(19,758)
Interest element of lease rentals paid	–	(2,562)	(2,562)
Total changes from financing cash flows	561,698	(22,320)	539,378
Other changes:			
Interest on loans, borrowings and lease liabilities	115,213	2,562	117,775
Increase in lease liabilities from entering into new leases during the period	–	65,869	65,869
Total other changes	115,213	68,431	183,644
At 31 December 2019	2,618,693	97,886	2,716,579

23 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans and other borrowings RMB'000 (Note 24)	Finance leases RMB'000	Total RMB'000
At 1 January 2018	1,753,526	–	1,753,526
Changes from financing cash flows:			
Proceeds from loans and borrowings	1,622,275	–	1,622,275
Repayments of loans and borrowings	(1,434,019)	–	(1,434,019)
Interest paid	(95,789)	–	(95,789)
Total changes from financing cash flows	92,467	–	92,467
Other changes:			
Interest on loans and borrowings	95,789	–	95,789
Total other changes	95,789	–	95,789
At 31 December 2018	1,941,782	–	1,941,782

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB'000	2018 RMB'000
Within operating cash flows	**27,018**	35,268
Within investing cash flows	**30,840**	16,731
Within financing cash flows	**22,320**	–
	80,178	51,999

Note: The adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

23 CASH AND CASH EQUIVALENTS (CONTINUED)

(c) Total cash outflow for leases (Continued)

These amounts relate to the following

	2019 RMB'000	2018 RMB'000
Lease rentals paid	**49,338**	35,268
Payment for land use rights	**30,840**	16,731
	80,178	51,999

24 LOANS AND BORROWINGS

(a) Short-term loans and borrowings

	Note	2019 RMB'000	2018 RMB'000
Guaranteed bank loans	(i)	**610,000**	645,000
Secured bank loans	(ii)	**942,085**	150,000
Unsecured bank loans	(iii)	**431,970**	280,000
Add: Current portion of non-current loans and borrowings		**361,178**	468,894
		2,345,233	1,543,894

(i) Guaranteed bank loans

As at 31 December 2019, the Group's current bank loans of RMB30 million were guaranteed by the Company.

As at 31 December 2019, the Group's current bank loans of RMB580 million were guaranteed by the Group's subsidiary Hunan Broad Construction & Industrial Co., Ltd., of which RMB450 million were also co-guaranteed by the Group's subsidiary Broad Homes Industrial (Tianjin) Co., Ltd.

As at 31 December 2018, the Group's current bank loans of RMB320 million were guaranteed by the Group's subsidiary Hunan Broad Construction & Industrial Co., Ltd, Chairman of the Company Mr. Zhang Jian and his spouse Mrs. Liu Hui.

As at 31 December 2018, the Group's current bank loans of RMB100 million were guaranteed by the Group's subsidiary Hunan Broad Construction & Industrial Co., Ltd..

As at 31 December 2018, the Group's current bank loans of RMB225 million were guaranteed by the Company.

24 LOANS AND BORROWINGS (CONTINUED)

(a) Short-term loans and borrowings (Continued)

(ii) Secured bank loans

As at 31 December 2019, the Group's current bank loans of RMB300 million were secured by plants and buildings with carrying amounts of RMB66,393 thousand (see note 12) and land use rights with carrying amounts of RMB45,691 thousand (see note 13).

As at 31 December 2019, the Group's current bank loans of RMB600 million were secured by plants and buildings with carrying amounts of RMB33,665 thousand (see note 12), land use rights with carrying amounts of RMB31,766 thousand (see note 13) and guaranteed by the Group's subsidiary Hunan Broad Construction & Industrial Co., Ltd.

As at 31 December 2019, the Group's current bank loans of RMB42,085 thousand were secured by trade and other receivables with carrying amounts of RMB42,085 thousand.

As at 31 December 2018, the Group's current bank loans of RMB150 million were secured by plants and buildings with carrying amounts of RMB21,258 thousand (see note 12), land use rights with carrying amounts of RMB24,801 thousand (see note 13) and guaranteed by the Group's subsidiary Hunan Broad Construction & Industrial Co., Ltd., Mr. Zhang Jian and Mrs. Liu Hui.

(iii) Unsecured bank loans

As at 31 December 2018, the Group's current bank loans of RMB270 million were previously guaranteed by Mr. Zhang Jian and Mrs. Liu Hui but were released by the bank during the year 2018.

As at 31 December 2018, the Group's current bank loans of RMB10 million were previously guaranteed by Mr. Zhang Jian but were released by the bank during the year 2018.

(b) Long-term loans and borrowings

	Note	2019 RMB'000	2018 RMB'000
Guaranteed bank loans	(i)	**198,800**	389,000
Secured bank loans and other borrowings	(ii)	**221,088**	327,782
Unsecured bank loans	(iii)	**214,750**	150,000
Less: Current portion of non-current loans and borrowings		**(361,178)**	(468,894)
		273,460	397,888

24 LOANS AND BORROWINGS (CONTINUED)

(b) Long-term loans and borrowings (Continued)

(i) Guaranteed bank loans

As at 31 December 2018, the Group's non-current bank loans of RMB297 million were guaranteed by Hunan Broad Construction & Industrial Co., Ltd., of which RMB97.4 million was due within one year.

As at 31 December 2018, the Group's non-current bank loans of RMB92 million were guaranteed by the Company, of which RMB92 million was due within one year.

As at 31 December 2019, the Group's non-current bank loans of RMB198.8 million were guaranteed by Hunan Broad Construction & Industrial Co., Ltd., of which RMB99 million was also guaranteed by Broad Homes Industrial (Tianjin) Co., Ltd. and RMB101.8 million was due within one year.

(ii) Secured bank loans

As at 31 December 2018, the Group's non-current bank loans of RMB92 million were secured by plants and buildings with carrying amounts of RMB9,922 thousand, land use rights with carrying amounts of RMB7,963 thousand and guaranteed by Hunan Broad Construction & Industrial Co., Ltd. and Mr. Zhang Jian, of which RMB92 million was due within one year.

As at 31 December 2018, the Group's non-current borrowings of RMB49.6 million were secured by machinery equipments with carrying amount of RMB19,391 thousand, of which RMB49.6 million was due within one year.

As at 31 December 2018, the Group's non-current borrowings of RMB186.2 million were secured by machinery equipments with carrying amount of RMB222,421 thousand and guaranteed by the Company and Mr. Zhang Jian, of which RMB64.9 million was due within one year.

As at 31 December 2019, the Group's non-current bank loans of RMB99.8 million were secured by plants and buildings with carrying amounts of RMB45,828 thousand, land use rights with carrying amounts of RMB60,057 thousand and guaranteed by Hunan Broad Construction & Industrial Co., Ltd., all of which was due within one year.

As at 31 December 2019, the Group's non-current borrowings of RMB121.3 million were secured by machinery equipments with carrying amount of RMB197,320 thousand, plants and buildings with carrying amounts of RMB78,389 thousand, land use rights with carrying amounts of RMB63,588 thousand and guaranteed by the Company, of which RMB68.1 million was due within one year.

24 LOANS AND BORROWINGS (CONTINUED)

(b) Long-term loans and borrowings (Continued)

(iii) Unsecured bank loans

As at 31 December 2018, the Group's non-current bank loans of RMB120 million were previously guaranteed by Mr. Zhang Jian and Mrs. Liu Hui but were released by the bank during the year 2018.

25 TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade creditors	**1,372,649**	1,130,019
Bills payable	**842,962**	711,195
Trade creditors and bills payable	**2,215,611**	1,841,214
Accrued staff costs	**30,956**	13,557
VAT payable	**82,137**	30,437
Sundry taxes payable	**5,736**	12,177
Security deposits	**18,826**	15,882
Interest payable	**3,179**	2,527
Withholding tax	**1,300**	3,005
Received in advance	**23,546**	1,366
Other accrued expenses and payables	**25,412**	13,048
	2,406,703	1,933,213

All of the trade and other payables are normally settled within one year or are repayable on demand.

As at the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables) of the Group, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**2,025,634**	1,619,563
1 to 2 years	**77,995**	102,046
2 to 3 years	**28,613**	72,816
More than 3 years	**83,369**	46,789
	2,215,611	1,841,214

26 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	As at 31 December 2019		As at 1 January 2019 (Note)		As at 31 December 2018 (Note)	
	Present value of minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of minimum lease payments RMB'000	Total minimum lease payments RMB'000
With 1 year	22,211	25,087	20,966	21,381	–	–
After 1 year but within 2 years	19,872	21,551	16,318	17,569	–	–
After 2 years but within 3 years	9,622	10,461	11,980	13,588	–	–
After 3 years	13,841	14,553	2,511	3,032	–	–
	43,335	46,565	30,809	34,189	–	–
	65,546	71,652	51,775	55,570	–	–
Less: total future interest expenses		(6,106)		(3,795)		
Present value of lease liabilities		65,546		51,775		

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Further details on the impact of the transition to IFRS 16 are set out in note 2(c).

27 DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
At the beginning of year	**49,013**	42,873
Additions	**–**	12,849
Amortised to other income	**(5,216)**	(6,709)
At the end of year	**43,797**	49,013
Representing		
Current portion	**4,839**	4,538
Non-current portion	**38,958**	44,475

Deferred income of the Group mainly represented various grants received from governments. Government grants are mainly for development of construction of property, plant and equipment. Government grants are recognised as other income on a straight-line basis over the expected useful life of the underlying property, plant and equipment.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Hunan Dazheng Investment Co., Ltd. (湖南大正投資股份有限公司) (the "Hunan Dazheng") and Changsha High-tech Development Zone Daxin Investment Management Partnership (Limited Partnership) (長沙高新開發區大鑫投資管理合夥企業(有限合夥)) (the "Changsha Daxin") are special purpose vehicles established for the share incentive scheme of the Group, which hold 10,000,000 and 15,500,000 shares of the Company respectively.

On 29 December 2014, the Company entered into Indirect Share Holding Agreement with 14 employees of the Group (the "Participants") who were granted 8,150,000 shares of the Company via the special purpose vehicles.

A total of 2,880,000 shares were granted via Hunan Dazheng on 16 April 2008 and 26 December 2012. For these shares, related expenses have been recognised based on the fair value of the shares at the time when they were issued immediately, as no service period was specified then.

A total of 5,270,000 shares were granted via Hunan Daxin on 22 April 2013 and 29 December 2014. Pursuant to the Indirect Share Holding Agreement, the share incentive scheme is subject to the condition that the employee remains in service for three years if an IPO occurs within three years from the date of the agreement, otherwise the service period is five years. For these shares, as the length of the vesting period varies depending on when a non-market performance condition is satisfied, the Company made an estimate of five years as the expected vesting period at the grant date. As at 29 December 2019, 5,070,000 shares issued under the share incentive scheme were granted to the Participants and 200,000 shares were lapsed.

For the year ended 31 December 2019, share incentive scheme expenses of RMB16,368 thousand (2018: RMB13,868 thousand) were recognised in the consolidated statement of comprehensive income.

29 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	2019 RMB'000	2018 RMB'000
Provision for PRC income tax for the year	55,208	82,022
Prepaid in prior year	(14)	(1,058)
Provisional income tax paid	(41,435)	(71,432)
Current taxation as at 31 December	13,759	9,532
Prepaid income tax as at 31 December	(9,064)	(14)

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the years are presented as follows:

At 31 December 2019

	Balance at 1 January 2019 RMB'000	Credited/ (charged) to profit or loss RMB'000	Credited/ (charged) to reserves RMB'000	Balance at 31 December 2019 RMB'000
Deferred tax arising from:				
Credit loss allowance	18,313	4,800	–	23,113
Inventory provision	–	236	–	236
Other payables	–	284	–	284
Deferred income	2,009	1,935	–	3,944
Unrealised profit	15,969	(6,492)	–	9,477
Investment properties	(12,520)	(2,352)	–	(14,872)
Right-of-use assets	–	(12,905)	–	(12,905)
Lease liabilities	–	12,945	–	12,945
Total	23,771	(1,549)	–	22,222

29 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised: (Continued)

(i) Movement of each component of deferred tax assets and liabilities (Continued)

At 31 December 2018

	Balance at 1 January 2018 RMB'000	Credited/ (charged) to profit or loss RMB'000	Credited/ (charged) to reserves RMB'000	Balance at 31 December 2018 RMB'000
Deferred tax assets arising from:				
Credit loss allowance	11,479	6,834	–	18,313
Deferred income	2,824	(815)	–	2,009
Unrealised profit	18,425	(2,456)	–	15,969
Investment properties	(2,970)	(9,506)	(44)	(12,520)
Total	29,758	(5,943)	(44)	23,771

(ii) Reconciliation to the consolidated statements of financial position

	2019 RMB'000	2018 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**37,133**	36,291
Net deferred tax liability recognised in the consolidated statement of financial position	**(14,911)**	(12,520)
	22,222	23,771

29 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(u), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB181,439 thousand (2018: RMB178,311 thousand) and the eliminated profit arising from the downstream transactions with associates of RMB27,547 thousand (2018: RMB797 thousand) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

Pursuant to the relevant laws and regulations in the PRC, the unrecognised tax losses at 31 December 2019 will expire in the following years:

	2019 **RMB'000**	2018 RMB'000
2019	**–**	4,870
2020	**2,814**	4,062
2021	**2,169**	2,169
2022	**19,877**	28,405
2023	**96,180**	138,805
2024	**60,399**	–
	181,439	178,311

30 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

		Attributable to equity shareholders of the Company					
	Note	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Retained earnings (note) RMB'000	Total equity RMB'000
Balance at 1 January 2018		304,670	1,499,419	37,523	4,961	335,658	2,182,231
Changes in equity for 2018							
Profit for the year		–	–	–	–	808,454	808,454
Other comprehensive income		–	–	–	247	–	247
Total comprehensive income		–	–	–	247	808,454	808,701
Equity settled share-based transactions	28	–	13,868	–	–	–	13,868
Appropriation for surplus reserve	30(c)(ii)	–	–	77,978	–	(77,978)	–
Appropriation of profit	30(d)	–	–	–	–	(304,670)	(304,670)
Balance at 31 December 2018 and 1 January 2019		**304,670**	**1,513,287**	**115,501**	**5,208**	**761,464**	**2,700,130**
Changes in equity for 2019							
Profit for the year		**-**	**-**	**-**	**-**	**276,229**	**276,229**
Other comprehensive income		**-**	**-**	**-**	**(3,185)**	**3,185**	**-**
Total comprehensive income		**-**	**-**	**-**	**(3,185)**	**279,414**	**276,229**
Conversion of capital reserve to share capital	30(b)	**60,934**	**(60,934)**	**-**	**-**	**-**	**-**
Issuance of H Shares	30(b)	**122,035**	**833,600**	**-**	**-**	**-**	**955,635**
Equity settled share-based transactions	28	**-**	**16,368**	**-**	**-**	**-**	**16,368**
Appropriation for surplus reserve	30(c)(ii)	**-**	**-**	**24,917**	**-**	**(24,917)**	**-**
Business combination under common control		**-**	**(2,016)**	**-**	**-**	**-**	**(2,016)**
Appropriation of profit	30(d)	**-**	**-**	**-**	**-**	**(365,604)**	**(365,604)**
Balance at 31 December 2019		**487,639**	**2,300,305**	**140,418**	**2,023**	**650,357**	**3,580,742**

30 CAPITAL AND RESERVES (CONTINUED)

(a) Movements in components of equity (Continued)

Note:

The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See notes 2(c) and 34.

(b) Share capital

	2019 RMB'000	2018 RMB'000
Ordinary shares issued and fully paid:		
At 1 January	**304,670**	304,670
Conversion of capital reserve to share capital	**60,934**	–
Issuance of H Shares	**122,035**	–
At 31 December	**487,639**	304,670

As at 31 December 2019 and 2018, the issued share capital comprises 487,639,400 and 304,670,000 ordinary shares of RMB1 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The Company converted capital reserve into share capital by way of issuance of 2 bonus shares for every 10 shares and an aggregate of 60,934,000 ordinary shares was issued. Upon completion of the conversion on 31 March 2019, the total share capital increased from 304,670,000 shares to 365,604,000 shares.

In connection with the Company's public offering on The Stock Exchange of Hong Kong Limited, 122,035,400 H shares were issued at a per share price of HKD9.68, with a gross proceed of HKD1,181,302,672 (approximately equivalent to RMB1,056,950,407) and a net proceed after deduction of listing expenses of approximately RMB955,635,512 received. The share capital increased by RMB122,035,400 (representing par value) and corresponding premium of RMB833,600,112 was recognised in capital reserve.

30 CAPITAL AND RESERVES (CONTINUED)

(c) Nature and purpose of reserves

(i) Capital reserve

Under PRC rules and regulations, capital reserve is non-distributable other than in liquidation and may be utilised for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders.

(ii) Statutory surplus reserve

Under PRC rules and regulations, the Company and its PRC subsidiaries are required to set aside 10% of the net income determined in accordance with the PRC accounting rules and regulations to a statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended 31 December 2019, the Company transferred RMB24,917 thousand (2018: RMB77,978 thousand), being 10% of the current year's net profit as determined in accordance with PRC accounting rules and regulations, to this reserve.

The statutory surplus reserve is non-distributable other than in liquidation and can be used to make good previous years' losses, if any, and may be utilised for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issuance is not less than 25% of the registered capital. No such statutory surplus reserve is required for the Group's subsidiaries outside the mainland PRC.

(iii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) representing the net change in fair value from the reclassification of property, plant and equipment to investment properties (see note 2(h)).

(iv) Special reserve

Pursuant to the relevant PRC regulations for construction industry, the Group is required to set aside an amount to maintenance, production and other similar funds. The funds can be used for maintenance of production and improvements of safety, and are not available for distribution to shareholders.

30 CAPITAL AND RESERVES (CONTINUED)

(d) Dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 30 May 2018, a final cash dividend of RMB1 per share based on 304,670 thousand ordinary shares totaling RMB304,670 thousand in respect of the year ended 31 December 2017 was declared, and was paid on 25 June 2018.

Pursuant to the shareholders' approval at the Annual General Meeting held on 6 June 2019, a final cash dividend of RMB1 per share based on 365,604 thousand ordinary shares totaling RMB365,604 thousand in respect of the year ended 31 December 2018 was declared and was paid in 2019.

On 26 March 2020, the directors of the Company proposed a final dividend for the year ended 31 December 2019 of RMB0.5 per ordinary shares, which has not been recognised as a liability at 31 December 2019.

In accordance with the Company's article of association, in distributing its profit after tax of the relevant financial year, the lower of the profit after tax as shown in the financial statements prepared under IFRSs and PRC accounting standards shall be applied.

(e) Distributability of reserve

As 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was RMB568,109 thousand (2018: RMB709,459 thousand).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the debt-to-equity ratio. For this purpose, the Group defines debt as total loans and borrowings and lease liabilities and defines equity as all components of equity attributable to equity shareholders of the Company.

30 CAPITAL AND RESERVES (CONTINUED)

(f) Capital management (Continued)

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused an increase in the Group's total debt and hence the Group's debt-to-equity ratio rose from 67% to 69% on 1 January 2019 when compared to its position as at 31 December 2018.

The Group's debt-to-equity ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current liabilities:			
Short-term loans and borrowings	2,345,233	1,543,894	1,543,894
Lease liabilities	22,211	20,965	–
	2,367,444	1,564,859	1,543,894
Non-current liabilities:			
Long-term loans and borrowings	273,460	397,888	397,888
Lease liabilities	43,335	30,810	–
Total debt	2,684,239	1,993,557	1,941,782
Total equity attributable to equity shareholders	4,166,041	2,882,723	2,882,723
Debt-to-equity ratio	64%	69%	67%

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade debtors, bills receivable and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents, restricted and pledged bank deposits is limited because the counterparties are state-owned banks or reputable banks, for which the Group considers to have low credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

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. Trade debtors are due within 30 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade debtors 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 indicates significantly different loss patterns for different customer segments, the loss allowance based on past due status is further distinguished between the Group's different customer bases.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors, bills receivable and contract assets as at 31 December 2019 and 2018:

Customer segment – Construction contracts

	2019			2018		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Collectively evaluated customers						
Within 1 year	0.46%	184,683	(842)	0.10%	175,329	(182)
1 – 2 years	0.91%	47,938	(437)	0.19%	163,441	(318)
2 – 3 years	1.67%	132,370	(2,217)	0.46%	443,259	(2,048)
3 – 4 years	3.19%	272,182	(8,677)	1.28%	187,599	(2,395)
4 – 5 years	11.09%	78,326	(8,690)	6.18%	121,516	(7,504)
5 – 6 years	100.00%	3,428	(3,428)	100.00%	4,453	(4,453)
Individually evaluated customers	10.14%	89,976	(9,125)	95.52%	33,448	(31,951)
		808,903	(33,416)		1,129,045	(48,851)

Customer segment – PC Unit Manufacturing

	2019			2018		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Collectively evaluated customers						
Within 1 year	0.21%	1,126,257	(2,362)	0.11%	502,862	(562)
1 – 2 years	0.79%	234,898	(1,853)	0.40%	365,015	(1,459)
2 – 3 years	2.23%	257,050	(5,745)	2.84%	47,421	(1,346)
3 – 4 years	17.58%	21,726	(3,820)	8.45%	11,264	(952)
4 – 5 years	100.00%	3,673	(3,673)	100.00%	144	(144)
5 – 6 years	100.00%	144	(144)	100.00%	24	(24)
		1,643,748	(17,597)		926,730	(4,487)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Customer segment – PC Equipment Manufacturing

	2019			2018		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Collectively evaluated customers						
Within 1 year	4.92%	244,073	(12,007)	1.77%	440,210	(7,780)
1 – 2 years	11.19%	235,897	(26,395)	4.75%	213,132	(10,132)
2 – 3 years	33.11%	54,146	(17,929)	49.61%	49,041	(24,331)
3 – 4 years	100.00%	14,905	(14,905)	0.00%	–	–
Individually evaluated customers	3.59%	16,000	(575)	0.00%	–	–
		565,021	(71,811)		702,383	(42,243)

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.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2019					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amounts at 31 December RMB'000
Bank loans and other borrowings	**2,398,522**	**279,109**	**–**	**–**	**2,677,631**	**2,618,693**
Trade and other payables other than interest payable	**2,403,524**	**–**	**–**	**–**	**2,403,524**	**2,403,524**
Lease liabilities	**25,087**	**21,551**	**25,014**	**–**	**71,652**	**65,546**
	4,827,133	**300,660**	**25,014**	**–**	**5,152,807**	**5,087,763**

	As at 31 December 2018					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amounts at 31 December RMB'000
Bank loans and other borrowings	1,612,185	359,526	53,943	–	2,025,654	1,941,782
Trade and other payables other than interest payable	1,930,686	–	–	–	1,930,686	1,930,686
	3,542,871	359,526	53,943	–	3,956,340	3,872,468

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2019		2018	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments:				
Deposits placed with banks	**1.56% ~ 2.75%**	**314,548**	–	–
Bank loans and other borrowings	**0.00% ~ 5.60%**	**(1,524,055)**	4.70% ~ 6.00%	(1,024,000)
Lease liabilities (Note)	**5.00% ~ 5.50%**	**(65,546)**	–	–
		(1,275,053)		(1,024,000)
Variable rate instruments:				
Cash at bank	**0.01% ~ 1.3%**	**770,202**	0.3% ~ 1.15%	296,475
Bank loans and other borrowings	**4.35% ~ 5.94%**	**(1,094,638)**	4.57% ~ 5.70%	(917,782)
		(324,436)		(621,307)

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2(c).

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB2,433 thousand (2018: RMB4,660 thousand). Other components of consolidated equity would have increased/decreased by approximately RMB2,433 thousand (2018: RMB4,660 thousand) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of each reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of each reporting period, the impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2018.

(d) Currency risk

In respect of cash at bank and on hand denominated in foreign currencies other than the functional currency, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. No material foreign exchange exposure and foreign currency risk are recognised at 31 December.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties and financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

	2019			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Recurring fair value measurement				
Investment properties	**–**	**–**	**310,169**	**310,169**
– Equity investments	**–**	**–**	**1,740,938**	**1,740,938**

	2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurement				
Investment properties	–	–	324,033	324,033
– Equity investments	–	–	833,357	833,357

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (Continued)

(i) Fair value hierarchy (Continued)

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

	Valuation technique(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Investment properties	Market comparison approach	Premium (discount) on quality of the buildings	The higher the premium/ discount, the higher/lower the fair value
Unlisted equity investments	Comparable transaction method/Comparable company method	Price/Invested Capital ratio and Price/Earnings ratio ("P/IC ratio" and "P/E ratio")	The higher the P/IC ratio and P/E ratio, the higher the fair value

The fair value of investment properties is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square meter basis, adjusted for a premium or a discount specific to the quality of the Group's buildings compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

The movement during the period in the balance of investment properties is disclosed in note 11.

The fair value of unlisted equity investments is determined using the comparable transaction method and comparable company method, the significant unobservable input used in the fair value measurement are P/IC ratio and P/E ratio.

There has been a change in valuation technique for investments in four entities. The reason for making the change is that the development status of these entities were transferred from the initial operation period to rapid development period in 2019. Comparable company method using P/E ratio is the appropriate valuation technique for the entities in rapid development period.

The fair value measurement is positively correlated to the P/IC ratio and P/E ratio. As at 31 December 2019, it is estimated that with all other variables held constant, an increase/ decrease in the P/IC ratio and P/E ratio by 1% would have increased/decreased the Group's valuation gains on equity investments by RMB14,798 thousand.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

The movement during the period in the balance of unlisted equity investments is as follows:

	2019 RMB'000	2018 RMB'000
Unlisted equity investments		
At 1 January	833,357	–
Payment for purchases	294,308	91,049
Reclassified from investment in associates	600,673	742,308
Changes in fair value recognised in profit or loss during the year	12,600	–
At 31 December	1,740,938	833,357

(iii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2019 and 2018.

32 COMMITMENTS

(a) Capital commitments in respect of property, plant and equipment outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Contracted for	179,814	90,587

32 COMMITMENTS (CONTINUED)

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Properties RMB'000
Within 1 year	32,303
After 1 year but within 2 years	19,284
After 2 years but within 3 years	13,685
After 3 years but within 4 years	3,119
After 4 years but within 5 years	638
Thereafter	–
	69,029

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(j), and the details regarding the Group's future lease payments are disclosed in note 26.

33 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**5,563**	5,215
Share-based payment	**11,623**	9,474
Post-employment benefits	**244**	205
	17,430	14,894

The remuneration is included in "staff costs" (see note 6(b)).

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party transactions

	2019 RMB'000	2018 RMB'000
Sales of products to associates	**20,781**	995,810
Sales of products to entities controlled by the controlling shareholder	**1,329**	10,434
Sales of products to entities controlled by a close family member of controlling shareholder	**–**	6
Purchase of goods from associates	**17,365**	43,445
Purchase of goods from entities controlled by a close family member of controlling shareholder	**1,219**	322
Purchase of goods from entities controlled by the controlling shareholder	**2,977**	1,103
Lease of properties from entities controlled by the controlling shareholder	**717**	717
Sales of investments in subsidiaries	**–**	16,840
	44,388	1,068,677

(c) Balance with related parties

	2019 RMB'000	2018 RMB'000
Trade debtors	**72,042**	361,498
Prepayments	**11**	870
Other receivables	**5,753**	53,779
Other current assets	**9,153**	11,949
Trade creditors	**(10,621)**	(23,707)
Bills payable	**(1,563)**	(300)
Contract liabilities	**(326)**	(129,939)
Other payables	**(1,078)**	(452)
	73,371	273,698

33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Guarantee provided by related parties

	Note	2019 RMB'000	2018 RMB'000
Loans and borrowings	24		
– Guaranteed by Mr. Zhang Jian		–	215,775
– Guaranteed by Mr. Zhang Jian and Mrs. Liu Hui		–	900,000
		–	1,115,775

(e) Guarantee provided to related parties

	2019 RMB'000	2018 RMB'000
Guarantee provided to associates		
– Bank loans	20,000	–
– Finance leases	10,000	22,750
	30,000	22,750

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2019 RMB'000	1 January 2019 (Note) RMB'000	31 December 2018 RMB'000
Investment properties	310,169	324,033	324,033
Property, plant and equipment	203,022	224,848	224,848
Lease prepayments	–	–	111,659
Intangible assets	132,818	89,067	89,067
Right-of-use assets	108,674	111,659	–
Investments in subsidiaries	921,539	847,269	847,269
Interest in associates	378,644	663,808	663,808
Deferred tax assets	14,954	6,750	6,750
Financial assets at fair value through profit or loss	1,740,938	833,357	833,357
Total non-current assets	3,810,758	3,100,791	3,100,791
Current assets			
Inventories	72,997	69,684	69,684
Trade and other receivables	2,613,202	2,133,508	2,133,508
Dividends receivable	–	392,000	392,000
Restricted and pledged bank deposits	231,093	144,932	144,932
Cash and cash equivalents	1,071,157	259,713	259,713
Total current assets	3,988,449	2,999,837	2,999,837
Total assets	7,799,207	6,100,628	6,100,628

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (CONTINUED)

	31 December 2019 RMB'000	1 January 2019 (Note) RMB'000	31 December 2018 RMB'000
Current liabilities			
Short-term borrowings	2,239,128	1,161,955	1,161,955
Trade and other payables	1,610,404	1,566,657	1,566,657
Contract liabilities	112,316	342,113	342,113
Deferred income	1,727	1,759	1,759
Current taxation	–	17,399	17,399
Total current liabilities	3,963,575	3,089,883	3,089,883
Net current assets/(liabilities)	24,874	(90,046)	(90,046)
Total assets less current liabilities	3,835,632	3,010,745	3,010,745
Non-current liabilities			
Long-term borrowings	220,250	276,600	276,600
Deferred income	19,768	21,495	21,495
Deferred tax liabilities	14,872	12,520	12,520
Total non-current liabilities	254,890	310,615	310,615
NET ASSETS	3,580,742	2,700,130	2,700,130
CAPITAL AND RESERVES			
Share capital	487,639	304,670	304,670
Reserves	3,093,103	2,395,460	2,395,460
TOTAL EQUITY	3,580,742	2,700,130	2,700,130

Approved and authorised for issue by the board of directors on 26 March 2020.

Zhang Jian
Chairman

Shi Donghong
Chief Financial Officer

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

(Expressed in Renminbi unless otherwise indicated)

35 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) The new coronavirus ("COVID-19") outbreak in January 2020. Since COVID-19 began spreading across the country, the Group has actively responded to by implementing the various regulations and requirements of local governments at all levels for virus epidemic prevention and controls. The Group estimates that the COVID-19 and the prevention and control measures will have a certain temporary impact on the group's production and operation in the first quarter of 2020, and the degree of impact depends on the evolution of COVID and the progress of local governments' prevention and control policies. The Group will keep closely monitoring the impact of the developments on the Group's businesses and keep contingency measures under review as the situation evolves. As at the reporting date of this financial statement, no significant adverse impact has been found.

(b) On 26 March 2020, the directors proposed a final dividend of RMB0.5 per share.

36 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Appendix I Particulars of Properties held by the Group

Property	Location	Purpose	Approximate gross floor area (m^2)	Interests held by the Group (%)	Term of certificate of ownership (Year)
Long-term covenants in PRC					
1st/F, Lugu Town Commercial Street, No. 709 Jianshan Road	No. 709 Jianshan Road, Yuelu District	Commercial	5,323	100	40 (Note)
2nd/F, Lugu Town Commercial Street, No. 709 Jianshan Road	No. 709 Jianshan Road, Yuelu District	Commercial	6,064	100	40 (Note)
3rd/F, Lugu Town Commercial Street, No. 709 Jianshan Road	No. 709 Jianshan Road, Yuelu District	Commercial	2,025	100	40 (Note)
14-101, 16-101, 16-114, 18-108, 18-112, 18-124, 18-126, 18-130, 16-113, 18-105, 18-120	No. 709 Jianshan Road, Yuelu District	Commercial	1,564	100	40 (Note)

Note: The Group was applying for certificates of ownership for these properties. However, the use of and the conduct of operating activities at such properties are not affected by the fact that the Group has not yet obtained the relevant property title certificates.