巨匠建設
JUJIANG CONSTRUCTION GROUP

Jujiang Construction Group Co., Ltd.
巨 匠 建 設 集 團 股 份 有 限 公 司

(A joint stock limited company established in the People's Republic of China)

(Stock Code: 1459)

ANNUAL REPORT 2019

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Lyu Yaoneng *(Chairman)*
Mr. Lyu Dazhong
Mr. Li Jinyan
Mr. Lu Zhicheng
Mr. Shen Haiquan
Mr. Zheng Gang

Independent non-executive Directors

Mr. Yu Jingxuan
Mr. Lin Tao
Mr. Wong Ka Wai

SUPERVISORS

Mr. Zou Jiangtao
Mr. Chen Xiangjiang
Mr. Lyu Xingliang
Mr. Zhu Jialian

AUDIT COMMITTEE

Mr. Yu Jingxuan *(Chairman)*
Mr. Wong Ka Wai
Mr. Lin Tao

NOMINATION COMMITTEE

Mr. Lin Tao *(Chairman)*
Mr. Lyu Yaoneng
Mr. Yu Jingxuan

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Wong Ka Wai *(Chairman)*
Mr. Lyu Yaoneng
Mr. Lin Tao

STRATEGIC COMMITTEE

Mr. Lyu Yaoneng *(Chairman)*
Mr. Lin Tao
Mr. Zheng Gang

JOINT COMPANY SECRETARIES

Mr. Hong Kam Le
Mr. Jin Shuigen

AUTHORISED REPRESENTATIVES

Mr. Lyu Yaoneng
Mr. Jin Shuigen

LEGAL ADVISER

As to Hong Kong Law

Chungs Lawyers (in association with DeHeng Law Offices)

As to PRC Law

AllBright Law Offices

AUDITOR

Ernst & Young

H SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

CORPORATE INFORMATION

PRINCIPAL BANKERS

China Construction Bank Corporation Tongxiang Branch
China Construction Bank Corporation Qingbei Branch
China Construction Bank Corporation Xingfu Branch
Industrial and Commercial Bank of China Limited Tongxiang Branch
Industrial Bank Co ., Ltd Jiaxing Branch
Bank of Communications Co ., Ltd Tongxiang Branch
China Merchants Bank Co ., Ltd Jiaxing Tongxiang Branch
Tongxiang Rural Commercial Bank Gaoqiao Branch

REGISTERED ADDRESS

No . 669 Qingfeng South Road (South)
Tongxiang City
Zhejiang Province
PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

No . 669 Qingfeng South Road (South)
Tongxiang City
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28/F,
Henley Building,
5 Queen's Road Central,
Central,
Hong Kong

STOCK CODE

1459

WEBSITE

www.jujiang.cn

FIVE-YEAR FINANCIAL SUMMARY

Year ended 31 December	**2019** *RMB'000*	2018 *RMB'000*	2017 *RMB'000*	2016 *RMB'000*	2015 *RMB'000*
Major Items of Consolidated Statement of Profit or Loss and other Comprehensive Income					
Revenue	**7,055,146**	6,895,993	4,803,019	4,032,168	4,424,626
Gross profit	**371,464**	378,319	276,692	224,697	233,156
Gross profit margin	**5.27%**	5.5%	5.8%	5.6%	5.3%
Profit for the year	**138,372**	172,868	125,203	90,234	98,524
Net profit margin	**1.96%**	2.5%	2.6%	2.2%	2.2%

As at 31 December	**2019** *RMB'000*	2018 *RMB'000*	2017 *RMB'000*	2016 *RMB'000*	2015 *RMB'000*
Major Items of Consolidated Statement of Financial Position					
Non-current assets	**247,237**	280,294	226,676	240,688	204,610
Current assets	**5,267,597**	5,234,784	4,563,540	4,225,649	3,900,960
Non-current liabilities	**140,938**	–	827	24,804	24,402
Current liabilities	**3,937,632**	4,201,042	3,659,330	3,436,077	3,307,199
Total equity	**1,436,264**	1,314,036	1,130,059	1,005,456	773,969
Gearing ratio (Note 1)	**11.4%**	16.5%	39.6%	55.8%	82.6%

Notes:

(1) Gearing ratio represents net debt divided by total equity as of the end of a year. Net debt is defined as all borrowings deducted by cash and bank balances and pledged deposits

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Jujiang Construction Group Co., Ltd. ("Jujiang Construction" or the "Company", together with its subsidiaries, the "Group"), I hereby present the annual results of the Company for the year ended 31 December 2019.

For the year ended 31 December 2019, the Group's turnover and profit were approximately RMB7,055.1 million and RMB138.4 million respectively, representing an increase of 2.3% and a drop of 20.0% respectively year-on-year.

In 2019, the total value of the PRC construction industry was approximately RMB24,845 billion, representing an increase of 5.7% year-on-year from the total value of approximately RMB23,500 billion in 2018. The residential building construction area of the PRC construction industry was approximately 14.42 billion sq. m., representing a year-on-year increase of 2.3%. The pace of growth in the PRC construction industry was further slowing down as the industry was hit by the decelerated economic growth. Against the backdrop of the Chinese government's initiative to launch a policy that "houses are used for accommodation rather than for speculation", it was difficult for the real estate market to continue with its high growth. The PRC construction industry itself also needed to make changes and look for new opportunities in line with the evolving market. It could not achieve growth as it did in the past by relying on the number of projects, project size and cheap labour force. Instead, it needed to focus more on the service itself by boosting development with higher quality services, which included the enhancement of the quality of engineering projects and the efficiency of information technology application as well as the recruitment of more qualified persons to reinforce management.

To cope with the ever-changing market, the Group continued to implement a strategic plan for "making the principal business prominent, excelling in professionalism and expanding into new areas" over the past year by integrating quality resources, expanding the industrial scale and carrying out overall high-quality development. Firstly, making the principal business prominent by expanding the unique advantages of the construction industry to create a big and strong business; secondly, excelling in professionalism by enhancing professional capabilities, striving to be superior and unique and making a breakthrough in development bottlenecks in various specialized subsidiaries such as those engaged in construction, decoration, finishing, municipal, foundation and groundwork; and thirdly, expanding into new areas by accelerating construction industrialization as well as engineering, procurement and construction ("EPC"); investing in public-private partnership ("PPP") businesses; and monitoring closely the new areas such as large infrastructure to make sure that a new breakthrough will be made in the overseas business, and that economic drivers will be vigorously created.

CHAIRMAN'S STATEMENT

Looking ahead, the construction industry will move towards diversification and specialization from real estate to infrastructure, from local to overseas, from one region to multiple regions and from EPC to PPP, suggesting that the construction industry is diversifying to multiple industries, multiple regions and multiple businesses. The application of big data connects construction and data more closely, while digital technology will continue to penetrate into all aspects of construction, completely changing the way of interaction between construction and people as well as between construction and construction. Accordingly, the Group will further strengthen its development in new areas. By integrating internal resources, the Group will reinforce the collaboration with large customers and the government, appropriately participate in PPP projects and place emphasis on strengthening EPC project management. On the basis of summarizing the existing experience with the management of EPC projects, the Group has stepped up the training and recruitment of EPC project management personnel as well as the build-up of a team, striving to create new economic drivers. Moreover, the Group will vigorously carry out information technology build-up. The first phase of the I8 system, an integrated information technology-based management system, has been launched online, covering economic, human resources management and other modules as a smooth transition from the I6 system to the I8 system. As a result, the operating speed of the system and the intensity of business management and control have been significantly enhanced. The Group will continue to build up relevant experiences and studies to lay a sound foundation for promoting construction industrialization in its next move.

The Group believes 2020 will mark the enhancement of its overall high-quality development and the finale of its "13th Five-year Plan". The Group will continue to implement the new development concept of innovation, coordination, greening, openness and sharing; continue to stick to the proactive and stable general tone of work with a focus on the three-year action programme for comprehensive high-quality development; accelerate transformation and development with a focus on reform, innovation and project management; and continue to find out where the Group has lagged behind and to make up for the shortcomings with a problem-oriented approach, and to make the best use of our time by living up to the good times and good years with a result-oriented approach, so as to successfully accomplish the goals and tasks already planned during the period of the Group's "13th Five-year Plan".

Finally, I would like to extend hereby my heartfelt gratitude to all of our board members, our employees, shareholders and business partners for their ongoing support and trust. With a firm determination for development, a strong sense of responsibility and strong execution capabilities, the Group will stand firm at a new starting point, make a new plan, aim to carry out new development based on its original mission and with diligence and courage, striving to bring forth high-speed growth and high-quality development.

Lyu Yaoneng
Chairman
27 March 2020

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lyu Yaoneng (呂耀能), aged 60, has over 31 years of experience in construction engineering industry. Mr. Lyu has been the chairman of the Board, executive Director and general manager of the Company since 17 July 1996, being the date of incorporation of the Company. He was also appointed as the president of the Company since December 2008. He is primarily responsible for corporate strategic planning and overall business development, management of the Company and decision making. The spouse of Mr. Wang Shaolin (王少林), one of the vice presidents of the Company, is the sister of Mr. Lyu. From December 1976 to February 1987, Mr. Lyu worked at Qitang Commune Construction Agency* (騎塘公社建築社). From March 1987 to April 1991, he worked as Manager and person-in- charge for technical matters at Tongxiang County Qitang Construction Agency* (桐鄉縣騎塘鄉建築社). From May 1991 to June 1996, he worked as the vice chairman and general manager at Tongxiang County Qitang Construction Company* (桐鄉縣騎塘建築工程公司).

Mr. Lyu completed one-and-half-year studies and obtained a professional certificate (專業證書) in industrial and civil construction (工業及民用建築) from Zhejiang University* (浙江大學) in China in January 1995. Mr. Lyu obtained a qualification certificate for senior economist (高級經濟師) issued by the Office of Personnel of Zhejiang Province* (浙江省人事廳) of the People's Republic of China (the "PRC") in December 2006. Mr. Lyu also obtained a qualification certificate for senior engineer in construction engineering management issued by the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in March 2013.

Mr. Lyu Yaoneng held 204,000,000 domestic Shares of the Company, representing 38.25% of the total number of issued shares of the Company.

Mr. Lyu Dazhong (呂達忠), aged 57, has over 35 years of experience in construction engineering industry. Mr. Lyu has been an executive Director since 17 July 1996, being the date of incorporation of the Company. He was also appointed as the vice president of the Company since September 2009. He is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations. From September 1979 to December 1992, Mr. Lyu worked at Tongxiang County Qitang Construction Agency* (桐鄉縣騎塘鄉建築社). From January 1993 to July 1996, he worked as the deputy general manger of Tongxiang County Qitang Construction Company* (桐鄉縣騎塘建築工程公司).

Mr. Lyu Dazhong completed two years part-time studies in industrial and civil construction (工業及民用建築) at Zhejiang University of Technology* (浙江工業大學) in China in June 2004. Mr. Lyu Dazhong obtained a qualification certificate for engineer issued by the Personnel Bureau of Jiaxing City* (嘉興市人事局) of the PRC in November 1994. He also obtained a qualification certificate for senior economist (高級經濟師) issued by the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in January 2010.

Mr. Li Jinyan (李錦燕), aged 43, has over 20 years of experience in construction engineering industry. He has been an executive Director since 6 September 2011. He was also appointed as the vice president of the Company since September 2009. He is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations. From August 1994 to July 1995, he joined Tongxiang City Qitang Construction Company* (桐鄉市騎塘建築工程公司) as a technician and worked as deputy chief of production technology department of the same company from July 1995 to July 1996.

Mr. Li completed five and half years studies in construction engineering at Tongji University* (同濟大學) in China in December 2000. Mr. Li also obtained a qualification certificate for senior engineer in construction engineering issued by the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in February 2011.

Mr. Lu Zhicheng (陸志城), aged 51, has over 28 years of experience in construction engineering industry. Mr. Lu has been an executive Director since 6 September 2011. He joined our Group as construction worker in July 1996 and was also appointed as the project manager of the Company since May 1998. He is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations, in particular with regard to project management of the Company. From May 1987 to May 1995, he worked at Tongxiang County Qitang Construction Agency* (桐鄉縣騎塘鄉建築社), while from May 1995 to July 1996, he worked at Tongxiang City Qitang Construction Company* (桐鄉市騎塘建築工程公司).

Mr. Lu completed two years studies in civil engineering at China University of Petroleum* (中國石油大學) in China in July 2006. He also obtained a qualification certificate for engineer issued by the Personnel Bureau of Jiaxing City* (嘉興市人事局) of the PRC in September 2009.

Mr. Shen Haiquan (沈海泉), aged 46, has over 15 years of experience in construction engineering industry. He has been an executive Director since 6 September 2011. He joined our Group as construction worker in September 1999 and was also appointed as the project manager of the Company since July 2012. He is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations, in particular with regard to project management of the Company. From April 2003 to June 2006, Mr. Shen worked as the manager of engineering department of Zhejiang Jujiang Real Estate Group Co. , Ltd.* (浙江巨匠房地產集團有限公司).

Mr. Shen completed four years studies in industrial and civil construction (工業及民用建築) at Jiaxing College* (嘉興學院) in China in June 2004. He also completed two and half years studies via online distant learning in civil engineering at Wuhan University of Technology (武漢理工大學) in PRC in July 2011. Mr. Shen obtained a qualification certificate for senior engineer in construction issued by the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in March 2013.

Mr. Zheng Gang (鄭剛), aged 51, has over 28 years of experience in construction engineering industry. Mr. Zheng has been an executive Director since 6 September 2011. He joined our Group as director of technology centre in October 2008 and was also appointed as the vice president of the Company since July 2011. He is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations. From September 1992 to December 1999, he worked as the director of testing room at Zhejiang Jiaxing Construction Installation Company Ltd.* (浙江嘉興建築安裝有限公司). From January 2001 to April 2003, he worked as director of testing centre at Zhejiang Zhongyuan Construction Company Ltd.* (浙江中元建設股份有限公司). From May 2003 to October 2006, he worked as the manager at Jiaxing City Zhongyuan Engineering Inspection Company Ltd.* (嘉興市中元工程檢驗有限責任公司). Mr. Zheng worked as the general manager of Jiaxing City Zhongxu Engineering Inspection Company Ltd.* (嘉興市中旭工程檢驗有限責任公司) and Jiaxing City Chunqiu Construction Engineering Inspection Company Ltd.* (嘉興市春秋建設工程檢測有限責任公司) from November 2006 to March 2008 and from April 2008 to September 2008, respectively.

Mr. Zheng completed two years studies in materials science and engineering majoring in building materials at Tongji University* (同濟大學) in China in July 1988. He also completed five and half years studies in industrial and civil construction (工業與民用建築) at Tongji University* (同濟大學) in China in December 1999. Mr. Zheng obtained a qualification certificate for senior engineer of professor grade in construction (建築施工專業教授級高級工程師) issued by the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in April 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Jingxuan (余景選), aged 48, has been an independent non-executive Director since 24 November 2016. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. He has obtained a master's degree in management majoring in accounting from Shanghai University of Finance and Economics in February 2001, and a doctor's degree in management majoring in agricultural economics management from Northwest A&F University in June 2011. Mr. Yu has been an associate professor at the School of Accounting in Zhejiang University of Finance and Economics (浙江財經大學會計學院) ("ZUFE") since November 2004, and is currently the secretary and deputy officer to the financial management department of Party Branch Committee. He served as a teaching assistant from August 1993 to March 1999, and a lecturer from March 1999 to November 2004 in ZUFE.

Mr. Lin tao (林濤), aged 44, has over 15 years of experience in the construction education. Mr. Lin has been an independent non-executive Director since 19 August 2015. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. From July 1997 to August 1998, he worked as assistant architect at Ningbo Institute of Construction Design Company Ltd.* (寧波建築設計研究院有限公司). Since April 2001, he is a lecturer and assistant officer of faculty of Zhejiang University* (浙江大學) Faculty of Construction. Mr. Lin completed a bachelor's degree and a master degree in construction (建築學), and a doctoral degree in architectural design from Zhejiang University* (浙江大學) in the PRC in June 1997, March 2001 and June 2012, respectively. He was accredited as a class one registered architect by the Office of Personnel of Zhejiang Province* (浙江省人事廳) in September 2004. He is also a member of the Planning and Design Professional Committee* (規劃設計專業委員會) under the Zhejiang Province Village and Town Construction and Development Research Association* (浙江省村鎮建設與發展研究會) since August 2015.

Mr. Wong Ka Wai (王加威), aged 40, has been an independent non-executive Director since 19 August 2015. He is primarily responsible for attending meetings of our Board to perform duties as a Board member, but not participating in the day-to-day management of our business operations. From February 2017 to June 2017, he was an independent non-executive director of Green International Holdings Limited (Stock code: 2700), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wong has worked in various international accounting firms for over seven years. From January 2013 to March 2017, he is the chairman of Jai Dam Distribution (Hong Kong) Co. Ltd. . He is the chief financial officer and company secretary of the Ruifeng Power Group Company Limited (stock code: 2025) a company whose shares are listed on the Main Board of the Stock Exchange since May 2017. Mr. Wong obtained a bachelor's degree of business administration in accountancy from the City University of Hong Kong in November 2001. He was admitted as a member of the Association of Chartered Certified Accountants in 2009.

BOARD OF SUPERVISORS

Mr. Zou Jiangtao (鄒江滔), aged 42, has joined the Company since November 2000 and is currently serving as the manager of the seventh branch offices of the Company. He was appointed as an employee representative Supervisor since 25 December 2014. Mr. Zou Jiangtao completed four years studies in civil engineering at Zhuzhou Institute of Technology* (株洲工學院) in July 2000. Mr. Zou Jiangtao also obtained a qualification certificate for senior engineer in construction engineering issued by the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in February 2011.

Mr. Chen Xiangjiang (陳祥江), aged 61, has joined our Company as a shareholder representative Supervisor since 19 August 2015. He was the head of factory of Zhejiang Longchang Leather Group Co. , Ltd* (浙江龍昌皮革集團有限責任公司) from January 1991 to October 1998. He is a general manager of Zhejiang Xianglong Leather Co. , Ltd. (浙江祥隆皮革有限公司) since October 1998. Mr. Chen completed secondary school at Nanri Secondary School* (南日中學) in PRC in 1975.

Mr. Lyu Xingliang (呂興良), aged 47, has joined our Company as a shareholder representative Supervisor since 20 August 2016. He has completed three years studies in industrial and civil construction at Zhejiang Radio & Television University* (浙江廣播電視大學) in June 2001. He joined the Company as the deputy chief of the operation division in August 1996, and promoted to chief of the operation division in April 2001. He served as the manager of sales department of the Company from February 2006 to January 2014. He served as the standing deputy general manager of the sales centre of the Company from January 2014 to December 2016 and he is currently served as vice president. Previously, he served as a budget forecaster of Tongxiang County Qitang Construction Company* (桐鄉縣騎塘建築工程公司), the predecessor of the Company, from December 1991 to August 1996.

Mr. Zhu Jialian (朱家煉), aged 57, has joined our Company as a shareholder representative Supervisor since 24 November 2016. He has completed three years studies in Mathematics at Zhejiang Institute of Education* (浙江教育學院) in July 1989. Mr. Zhu has been the general manager of Zhejiang Yonghe Adhesive Products Co. , Ltd* (浙江永和膠粘製品股份有限公司) since August 1998 and a director at Bank of Jiaxing since May 2007. Before that, he served as a biology teacher in Tongxiang City Gaoqiao Secondary School* (桐鄉市高橋中學) from July 1983 to June 1988 and the factory director of school- run factory of Tongxiang City Gaoqiao Secondary School* (桐鄉市高橋中學校辦廠) from June 1988 to August 1998.

SENIOR MANAGEMENT

Mr. Lyu Yaoneng (呂耀能), aged 60, has been appointed as the president of the Company since December 2008. For biographical details of Mr. Lyu please refer to the corresponding paragraph in the section headed "Biographical Details of Directors, Supervisors and Senior Management – Executive Directors" in this report.

Mr. Lyu Dazhong (呂達忠) and Mr. Li Jinyan (李錦燕), aged 57 and 43 respectively, have been appointed as the vice president of the Company since September 2009. For biographical details of Mr. Lyu and Mr. Li please refer to the corresponding paragraph in the section headed "Biographical Details of Directors, Supervisors and Senior Management – Executive Directors" in this report.

Mr. Zheng Gang (鄭剛), aged 51, has been appointed as the vice president of the Company since July 2011. For biographical details of Mr. Zheng please refer to the corresponding paragraph in the section headed "Biographical Details of Directors, Supervisors and Senior Management – Executive Directors" in this report.

Mr. Wang shaolin (王少林), aged 57, joined the Company in July 1996 and has been our vice president since 15 September 2009. Mr. Wang completed two years studies via online distant learning in civil engineering at China University of Geosciences* (中國地質大學) in China in January 2007. Mr. Wang obtained a qualification certificate for engineer issued by the Personnel Bureau of Jiaxing City* (嘉興市人事局) of the PRC in April 2004. Mr. Wang also obtained a qualification certificate for senior economist (高級經濟師) issued by the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in January 2011.

Mr. Jin shuigen (金水根), aged 40, has been appointed as the joint company secretary of the Company since 31 August 2016. He has also been appointed as the vice president of the Company since January 2018, mainly responsible for the strategic planning and operation management of enterprise development. He completed master's degree studies in construction and civil engineering at Tongji University* (同濟大學) in July 2016 and obtained a bachelor's degree from East China Jiaotong University in civil engineering majoring in water supply and sewerage engineering in July 2003. He joined our Company and served as the deputy general manager of the enterprise development centre from July 2010 to June 2013. He served as the deputy general manager of Zhejiang Jujiang Real Estate Group Co. , Ltd.* (浙江巨匠房地產集團有限公司) from July 2013 to January 2015. He served as the standing deputy general manager of the enterprise development centre of the Company from January 2015 to December 2018, and served as the standing general manager of the integrated management center of the Company since January 2019 and also as the assistant to president of the Company from January 2016 to December 2017, which he is mainly responsible for the strategic planning and operation management of the enterprise development. Previously, he worked as a technician in Shanghai branch of China Railway Construction Engineering Group Co. , Ltd.* (中鐵建工集團有限公司上海分公司) from July 2003 to June 2005 and served as an engineer and a senior manager in Shanghai Merchant Property Co. , Ltd.* (上海招商置業有限公司) from June 2005 to June 2010.

Mr. Zhong Zhihua (鍾志華), aged 42, has been our Chief Financial Officer since 2017. He is primarily responsible for the Company's financial management and business development operation. Mr. Zhong has over 17 years of experience in the construction industry. He joined the Company in September 2000 as the Office Manager, handling administrative matters. From February 2008, he became manager of the finance department and was responsible for the financial management work. Starting from January 2014 to December 2017, he has been the executive vice general manager of the integrated management center and served as the executive general manager of the integrated management centre and concurrently served as the joint company secretary from August 2015 to August 2016 and the president's assistant from 2015 to 2017, and has served as vice president since 2018 and general manager of the financial management center since January 2019. Mr. Zhong completed a two-year specialty course majoring in modern secretarial training at the Zhejiang Radio & Television University* (浙江廣播電視大學) in June 1999. He also completed a two and a half year online course majoring in accountancy at the East China University of Science and Technology* (華東理工大學) in January 2011. In July 2006, he completed a two-year online course majoring in administrative management at the East China University of Science and Technology* (華東理工大學). He also obtained a qualification certificate for assistant economist (助理經濟師) issued by Jiaxing City Personnel Bureau* (嘉興市人事局) in January 2005. In September 2009, he obtained a qualification certificate for engineer issued by Jiaxing City Personnel Bureau* (嘉興市人事局).

Mr. Cao Lijun (曹立峻), aged 48, is mainly responsible for the Company's market expansion. Mr. Cao has over 19 years of experience in the real estate development industry. He worked as a project manager in Zhejiang Zhingfang Real Estate Co. , Ltd.* (浙江中房置業股份有限公司) from June 1998 to March 2004. From April 2004 to November 2016, he was the deputy general manager of Zhejiang Zhongcheng Industrial Co. , Ltd.* (浙江中成實業有限公司) and from December 2016 to present, he served as vice president and general manager of the market expansion center of the Company.

JOINT COMPANY SECRETARIES

Mr. Hong Kam Le (康錦里), aged 40, has been our joint company secretary since 2 September 2015. He has more than 12 years' experience in legal professional industry and is currently a partner of Chungs Lawyers (in association with DeHeng Law Offices). Prior to joining Chungs Lawyers as a partner in November 2018, he worked at several other Hong Kong law firms and was mainly involved in commercial and corporate matters. Mr. Hong also acts as the company secretary and authorized representative of Shengli Oil & Gas Pipe Holdings Limited (stock code: 1080) since December 2013, and as an independent non-executive director of Hong Kong Johnson Holdings Co., Ltd. (stock code: 1955) since September 2019.

Mr. Hong obtained a Bachelor of Commerce and a Bachelor of Laws Degrees from the University of Sydney in June 2003 and May 2004, respectively and a Postgraduate Certificate in Laws from The University of Hong Kong in June 2005. Mr. Hong was admitted as a solicitor of the High Court of Hong Kong in September 2007.

Mr. Jin Shuigen (金水根), aged 40, has been appointed as the joint company secretary of the Company since 31 August 2016. For biographical details of Mr. Jin, please refer to the corresponding paragraph in the section headed "Biographical Details of Directors, Supervisors and Senior Management – Senior Management" in this report .

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Established in 1965, the Group is one of the earliest construction companies in Jiaxing, a city which is home to about 4.50 million with well-developed commercial and light industries. With more than 50 years of experience in the construction industry and proven track record, the Company has outperformed other construction group companies in Jiaxing and extended its reach outward to other cities in Zhejiang Province and even to cities and provinces beyond Zhejiang Province.

The Company successfully obtained the Premium Class Certificate for General Building Construction Contracting Work ("Premium Class Certificate") and the Grade A Engineering Design (Construction Industry) Certificate ("Engineering Design Certificate") on 28 January 2015 after undergoing a stringent review process. The Premium Class Certificate is the highest qualification awarded to building construction general contractors satisfying the high standards in relation to project management experience, technological innovation and scale of operations. The Engineering Design Certificate is awarded to those that meet high standards in relation to personnel qualifications, management capabilities and internal control. With these two key certificates, the Group is able to provide fully-integrated construction solutions, which consist of construction contracting and design, survey and consultancy services for building construction projects of all types and scales nationwide.

MARKET REVIEW

In 2019, China's real estate regulatory policy sharpened the efforts on urban renewal and transformation and upgrade of housing stock in hope of renovating old urban residential areas and promoting leased housing under the overarching theme of "houses are used for accommodation rather than for speculation". It also reiterated importance of upholding the principle of "houses are used for accommodation rather than for speculation" for full implementation of a long-standing management and control mechanism that stabilizes land prices, housing prices, and expectations in accordance with city-specific policies and category based guidance to promote steady and healthy development of the real estate market. According to the statistics of the National Bureau of Statistics of the People's Republic of China, for the year ended 31 December 2019, i) total housing construction area in China was approximately 14.42 billion sq.m. (2018: approximately 14.09 billion sq.m.), representing an increase of approximately 2.3% from the corresponding period of 2018; ii) total newly commenced construction area in China was approximately 5.15 billion sq.m. (2018: approximately 5.59 billion sq.m.), representing a decrease of approximately 7.8% from the corresponding period of 2018; and iii) total contract amount of PRC construction enterprises was approximately RMB54.50 trillion (2018: approximately RMB49.44 trillion), representing an increase of approximately 10.2% from the corresponding period of 2018. Moreover, total value of the PRC construction industry was approximately RMB24.84 trillion for the year ended 31 December 2019 (2018: approximately RMB23.51 trillion), representing an increase of approximately 5.7% as compared with corresponding period of 2018. Despite the new challenges arising from regulatory policies, the improvement of various indicators reflected the strong momentum for the construction sector and the demand for the industry is expected to remain on the rise.

BUSINESS REVIEW

In 2019, apart from extending the three main strategies of "major customers", "going out" and "quality business", the Group focused on the three aspects of "making the principal business prominent, excelling in professionalism and expanding into new areas" at the very core of its business. During the year, the net value of new projects remained stable at approximately RMB10.16 billion as compared with the same period of last year. As at 31 December 2019, the outstanding backlog in terms of contract value was approximately to RMB14.43 billion.

The following table sets forth the movement of backlog of the construction projects during the years:

	Year ended 31 December	
	2019	2018
	RMB'million	RMB'million
Opening value of backlog	**11,239.2**	7,976.8
Net value of new projects (Note 1)	**10,155.2**	10,087.1
Revenue recognized (Note 2)	**(6,961.6)**	(6,824.7)
Closing value of backlog(Note 3)	**14,432.8**	11,239.2

Notes:

(1) Net value of new contracts represents the total contract value of new construction contracting contracts which were awarded to us during the relevant year indicated.

(2) Revenue recognized represents the revenue that has been recognized during the relevant year indicated.

(3) Closing value of backlog means the total contract value for the remaining work of construction projects before the percentage of completion of such projects reach 100% as at the end of the relevant year indicated.

Making the principal business prominent

In 2019, the Company consolidated the market share of approximately 34.8% in Tongxiang by making use of its strength in brand, management and qualified personnel. In addition to the Tongxiang market, the Group was implementing its "going out" development plan rapidly and steadily as boosted by its "major customers" strategy. The business outside Tongxiang accounted for approximately 75.6% for the year, while the net value of new projects was approximately RMB7.68 billion, of which the net value of new projects outside Zhejiang Province was approximately RMB5.55 billion, accounting for approximately 54.6%. Especially in Henan Province, the value of new contracts signed up with the Company was approximately RMB3.79 billion for the year as the Company deepened the strategic collaboration with local top real estate companies, and participated in local government's investment projects to consolidate the regional market presence. The Company began to bear fruit from the market expansion in Anhui as it undertook approximately RMB450 million worth of business.

The following table sets forth a breakdown of new contract amounts by region for the years indicated:

	Year ended 31 December				
	2019		2018		Change
	RMB'million	**(%)**	RMB'million	(%)	%
Jiaxing City	**2,478.2**	**24.4**	6,015.4	59.6	(58.8)
Zhejiang Province (except Jiaxing City)	**2,131.8**	**21.0**	1,360.7	13.5	56.7
Other areas (except Zhejiang Province)	**5,545.2**	**54.6**	2,711.0	26.9	104.5
Total	**10,155.2**	**100.0**	10,087.1	100.0	0.7

The Group was trying to undertook more large-scale projects. While aiming at quality rather than quantity as its operating policy, it further optimized its business portfolio, and increased the proportion of the large project business so that the project business with a value of over RMB100 million amounted to nearly RMB7.72 billion, accounting for over 76.0%. The Group was proceeding with its large customer strategy in a solid way as well so that the proportion of new contracts signed up with large customers for the year accounted for more than 43.0%. The Group maintained good collaboration with top real estate companies and quality customers as new signed-up residential and commercial housing projects amounted to approximately RMB7.07 billion for the year, accounting for approximately 69.6%; industrial projects amounted to approximately RMB1.31 billion, accounting for approximately 12.9%; and public facility construction projects amounted to approximately RMB1.78 billion, accounting for approximately 17.5%.

Excelling in professionalism

In addition to making the principal business prominent in 2019, the Group also stepped up the resources committed to the development of various specialized sectors such as building, finishing, decoration, municipal services, foundations and groundwork, and enhanced the professional capabilities of these sectors in order to expand the engineering services of these sectors. Meanwhile, the Group was further extending to the upstream and downstream of the industrial chain to enhance complementary advantages between various specialized sectors and the principal business so as to contribute more projects and income to each business segment. During the year, business growth in various specialized sectors was boosted by the contracting of engineering, procurement and construction. In particular, the business of construction, finishing and decoration companies amounted to approximately RMB245 million, new contracts signed up with municipal companies amounted to approximately RMB243 million, and the foundation and groundwork sector amounted to approximately RMB103 million.

The Group conducted a scientific research on industries at the post-doctoral workstations together with the academician workstations and other platforms so as to accelerate the development and application of new technologies and craftsmanship. It carried out a technical research on the deepened design of prefabricated construction and concrete prefabricated parts ("PC") as well as on the prefabricated installation of electromechanical pipelines. As a result, it obtained two provincial construction methods, one national quality control ("QC") achievement, two provincial QC achievements, 24 accepted national patents and three licences for the year. By way of the QC achievements, construction methods and patent applications, it stepped up the summarization, upgrade, promotion and application of the existing technological achievements. While proceeding with the development and utilization of corporate patents and proprietary technologies, and making breakthroughs in key technologies, it has also reserved technical professionals for the expansion into new fields.

During the year, the Group accelerated the promotion and application of Building Information Model ("BIM") technology by serving more than 30 projects under construction with this technology. The service scope covered various key sectors such as project construction cost, output value, materials, subcontracting settlement and project settlement so as to further explore the value of applying BIM technology. Throughout the year, it won one national first prize, one second prize and two third prizes as well as the Zhejiang Corporate Award, one second prize, two third prizes, etc., thus enhancing the core competitiveness and industry influence of BIM technology application. The Group carried out information technology build-up by upgrading to the I8 system from the I6 system so that business management and control were significantly enhanced, and by further increasing the coverage of project information management to improve the project information management system. By means of information technology build-up, the Group carried out vertical pull and horizontal integration of its management work to accelerate the process of standardized management.

MANAGEMENT DISCUSSION AND ANALYSIS

Expanding into new areas

Engineering, procurement and construction ("EPC") projects and public-private partnership ("PPP") projects have become both the trend in the development of the construction industry over the past several years, and the new area that the Group has been exploring and growing. In October 2017, the Group began to proceed with the EPC projects in a solid way. By carrying out the operation and construction of the two EPC projects involving "Wutongshu +" project in Wuzhen and the primary school on Kangmin Road, the Group built the management capability of the direct project team, toughened the design coordination capability of the design team and raised the overall operation level of the general contracting of projects. During the year, the contract value of the newly signed-up EPC projects was approximately RMB260.6 million.

In April 2019, the Group signed up a PPP project – a practice base for quality youth education in Tongxiang City. According to the provisions of the PPP contracts, the total investment of the PPP projects is expected to be approximately RMB263.1 million, involving the construction and operation of an educational practice base in Tongxiang City, Zhejiang Province, the PRC, and carrying a total area of approximately 100,000 sq.m. and a gross floor area of 53,235.94 sq.m.. The PPP project will be carried out in four phases, i.e. the pre-construction phase, the two-year construction phase, the thirteen-year operation phase and the handover phase. The return on investment of this PPP project is approximately 6.62%.

For the year ended 31 December 2019, approximately 98.7% of the revenue was contributed by the construction contracting business. The Group recorded revenue of approximately RMB7,055.1 million for the year ended 31 December 2019, representing an increase of approximately 2.3% year-by-year. The net profit for the year ended 31 December 2019 as compared to that for the year ended 31 December 2018 decreased by approximately 20.0% to approximately RMB138.4 million. The following table sets forth a breakdown of our revenue by business and project type for the years indicated:

	Year ended 31 December			
	2019		2018	
	RMB' million	**%**	RMB' million	%
Construction contracting business				
Residential	**3,711.4**	**52.6**	3,329.3	48.3
Commercial	**912.2**	**12.9**	1,012.8	14.7
Industrial	**1,642.2**	**23.3**	1,898.9	27.5
Public works	**695.7**	**9.9**	583.7	8.5
	6,961.5	**98.7**	6,824.7	99.0
Other business	**93.6**	**1.3**	71.3	1.0
Total revenue	**7,055.1**	**100.0**	6,896.0	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and gross profit margin

The revenue remained stable at approximately RMB6,896.0 million and RMB7,055.1 million for the years ended 31 December 2018 and 2019, respectively. As compared with the year ended 31 December 2018, the revenue from residential construction projects was increased by approximately RMB382.1 million for the year ended 31 December 2019, which was partially offset by a decrease in revenue from the commercial construction projects and industrial construction projects of approximately RMB100.6 million and RMB256.7 million, respectively, for the year ended 31 December 2019. Increase in revenue from residential construction projects was a result of benefits of our business strategies 'major customers' and 'going out', the Group co-operated with mega property developers and developers outside Jiaxing City which stimulated our revenue. However, as the economy is uncertain in the PRC, the numbers and sizes of the commercial and industrial projects were reduced.

Gross profit decreased by approximately 1.8% from approximately RMB378.3 million for the year ended 31 December 2018 to approximately RMB371.5 million for the year ended 31 December 2019. The gross profit margin decreased from approximately 5.49% for the year ended 31 December 2018 to approximately 5.27% for the year ended 31 December 2019, such decrease was mainly due to the worsened economic environments. The profit margin of new projects was decreased, especially for the commercial construction project. The gross profit margin of the commercial construction projects decreased from approximately 5.26% for the year ended 31 December 2018 to approximately 4.17% for the year ended 31 December 2019.

Other income and gains

Other income and gains increased by approximately RMB1.2 million from approximately RMB6.6 million for the year ended 31 December 2018 to approximately RMB7.8 million for the year ended 31 December 2019 primarily because of an increase in interest income as the average bank balance increased during the year as compared with the corresponding year in 2018.

Administrative expenses

The administrative expenses increased by approximately 31.1% from approximately RMB86.7 million for the year ended 31 December 2018 to approximately RMB113.6 million for the year ended 31 December 2019 which primarily was due to an increase in salaries and employee benefits of approximately RMB17.7 million as the Group has recruited a total of 133 new employees, including senior technology professionals, first class constructors and second class constructors, to meet its fast growing business.

Impairment losses on financial and contract assets, net

Impairment losses on financial and contract assets, net, increased by approximately 37.8% from approximately RMB13.6 million for the year ended 31 December 2018 to approximately RMB18.8 million for the year ended 31 December 2019, primarily due to increase in impairments of trade receivable as the receivable balance aged over one year were increased. The impairments of trade receivables increased from approximately RMB4.9 million for the year ended 31 December 2018 to approximately RMB16.8 million for the year ended 31 December 2019.

Finance costs

The finance costs increased by approximately 8.6% from approximately RMB59.1 million for the year ended 31 December 2018 to approximately RMB64.2 million for the year ended 31 December 2019, primarily due to the increase of the Group in using receivable factoring and discounting bills for financing. The interest expenses in relation to the receivable factoring and discounting bills increased from approximately RMB32.6 million for the year ended 31 December 2018 to approximately RMB39.9 million for the year ended 31 December 2019.

Income tax expenses

Income tax expenses decreased by 13.7% from approximately RMB50.2 million for the year ended 31 December 2018 to approximately RMB43.3 million for the year ended 31 December 2019 primarily because of a decrease in profits from the operation. The effective tax rate increased from approximately 22.5% for the year ended 31 December 2018 to 23.8% for the year ended 31 December 2019 primarily due to an increase in non-deductible expenses and deferred tax in relation to tax losses incurred by some subsidiaries were not recognized.

Profit for the year

Profit for the year decreased by approximately 20.0% from approximately RMB172.9 million for the year ended 31 December 2018 to approximately RMB138.4 million for the year ended 31 December 2019. Net profit margin decreased from approximately 2.51% for the year ended 31 December 2018 to approximately 1.96% for the year ended 31 December 2019, primarily due to a decrease in gross profit margin and an increase in administrative expenses for the year ended 31 December 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The working capital for the Group's operations primarily comes from cash generated from operating activities and interest-bearing bank and other borrowings. As at 31 December 2019 and 31 December 2018, the Group had cash and cash equivalents of approximately RMB274.0 million and approximately RMB167.4 million, respectively.

Treasury Policies

The Group monitors the cash flows and cash balance on a regular basis and seek to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group intends to finance its operations through cash generated from operating activities and borrowings. Other than normal bank borrowings that the Group obtains from commercial banks and potential debt financing plans, the Group does not expect to have any material external debt financing plan in the near future.

Contract assets

The contract assets decreased from approximately RMB3,077.3 million as at 31 December 2018 to approximately RMB2,564.1 million as at 31 December 2019, representing 58.8% and 48.7% of the total current assets as of the corresponding period. Decrease in the proportion of the contract assets to the total assets and absolute amounts of contract assets was primarily a result of the Group actively issued bills to the customers.

Trade and bills receivables

Trade and bills receivables increased by approximately 20.7% from approximately RMB1,470.7 million as at 31 December 2018 to approximately RMB1,774.9 million as at 31 December 2019. Such increase was due to the Group's active issuance of bills to customers for settlements as the Lunar New Year in 2019 is earlier than that in 2018. The trade and bills receivables turnover days increased from approximately 63 days as at 31 December 2018 to approximately 84 days as at 31 December 2019, and such increase was a result of the increase in receivable balance aged over one year.

Trade and bills payables

Trade and bills payables decreased from approximately RMB3,159.5 million as at 31 December 2018 to approximately RMB2,836.6 million as at 31 December 2019 as the early settlement in 2019. The trade and bills payables turnover days slightly increased from approximately 161 days as at 31 December 2018 to approximately 164 days as at 31 December 2019.

Borrowings and charge on assets

As of 31 December 2019, the Group relied on short-term and long-term interest-bearing borrowings in the aggregated amount of approximately RMB548.2 million (31 December 2018: approximately RMB420.1 million). The short-term interest bearing borrowings amounting to approximately RMB407.3 million (31 December 2018: approximately RMB420.1 million) are repayable within one year and carried effective interest rate with a range from 2.88% to 15.0% per annum (31 December 2018: 3.9% to 6.5% per annum). A long-term interest-bearing borrowings amounting to approximately RMB140.9 million (31 December 2018: nil) are repayable from 2021 to 2028 and the interest rate is 10% lower than the base rate announced by the People's Bank of China.

As at 31 December 2019, certain general banking facilities were secured by the land use rights and buildings and trade receivables of approximately RMB91.0 million and RMB30.0 million, respectively (31 December 2018: approximately RMB93.2 million and nil).

Gearing ratio

The gearing ratio decreased from 16.5% as at 31 December 2018 to approximately 11.4% as at 31 December 2019. The decrease was mainly attributable to an increase in pledged deposits of approximately RMB74.8 million and an increase in cash and cash equivalents of approximately RMB106.6 million which offset by an increased of long-term interest-bearing borrowings of approximately RMB140.9 million.

Gearing ratio represents net debt divided by total equity as of the end of a year. Net debt is defined as all borrowings deducted by cash and bank balances and pledged deposits.

Capital Expenditure

For the year ended 31 December 2019, the capital expenditures were approximately RMB40.4 million (2018: approximately RMB98.9 million). The capital expenditure incurred for the year ended 31 December 2019 primarily related to the concession right of the Tongxiang City youth quality education complex project.

Capital Commitments

As at 31 December 2019, the Group did not have any significant commitments.

Contingent liabilities

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

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB. Therefore, the Group does not have significant exposure to foreign exchange fluctuation. The Board does not expect the fluctuation of RMB exchange rate and other foreign exchange fluctuations will have material impact on the business operations or financial results of the Group. The Group currently has no hedging policy with respect to the foreign exchange risks, therefore, the Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in this report, the Group had no significant investments held or material acquisitions and disposals during the year ended 31 December 2019.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2019, the Group had total of 983 employees (31 December 2018: 851 employees), of which 676 were based in Jiaxing City, and 307 were based in other areas of Zhejiang Province and in other provinces and regions of China. For the year ended 31 December 2019, the Group incurred total staff costs of approximately RMB66.0 million, representing an increase of approximately 29.1% as compared with corresponding period in 2018, mainly attributable to increase in headcount and salary incremental.

Employees located in China are covered by the mandatory social security schemes required by local practice and regulations of the PRC, which are essentially defined contribution schemes. The Group is required by the PRC law to contribute a certain percentage of the average salaries of the employees to various schemes in accordance with the respective regulatory requirements of each city. The PRC government is directly responsible for the payment of the benefits to these employees.

In the PRC, the Group cannot reduce the existing level of contributions by the forfeited contributions made by the employers on behalf of the employees who leave the defined contribution schemes before the vesting period. As such, no forfeited contribution was used to reduce both years' level of contributions and no forfeited contribution was available at 31 December 2019 and 2018 to reduce future years' contributions in the PRC.

The Group believes that the long-term growth depends on the expertise, experience and development of the employees. The salaries and benefits of the employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve the employees' skills and technical expertise, the Group provides regular training to the employees.

FUTURE PROSPECTS

The pace of development in the construction industry in the PRC is obviously being hit by the slowdown in GDP growth, while the growth rate of infrastructure investment has declined as compared with the previous double-digit growth as well. However, since the level of infrastructure development is relatively lagging behind in the western part of China, the implementation of the integration of the Yangtze River Delta will help keep the growth rate of infrastructure investment increasing, thus continuing to offer an ample room for improvement in the construction industry and infrastructure investment in future. In the coming year, the Group will lay a solid foundation for itself with a target for overall quality development, while looking for more suitable markets and regions, and delivering quality services with every effort.

DIRECTORS' REPORT

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Company is construction contracting business and other business, namely our design, survey and consultancy business. The principal activities of its subsidiaries are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by segments is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 and the financial information of the Group as at 31 December 2019 are set out in the audited financial statements of this report.

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 31 December 2019 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 13 to 20 of this report.

KEY RISKS AND UNCERTAINTIES

Business and market

Demand for services and products of the Group is cyclical in nature and directly correlates with the level of real estate development and construction activities in China, especially in regions and provinces in which the Group operate, including Jiaxing, Zhejiang Province, where a majority of the construction projects awarded to the Group were located during the year. The real estate industry and the construction industry are sensitive to economic fluctuations and market uncertainty, and are closely controlled and monitored by the PRC Government through policymaking. The PRC financial market has experienced significant fluctuations in recent months. They cannot assure Group that such fluctuations will not negatively affect the overall economic condition in China or the real estate or construction industry in China. Revenue from the real estate industry and the construction industry may be adversely affected if the growth of the PRC economy slows down or enters into recession, or if fixed capital investment is reduced, including any reduction in infrastructure investment by the PRC Government. The ongoing projects, in which the Group has invested significant resources and capital, may be put on hold or stopped if economic conditions deteriorate, and the Group may be unable to collect payments and recover our costs.

In addition, the Group are susceptible to the adverse changes in national or local policies related to the PRC real estate industry and construction industry, including those that control the supply of land for property development, project financing, foreign investment and taxation. During the year, the PRC Government implemented various regulations and policies aimed to cool down the real estate market and the inflation of property prices. Various property price control policies have been implemented in recent years, including but not limited to limitations on the individuals to purchase property outside the province of registered residence, restrictions on real estate loans and higher interest rates for second-hand property transactions. More recently, the PRC Government lowered interest rates to stimulate the slowing real estate industry and associated industries, including the construction industry. These policies may affect the level of activity in the PRC real estate industry, and in turn affect the number of construction projects available to the Group. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Financial

The major financial risks faced by the Group are interest risk, credit risk and liquidity risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. The financial risk management objectives and policies are set out in the note 33 to the consolidated financial statement.

Management of the Group will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Tax relief and exemption

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the Company's securities.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2019 as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ENVIRONMENTAL PROTECTION

The Company and the Group uphold the concept of sustainable development, focus attention on the design of research and development, operation environment, social and governance risks, strive to achieve sustainable growth.

The Company considers the staff, shareholders and potential investors, government authorities, and suppliers as the key stakeholders, and values highly the expectations and opinions of the stakeholders on us with respect to environment, society and governance. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an environmental, social and governance report has been published.

For further relevant information regarding our performance on environment, society and governance during the current financial year, please refer to the section headed "Environmental, Social and Governance" on pages 49 to 61 in this report for details.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on us. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, have a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and management are reasonable and competitive in the market and also continue to improve and regularly review and update its policies on remuneration and benefits. The Directors also believe that our long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions.

Through the efforts of sales and marketing team the Group has established solid relationships with many of our long-term customers for periods ranging from three to ten years. During the year, most of our major customers were located in Jiaxing. We continue to maintain such relationships by conducting periodic visits to understand the construction needs of our customers and learn about their new projects.

The Group is in good relationship with its suppliers. The procurement department maintains a list of qualified suppliers, from which project management department procures on an as-needed basis. The qualified suppliers are selected based on various criteria, including price, quality, record of timely delivery, location, supply capacity, credit terms, environment protection assessment and customer service. The procurement department is responsible for reviewing and updating the list of qualified suppliers annually. The Group have established long-term relationships with many suppliers for a period ranging from three to ten years.

SHARE CAPITAL

The share capital structure of the Company as at 31 December 2019 is as follows:

Class of shares	Number of shares	Approximate percentage of the total issued share capital
Domestic shares	400,000,000	75.0%
H shares	133,360,000	25.0%
Total	533,360,000	100.0%

FINAL DIVIDEND

Proposal for profit distribution of 2019

Audited profit available for distribution to shareholders of the Company for the year 2019 calculated in accordance with PRC Accounting Standards for Business Enterprises amounted to approximately RMB600,695,000.

The Board of Directors of the Company has recommended profit distribution for 2019 of 4.0 HK cents in cash (before tax) per share as the final dividend based on the number of shares held by H shareholders registered as at the close of business on the record date for profit distribution and dividend payment. The dividend will be denominated and declared in Hong Kong Dollar, and distributed to the domestic shareholders in RMB and to the overseas shareholders in Hong Kong Dollar. The exchange rate for the dividend calculation in RMB is based on the average benchmark exchange rate of Hong Kong Dollar against RMB as published by the People's Bank of China one week preceding the date of the declaration of such dividend.

The Company expects to pay the dividend to shareholders on 24 July 2020.

In respect of the Company's distribution of final Dividend to Shareholders whose names appear on the H share register of the Company on the H Share Record Date, the Company will process income tax payable on dividends and profit distributions in accordance with relevant taxation laws and regulations of China. The details are as follow:

1. In connection with overseas non-resident corporate H shareholders, a 10% enterprise income tax to be withheld and paid on behalf of such shareholders by the Company shall apply in accordance with relevant provisions of the "Notice of the State Administration of Taxation on issues concerning the withholding and payment of enterprise income tax on dividends paid by Chinese resident enterprises to overseas non-resident corporate H shareholders" (Guo Shui Han 2008 No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(國税函2008897號)). Any H shares registered in the name of non-resident individual H shareholders, including HKSCC Nominees Limited, other nominees or trustees, or other organisations or groups, will be treated as shares being held by non-resident corporate H shareholders, and consequently will be subject to the withholding of the enterprise income tax.

2. Pursuant to relevant laws and regulations and regulatory documents such as the Individual Income Tax Law of the People's Republic of China 《(中華人民共和國個人所得税法》), the Implementation Rules of the Individual Income Tax Law of the People's Republic of China 《(中華人民共和國個人所得税法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Nonresidents under Tax Treaties (Tentative) (Guo Shui Fa 2009 No. 124) (《國家税務總局關於印發〈非居民享受税收協議待遇管理辦法(試行)〉的通知》(國税發2009124號)) and the Notice of the State Administration of Taxation on the Issues Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa 1993 No. 45 (Guo Shui Han 2011 No. 348) 《(國家税務總局關於國税發199345號文件廢止後有關個人所得税徵管問題的通知》(國税函2011348號)), dividends received by overseas resident individual shareholders from the stocks issued by domestic nonforeign investment enterprises in Hong Kong is subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of the stocks issued by domestic nonforeign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or the tax arrangements between Mainland China and Hong Kong (Macau). For individual holders of H shares, dividends payable to them are subject to the individual income tax withheld at a tax rate of 10% in general unless otherwise specified by the tax regulations and the relevant tax agreements.

The Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

DIRECTORS' REPORT

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") to allow shareholders of the Company (the "Shareholders") to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

DETERMINATION MECHANISM ON DIVIDEND

Subject to the approval of the shareholders and requirement of the relevant laws, the Company shall pay annual dividends to the shareholders if i) the Group is profitable, ii) the operations environment is stable, and iii) there is no significant investment or commitment made by the Group. The Company has no fixed dividend policy specifying a dividend payout ratio. The declaration, payment and amount of dividends will be subject to the discretion of the Board, taking into consideration the criteria described below. The remaining net profits will be used for Group's development and operations. This dividend policy allows the Company to declare special dividends from time to time in addition to the annual dividends. The Company's ability to pay dividends will depend upon, among other things, the Group's current and future operations, financial position, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company's subsidiaries and associates, as well as any other conditions or factors which the Board deems relevant and having regard to the directors' fiduciary duties.

APPROVAL AND PAYMENT PROCEDURES

Details of the procedures have been set out in Articles 227 of the Company's Articles of Association posted on the website of the Company.

REVIEW AND MONITOR OF DIVIDEND POLICY

The form, frequency and amount of dividend payment by the Company are subject to restrictions under the PRC laws and the Company's Articles of Association. The Board reserves the right in its sole and absolute discretion to update, amend, modify the dividend policy at any time, and the existing dividend policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

PUBLIC FLOAT

Based on the available public information of the Company, so far as the Directors are aware of, the Company has met the requirements of public float under the Rule 8.08 of the Listing Rules, during the year ended 31 December 2019 and thereafter up to the date of this report.

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2019, the Group acquired additional property, plant and equipment of approximately RMB10.2 million. Details of the movements are set out in note 13 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

According to the laws of the PRC and the Articles of Association of the Company, there are no provisions on the pre-emptive rights to offer new Shares by the Company to its existing Shareholders on a pro rata basis.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2019 and up to the date of this report, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

DISTRIBUTABLE RESERVES

As at 31 December 2019, reserves available for distribution of the Company amounted to RMB600.7 million (2018: RMB511.2 million).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 31 December 2019 represented approximately 6.7% (2018: 10.3%) and 30.1% (2018: 32.1%), respectively, of the Group's total revenue from sales operations.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 31 December 2019 represented approximately 2.35% (31 December 2018: 2.69%) and 7.02% (31 December 2018: 8.21%), respectively, of the Group's total cost.

To the best of the Directors' knowledge, none of the Directors or their respective close associates, and none of the existing shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers and suppliers.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. Lyu Yaoneng *(Chairman)*
Mr. Lyu Dazhong
Mr. Li Jinyan
Mr. Lu Zhicheng
Mr. Shen Haiquan
Mr. Zheng Gang

Independent non-executive Directors

Mr. Yu Jingxuan
Mr. Lin Tao
Mr. Wong Ka Wai

BOARD OF SUPERVISORS

Mr. Zou Jiangtao
Mr. Chen Xiangjiang
Mr. Lyu Xingliang
Mr. Zhu Jialian

The biographical details of the Directors are disclosed in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 7 to 12 in this report.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests or short positions of the Directors, Supervisors and the chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests 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, pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange are as follows:

The Company

Director/supervisor	Nature of interest	Number of shares of the relevant corporation (including associated corporation) held[1]	Approximate percentage of shareholdings in the total share capital of the Company	Approximate percentage of shareholdings in the relevant class of shares of the Company
Mr. Lyu Yaoneng[2]	Interest of controlled corporation	204,000,000 Domestic Shares (L)	38.25%	51%

Notes:

(1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Domestic Shares.

(2) Zhejiang Jujiang Holdings Group Co. , Ltd (浙江巨匠控股集團有限公司) ("Jujiang Holdings") is held as to approximately 51.33% by Mr. Lyu Yaoneng. Mr. Lyu Yaoneng controls more than one-third of the voting rights of Jujiang Holdings and are deemed to be interested in its interest in the Company by virtue of the SFO.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, so far as the Directors, Supervisors and the chief executive of the Company are aware of, as indicated on the register of interests and/or short positions required to be maintained pursuant to Section 336 of Part XV of the SFO, the substantial Shareholders and other persons (other than Directors, Supervisors and the chief executive of the Company) had the following interests and/or short positions in the Shares or underlying Shares of the Company:

Shareholders	Nature of interest	Number of shares held(1)(2)	Approximate percentage of shareholdings in the total share capital of the Company	Approximate percentage of shareholdings in the relevant class of shares(3)
Jujiang Holdings(4)	Beneficial Owner	204,000,000 Domestic Shares (L)	51%	38.25%
Ms. Shen Hongfen(5)	Interest of spouse	204,000,000 Domestic Shares (L)	51%	38.25%
Jujiang Equity Investment(6)	Beneficial Owner	196,000,000 Domestic Shares (L)	49%	36.75%
Chan Ka Wo	Beneficial Owner	9,480,000 H Share (L)	7.1%	1.78%

Notes:

(1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Domestic Shares.

(2) The calculation is based on the percentage of shareholding in the Domestic Shares.

(3) The calculation is based on the total number of 533,360,000 Shares in issue after the Global Offering.

(4) Jujiang Holdings will be directly interested in approximately 38.25% in the Company.

(5) Ms. Shen Hongfen (沈洪芬), the spouse of Mr. Lyu Yaoneng, is deemed to be interested in Mr. Lyu Yaoneng's interest in the Company by virtue of the SFO.

(6) Jujiang Equity Investment will be directly interested in approximately 36.75% in the Company.

Save as disclosed above, as at 31 December 2019, so far as the Directors, Supervisors and the chief executive of the Company are aware of, no other persons have interests and/or short positions in the Shares or underlying Shares which were required, pursuant to Section 336 of Part XV of the SFO, to be recorded in the register kept under such provisions.

PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate liability insurance to indemnify the Directors and senior officers for their liabilities arising out of corporate activities. For the year ended 31 December 2019, no claim has been made against the Directors and senior officers.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S RIGHTS IN THE SUBSCRIPTION OF SHARES AND DEBENTURES

During the year ended 31 December 2019, no right to subscribe the Shares in or debentures of the Company or any of its associated corporations was granted by the Company to any Director, Supervisor or chief executive of the Company or their respective spouses or children aged under 18, and no such rights to subscribe the above Shares or debentures were exercised by them.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

The Company has entered into service contracts with all Directors and Supervisors, with the maximum term of three years. No service contract that can be terminated by the Group within one year without paying any compensation (other than the statutory compensation) was entered or is to be entered into between Directors or Supervisors on one hand and members of the Group on the other.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, no transactions, arrangement or contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, or its parent company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the related party transactions disclosed in note 30 to the consolidated financial statements and in this report, neither the Company nor any of its subsidiaries had entered into any contract of significance with the Company's controlling shareholders or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders (as defined in below section) or their subsidiaries, during the year.

TRANSACTIONS WITH CONNECTED PERSON

Jujiang Holdings mainly engages in the business of, amongst other things, property development and investment holding and it is also the shareholder of various subsidiaries (including the Company). As at 31 December 2019, Jujiang Holdings was owned as to approximately 51.33% by Mr. Lyu Yaoneng and approximately 48.67% by eight other individual shareholders.

The Company is owned as to 38.25% by Jujiang Holdings, as such it is one of our controlling shareholders and a connected person of the Company. Accordingly, the following transactions between Jujiang Holdings and the Group will constitute continuing connected transactions for the Group under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 30 to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules but, save as disclosed hereinbelow, are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

Construction contracting service master agreement

The Group, as service provider, entered into a construction contracting service master agreement on 17 April 2019 ("2019 Master Agreement") with Jujiang Holdings, one of the controlling shareholders and a connected person of the Company. For a term ending on 31 December 2021, pursuant to which Jujiang Holdings agreed to engage construction contracting services such as building construction, foundation work, curtain wall construction, building decoration and fire equipment installation from our Group. The annual caps for the transactions contemplated for the three years ending 31 December 2021 are RMB200 million, RMB200 million and RMB300 million respectively. During the year ended 31 December 2019, a total of RMB14.3 million service fees was received from Jujiang Holdings under the 2019 Master Agreement.

The construction contracting service fees payable by Jujiang Holdings Group to our Group under the 2019 Master Agreement will be determined after arm's length negotiation between Jujiang Holdings Group and our Group. In order to ensure that the service fees we received for our provision of construction contracting services are fair and reasonable and in line with market practices, we will keep ourselves abreast of the prevailing fee level in market and the market conditions.

Save as disclosed herein, there were no transactions required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Confirmation from independent non-executive Directors and the auditor of the Company

Confirmation from Directors

The Directors (including the independent non-executive Directors) have reviewed and confirmed that for the year ended 31 December 2019 the above continuing connected transactions have been and will be entered into in the ordinary and usual course of our Group's business and were based on normal commercial terms or better that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Confirmation from auditor of the Company

Based on work performed, our independent auditor, has confirmed in a letter to the Board to the effect that nothing has come to its attention that causes it to believe that the above transactions:

(a) have not been approved by the Board;

(b) were not, in all material respects, in accordance with the pricing policies of the Group;

(c) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(d) have exceeded the caps disclosed in the announcement dated 17 April 2019 and the circular dated 12 June 2019 made by the Company in respect of the disclosed continuing connected transactions.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the Group entered into transactions with related parties set out in notes 33 to the consolidated financial statements. Some of these related party transactions constituted connected transactions or continuing connected transaction as defined in Chapter 14A of the Listing Rules and the Company have complied with the disclosure requirement thereon. Amongst the related party transactions shown in note 30 to the consolidated financial statements, the related party transaction of income received from design, survey and consultancy service constituted connected transactions or continuing connected transactions but are exempt from shareholders' approval and disclosure and other requirements under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

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

REMUNERATION OF THE DIRECTORS AND SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and Supervisors of the Company and five highest paid individuals are set out in note 9 to the consolidated financial statements.

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2018: Nil).

No payment was made or benefit provided to directors as compensation for the early termination of the appointment or in respect of termination of the services of directors during the year (2018: Nil).

No consideration was provided to or receivable by any third party for making available the services of a person as a director of a company, or in any other capacity while as a director (2018: Nil).

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2018: Nil).

REMUNERATION POLICY

The Group's Directors, Supervisors and senior management receive compensation in the form of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of the Company. The Company also reimburses our Directors, Supervisors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Company or executing their functions in relation to the operations of the Company. The Group and Remuneration and Appraisal Committee regularly review and determine the remuneration and compensation packages (including incentive plans) of the Directors, Supervisors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors, Supervisors and senior management and the performance of the Company.

NON-COMPETITION AGREEMENT

To ensure that competition will not exist in the future, the Mr. Lyu Yaoneng, Zhejiang Jujiang Holdings Group Co., Ltd.* (浙江巨匠控股集團有限公司) and Zhejiang Jujiang Equity Investment Management Co., Ltd.* (浙江巨匠股權投資管理股份有限公司) as controlling shareholders of the Company (the "Controlling Shareholders") have entered into non-competition agreement (the "Non-Competition Agreement") with the Company to the effect that each of them will not, and will procure their subsidiaries (other than the Group) and their close associate(s) not to, directly or indirectly participate in, or hold any interest or right or otherwise be involved in, the principal business and other businesses.

The Group entered into the Non-Competition Agreement with the Controlling Shareholders on 23 December 2015, under which the Controlling Shareholders agreed not to, and to procure their subsidiaries and respective close associate(s) (as appropriate) (other than the Group) not to, compete, either directly or indirectly, with the principal business and other businesses, namely the design, survey and consultancy business and civil defense products manufacturing business, and granted to the Group the option for new business opportunities, option for acquisitions and pre-emptive rights.

The Controlling Shareholders have further irrevocably undertaken in the Non-Competition Agreement that, during the term of the Non-Competition Agreement, they (as appropriate) will not, and will also procure their subsidiaries and respective close associate(s) (as appropriate) (other than the Group) not to, alone or with any other entity, in any form, directly or indirectly, engage in, participate in, assist or support a third party to engage in or participate in any business that competes, or is likely to compete, directly or indirectly with the principal business and other businesses. The foregoing restrictions are subject to the fact that the Company may waive certain new business opportunities pursuant to the terms and conditions under the Non-Competition Agreement.

The foregoing restrictions do not apply to: (i) the purchase by the Controlling Shareholders, their subsidiaries or close associate(s) (as appropriate) for investment purpose of not more than 10% equity interest in other listed companies whose business competes or is likely to compete with the principal business and other businesses; or (ii) the holding by the Controlling Shareholders, their subsidiaries or close associate(s) (as appropriate) of not more than 10% equity interest in other companies whose business competes or is likely to compete with the principal business and other businesses, as a result of a debt restructuring of such companies (collectively referred to as "Investment Companies" for scenarios (i) and (ii)). For the avoidance of doubt, the exceptions above do not apply to such Investment Companies which the Controlling Shareholders, their subsidiaries or close associate(s) (as appropriate) are able to control their respective board of directors notwithstanding the fact that not more than 10% of the equity interests of such Investment Companies are being held by the Controlling Shareholders, their subsidiaries or close associate(s) (as appropriate).

Each of Mr. Lyu Yaoneng, Jujiang Holdings and Jujiang Equity Investment, as the Controlling Shareholders, has confirmed to the Company of his compliance with the Non-Competition Agreement for the year ended 31 December 2019.

The independent non-executive Directors of the Company had reviewed the status of compliance and received confirmation by each of the Controlling Shareholders and, on the basis of such confirmation, are of the view that, to the best of their knowledge, the Controlling Shareholders have complied with the Non-Competition Agreement and such Non-Competition Agreement has been enforced by the Company in accordance with its terms.

DONATIONS

During the year ended 31 December 2019, the Group had made charitable donation amounting to RMB630,000.

COMPETING INTERESTS

Save and except for interests in the Group, none of the Controlling Shareholders, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with the principal business and other businesses of the Group, which would require disclosure under Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Details of corporate governance practice adopted by the Company are set out in the section of "Corporate Governance Report" of this report.

EVENT AFTER THE REPORTING PERIOD

The emergence and spread of coronavirus (COVID-19) disease in early January 2020 has affected business and economic activities in Mainland China. The Group will monitor the development of COVID-19 closely, and will assess and react actively to its impacts on the business activities, financial positions and operating results of the Group from time to time.

Save as disclosed above, there are no major subsequent events to 31 December 2019 which would materially affect the Group's operating and financial performance as of the date of this report.

AUDITOR

There is no change in the Group's auditors, Ernst & Young, since 12 January 2016, being the Listing Date.

Ernst & Young will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting ("AGM"). A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Jujiang Construction Group Co., Ltd.
Lyu Yaoneng
Chairman

Zhejiang Province, the PRC, 27 March 2020

SUPERVISORS' REPORT

2019 WORK REPORT OF THE BOARD OF SUPERVISORS

In 2019, all the members of the Board of Supervisors of Jujiang Construction Group Co., Ltd. (the "Company") discharged their own duties cautiously and conscientiously as required by various regulations and requirements such as the Company Law, the Articles of Association and the Rules of Procedure of the Board of Supervisors. They exercised powers independently in accordance with the law to ensure operational compliance of the Company and safeguard the interests of the Company and investors. The Board of Supervisors oversaw the Company's business plans, use of proceeds, connected transactions, the Company's production and business activities, financial position as well as the discharge of duties by the Directors and senior management members and the operation of the subsidiaries to facilitate the regulated operation and sound development of the Company.

I. Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors of the Company convened two meetings in total:

1. The third meeting of the second session of the Board of Supervisors was convened on 29 March 2019, at which the following resolutions were considered and approved: (1) the "Resolution on the Audited Annual Report and Results Announcement of the Company for 2018" was considered; (2) the "Profit Distribution Resolution for 2018" was considered; (3) the "Resolution on the Re-appointment of Ernst & Young Hua Ming LLP (Special General Partnership) as Auditor of the Company for 2019" was considered; (4) the "Resolution on the Work Report of the Board of Supervisors of the Company for 2018" was considered.

2. The fourth meeting of the second session of the Board of Supervisors was convened on 26 August 2019, at which the "Resolution on the Unaudited Interim Results Announcement of the Company for the six months ended 30 June 2019" was considered and approved.

II. Supervisory Opinions of the Board of Supervisors on Relevant Matters of the Company for the year of 2019:

1. The Company's operations in accordance with the law

In 2019, the Board of Supervisors of the Company conscientiously discharged its supervisory duties in strict compliance with the Company Law, the Articles of Association, the Rules of Procedure of the Board of Supervisors and requirements under relevant laws and regulations, and considered that the Board of Directors conscientiously enforced the resolutions adopted at general meetings, and faithfully performed its obligation of good faith, without prejudicing the interests of the Company and its shareholders; that the management team of the Company was diligent and responsible, and conscientiously enforced all the resolutions of the Board of Directors, and that no non-compliance were found in operations.

2. The Company's financial position

The Board of Supervisors of the Company strengthened its supervision over the financial work of the Company based on the actual circumstances of the Company. The Board of Supervisors of the Company considered that the Company was able to strictly abide by the Accounting Law and relevant financial rules and regulations. In 2019, the Company and its subsidiaries had standardized financial management in place and their financial statements gave a true and accurate view of the actual situation of the Company and its subsidiaries.

3. Connected transactions

During the reporting period of the current year, the connected transactions between the Company and its connected parties on a regular basis were all considered and approved by the Board of Directors and general meetings of the Company. These connected transactions were conducted on an arm's length basis pursuant to contracts or agreements without any prejudice to the interests of the Company.

4. The Company's internal control

During the reporting period, the Company established and improved the internal control system across all aspects to make sure it was under normal business operation and safeguard the security and integrity of the Company's assets. The Company has a complete organizational structure for internal control, with the internal audit department and staffing in place. No violations of the "Guidelines for the Internal Control of Listed Companies" and the Company's internal control system by the Company were found.

III. The work plan of the Board of Supervisors for 2020

2020 is not only a year for the Company to promote comprehensive and high-quality growth, but also a year that marks the finale of the "13th Five-year Plan". Adhering to the Company's business goals and missions of 2020 as always, the Board of Supervisors will strictly perform its duties entitled by the Company Law, the Articles of Association, and laws and regulations. The Board of Supervisors will also duly safeguard the legal interests of the Company and its shareholders by enhancing its commitments at work and stepping up its governance efforts.

1. The Board of Supervisors will define its functional positioning for discharging its duties effectively.

The work of the Board of Supervisors will be integrated into the corporate governance structure of the Company to effectively play the role of checks and balances in corporate governance to make sure that the Company is operating pursuant to law, that the Company's assets and shareholders' rights and interests are free from infringement, that the Company's financial and accounting reports are true and legal, that the Company's directors and managers do not have any business acts that will jeopardize the Company's interests or violate the Company's Articles of Association, and that the resolutions made at shareholders' meetings are well implemented and executed.

2. The Board of Supervisors will strengthen the formulation of rules and regulations to make sure it is operating in a regulated manner.

The Board of Supervisors will formulate and improve various rules and regulations governing the discussion of official business and its work, carefully formulate the annual work plan and continuously reinforce and improve the build-up of a supervisory regime to have its work regulated gradually.

3. The Board of Supervisors will improve the communication and exchange mechanism to create a good supervisory environment.

The Board of Supervisors will look for more supervisory modes and methods that are innovative and appropriate for the operation of a modern corporate system, and establish and improve the communication and exchange mechanism with enterprises to create a good supervisory environment together. It will continue to apply the principle of effective supervision to facilitate the healthy development of the Company.

4. *The Board of Supervisors will deepen procedural supervision for increasing the effectiveness of supervision.*

   With a focus on major decisions, the Board of Supervisors will conduct pre-event supervision by urging the Company to execute the rules and regulations for making decisions on significant matters, the appointment and removal of senior officials, the arrangements for major projects and the use of a large amount of funds to govern decision making. With a focus on major financial matters, the Board of Supervisors will conduct in-event supervision by urging the Company to stringently implement the rules and regulations for financial management to enhance financial management level. With a focus on urging the Company to rectify existing problems, the Board of Supervisors will conduct post-event supervision to call on the Company to improve its rules and regulations.

5. *Strengthen the self-construction of the Board of Supervisors.*

   By enhancing learning and pushing forward its own construction, the Board of Supervisors will continue to upgrade supervision capabilities and better discharge duties. Apart from these, it will promote ideological, organizational and work-style build-up, and strive to boost the Board of Supervisors' innovation capability and effectiveness of supervision and inspection for discharging its functions with dedication.

The above report is hereby submitted to Supervisors for consideration.

Board of Supervisors of
Jujiang Construction Group Co., Ltd.
27 March 2020

CORPORATE GOVERNANCE REPORT

The Board comprises six executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the "Code Provisions") of the Corporate Governance Code ("CG Code") set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2019 and up to the date of this report, the Company has fully complied with the Code Provisions, except code provision A.2.1 of the CG Code as more particularly described below.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Group do not have a separate chairman and general manager (which is equivalent to chief executive officer) and Mr. Lyu Yaoneng currently performs these two roles. The Board believes that vesting the roles of both chairman and general manager in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider segregating the roles of chairman of the Board and general manager of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Save as disclosed above, the Company has complied with the CG Code for the year 2019. The Directors will review the corporate governance policies and compliance with the CG Code each financial year.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established four Board committees, being the audit committee (the "Audit Committee"), the remuneration and appraisal committee (the "Remuneration and Appraisal Committee"), the nomination committee (the "Nomination Committee"), and the strategic committee (the "Strategic Committee") (each a "Board Committee" and collectively the "Board Committees"), to oversee different areas of the Company's affairs. As of the date of this report, the composition of the Board is as follows:

Executive Directors:	Mr. Lyu Yaoneng (Chairman)
	Mr. Lyu Dazhong
	Mr. Li Jinyan
	Mr. Lu Zhicheng
	Mr. Shen Haiquan
	Mr. Zheng Gang
Independent non-executive Directors:	Mr. Yu Jingxuan
	Mr. Lin Tao
	Mr. Wong Ka Wai

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 7 to 12 in the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

There is no financial, business or other material/relevant relationships among members of the Board.

CORPORATE GOVERNANCE REPORT

The functions and duties of the Board include but are not limited to: convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings; implementing the resolutions passed at the Shareholders' general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association. Each of our Directors has entered into a service contract with the Company. Each of the independent non-executive Directors has entered into service contracts or agreements with the Company for a specific term of three years and is subject to re-election.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Company, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

Accountability

The Directors acknowledge their responsibility to present a balanced, clear and understandable set of consolidated financial statements in each of the annual and interim reports. If the Directors were aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties would be clearly and prominently set out and discussed in detail in this Corporate Governance Report.

Directors' Continuous Training and Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Company. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Company and that he/she is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

During the year, the Company, together with its legal advisers, organized training sessions to each of the Directors in relation to continuous responsibilities of Hong Kong listed company and its directors before and after listing. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

Name of Director	Types of training Attending in-house training organized by professional organizations	Reading materials updating on new rules and regulations
Executive Directors		
Mr. Lyu Yaoneng (Chairman)	✓	✓
Mr. Lyu Dazhong	✓	✓
Mr. Li Jinyan	✓	✓
Mr. Lu Zhicheng	✓	✓
Mr. Shen Haiquan	✓	✓
Mr. Zheng Gang	✓	✓
Independent non-executive Directors		
Mr. Yu Jingxuan	✓	✓
Mr. Lin Tao	✓	✓
Mr. Wong Ka Wai	✓	✓

Independence of Independent Non-executive Directors

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company.

They serve actively on the Board and Board Committees to provide their independent and objective views. In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors were independent and met the independence guidelines set out in Rule 3.13 of the Listing Rules throughout the year ended 31 December 2019 and up to the date of this report.

Board Committees

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee, and Remuneration and Appraisal Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference of the Audit Committee, Nomination Committee and the Remuneration and Appraisal Committee are respectively available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The Company has established an audit committee on 23 December 2015 with its written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board.

Our audit committee consists of three members, being Mr. Wong Ka Wai, Mr. Lin Tao and Mr. Yu Jingxuan. Mr. Yu Jingxuan currently serves as the chairman of our audit committee.

Pursuant to the meeting of the Audit Committee on 27 March 2020, the Audit Committee has reviewed, among other things, the financial statements of the Company for the year ended 31 December 2019, including the accounting principles and practices adopted by the Company, report prepared by the external auditors covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company's internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditors. During the year, the Audit Committee held two meetings.

Remuneration and Appraisal Committee

The Company has established a remuneration and appraisal committee on 23 December 2015 with its written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration and appraisal committee are to evaluate the performance and make recommendations on the remuneration of Directors and our senior management and to recommend members of the Board.

Our remuneration and appraisal committee consists of three members, being Mr. Lyu Yaoneng, Mr. Lin Tao and Mr. Wang Ka Wai. Mr. Wang Ka Wai currently serves as the chairman of our remuneration and appraisal committee.

Pursuant to the meeting of the Remuneration and Appraisal Committee on 27 March 2020, the Remuneration and Appraisal Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company. During the year, the Remuneration and Appraisal committee held one meeting.

Remuneration of Directors, Supervisors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Supervisors and senior management of the Group. Details of the remuneration of each of the Directors and Supervisors for the year ended 31 December 2019 are set out in note 9 to the consolidated financial statements.

The biographies of the senior management are disclosed in the section headed "Biographical Details of Directors, Supervisors and Senior Management" in this report. The remuneration by band of non-Director members of the senior management for the year ended 31 December 2019 is as follows:

Remuneration band (RMB)	number of individuals
0 – 1,000,000	2
1,000,000 – 1,500,000	–
1,500,000	–

Nomination Committee

The Company has established a nomination committee ("the NC") on 23 December 2015 with its written terms of reference in compliance with paragraph A.5 of the Corporate Government Code set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

Our nomination committee consists of three members, being Mr. Lyu Yaoneng, Mr. Lin Tao and Mr. Yu Jingxuan. Mr. Lin Tao currently serves as the chairman of our nomination committee.

Pursuant to the meeting of the Nominations Committee on 27 March 2020, the Nomination Committee has reviewed the policy for the nomination of Directors, the structure, size and composition of the Board and assessed independence of the independent non-executive Directors and has recommended Mr. Yu Jingxuan to be a Director to the Board. During the year, the Nomination Committee held one meeting.

NOMINATION POLICY

The Board has adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

1. Selection Criteria

(a) The NC is authorized by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer. Without prejudice to the NC exercising its powers and duties, the ultimate responsibility for selection and appointment of directors rests with the entire directors.

(b) In assessing the suitability of a proposed candidate, the NC may make reference, according to the Company's business model and specific needs, to certain criteria such as the Company's need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in construction contracting and/or other professional areas, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Listing Rules (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

(c) Where necessary, the NC should seek independent professional advice to access a wider range of potential candidates.

(d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.

(e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

2. Nomination Procedures

The secretary of the NC shall invite nominations of candidates from Board members if any, for consideration by the NC. The NC may also put forward candidates who are not nominated by Board members.

Any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting, and any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. In addition, in the case of the re-appointment of a director at the general meeting, the NC shall review the overall contribution of the directors to the Company and their services, their participation and performance within the board of directors, and whether such director still meets the above criteria.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board may revoke or terminate any of the appointment of a managing director, joint managing director or deputy managing director in accordance with Article 143 of the articles of association of the Company.

A shareholder of the Company can serve a notice to the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a director. Details of the procedure has been set out in the "Procedure for Shareholders to Propose a Person for Election as a Director of the Company" posted on the website of the Company.

3. Review and Monitor of this Policy

(a) The NC shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.

(b) The NC shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.

(c) The NC shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

Strategic Committee

The Company has established a strategic committee on 24 November 2016. The primary duties of the strategic committee are to the Company's long-term development strategy and major investment decision making research and make recommendation.

Our strategic committee consists of three members, being Mr. Lyu Yaoneng, Mr. Lin Tao and Mr. Zheng Gang. Mr. Lyu Yaoneng currently serves as the chairman of our strategic committee.

One meeting was held by the Strategic Committee during the year ended 31 December 2019.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board developed, reviewed and monitored the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors

The attendance record of each of the current Directors at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below. The Directors did not authorize any alternate Director to attend Board or Board Committee meetings.

	Attendance/number of Meetings					
Name of Directors	**Board**	**Audit Committee**	**Remuneration and Appraisal Committee**	**Nomination Committee**	**Strategic Committee**	**General Meeting**
Mr. Lyu Yaoneng	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Lyu Dazhong	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Li Jinyan	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Lu Zhicheng	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Shen Haiquan	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Zheng Gang	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Yu Jingxuan	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Lin Tao	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Wong Ka Wai	2/2	2/2	1/1	1/1	1/1	1/1

Board Proceedings

Meetings of the Board of Directors shall be held regularly at least two times each year and shall be convened by the chairman of the Board of Directors. Directors shall be notified ten days before the date of the meeting. A quorum will be formed by more than half of the Directors (including the proxies) attending a Board meeting in person. If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization. Directors attending Board meetings on behalf of other directors shall exercise their power as directors within their scope of authorization. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his rights to vote at that meeting. Each Director shall have one vote. Unless specified otherwise in the Articles of Association, resolutions of the Board of Directors must be passed by more than half of all the Directors. Where the numbers of votes cast for and against a resolution are equal, the chairman shall have the right to cast an additional vote.

During the year ended 31 December 2019, there were two Board meetings held and all Directors attended the meetings that they were required to attend.

Board Diversity Policy

The Board first adopted a board diversity policy (the "Board Diversity Policy") in 23 December 2015 in accordance with the requirements set out in the CG Code and the Board Diversity Policy had been amended on 1 January 2019. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted: selection of candidate will be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidate will bring to the Board.

Board of Supervisors

The Board of Supervisors consists of four Supervisors, comprising two representatives of employees (namely Mr. Lyu Xingliang and Mr. Zhou Jiangtao) and two external supervisors (namely Mr. Zhu Jialian and Mr. Chen Xiangjiang). Except for the employee representative Supervisors elected by employees, the Supervisors were elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment. The functions and duties of the Board of Supervisors include reviewing and verifying financial reports, business reports and profit distribution proposals prepared by the Board; and if in doubt, appointing certified public accountants and practicing auditors to re-examine the Company's financial information; monitoring the financial activities of the Company, supervising the performance of the Directors, the president and other senior management members, and monitoring whether they had acted in violation of the laws, regulations and Articles of Association in the performance of their duties; requesting the Directors, the president and senior management members to rectify actions which are damaging to the Company's interests; and exercising other rights given to them under the Articles of Association. Each of the Supervisors has entered into a written service contract with our Group.

Model code for securities transactions

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules ("Model Code") as the Company's code of conduct regarding Directors' and Supervisors' securities transactions. Upon specific enquiries, all Directors and Supervisors confirmed that they have complied with the relevant provisions of the Model Code throughout the period from 1 January 2019 to 31 December 2019.

Senior management who, because of their office in the Company, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Model Code.

JOINT COMPANY SECRETARIES

The Group have appointed Mr. Jin Shuigen (金水根) as one of our joint company secretaries. For details of Mr. Jin, please see the section headed "Biographical Details of Directors, Supervisors and Senior Management – Joint Company Secretaries". The Stock Exchange has agreed that Mr. Jin is qualified to act as the company secretary of the Company under Rule 3.28 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Company confirms that Mr. Jin and Mr. Hong Kam Le have for the year of 2019 complied with Rule 3.29 of the Listing Rules and attend to less than 15 hours of relevant professional training.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the Company's financial statements which give a true and fair view of the Company's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of Ernst & Young, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this report.

Internal controls and risk management

The Board recognizes its responsibility to ensure the Group maintains a sound and effective internal control system and risk management and the Board has conducted a review of the effectiveness of the internal control system and risk management of the Group during the year. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls. No major issue but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Company's internal control and risk management systems are reasonably implemented and considered them efficient and adequate.

External Auditor

Ernst & Young has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges performed by Ernst & Young and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2019, the fees payable to Ernst & Young in respect of its annual audit services provided to the Company was RMB2.0 million.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

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

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an EGM.

Right to convene extraordinary general meeting

When requesting the convening of an extraordinary general meeting or a class meeting, it shall be handled according to the following procedures:

(1) Shareholder(s), individually or collectively holding 5% or more of the shares carrying the right to vote at the meeting shall sign one or more written requests of the same form stating the subject of the meeting and requesting that the Board of Directors convene an extraordinary general meeting or a class meeting thereof. The Board of Directors shall convene an extraordinary or a class general meeting responsively after receipt of such request. The aforesaid amount of shareholding is calculated as on the day when the Shareholders make the request in writing.

(2) If the Board of Directors fails to send notification of the meeting within 20 days from the date of the receipt of such request, requesting Shareholders may call the meeting within four months of the date of the receipt of such request by the Board of Directors, and the procedures for calling the meeting shall remain as same as possible when the Board of Directors would call the meeting.

Shareholders can make enquiries to the Board and submit their written requisition by mailing to the Board or the company secretary of the Company at the Company's principal business at 28/F, Henley Building, 5 Queen's Road Central, Central, Hong Kong or by fax at +86 573 8088 0902.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the AGM, the annual and interim reports, notices, announcements and circulars and the Company's website at www.jujiang.cn.

Constitutional Documents

During the year, amendment to the Company's Articles of Association was duly passed by way of special resolution on the AGM held on 28 June 2019, details of which is disclosed in the circular dated 29 April 2019. A copy of the latest Articles of Association are posted on the websites of the Company and Stock Exchange.

ENVIRONMENT, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the Environmental, Social and Governance ("ESG") Report (the "ESG Report") of the Group for the year ended 31 December 2019, which outlines the principles and sustainably philosophy of the Group in fulfilling its corporate social responsibility ("CSR") and illustrates the relationship between the Group and its major stakeholders with a vision and commitments for its CSR.

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board.

During the year ended 31 December 2019 (the "Reporting Period"), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The ESG report provides details of the Company's policies and practices in two aspects namely environmental and social for the Reporting Period.

SCOPE OF THE ESG REPORT

The Groups core business is engaged in the construction contracting, design, survey, consultancy and other businesses in the PRC. The data disclosed in the ESG Report was collected from the main office of the Group in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the ESG Report.

REPORTING FRAMEWORK

The Group has prepared the ESG report pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. The ESG Report adhere to the reporting principles of the ESG Reporting Guide, and complies with the "Comply or Explain" provisions therein. In view of our first time disclosure of certain key performance indicators ("KPIs"), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs.

ACCESS OF THE ESG REPORT

The ESG report is released in both printed and online versions. The online version is available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.jujiang.cn).

This report is released in both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

CONTACT INFORMATION

We highly appreciate and welcome your feedback on the ESG Report so that we may meet the stakeholder's interests and for our sustainability initiatives. For any enquires or recommendations, please forward to us at 28/F, Henley Building, 5 Queen's Road Central, Central, Hong Kong.

STAKEHOLDER ENGAGEMENT

Communication with stakeholders is very important to the Group. The Group has identified the key stakeholders, including shareholders, government and regulatory authorities, employees, business partners, the public and the community.

Major stakeholders	Communication Channels	Expectations
Shareholders	• Annual general meeting and other shareholder meetings • Annual report and interim report • Announcements and circulars • Company's website • Meeting with investors	• Return on investment • Information disclosure and transparency • Protection of shareholders' rights and fair treatment of shareholders
Government and regulatory authorities	• Policy guidance • Response to public consultation in writing • Meeting	• Compliance with laws and regulations • Implementation of relevant regulatory policies, such as production safety, environmental protection and social responsibility • Proper tax payment
Employees	• Regular meetings and training • Performance assessment • Staff newsletters and broadcasts • Labour union	• Salary and welfare • Safe working environment • Fair career development opportunities
Customers	• Regular meetings • Site visit • Exhibition • Email	• High quality products and services • Group reputation and brand image
Business partners	• Business partner meetings • Site visit • Email • Tendering process • Purchase review	• Long-term partnership • Win-win cooperation • Fair purchase • Timely payment
The public and the community	• Site visit • Email • public newsletters and broadcasts	• Volunteer • Community visit • Donate

ENVIRONMENT, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL

The Group has established and implemented an environmental compliance system to specify various environmental protection procedures and measures and ensure our compliance with ISO14001:2004 standards and the relevant PRC laws and regulations. We have adopted corresponding environmental protection measures to ensure compliance with relevant laws and regulations, including noise control, air pollution control, as well as solid waste and waste water treatment. Set forth below is a summary of the standard environmental protection measures we have implemented:

Environmental matter	Measures
Noise control	Use low-noise equipment and machinery Inspect and maintain all equipment before use to comply with permitted noise level Undertake works in accordance with the permitted working hours as specified by PRC law
Air pollution control	Suppress dust particles on construction sites by use of water Install dust screens as necessary Lower dust and harmful particles generated on construction sites through use of construction techniques and equipment
Solid waste disposal	Transport solid waste to landfills designated by local governments
Waste water treatment	Use sedimentation tanks to reduce the suspended solids in the waste water before being discharged Discharge rain and waste water separately

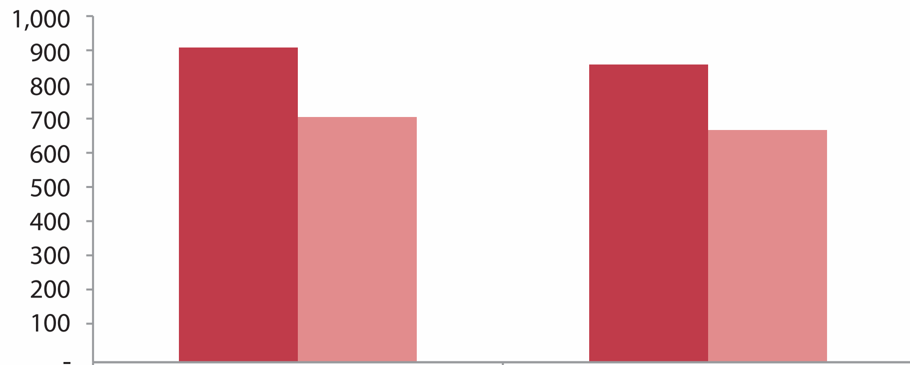
ENERGY CONSERVATION AND EMISSION REDUCTION

Reducing energy consumption and improving energy efficiency are keys to slowing down global climate change, and therefore the Group strives to improve its energy saving performance on operation and project development.

POWER CONSUMPTION CONTROL

The headquarters and other offices of the Group all adhere to the principle of energy conservation and environmental protection. Each office of the Group has formulated a guideline on the use of air-conditioners, where heaters are allowed in winter only when the temperature is below 0ºC, and air-conditioning are allowed during summer when the temperature is above 30ºC.

Power consumption and corresponding carbon emission



	2018	2019
Power consumption (kWh in '000s)	907.8	857.4
Carbon emission (tonnes)	708.1	670.3

During the year, the total power consumption is of approximately 857,355 kWh (2018: 907,797 kWh), and the intensity is approximately 121.5 kWh/RMB million (2018: 131.6 kWh/RMB million)revenue.

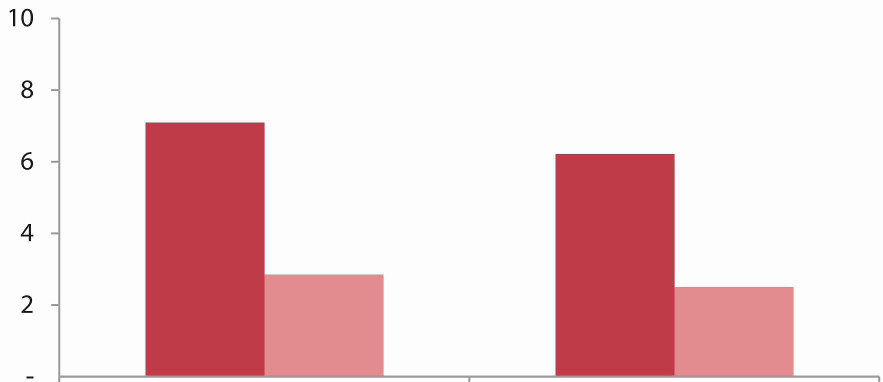
WASTE MANAGEMENT

The group's operating activities involve a minimal generation of waste. The majority of its wastes generated are construction waste and general waste, where part of the construction waste will be recycled and reused as raw materials for foundation of buildings. The rest of the wastes will be disposed as urban wastes.

WATER CONSUMPTION CONTROL

The Group treasures water resources and is committed to controlling water consumption and avoiding wastage.

Water consumption and corresponding carbon emission



	2018	2019
Water consumption (kilotonnes)	7.09	6.22
Carbon emission (tonnes)	2.84	2.49

During the year, the total water consumption is approximately 6,224 tonnes (2018: 7,085 tonnes) and the intensity is approximately 0.88kg/RMB million (2018: 1.03kg/RMB million)revenue.

Economical Use of Resources

The Group strictly complies with the requirements of Energy Conservation Law of the People's Republic of China and has formulated rules in relation to i) integrated planning of usage of water and electricity during production, proper arrangement for preheating and energy-consuming procedures for production workshops, turning off no load current equipment and shutting off the electric power once production is finished in accordance with the characteristics of production procedures generally; and ii) fostering awareness of water and electricity conservation among all staff and turning off lights, faucets, air conditioners and computers, etc. when the use of them is unnecessary to reduce the consumption of energy.

As the result of above energy saving initiatives, the total power consumption and total water consumption decreased approximately 5.9% and approximately 14.0% respectively.

Packing materials

The Group does not use cartons, paper and plastics as packaging materials. Therefore, the Company does not consume packaging materials.

Adhere to that, the Group is power and water consumption were reduced, the Greenhouse gases emissions also declined accordingly. The Group will continue to closely monitor the utilisation of resources and conduct regular assessment to seek better ways for contributing to environmental protection.

SOCIAL

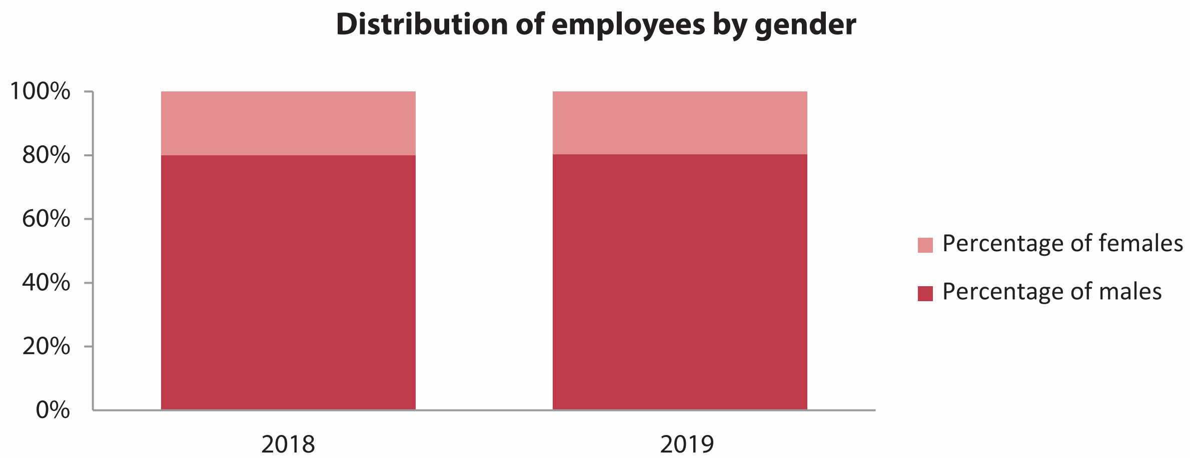
Employees

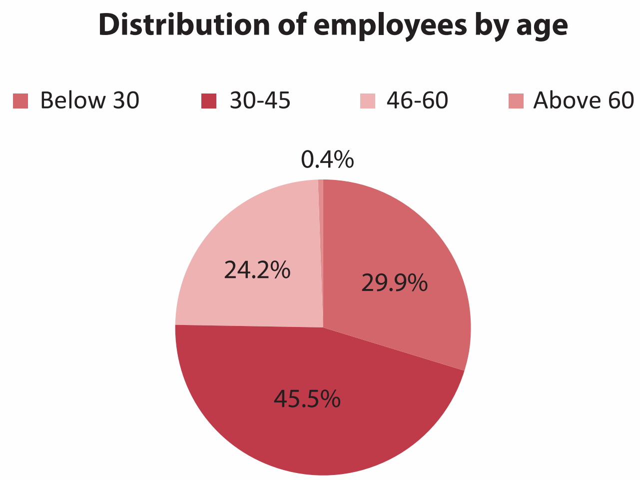
Our Directors believe that our long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, we provide regular training to our employees. Besides these, the Group has made detailed regulations in its employee manual with respect to dismissal, working hours, vacations and other aspects.

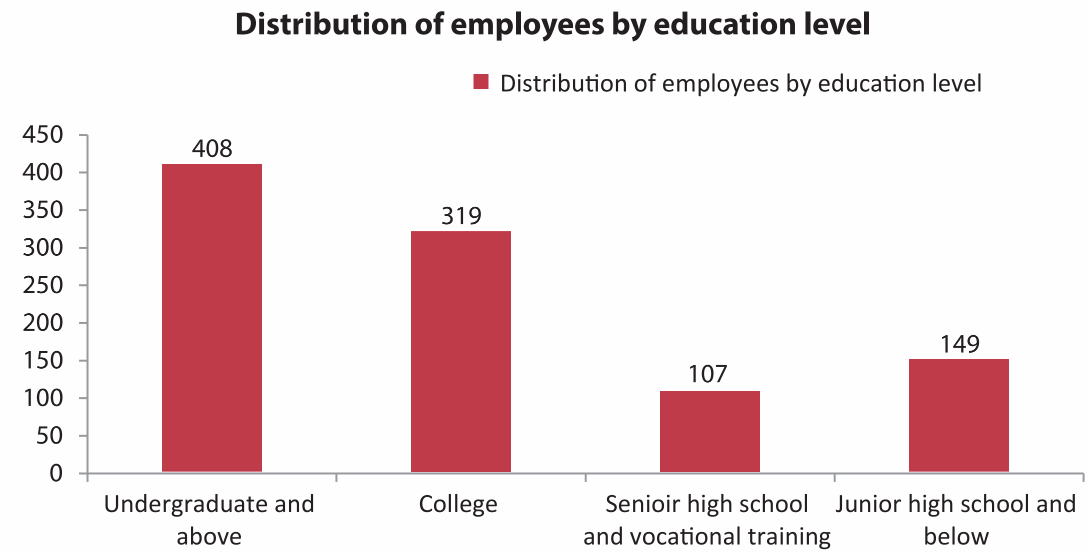
The Group mainly recruit through recruitment fairs and on-campus recruitment. As at 31 December 2019, we had a total of 983 employees, of which 676, or 68.8%, were based in Jiaxing, and 307, or 31.2%, were based in other areas in Zhejiang Province and in other provinces and regions in China. The following table sets forth the number and breakdown of our full-time employees by function as at year ended 31 December 2019:

	Number of employees
Project management	459
Quality and safety	245
Administrative and management	119
Design, survey and consultancy	72
Sales and marketing	56
Finance	32
Total	983

Employment statistics by gender, age and education level training

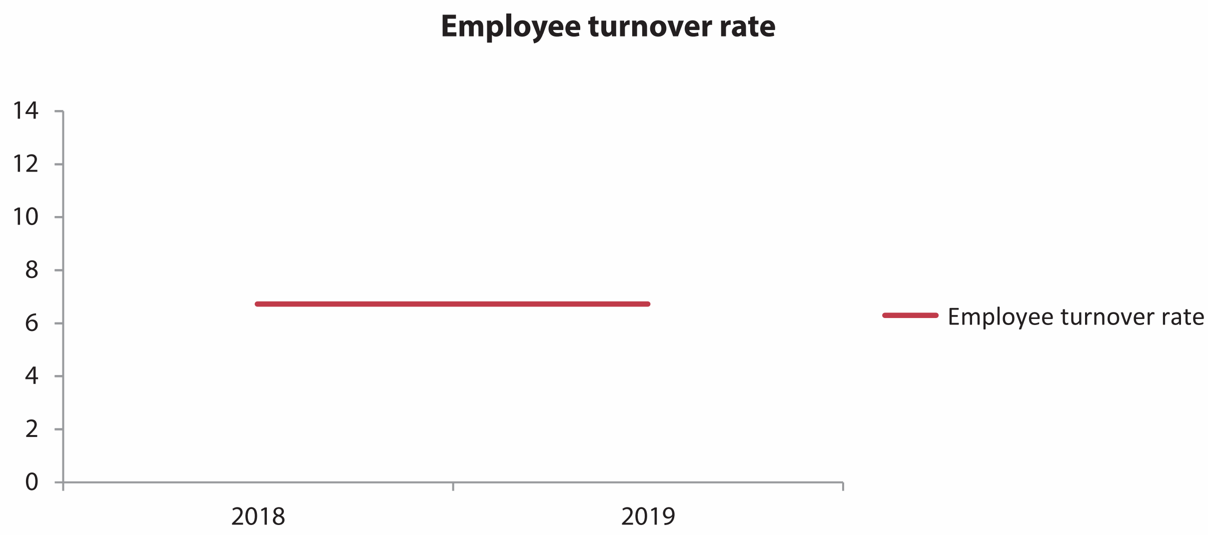






Benefits

To attract, motivate and retain talents, the Group has set up a compensation and benefits management system, and regularly reviews the compensation and benefits packages of employees to ensure their competitiveness in the market. The employment benefits provided by the Group include pension, medical insurance, high temperature subsidy, labour protection and training subsidy.



The Group have a labor union that protects our employees' rights, assists us in attaining the economic objectives of the Company, encourages employees to participate in management decisions and assists us in mediating disputes with union members.

OCCUPATIONAL HEALTH AND SAFETY

Safety Management system

The Group have in place stringent internal safety policies to ensure our safe operations and ensure our compliance with relevant PRC laws and regulations. Our quality and safety department, which is based at our headquarters, is responsible for overseeing our compliance with relevant PRC laws and regulations, conducting regular reviews and inspections of our safety performance, conducting review of any material accidents, and ensuring that we maintain the necessary licenses, approvals and permits to operate. We maintain GB/T28001 – 2011 certificates for our construction contracting business and our civil defense products manufacturing business. Such certificates have a validity period of three years (From 10 April 2017 to 23 April 2020).

Pursuant to Provisions on the Administration of Construction Enterprises' Work Safety Permits, we are required to meet a number of requirements, including but not limited to: (i) management personnel and the operators shall accept work safety education training; (ii) ensure that office areas and living quarters of the construction site and the construction operation space, safety appliances, machinery and equipment, construction machinery, tools and fittings comply with the relevant laws, regulations, standards and rules concerning work safety; and (iii) implement prevention and monitoring measures and emergency safety plan for construction works that are more dangerous and where serious accidents are more likely to occur.

During the year ended 31 December 2019, the Group was granted 29 construction safety awards at provincial-level, municipal-level or county-level, including fours Safe and Civilised Construction Demonstration Sites in Zhejiang Province accredited by the Zhejiang Provincial Department of Construction.

Accident Rate Analysis

For the years ended 31 December 2018 and 2019, the accident rate on the Group's construction projects was 0.37 and 0.37 workplace accidents for every 1,000 workers, respectively. The Group accident rate equals the number of workplace accidents (including fractures and other injuries) during the relevant year or period divided by the annual average number of workers on our construction projects (including our project management personnel and subcontracted workers). Moreover, a table showing the Group's lost time injuries frequency rates ("LTIFR(s)") (Note) is set out below:

For the years ended 31 December	
2018	Less than 0.01
2019	Less than 0.01

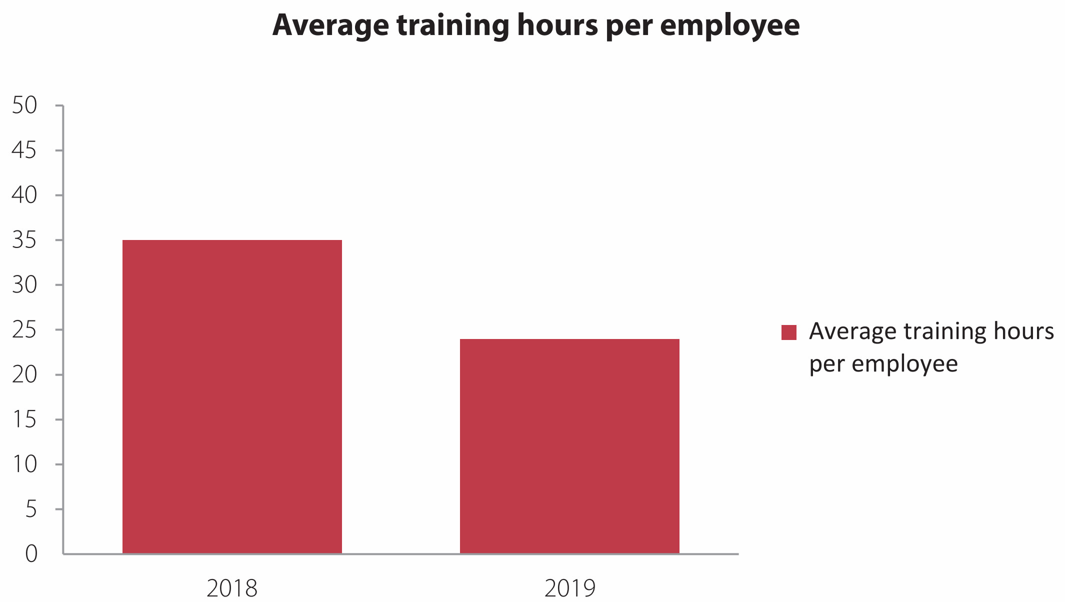
Note: LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFRs shown above are calculated by using the total labour hours worked per year to divide the number of recordable cases and multiply by 1,000,000. It is assumed that the working hours of each worker is 10 hours per day.

For the years ended 31 December 2018 and 2019, the number of workplace accidents (including fractures and other injuries) occurred on our construction sites was four and four respectively.

Having considered the number of accidents and fatalities nationally and in Zhejiang Province during 2018 and 2019, the Directors believe that we did not have a high accident or fatality number during the year ended 31 December 2019.

Training

The Group provides different career development and training programs to all levels of staff. Continuous learning is one of our core values. Employees may be provided with in-house training sessions or may enrol in external training courses, such as seminars, workshops, visits and demonstrations, so as to upgrade their skills and strengthen their knowledge, thus enabling them to fulfil their duties more efficiently.



Fair recruitment

The Group recruits staff based on a fair, open and impartial principle to ensure the recruitment and selection process is objective and consistent. The Company only take into account an individual's competence, regardless of the age (no recruitment of minors under the age of 16), nationality, race, gender, religion, pregnancy or disability. This process avoids any employment discrimination and offers equal employment opportunities to all candidates.

Employment

The Company strictly followed Labour Law of the People's Republic of China, Law of the People's Republic of China on Employment Contracts and Provisions on the Prohibition of Using Child Labour to recruit and manage staff and expressly specified that the Group must follow the policies such as national labour law and forbid employing child labours younger than 16 years old, forbid forcing the staff to do the jobs at certain post or to work, and forbid all types of compulsory work. The Company also forbid taking punitive measures, management means and behaviours like abusing, corporal punishment, violence, spirit oppression, sexual harassment (including improper language, posture and body contact) or sexual abuse. In addition, the Company regularly provides the management with education training in terms of management ability and skills to further avoid the occurrence of events aforesaid.

Supply Chain Management

The Group recognises that supply chain management is essential in improving operational efficiency, and therefore we work closely with our suppliers and contractors to meet customers' needs in an effective and efficient manner, while emphasising responsible operating practices. In addition, the Group closely monitors the budget and materials used in order to avoid unnecessary waste and increase to use recyclable material in the projects.

We manage the procurement of principal raw materials separately from the procurement of other raw materials. The other raw materials are procured by the project management department upon receiving approval from the procurement department. As for principal raw materials, the procurement department maintains a list of qualified suppliers, from which the project management department procures on an as-needed basis. Qualified suppliers are selected based on various criteria, including pricing, quality, record of timely delivery, location, supply capacity, credit terms, environmental protection assessment and customer service. The list of qualified suppliers is reviewed annually. During the reporting period, all of our major suppliers were domestic companies, with whom we have established long-term relationships of three to ten years. We may procure principal raw materials from suppliers not on the list of qualified suppliers only in special circumstances and such procurement must be reviewed by the relevant project manager and approved by the procurement department.

Most of our equipment and machinery are procured domestically from manufacturers in China, with whom we have established long-term relationships. We select our equipment and machinery suppliers based on numerous factors, including quality, pricing, reputation and aftersales services. We have in place a strict policy and approval system for the procurement of equipment and machinery.

QUALITY CONTROL AND MANAGEMENT

Stringent quality control is critical to the Group's reputation and success. As such, we adopt comprehensive quality control measures to ensure the high quality of our construction contracting services. Our quality and safety department is responsible for the adoption of quality control measures and periodic inspections of our operations. The following is a summary of the key quality control measures we implement:

- Inspection of raw materials. We inspect raw materials in accordance with our quality standards and the specifications of our customers. We are typically required to provide a product certificate and obtain our customer's approval before using such raw materials in our construction projects;

- Training. We provide training to our project management teams and our subcontracted workers to ensure their understanding of, and compliance with, our quality standards on a monthly basis. In addition, our project management team also holds daily assemblies with our subcontracted workers to review construction safety measures and precautions;

- Standardized construction. We implement standardized construction methods and technologies in all of our construction projects. For large-scale and complex construction projects, we may set up construction process demonstration areas on project sites, where key standardized construction methods and processes are exhibited or detailed to ensure our compliance with such methods and processes;

- Onsite inspections and rectification. We conduct periodic inspections and spot checks on our construction projects, and require our personnel to implement immediate rectification measures if any quality control issues are identified. Upon rectification, we re-inspect the quality control issues to ensure that such issues have been resolved. As required by our customers, independent surveyors will conduct periodic inspections and spot inspections of our construction projects. Inspection results will be documented in a monthly report, setting forth an assessment of construction quality, our construction progress and targets for construction progress and construction quality in the next month;

- Quality control review. After the completion of each project and at the end of each quarter, we conduct a comprehensive review and analysis of any quality control issues. In addition, we survey our customers for feedback on an annual basis and after completion of each project to improve the quality of our services and products;

- Subcontractors. We require our construction subcontractors to fully abide by our quality control measures when performing work for our construction projects.

Data Protection and Privacy Policies

The Company stringently complies with Tort Law of the People's Republic of China and all employees are prohibited from disclosing any confidential information under the Company's confidentiality policy. Data including project-related information and other sensitive information is subject to access control to ensure its security and prevent any abuse or misuse.

Bribery, corruption and other misconduct

In addition to strict compliance with the Criminal Law of the People's Republic of China, the Company has established employee handbook according to its features and circumstances, to regulate our employees' conduct with respect to conflicts of interest, bribery, corruption and other misconduct. We provide regular training for our employees to emphasize the importance of employees' conduct and refresh their knowledge on the reporting system on employees' misconduct. Moreover, training in connection with anti-bribery rules and regulations under the PRC laws from our PRC Legal Advisers will be arranged for our Board and senior management team to enhance their awareness of the effect and consequences of bribery. An effective whistle blowing policy is also in place to minimize the risk of fraudulent acts, criminal offences or wrongdoings occurring in the workplace.

COMMUNITY INVOLVEMENT/CHARITABLE DONATIONS

The Group is committed to fulfilling its CSR and continues to dedicate its internal resources to charitable activities. During the year ended 31 December 2019, the Group donated a total of RMB630,000 to students and poor families.

The Group also actively participated in community activities, such as engaging in voluntary community services and poverty alleviation.

FUTURE DIRECTION

The Group recognises the importance of CSR, and strives to improve its performance in this aspect going forward. As our businesses continue to expand, we will strive to promote our CSR initiatives to all operation units and communities where our businesses are located.

We will continue to work hard on various aspects to improve our performance in CSR, including:

– Continue to reinforce and comply with sustainable environmental practices;

– Continue to enhance the occupational health & safety standards; and

– Continue to ensure positive contribution to good CSR practices from the tendering stage of each project.

The Group will regularly review this CSR policy to ensure the CSR initiatives and performance address the needs of the society in this ever-changing environment.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Jujiang Construction Group Co., Ltd.
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Jujiang Construction Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 146, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction contracts	
The Group provided construction contracting services to its customers and the construction revenue amounted to RMB6,962 million for the year ended 31 December 2019, which was accounted for by applying an input method to measure the progress towards complete satisfaction of the construction service. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services. The estimation of the total budgeted cost involves management's judgement and estimates and is based on historical experience. In addition, revenue, cost and gross profit realised on such contracts can vary from the Group's original estimates because of changes in conditions. The accounting policies and related disclosures for the revenue recognition on construction contracts are included in Note 3.3 – Summary of significant accounting policies, Note 4 – Significant accounting judgements and estimates, and Note 6 – Revenue, other income and gains to the financial statements. .	We evaluated and tested the Group's controls over the budgeting process of contract costs (including the assessment of the historical accuracy of the budget for completed projects), accounting process of contract revenues and the calculation of the progress towards completion of the construction service On a sample basis, we reviewed significant construction contracts and checked the total contract value and key contract terms. On a sample basis, we checked the contract costs incurred by reviewing the related documents such as documents of settlement and supplier invoices. We observed selected construction work sites and discussed the progress with construction surveyors and in charge persons of the projects to assess the consistency between the construction status and the related progress calculated from the input method. We re-calculated the revenues recognised under the input method and performed analytical review procedures according to different construction contract types.

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses ("ECL") of receivables and contract assets	
As at 31 December 2019, trade receivables, other receivables and contract assets amounting to RMB4,168 million, accounted for 76% of total assets and were material to the Group's consolidated financial statements. The Group adopted IFRS 9 Financial Instruments which is effective from 1 January 2018. As a result, a forward-looking ECL impairment model is applied by the Group. This involves judgments as the expected credit loss impairment model reflects information about past events, current conditions and forecasts of future conditions. Accordingly these accounts are considered as a key audit matter. The accounting policies and related disclosures for the provision for expected credit losses of trade receivables, other receivables and contract assets are included in Note 3.3 – Summary of significant accounting policies, Note 4 – Significant accounting judgements and estimates, Note 18 – Trade and bills receivables, Note 19 – Prepayments and other receivables, and Note 20- Contract assets to the financial statements.	We evaluated and tested the Group's controls over the accounting process of the provision for ECL of trade receivables, other receivables and contract assets. We tested the accuracy of the ageing of receivables and contract assets balances by tracing details of selected samples to invoices and terms of the contracts with customers. We assessed whether the calculation of expected credit loss was in accordance with IFRS 9. We evaluated the significant judgments employed by the ECL impairment model by considering the underlying data related to selected customers' historical default rates, current macroeconomic information, and expected future payment pattern. We checked the arithmetic accuracy of the ECL impairment model. We assessed the adequacy of the Group's disclosures in relation to trade receivables, other receivables, and contract assets included in the financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises Chairman's Statement, Management Discussion and Analysis, Directors' Report and Corporate Governance Report included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to report that fact.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our 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.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is SIU FUNG TERENCE HO.

Ernst & Young
Certified Public Accountants

Hong Kong
27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	6	**7,055,146**	6,895,993
Cost of sales	8	**(6,683,682)**	(6,517,674)
Gross profit		**371,464**	378,319
Other income and gains	6	**7,803**	6,569
Administrative expenses		**(113,577)**	(86,653)
Impairment losses on financial and contract assets, net		**(18,807)**	(13,645)
Other expenses		**(1,008)**	(2,416)
Finance costs	7	**(64,196)**	(59,126)
PROFIT BEFORE TAX	8	**181,679**	223,048
Income tax expense	10	**(43,307)**	(50,180)
PROFIT FOR THE YEAR		**138,372**	172,868
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**138,372**	172,868
Profit attributable to:			
Owners of the parent		**133,714**	171,096
Non-controlling interests		**4,658**	1,772
		138,372	172,868
Total comprehensive income attributable to:			
Owners of the parent		**133,714**	171,096
Non-controlling interests		**4,658**	1,772
		138,372	172,868
Earnings per share attributable to ordinary equity holders of the parent:			
Basic and diluted (expressed in RMB per share)	12	**0.25**	0.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**135,201**	221,202
Right-of-use assets	14(b)	**8,705**	–
Prepaid land lease payments	14(a)	**–**	8,706
Goodwill		**1,162**	1,162
Other intangible assets	15	**66,207**	2,803
Deferred tax assets	16	**24,277**	20,197
Prepayments, other receivables and other assets	19	**11,685**	26,224
Total non-current assets		**247,237**	280,294
CURRENT ASSETS			
Prepaid land lease payments	14(a)	**–**	291
Inventories	17	**37,515**	17,209
Contract assets	20	**2,564,120**	3,077,317
Trade and bills receivables	18	**1,774,881**	1,470,703
Prepayments, other receivables and other assets	19	**506,964**	466,489
Pledged deposits	21	**110,126**	35,369
Cash and cash equivalents	21	**273,991**	167,406
Total current assets		**5,267,597**	5,234,784
CURRENT LIABILITIES			
Trade and bills payables	22	**2,836,562**	3,159,517
Other payables and accruals	23	**486,314**	439,085
Interest-bearing bank and other borrowings	24	**407,300**	420,050
Tax payable		**207,456**	182,390
Total current liabilities		**3,937,632**	4,201,042
NET CURRENT ASSETS		**1,329,965**	1,033,742
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,577,202**	1,314,036

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**140,938**	–
Total non-current liabilities		**140,938**	–
Net assets		**1,436,264**	1,314,036
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	**533,360**	533,360
Reserves	26	**876,726**	761,570
		1,410,086	1,294,930
Non-controlling interests		**26,178**	19,106
Total equity		**1,436,264**	1,314,036

Lyu Yaoneng
Director

Lyu Dazhong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Attributable to owners of the parent							
	Note	Share capital	Capital reserve*	Special reserve*	Statutory surplus reserve*	Retained profits*	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018		533,360	188,480	–	42,971	359,023	1,123,834	6,225	1,130,059
Profit for the year		–	–	–	–	171,096	171,096	1,772	172,868
Total comprehensive income for the year		–	–	–	–	171,096	171,096	1,772	172,868
Appropriation to statutory surplus reserve		–	–	–	18,082	(18,082)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	(600)	(600)
Acquisition of a subsidiary		–	–	–	–	–	–	11,709	11,709
Transfer to special reserve	(i)	–	–	142,922	–	(142,922)	–	–	–
Utilisation of special reserve	(i)	–	–	(142,922)	–	142,922	–	–	–
As at 31 December 2018 and 1 January 2019		533,360	188,480	–	61,053	512,037	1,294,930	19,106	1,314,036
Profit for the year		**–**	**–**	**–**	**–**	**133,714**	**133,714**	**4,658**	**138,372**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**133,714**	**133,714**	**4,658**	**138,372**
Appropriation to statutory surplus reserve		**–**	**–**	**–**	**15,203**	**(15,203)**	**–**	**–**	**–**
Dividends paid to non-controlling shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**(1,352)**	**(1,352)**
Transfer to special reserve	(i)	**–**	**–**	**153,101**	**–**	**(153,101)**	**–**	**–**	**–**
Utilisation of special reserve	(i)	**–**	**–**	**(153,101)**	**–**	**153,101**	**–**	**–**	**–**
Capital increase of a subsidiary		**–**	**185**	**–**	**–**	**–**	**185**	**3,766**	**3,951**
Final 2018 dividend declared		**–**	**–**	**–**	**–**	**(18,743)**	**(18,743)**	**–**	**(18,743)**
As at 31 December 2019		**533,360**	**188,665**	**–**	**76,256**	**611,805**	**1,410,086**	**26,178**	**1,436,264**

* These reserve accounts comprise the consolidated reserves of RMB876,726,000 (2018: RMB761,570,000) in the consolidated statement of financial position.

Note:

(i) In preparation of the financial statements, the Group has appropriated a certain amount of retained profits to a special reserve fund for each of the two years ended 31 December 2019 and 2018, for safety production expense purposes as required by directives issued by relevant PRC government authorities. The Group charged the safety production expense to profit or loss when such expense was incurred, and at the same time an equal amount of such special reserve fund was transferred back to retained profits until such special reserve was fully utilised.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**181,679**	223,048
Adjustments for:			
Finance costs	7	**64,196**	59,126
Interest income	6,8	**(1,382)**	(476)
Depreciation of items of property, plant and equipment	8	**11,097**	8,524
Amortisation of intangible assets	8	**762**	540
Depreciation of right-of-use assets/recognition of prepaid land lease payments	8	**292**	291
Impairment of trade receivables	8	**16,790**	4,923
Impairment of other receivables	8	**1,500**	4,994
Impairment of contract assets	8	**517**	3,728
Loss/(gain) on disposal of items of property, plant and equipment, net	8	**10**	(316)
		275,461	304,382
Increase in inventories		**(20,306)**	(5,181)
Decrease/(increase)in contract assets		**563,677**	(3,081,045)
Decrease in amounts due from/to contract customers		**–**	2,952,370
Increase in trade and bills receivables		**(320,968)**	(523,909)
(Increase)/decrease in prepayments, other receivables and other assets		**(57,436)**	10,324
Increase in pledged deposits		**(59,965)**	(9,193)
(Decrease)/increase in trade and bills payables		**(322,955)**	573,491
Decrease in other payables and accruals		**56,150**	179,283
Cash flows from operations		**113,658**	400,522
Interest received		**1,382**	476
Income tax paid		**(22,321)**	(29,919)
Net cash flows from operating activities		**92,719**	371,079

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(10,199)**	(14,881)
Payments for acquisition of intangible assets	15	**(30,168)**	(827)
Proceeds from disposal of items of property, plant and equipment		**98**	1,068
Repayment of loans by third parties		**30,000**	–
Acquisition of a subsidiary		**–**	(46,231)
Net cash flows used in investing activities		**(10,269)**	(60,871)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(64,196)**	(59,126)
New bank loans		**692,698**	557,100
Repayment of bank loans		**(564,510)**	(716,611)
Deposits paid for bank loans		**(14,792)**	(7,424)
Dividends paid to shareholders		**(18,814)**	–
Dividends paid to non-controlling shareholders		**(1,352)**	(600)
Capital increase of a subsidiary		**3,951**	–
Repayment of loans from third parties		**(56,750)**	–
Loans from third parties		**47,900**	–
Net cash flows from/(used in) financing activities		**24,135**	(226,661)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**106,585**	83,547
Cash and cash equivalents at beginning of year		**167,406**	83,859
CASH AND CASH EQUIVALENTS AT END OF YEAR		**273,991**	167,406
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**273,991**	167,406
Cash and cash equivalents as stated in the statement of financial position		**273,991**	167,406
Cash and cash equivalents as stated in the statement of cash flows		**273,991**	167,406

1. CORPORATE AND GROUP INFORMATION

The Company, formerly known as Qitang Commune Construction Agency, was established in the People's Republic of China (the "PRC") on 25 October 1965 as a collective economy agency (集體經濟社). In July 1996, the Company was converted into a company with limited liability. The Company became a joint stock company with limited liability on 29 December 2014 and changed its name to Jujiang Construction Group Co., Ltd. The registered office address of the Company is No. 669 Qingfeng South Road, (South), Tongxiang City, Zhejiang Province, the PRC. The Company's H shares were listed (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 January 2016 (the "Listing Date").

During the year ended 31 December 2019, the Group's principal activities were as follows:

- Construction contracting
- Others – design, survey, consultancy and other businesses

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Zhejiang Jujiang Holdings Group Co., Ltd.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Notes	Place and date of incorporation/ registration and business	Share capital	Percentage of equity attributable to the Company Direct	Principal activities
Zhejiang Jujiang Construction Surveying and Design Co., Ltd. ("浙江巨匠建築勘察設計 有限公司")	(a)	The PRC/Mainland China September 1985	RMB10,000,000	100%	Surveying, designing and engineering exploration
Tongxiang City Jujiang Lifting Equipment Installation Co., Ltd. ("桐鄉市巨匠起重設備安裝有限公司")	(a)	The PRC/ Mainland China May 2006	RMB1,600,000	100%	Installation, disassembly and rent of construction lifting equipment
Tongxiang City Jujiang Curtain Wall Installation Engineering Co., Ltd. ("桐鄉市巨匠建築幕牆安裝工程有限公司")	(a)	The PRC/ Mainland China March 2009	RMB5,000,000	85%	Installation of architecture wall

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Name	Notes	Place and date of incorporation/ registration and business	Share capital	Percentage of equity attributable to the Company Direct	Principal activities
Jiaxing Jujiang Defence Equipment Co., Ltd. ("嘉興巨匠防護設備有限公司")	(a)	The PRC/ Mainland China April 2013	RMB15,800,000	66.5%	Civil defence products manufacturing business
Tongxiang City Youth Quality Education Practice Base Co., Ltd. ("桐鄉市青少年素質教育實踐基地有限責任公司")	(a)	The PRC/ Mainland China November 2015	RMB60,000,000	80%	Building and operating of youth quality education practice base
Jujiang Construction (India) Construction contracting Private Limited ("巨匠建設(印度)私人有限公司")	(b)	The Republic of India August 2018	Rs6,704,500	100%	Construction contracting

* The English names of the companies registered in the PRC represent the best efforts of the management of the Company in directly translating the Chinese names of the companies as no English names have been registered.

Notes:

(a) Registered as limited liability companies under PRC law.

(b) Registered as limited liability company under India law.

(c) On 1 July 2019, the Company absorbed and merged its wholly-owned subsidiary, Zhejiang Jujiang Municipal Landscaping Engineering Co., Ltd. (浙江巨匠市政園林綠化工程有限公司). Upon completion of the absorption-and-merger, the independent legal person status of Zhejiang Jujiang Municipal Landscaping Engineering Co., Ltd. has been de-registered. All property and rights and obligations of the subsidiary have been unconditionally borne by the Company; and all the rights and liabilities of the subsidiary have been assumed by the Company.

(d) On 1 July 2019, the Company absorbed and merged its wholly-owned subsidiary, Zhejiang Kepuao Building Materials Trading Co., Ltd. (浙江科普奧建材貿易有限公司). Upon completion of the absorption-and-merger, the independent legal person status of Zhejiang Kepuao Building Materials Trading Co., Ltd. has been de-registered. All property and rights and obligations of the subsidiary have been unconditionally borne by the Company; and all the rights and liabilities of the subsidiary has been assumed by the Company.

2. BASIS OF PREPARATION

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

Basis of consolidation

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

New definition of a lease

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

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

Impact on transition

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

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Financial impact at 1 January 2019

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

	Increase/(decrease)
	RMB'000
Assets	
Increase in right-of-use assets	8,997
Decrease in prepaid land lease payments	(8,997)
Increase in total assets	–

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

	RMB'000
Operating lease commitments as at 31 December 2018	750
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(750)
Lease liabilities as at 1 January 2019	–

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

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

3.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9 IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

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

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

3.2 ISSUED BUT NOT YET EFFECTIVE IFRSs *(continued)*

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

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that is previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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);

(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); and

(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 parent of the Group.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Categories	
Buildings	1.90% to 4.80%
Plant and machinery	4.75% to 11.88%
Office equipment and others	9.50% to 31.67%
Motor vehicles	9.50% to 32.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life.

Concession intangible asset

The Group engages in certain service concession arrangements in which the Group carries out construction work for the granting authority and receives in exchange a right to operate the assets concerned in accordance with the pre-established conditions set by the granting authority. The assets under the concession arrangements may be calculated according to their arrangement nature.

The Group recognises revenue and a contract asset or a financial asset to the extent that it has an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the granting authority, or to receive the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts.

If the Group receives a right to charge users of public service, with an undeterminable amount, the assets are classified as intangible assets and the Group recognises revenue at the same time in the "concession rights" under intangible assets included in the statement of financial position. Once the underlying infrastructure of the concession arrangements is completed, the concession assets are amortised over the term of the concession using straight-line method under the intangible asset model.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land 40 to 50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities (if any) are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

(c) Short-term leases and leases of low-value assets (continued)

Group as lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. 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. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the rewards and risks and rewards incidental to of ownership of an underlying assets to the lessee are accounted for as finance leases.

Operating leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)
Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)
For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement (continued)

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables and other payables, and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers (continued)

(a) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

(b) Sales of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. 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 incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

Social pension plans

The Group has the social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligation beyond the contributions made.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Apart from those described above, the Group does not have any other legal or constructive obligations over employee benefits.

Production safety expenses

Production safety expenses accrued based on the Production Safety Law of the People's Republic of China (中華人民共和國安全生產法) shall be provided in retained profits for the current period, and recorded as a fund in the special reserve. When the expenditures are utilised as expenses, they should be recognised in profit or loss and offset against the special reserve; when the expenditures incurred relate to fixed assets, they shall be recognised in the cost of fixed assets, which will be recognised when it is ready for use. The same amount as the expenditure will be offset against the special reserve and recorded as accumulated depreciation equivalent at the same time.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary which arises throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of satisfaction of construction services

The Group concluded that revenue for construction services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the construction that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the input method is the best method in measuring the progress of the construction services because there is a direct relationship between the Group's effort (i.e., labour hours incurred) and the transfer of services to the customer. The Group recognises revenue on the basis of the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

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

Progress of completion of construction and service works

Revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contracts and is recognised using the input method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. The Group reviews and revises the estimates of contract revenue, contract costs and variation orders, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the management budgets by comparing the budgeted amounts to the actual amounts incurred.

Estimation of total budgeted costs and cost to completion for construction contracting and contracts for services

Total budgeted costs for construction contracting and contracts for services comprise (i) direct material costs and direct labour, (ii) costs of subcontracting, and (iii) an appropriation of variable and fixed construction and services overheads. In estimating the total budgeted costs for construction contracting and contracts for services, management refers to information such as (i) current offers from subcontractors and suppliers, (ii) recent offers agreed with subcontractors and suppliers, and (iii) professional estimation on material costs, labour costs and other costs.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 18, note 19 and note 20 to the financial statements, respectively.

5. OPERATING SEGMENT INFORMATION

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

(a) Construction contracting – this segment engages in the provision of services relating to construction contracting in architecture;

(b) Others – provision of services of designing, surveying and mapping, monitoring and consulting in the engineering of municipal management and construction, installation of lifting equipment, sale of construction materials and civil defence products and provision of services relating to construction contracting in architecture.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit before tax.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2019

	Construction contracting RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue (note 6)				
Sales to external customers	6,961,555	93,591	–	7,055,146
Intersegment sales	–	12,642	(12,642)	–
Total revenue	6,961,555	106,233	(12,642)	7,055,146
Segment results	171,883	12,451	(2,655)	181,679
Income tax expense	(41,191)	(2,116)	–	(43,307)
Profit for the year	130,692	10,335	(2,655)	138,372
Segment assets	5,314,807	323,980	(123,953)	5,514,834
Segment liabilities	3,915,432	217,682	(54,544)	4,078,570
Other segment information:				
Interest income	1,249	133	–	1,382
Finance costs	61,665	3,554	(1,023)	64,196
Depreciation	10,784	605	–	11,389
Amortisation	631	131	–	762
Impairment losses recognised in the statement of profit or loss, net	18,835	(28)	–	18,809
Capital expenditure*	10,502	29,865	-	40,367

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

5. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018

	Construction contracting RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue (note 6):				
Sales to external customers	6,824,733	71,260	–	6,895,993
Intersegment sales	–	11,159	(11,159)	–
Total revenue	6,824,733	82,419	(11,159)	6,895,993
Segment results	219,887	5,061	(1,900)	223,048
Income tax expense	(48,002)	(2,178)	–	(50,180)
Profit for the year	171,885	2,883	(1,900)	172,868
Segment assets	5,508,908	236,463	(230,293)	5,515,078
Segment liabilities	4,158,465	129,683	(87,106)	4,201,042
Other segment information:				
Interest income	413	63	–	476
Finance costs	56,350	2,776	–	59,126
Depreciation	8,075	449	–	8,524
Amortisation	753	78	–	831
Impairment losses recognised in the statement of profit or loss	12,897	748	–	13,645
Capital expenditure*	12,605	86,277	–	98,882

* Capital expenditure consists of additions to property, plant and equipment and intangible assets, including assets from the acquisition of a subsidiary.

Geographical information

All the Group's long-lived assets are located in the Mainland China and all the Group's revenue and operating profits were derived from the Mainland China during the year.

Information about a major customer

During the year ended 31 December 2019, there was no customer, including a group of entities which are known to be under common control with that customer, from which the revenue derived amounted to 10% or more of the Group's revenue. (During the year ended 31 December 2018: RMB711,011,000).

6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**7,055,146**	6,895,993

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Construction contracting RMB'000	Others RMB'000	Total RMB'000
Type of goods or service			
Construction contracting	6,961,555	–	6,961,555
Designing services	–	26,303	26,303
Sale of construction materials and civil defence products	–	67,288	67,288
Total revenue from contracts with customers	6,961,555	93,591	7,055,146
Geographical market			
Mainland China	6,961,555	93,591	7,055,146
Total revenue from contracts with customers	6,961,555	93,591	7,055,146
Timing of revenue recognition			
Services transferred over time	6,961,555	26,303	6,987,858
Goods transferred at a point in time	–	67,288	67,288
Total revenue from contracts with customers	6,961,555	93,591	7,055,146

6. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information *(continued)*

For the year ended 31 December 2018

Segments	Construction contracting RMB'000	Others RMB'000	Total RMB'000
Type of goods or service			
Construction contracting	6,824,733	–	6,824,733
Designing services	–	27,382	27,382
Sale of construction materials and civil defence products	–	43,878	43,878
Total revenue from contracts with customers	6,824,733	71,260	6,895,993
Geographical market			
Mainland China	6,824,733	71,260	6,895,993
Total revenue from contracts with customers	6,824,733	71,260	6,895,993
Timing of revenue recognition			
Services transferred over time	6,824,733	27,382	6,852,115
Goods transferred at a point in time	–	43,878	43,878
Total revenue from contracts with customers	6,824,733	71,260	6,895,993

6. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information (continued)

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

For the year ended 31 December 2019

	Construction contracting RMB'000	Others RMB'000	Total RMB'000
Revenue from contract with customers			
Sales to external customers	**6,961,555**	**93,591**	**7,055,146**
Intersegment sales	**–**	**12,642**	**12,642**
	6,961,555	**106,233**	**7,067,788**
Intersegment adjustments and eliminations	**–**	**(12,642)**	**(12,642)**
Total revenue from contracts with customers	**6,961,555**	**93,591**	**7,055,146**

For the year ended 31 December 2018

	Construction contracting RMB'000	Others RMB'000	Total RMB'000
Revenue from contract with customers			
Sales to external customers	6,824,733	71,260	6,895,993
Intersegment sales	–	11,159	11,159
	6,824,733	82,419	6,907,152
Intersegment adjustments and eliminations	–	(11,159)	(11,159)
Total revenue from contracts with customers	6,824,733	71,260	6,895,993

6. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information (continued)

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

	2019	2018
	RMB'000	RMB'000
Construction services	**132,436**	132,308
Sale of goods	**6,676**	11,820
Design services	**1,217**	387
	140,329	144,515

(ii) Performance obligations

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

Construction contracting
The performance obligation is satisfied over time as construction services are rendered and payment is generally due within 1 to 3 months from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

Design, survey and consultancy
The performance obligation is satisfied over time as design, survey and consultancy services are rendered and payment is generally due within 1 to 3 months from the date of billing. A deposit is received upon signing such contract and the remainder of the contract value in instalment payments that are due upon achieving key milestones stipulated in the contract. In some cases, A certain percentage of payment is retained by customers until after final acceptance of the construction project to which we provided design, survey and consultancy services, ranging one to three years in length.

Sale of construction materials and civil defence products
The performance obligation is satisfied upon delivery of the construction materials and civil defence products and payment is generally due within 1 to 3 months from delivery, where payment in advance is normally required.

6. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(ii) Performance obligations (continued)

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

	2019 RMB'000	2018 RMB'000
Total remaining performance obligations	**14,432,840**	11,239,230

Based on the information available to the Group at the end of each reporting period, the management of the Company expects the transaction prices allocated to the contracts under construction as at 31 December 2019 will be recognised as revenue in the period of next six months to three years, amounting to RMB9,355,070,000.

The amounts of transaction prices allocated to the contracts which are signed but not yet commenced as at 31 December 2019 totalled to RMB5,077,770,000. They will normally be recognised as revenue in six months to three years once the construction permits are obtained by the customers.

	2019 RMB'000	2018 RMB'000
Other income		
Interest income	**1,382**	476
Government grants*	**5,668**	5,276
	7,050	5,752
Gains		
Others	**753**	817
	7,803	6,569

* Government grants consisted primarily of incentive fund received from bureau of housing and urban-rural development in support of construction service.

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank loans and other borrowings	**24,280**	26,542
Factoring expense	**35,060**	27,998
Interest on discounted bills receivable	**4,856**	4,586
	64,196	59,126

8. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of construction contracting (including depreciation)		**6,620,397**	6,462,700
Cost of others		**63,285**	54,974
Total cost of sales		**6,683,682**	6,517,674
Depreciation of property, plant and equipment (note (a))	13	**11,097**	8,524
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	14(a),14(b)	**292**	291
Amortisation of intangible assets	15	**762**	540
Total depreciation and amortisation		**12,151**	9,355
Research and development costs:			
Current year expenditure		**4,065**	–
		4,065	–
Impairment of financial and contract assets, net:			
Impairment of trade receivables	18	**16,790**	4,923
Impairment of financial assets included in prepayments, other receivables	19	**1,500**	4,994
Impairment of contract assets	20	**517**	3,728
Total impairment losses, net		**18,807**	13,645
Minimum lease payments under operating leases (note (b))		**–**	1,215
Lease payments not included in the measurement of lease liabilities (note (b))		**1,634**	–
Auditors' remuneration		**2,206**	2,328
Employee benefit expenses (including directors' and supervisors' remuneration) (note (c)):		**65,956**	51,082
– Wages, salaries and allowances		**52,478**	39,714
– Social insurance		**11,566**	9,338
– Welfare and other expenses		**1,912**	2,030
Interest income		**(1,382)**	(476)
Loss(gain) on disposal of items of property, plant and equipment, net		**10**	(316)
Foreign exchange differences, net		**97**	–

8. PROFIT BEFORE TAX *(continued)*

(a) Depreciation of approximately RMB5,137,000 (2018: RMB3,690,000) is included in administrative expenses in the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2019.

(b) Minimum lease payments of approximately RMB468,000 (2018: RMB190,000) are included in administrative expenses in the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2019.

(c) Employee benefit expenses of approximately RMB68,779,000 (2018: RMB51,082,000) are included in administrative expenses in the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2019.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and supervisors' remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019	2018
	RMB'000	RMB'000
Fees	**263**	263
Others emoluments:		
– Salaries, allowances and benefits in kind	**1,937**	1,574
– Performance-related bonuses	**545**	385
– Pension schemes	**61**	54
	2,806	2,276

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

(a) Directors' and supervisors' remuneration *(continued)*

The names of the directors and supervisors and their remuneration for the reporting period are as follows:

Year ended 31 December 2019

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension schemes RMB'000	Total remuneration RMB'000
Executive Directors					
Mr. Lyu Yaoneng (呂耀能)	–	406	120	10	536
Mr. Zheng Gang (鄭剛)	–	309	80	8	397
Mr. Li Jinyan (李錦燕)	–	294	100	8	402
Mr. Lu Zhicheng (陸志城)	–	61	20	6	87
Mr. Lyu Dazhong (呂達忠)	–	248	100	8	356
Mr. Shen Haiquan (沈海泉)	–	61	20	6	87
	–	1,379	440	46	1,865

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

(a) Directors' and supervisors' remuneration *(continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension schemes RMB'000	Total remuneration RMB'000
Independent Non-executive Directors					
Mr. Wong Ka Wai (王加威)	101	–	–	–	101
Mr. Lin Tao (林濤)	81	–	–	–	81
Mr. Yu Jingxuan (余景選)	81	–	–	–	81
	263	–	–	–	263
Supervisors					
Mr. Zou Jiangtao (鄒江滔)	–	218	25	7	250
Mr. Lyu Xingliang (呂興良)	–	218	80	8	306
Mr. Chen Xiangjiang (陳祥江)	–	61	–	–	61
Mr. Zhu Jialian (朱家煉)	–	61	–	–	61
	–	558	105	15	678
	263	1,937	545	61	2,806

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

(a) Directors' and supervisors' remuneration *(continued)*

Year ended 31 December 2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension schemes RMB'000	Total remuneration RMB'000
Executive Directors					
Mr. Lyu Yaoneng (呂耀能)	–	308	120	10	438
Mr. Zheng Gang (鄭剛)	–	266	90	7	363
Mr. Li Jinyan (李錦燕)	–	255	100	7	362
Mr. Lu Zhicheng (陸志城)	–	61	–	5	66
Mr. Lyu Dazhong (呂達忠)	–	112	–	7	119
Mr. Shen Haiquan (沈海泉)	–	61	–	5	66
	–	1,063	310	41	1,414
Independent Non-executive Directors					
Mr. Wong Ka Wai (王加威)	101	–	–	–	101
Mr. Lin Tao (林濤)	81	–	–	–	81
Mr. Yu Jingxuan (余景選)	81	–	–	–	81
	263	–	–	–	263
Supervisors					
Mr. Zou Jiangtao (鄒江滔)	–	199	25	6	230
Mr. Lyu Xingliang (呂興良)	–	190	50	7	247
Mr. Chen Xiangjiang (陳祥江)	–	61	–	–	61
Mr. Zhu Jialian (朱家煉)	–	61	–	–	61
	–	511	75	13	599
	263	1,574	385	54	2,276

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

(b) Five highest paid employees

An analysis of the headcounts of the five highest paid employees within the Group for the reporting period is as follows:

	2019	2018
Directors	3	3
Supervisors	–	–
Non-director and non-supervisor employees	2	2
	5	5

Details of the Directors' and supervisors' remuneration are set out above.

Details of the remuneration of the above non-director and non-supervisor, highest paid employees are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	577	498
Performance related bonuses	160	160
Pension schemes	15	7
	752	665

The number of non-director and non-supervisor, highest paid employees whose remuneration fell within the following band is as follows:

	2019	2018
Nil to RMB1,000,000	2	2

During the reporting period, there were no arrangements under which a director or a supervisor waived or agreed to waive any emoluments. In addition, no emoluments were paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

Provision for Mainland China current income tax is based on the statutory rate of 25% on the assessable profits of the PRC entities of the Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008.

	2019	2018
	RMB'000	RMB'000
Current income tax – Mainland China		
Charge for the year	**52,253**	60,657
Overprovision in prior years	**(4,866)**	(7,393)
Deferred income tax (note 16)	**(4,080)**	(3,084)
Tax charge for the year	**43,307**	50,180

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

	2019	2018
	RMB'000	RMB'000
Profit before tax	**181,679**	223,048
Income tax charge at the statutory income tax rate	**45,420**	55,762
Lower tax rate enacted by local authority	**(1,819)**	(84)
Effect on opening deferred tax of decrease in rates	**47**	–
Adjustments in respect of current tax of previous periods	**(4,866)**	(7,393)
Expenses not deductible for tax	**2,302**	1,094
Deductible temporary difference not recognised	**(148)**	148
Additional deductible allowance for research and development expenses	**(438)**	–
Tax losses not recognised	**2,809**	653
Tax charge for the year at the effective rate	**43,307**	50,180

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposed final		
– RMB 3.63 cents (2018: RMB3.43 cents) per ordinary share	**19,380**	18,300
	19,380	18,300

*The Board recommends the payment of a final dividend of HK4.00 cents (before tax) per share. The exchange rate for the dividend calculation in RMB is based on the average benchmark exchange rate of HKD against RMB as published by the People's Bank of China at 27 March 2020.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The following reflects the income and share data used in the basic earnings per share computation:

	2019 RMB'000	2018 RMB'000
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**133,714**	171,096

	2019 '000	2018 '000
Number of shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**533,360**	533,360

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 31 December 2018 and at 1 January 2019:						
Cost	113,734	51,902	12,622	17,009	84,995	280,262
Accumulated depreciation	(20,480)	(21,698)	(7,774)	(9,108)	–	(59,060)
Net carrying amount	93,254	30,204	4,848	7,901	84,995	221,202
At 1 January 2019, net of accumulated depreciation	93,254	30,204	4,848	7,901	84,995	221,202
Additions	–	6,537	2,725	937	–	10,199
Transfers	–	–	–	–	(84,995)	(84,995)
Disposals	–	–	(99)	(9)	–	(108)
Depreciation provided during the year	(2,271)	(5,174)	(1,678)	(1,974)	–	(11,097)
At 31 December 2019, net of accumulated depreciation	90,983	31,567	5,796	6,855	–	135,201
At 31 December 2019:						
Cost	113,734	58,439	13,174	17,728	–	203,075
Accumulated depreciation	(22,751)	(26,872)	(7,378)	(10,873)	–	(67,874)
Net carrying amount	90,983	31,567	5,796	6,855	–	135,201

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	113,734	53,303	15,402	10,611	–	193,050
Accumulated depreciation	(18,209)	(19,724)	(14,178)	(8,380)	–	(60,491)
Net carrying amount	95,525	33,579	1,224	2,231	–	132,559
At 1 January 2018, net of accumulated depreciation	95,525	33,579	1,224	2,231	–	132,559
Additions	–	1,969	4,408	6,425	2,079	14,881
Acquisition of subsidiary	–	–	–	122	82,916	83,038
Disposals	–	(393)	(352)	(7)	–	(752)
Depreciation provided during the year	(2,271)	(4,951)	(432)	(870)	–	(8,524)
At 31 December 2018, net of accumulated depreciation	93,254	30,204	4,848	7,901	84,995	221,202
At 31 December 2018:						
Cost	113,734	51,902	12,622	17,009	84,995	280,262
Accumulated depreciation	(20,480)	(21,698)	(7,774)	(9,108)	–	(59,060)
Net carrying amount	93,254	30,204	4,848	7,901	84,995	221,202

Certain of the Group's buildings with a net carrying amount of approximately RMB90,978,000 (2018: RMB93,248,000) as at 31 December 2019 were pledged to secure general banking facilities granted to the Group (note 24).

14. LEASES

The Group as a lessee

The Group has lease contracts for items of property and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of property and equipment generally have lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	9,288
Recognised in profit or loss during the year	(291)
Carrying amount at 31 December 2018	8,997
Portion classified as current assets	(291)
Non-current portion at 31 December 2018	8,706

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000
As at 1 January 2019	8,997
Depreciation charge	(292)
As at 31 December 2019	8,705

14. LEASES

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Depreciation charge of right-of-use assets	292
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	1,634
Total amount recognised in profit or loss	1,926

(d) The total cash outflow for leases is disclosed in notes 27(b) to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Software RMB'000	Concession RMB'000	Total RMB'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	2,803	–	2,803
Additions	978	29,190	30,168
Transfers	–	33,998	33,998
Amortisation provided during the year	(762)	–	(762)
At 31 December, 2019	3,019	63,188	66,207
At 31 December, 2019			
Cost	5,537	63,188	68,725
Accumulated amortisation	(2,518)	–	(2,518)
Net carrying amount	3,019	63,188	66,207

15. OTHER INTANGIBLE ASSETS *(continued)*

	Software RMB'000	Total RMB'000
31 December 2018		
Cost at 1 January 2018, net of accumulated amortisation	2,407	2,407
Additions	827	827
Acquisition of subsidiary	109	109
Amortisation provided during the year	(540)	(540)
At 31 December, 2018	2,803	2,803
Cost	4,559	4,559
Accumulated amortisation	(1,756)	(1,756)
Net carrying amount	2,803	2,803

16. DEFERRED TAX ASSETS

The movements in deferred tax assets during the reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Deferred tax assets:		
At beginning of the year	**20,197**	17,113
Deferred tax credited to profit or loss during the year (note 10)	**4,080**	3,084
At end of the year	**24,277**	20,197

The deferred tax assets are attributed to the following items:

	2019 RMB'000	2018 RMB'000
Deferred tax assets:		
Impairment of financial and contract assets	**23,090**	18,265
Accrued but not paid salaries, wages and benefits	**1,187**	1,932
	24,277	20,197

Deferred tax assets amounting to approximately RMB2,661,000 (2018: RMB801,000) were not recognised as at 31 December 2019. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

17. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**27,505**	7,749
Goods in process	**6,438**	3,457
Finished goods	**3,539**	5,973
Spare parts and consumables	**33**	30
	37,515	17,209

18. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables at amortised cost	**1,346,529**	1,083,475
Provision for impairment	**(52,371)**	(35,581)
Trade receivables, net	**1,294,158**	1,047,894
Bills receivables	**480,723**	422,809
	1,774,881	1,470,703

Trade receivables represented receivables for contract works. The payment terms of contract work receivables are stipulated in relevant contracts. The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period offered by the Group is one to three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The group has pledged trade receivables of approximately RMB30,000,000 (2018: Nil) for the Group's bank loans (note 24). Except for the pledged balance, the Group does not hold any other collateral or credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

At the end of the reporting period, the amounts of retentions held by customers for contract works included in trade receivables for the Group are approximately as follows:

	2019 RMB'000	2018 RMB'000
Retentions in trade receivables	**31,680**	63,444
Provision for impairment	**(2,147)**	(800)
Retentions in trade receivables, net	**29,533**	62,644

18. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2019	2018
	RMB'000	RMB'000
Within 3 months	**828,577**	533,645
3 months to 6 months	**140,195**	96,859
6 months to 1 year	**145,632**	240,397
1 to 2 years	**110,558**	79,647
2 to 3 years	**32,581**	78,317
3 to 4 years	**34,210**	8,574
4 to 5 years	**2,405**	1,506
Over 5 years	**–**	8,949
	1,294,158	1,047,894

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

	2019	2018
	RMB'000	RMB'000
At beginning of year	**35,581**	30,658
Impairment losses, net (note 8)	**16,790**	4,923
At end of year	**52,371**	35,581

The increase in the loss allowance was due to the following significant changes in the gross carrying amount:

Increase in the loss allowance of RMB14,502,000 as a result of an increase in trade receivables which were past due for more than 3 years but within 4 years.

18. TRADE AND BILLS RECEIVABLES *(continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than five years and are not subject to enforcement activity.

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

As at 31 December 2019

	Expected credit loss rate	**Gross carrying amount RMB'000**	**Expected credit losses RMB'000**
Current and within 1 year	**0.17%**	**1,116,352**	**1,948**
More than 1 year but within 2 years	**6.59%**	**118,363**	**7,805**
More than 2 years but within 3 years	**16.13%**	**38,847**	**6,266**
More than 3 years but within 4 years	**33.04%**	**51,087**	**16,877**
More than 4 years but within 5 years	**63.11%**	**6,520**	**4,115**
More than 5 years	**100.00%**	**15,360**	**15,360**
		1,346,529	**52,371**

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Current and within 1 year	0.12%	887,493	1,048
More than 1 year but within 2 years	5.68%	89,435	5,076
More than 2 years but within 3 years	14.75%	80,778	11,915
More than 3 years but within 4 years	24.42%	9,726	2,375
More than 4 years but within 5 years	66.17%	2,590	1,714
More than 5 years	100.00%	13,453	13,453
		1,083,475	35,581

18. TRADE AND BILLS RECEIVABLES *(continued)*

Transferred financial assets that are not derecognised in their entirety

The Group endorsed and discounted certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of approximately RMB391,295,000 (2018: RMB352,892,000) as at 31 December 2019, to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the period to which the suppliers have recourse was approximately RMB391,295,000 (2018: RMB352,892,000) as at 31 December 2019.

Transferred financial assets that are derecognised in their entirety

The Group endorsed and discounted certain bills receivable accepted by banks in the Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of approximately RMB972,575,000 (2018: RMB537,826,000) as at 31 December 2019. The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the derecognised bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the reporting period, the Group has recognised RMB4,856,000 in finance costs (note 7) on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**295,343**	267,045
Deposits and other receivables	**253,085**	260,012
Other assets	**6,065**	–
	554,493	527,057
Impairment allowance	**(35,844)**	(34,344)
	518,649	492,713
Portion classified as non-current assets[1]	**(11,685)**	(26,224)
Current portion	**506,964**	466,489

(1) The non-current portion of deposits and other receivables mainly represents performance guarantee amounts held by customers at the end of the reporting period.

The movements in impairment allowance other receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of the year	**34,344**	29,350
Impairment losses, net (note 8)	**1,500**	4,994
At end of the year	**35,844**	34,344

Included in the above provision for impairment of other receivables are provisions for individually impaired other receivables of approximately RMB5,833,000 (2018: RMB7,772,000) with an aggregate carrying amount before provision of approximately RMB5,833,000 (2018: RMB7,772,000) as at 31 December 2019.

The individually impaired other receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(continued)*

The Group has applied the general approach prescribed by IFRS 9, by measuring loss allowance at an amount equal to a 12-month ECLs for deposits and other receivables in stage 1 and lifetime ECLs in stage 2 and stage 3. To measure the ECLs, deposits and other receivables have been grouped based on shared credit risk characteristics, ECLs are estimated based on historical credit loss experience, adjusted for factors that are specific to the debtors and general economic conditions.

	As at 31 December 2019		
	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Current and within 1 year	**1.93%**	**200,639**	**3,879**
More than 1 year but within 2 years	**23.09%**	**8,994**	**2,077**
More than 2 years but within 3 years	**48.39%**	**14,365**	**6,951**
More than 3 years but within 4 years	**56.19%**	**13,502**	**7,587**
More than 4 years but within 5 years	**66.85%**	**709**	**474**
More than 5 years	**100.00%**	**9,043**	**9,043**
		247,252	**30,011**
Apparently impaired item	**100.00%**	**5,833**	**5,833**
Total		**253,085**	**35,844**

	As at 31 December 2018		
	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Current and within 1 year	2.19%	202,932	4,437
More than 1 year but within 2 years	23.05%	25,251	5,821
More than 2 years but within 3 years	48.72%	14,221	6,929
More than 3 years but within 4 years	57.26%	751	430
More than 4 years but within 5 years	59.38%	320	190
More than 5 years	100.00%	8,766	8,766
		252,241	26,573
Apparently impaired item	100.00%	7,771	7,771
Total		260,012	34,344

20. CONTRACT ASSETS

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Contract assets arising from:			
Construction services	**2,555,463**	3,066,983	3,084,495
Design, survey and consultancy	**12,902**	14,062	–
	2,568,365	3,081,045	3,084,495
Impairment	**(4,245)**	(3,728)	–
	2,564,120	3,077,317	3,084,495

Contract assets are initially recognised for revenue earned from construction services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets for construction services are retention receivables. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2019 was the result of early settlement at the end of the year. The increase in contract assets in 2018 was the result of the increase in the provision of construction services at the end of the year. During the year ended 31 December 2019, RMB517,000 (2018: RMB3,728,000) was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 18 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

Retention receivables

	2019 RMB'000	2018 RMB'000
Within one year	**24,982**	15,143
After one year	**81,856**	26,056
	106,838	41,199

The remaining contract assets of RMB2,461,527,000 are expected to be recovered or settled within 3 years upon completion of services and acceptance by the customers.

20. CONTRACT ASSETS *(continued)*

The movements in the loss allowance for impairment of contract assets are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**3,728**	–
Impairment losses, net (note 8)	**517**	3,728
At end of year	**4,245**	3,728

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

	2019	2018
Expected credit loss rate	**0.17%**	0.12%
Gross carrying amount (RMB'000)	**2,568,365**	3,081,045
Expected credit losses (RMB'000)	**4,245**	3,728

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 **RMB'000**	2018 RMB'000
Cash and bank balances	**273,991**	167,406
Pledged deposits	**110,126**	35,369
	384,117	202,775
Less: Pledged deposits		
Pledged for salaries of migrant workers	**(68,910)**	(8,945)
Pledged for bank loans and bank notes	**(41,216)**	(26,424)
Cash and cash equivalents	**273,991**	167,406

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE AND BILLS PAYABLES

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

	2019 **RMB'000**	2018 RMB'000
Within 6 months	**2,329,209**	2,515,938
6 months to 1 year	**164,292**	119,275
1 to 2 years	**168,791**	284,268
2 to 3 years	**62,171**	95,754
Over 3 years	**112,099**	144,282
	2,836,562	3,159,517

The trade payables are non-interest-bearing and are normally settled within terms from three to six months.

23. OTHER PAYABLES AND ACCRUALS

		2019 RMB'000	2018 RMB'000
Contract liabilities	(a)	**267,759**	169,013
Accrued salaries, wages and benefits		**16,107**	12,124
Other taxes payable		**162,648**	208,152
Other payables	(b)	**39,800**	49,796
		486,314	439,085

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Construction services	**235,932**	145,436	132,308
Sale of goods	**29,887**	17,712	11,820
Design services	**1,940**	5,865	387
	267,759	169,013	144,515

Contract liabilities include short-term advances received for construction services and from sale of goods. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from customers in relation to the provision of construction services at the end of each year.

(b) Other payables are non-interest-bearing and have no fixed term of settlement.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – mortgaged/ guaranteed	4.50-6.48	2020	356,760	4.79-6.48	2019	409,550
Bank loans – guaranteed	4.71-7.00	2020	12,950	5.66	2019	10,000
Bank loans – pledged	6.09	2020	30,000	–	–	–
Bank loans – other	2.88-8.33	2020	4,590	3.93 - 3.98	2019	500
Other loans	15.00	2020	3,000	-	-	-
			407,300			420,050
Non-current						
Bank loans – guaranteed	4.41	2021-2028	140,938			–

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	404,300	420,050
In the second year	7,004	–
In the third to fifth years, inclusive	54,964	–
Beyond five years	78,970	–
	545,238	420,050
Analysed into:		
Other loans repayable:		
Within one year	3,000	-

Notes:

(a) Certain of the Group's buildings with a net carrying amount of approximately RMB90,978,000 (2018: RMB93,248,000) as at 31 December 2019 were pledged to secure general banking facilities granted to the Group.

(b) As set out in note 30(b), as at 31 December 2019, the Group's interest-bearing bank loans and other borrowings of approximately RMB340,960,000 (2018: RMB347,930,000) were jointly guaranteed by the controlling shareholder and other related parties of the Group, free of charge.

(c) The Group entered into a fixed asset loan contract with a maximum loan amount of RMB190,000,000. As at 31 December 2019, the Group obtained loan amounts of RMB140,938,000 which an interest rate is 10% lower than the base rate announced by the People's Bank of China.

(d) As set out in note 18, certain of the Group's trade receivables of approximately RMB30,000,000 (2018: Nil) as at 31 December 2019 were pledged to secure bank loans.

25. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Issued and fully paid:		
533,360,000 (2018: 533,360,000) ordinary shares	**533,360**	533,360

26. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

2019

	Bank and other loans RMB'000
At 31 December 2018 and 1 January 2019	**420,050**
Changes from financing cash flows	**128,188**
At 31 December 2019	**548,238**

2018

	Bank and other loans RMB'000
At 1 January 2018	549,561
Changes from financing cash flows	(159,511)
Acquisition of subsidiary	30,000
At 31 December 2018	420,050

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	**1,634**
	1,634

28. PLEDGE OF ASSETS

Details of the Group's bank loans which are mortgaged by the assets of the Group or guaranteed are included in note 24 to the financial statements.

29. COMMITMENTS

(a) At the end of the reporting period, the Group did not have any significant commitments.

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of items of property and other equipment under operating lease arrangements.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	750
After one year	–
	750

30. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the reporting period:

	2019 RMB'000	2018 RMB'000
Construction contracting services provided to:		
Fellow subsidiaries	**12,712**	64,282
Associate of fellow subsidiaries	**1,568**	500
Design, survey and consultancy services provided to:		
Fellow subsidiaries	**62**	2

The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

(b) Other transactions with related parties:

The Group's interest-bearing bank loans and other borrowings of RMB340,960,000 (2018: RMB347,930,000) as at 31 December 2019 were jointly guaranteed by the controlling shareholder and other related parties of the Group, as set out in note 24(b).

(c) Outstanding balances with related parties:

	2019 RMB'000	2018 RMB'000
Accounts receivable:		
Fellow subsidiaries	**21,647**	36,438
Other receivables:		
Fellow subsidiaries	**352**	352
Key management person of the holding company	**950**	950
Other payables:		
Fellow subsidiaries	**–**	50
Contract assets:		
Fellow subsidiaries	**40,782**	41,811
Associates of fellow subsidiaries	**53,665**	52,050
Contract liabilities:		
Fellow subsidiaries	**619**	133

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables	1,294,158	1,047,894
Financial assets included in deposits and other receivables	217,241	225,668
Pledged deposits	110,126	35,369
Cash and bank balances	273,991	167,406
Financial assets at FVPL:		
Bills receivable	480,723	422,809
	2,376,239	1,899,146
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and bills payables	2,836,562	3,159,517
Financial liabilities included in other payables and accruals	39,800	49,796
Interest-bearing bank and other borrowings	548,238	420,050
	3,424,600	3,629,363

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to their fair values as at the end of the reporting period, are as follows:

	Carrying amounts	
	2019	2018
	RMB'000	RMB'000
Financial assets		
Financial assets included in deposits and other receivables, non-current portion	**5,620**	26,224
Financial liabilities		
Interest-bearing bank borrowings	**548,238**	–

	Fair value	
	2019	2018
	RMB'000	RMB'000
Financial assets		
Financial assets included in deposits and other receivables, non-current portion	**5,537**	25,837
Financial liabilities		
Interest-bearing bank borrowings	**548,238**	–

Management has assessed that the fair values of cash and bank balances, pledged deposits, trade and bills receivables, trade and bills payables, the current portion of financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief accountant. At each reporting date, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief accountant. The valuation process and results are discussed with the senior management twice a year for annual financial reporting.

The following methods and assumptions were used to estimate the fair values.

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The fair values of the non-current portion of financial assets included in prepayments, other receivables and other assets has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 was were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement categorised into			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Financial assets at FVPL				
Bills receivable	**–**	**480,723**	**–**	**480,723**

As at 31 December 2018

	Fair value measurement categorised into			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at FVPL				
Bills receivable	–	422,809	–	422,809

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 and 2018.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances and pledged deposits. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**
		RMB'000
2019		
The benchmark deposit and lending rate of RMB	**100**	**(8,677)**
The benchmark deposit and lending rate of RMB	**(100)**	**8,677**
2018		
The benchmark deposit and lending rate of RMB	100	(4,789)
The benchmark deposit and lending rate of RMB	(100)	4,789

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	2,568,365	2,568,365
Trade receivables*	–	–	–	1,346,529	1,346,529
Financial assets included in prepayments, other receivables and other assets					
– Normal**	247,252	–		–	247,252
– Doubtful**	–	–	5,833	–	5,833
Pledged deposits					
– Not yet past due	110,126	–	–	–	110,126
Cash and cash equivalents					
– Not yet past due	273,991	–	–	–	273,991
Total	631,369	–	5,833	3,914,894	4,552,096

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Contract assets*	–	–	–	3,081,045	3,081,045
Trade receivables*	–	–	–	1,083,475	1,083,475
Financial assets included in prepayments,					
Other receivables and other assets					
– Normal**	252,241	–	–	–	252,241
– Doubtful**	–	–	7,771	–	7,771
Pledged deposits					
– Not yet past due	35,369	–	–	–	35,369
Cash and cash equivalents					
– Not yet past due	167,406	–	–	–	167,406
Total	455,016	–	7,771	4,164,520	4,627,307

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 18 and 20 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the financial statements.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2019			
	Within 1 year RMB'000	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Trade and bills payables	**2,836,562**	**–**	**–**	**2,836,562**
Financial liabilities included in other payables and accruals	**39,800**	**–**	**–**	**39,800**
Interest-bearing bank and other borrowings	**425,045**	**82,357**	**85,789**	**593,191**
Total	**3,301,407**	**82,357**	**85,789**	**3,469,553**

	2018			
	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	3,159,517	–	–	3,159,517
Financial liabilities included in other payables and accruals	49,796	–	–	49,796
Interest-bearing bank and other borrowings	431,795	–	–	431,795
Total	3,641,108	–	–	3,641,108

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The Group's primary objective for managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, by pricing services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell to reduce debts. No change was made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes interest-bearing bank and other borrowings, less cash and bank balances and pledged deposits. Total equity includes the equity attributable to owners of the parent and non-controlling interests stated in the consolidated statement of financial position.

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its business. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its businesses. The gearing ratios as at the end of the reporting periods are as follows:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank and other borrowings	548,238	420,050
Cash and bank balances (note 21)	(273,991)	(167,406)
Pledged deposits (note 21)	(110,126)	(35,369)
Net debt	164,121	217,275
Total equity	1,436,264	1,314,036
Gearing ratio	11%	17%

34. EVENT AFTER THE REPORTING PERIOD

The emergence and spread of coronavirus (COVID-19) disease in early January 2020 have affected business and economic activity in Mainland China. The Group will monitor the developments of COVID-19 situation closely, and will continue assess and react actively to its impacts on the financial position and operating results of the Group.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	133,078	129,036
Right-of-use assets	8,705	–
Prepaid land lease payments	–	8,706
Intangible assets	2,843	2,570
Investments in subsidiaries	70,572	143,850
Deferred tax assets	22,609	17,998
Trade receivables	–	–
Prepayments and other receivables	5,620	26,224
Total non-current assets	243,427	328,384
CURRENT ASSETS		
Prepaid land lease payments	–	291
Inventories	24,886	4,151
Trade and bills receivables	1,728,424	1,419,434
Prepayments and other receivables	534,761	423,684
Contract assets	2,445,724	2,917,542
Pledged deposits	110,126	35,369
Cash and bank balances	180,060	39,781
Total current assets	5,023,981	4,840,252
CURRENT LIABILITIES		
Trade and bills payables	2,813,429	2,947,905
Other payables and accruals	448,631	274,065
Contract liabilities	–	144,991
Interest-bearing bank and other borrowings	407,300	330,050
Tax payable	203,799	181,741
Total current liabilities	3,873,159	3,878,752
NET CURRENT ASSETS	1,150,822	961,500
TOTAL ASSETS LESS CURRENT LIABILITIES	1,394,249	1,289,884
NON-CURRENT LIABILITIES		
Total non-current liabilities	–	–
Net assets	1,394,249	1,289,884
EQUITY		
Share capital	533,360	533,360
Reserves	860,889	756,524
Total equity	1,394,249	1,289,884

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2018	188,480	39,330	–	353,955	581,765
Profit for the year	–	–	–	174,759	174,759
Total comprehensive income	–	–	–	174,759	174,759
Appropriation to statutory surplus reserve	–	17,474	–	(17,474)	–
Transfer to special reserve	–	–	(138,357)	138,357	–
Utilisation of special reserve	–	–	138,357	(138,357)	–
As at 31 December 2018 and 1 January 2019	188,480	56,804	–	511,240	756,524
Profit for the year	–	–	–	133,880	133,878
Total comprehensive income	–	–	–	133,880	133,878
Appropriation to statutory surplus reserve	–	13,388	–	(13,388)	–
Transfer to special reserve	–	–	(151,604)	151,604	–
Utilisation of special reserve	–	–	151,604	(151,604)	–
Final 2018 dividend declared	–	–	–	(18,743)	(18,743)
Merge subsidiary	–	1,522	–	(12,294)	(10,772)
As at 31 December 2019	188,480	71,714	–	600,695	860,889

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.