



河北建設集團股份有限公司 HEBEI CONSTRUCTION GROUP CORPORATION LIMITED

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

STOCK CODE: 1727



2020 ANNUAL REPORT

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CHAIRMAN'S STATEMENT

Dear Shareholders,

First of all, on behalf of the Board of Directors of the Company, I would like to express my sincere gratitude to all Shareholders and the public for the concerns and support to the Company in the past year!

2020 is a very unusual year for China and the Company. Facing the ever-increasing market competition and the significant impact from the COVID-19 pandemic, we upheld the general keynote of “Improving Quality and Efficiency, and Achieving Stability for Sustainable Development”, made accurate analysis and judgement on the situation, carefully formulated detailed plans, implemented effective measures and made our best efforts to fight through adversities with new results achieved.

We persisted in seeking progress in a stable manner and maintained stable development.

In 2020, the Company achieved new contract value of RMB56,621 million billion, operating revenue of RMB40,150 million and net profit of RMB752 million, concluding the “13th Five-Year Plan” period with remarkable results. It is worth mentioning that we innovated the market development mode and entered into a strategic cooperation agreement with the government of Inner Mongolia Autonomous Region to jointly establish Inner Mongolia Construction Investment Group Limited, which created a good opportunity for regional business development. We also actively cooperated with large state-owned enterprises and central enterprises and entered into strategic cooperation agreements with China Metallurgical Group and Gezhouba Group, respectively.

We attended to each and every detail in the construction process to continuously improve the quality of projects we delivered.

The Project of Newly Established Huaneng Shanxi Low-carbon Technology Research and Development Center constructed by the Company won the 2020 Lu Ban Award for Construction Engineering in China. In addition, we also garnered one “National Quality Project Award (國家優質工程獎)” and two “China Construction Project Decoration Awards (中國建築工程裝飾獎)”, two “MOHURD Green Construction Technology Model Projects (住建部綠色施工科技示範工程)” and 100 provincial-level quality projects with one project shortlisted for the Lu Ban Award and four projects awarded as the “National Safety Production Standardized Construction Site (全國安全生產標準化建設工地)”. In terms of scientific and technological research and development, we received the “Scientific and Technological Progress Award of Hebei Provincial Government (河北省政府科技進步獎)”, 30 “Scientific and Technological Progress Awards for Construction Industry in Hebei Province (河北省建設行業科技進步獎)”, 11 provincial process methodologies and 211 patents, including seven invention patents. Two of our projects were recognized as the key research and development projects of Hebei Province.

We adhered to people-oriented approach and continuously strengthened our growth momentum. In 2020, 1,200 fresh graduates and mature social talents were newly recruited, and 246 employees of the Company have obtained the qualifications of Class I certified constructor. The total number of Class I certified constructor of the Company was over 2,100. 48, 208 and 407 employees were newly recognized as professorate senior engineers, senior engineers and intermediate engineers, respectively, which further enhance the quality of our human resources. A total of 27 employees won the title of “Outstanding Project Manager in Hebei Province (河北省優秀項目經理)”. We actively fulfilled our social responsibility by contributing to the fight against the pandemic and donated over RMB3 million in cash and supplies to people in need.

In 2021, we will continue to uphold the keynote of “Improving Quality and Efficiency, and Achieving Stability for Sustainable Development”; maintain compliant operation as a publicly listed company with honesty and moral integrity; facilitate further development with the support of finance and technology; continuously strengthen our presence in construction sector and concentrate our efforts on the principal business; promote corporate culture and cohesion and consolidate our strength to achieve sustainable development. We will strive to achieve a good start to the “14th Five-Year Plan” with determination and confidence in a diligent and pragmatic manner and serve the society, reward the shareholders and benefit our employees with outstanding performance!

Li Baozhong

Chairman

20 April 2021

CORPORATE INFORMATION

Basic information of the Company is set out below:

LEGAL NAME OF THE COMPANY

河北建設集團股份有限公司

ENGLISH NAME OF THE COMPANY

Hebei Construction Group Corporation Limited

DIRECTORS

Executive Directors

Mr. Li Baozhong (*Chairman of the Board*)

Mr. Shang Jinfeng (*President*)

Mr. Liu Yongjian

Mr. Zhao Wensheng

Non-executive Directors

Mr. Li Baoyuan (*Honorary Chairman*)

Mr. Cao Qingshe (*Vice Chairman*)

Independent Non-executive Directors^{Note}

Ms. Shen Lifeng

Ms. Chen Xin

Mr. Chan Ngai Sang Kenny

SUPERVISORS

Mr. Yu Xuefeng

(*Chairman of the Board of Supervisors*)

Mr. Liu Jingqiao

Ms. Feng Xiujian

Mr. Yue Jianming

Mr. Wang Feng

JOINT COMPANY SECRETARIES

Mr. Li Wutie

Ms. Wong Wai Ling (*ACG, ACS*)

AUTHORIZED REPRESENTATIVES

Ms. Shen Lifeng

Ms. Wong Wai Ling (*ACG, ACS*)

BOARD COMMITTEES

Audit Committee

Ms. Shen Lifeng (*Chairwoman of the committee*)

Mr. Li Baoyuan

Mr. Cao Qingshe

Ms. Chen Xin

Mr. Chan Ngai Sang Kenny

Remuneration and Appraisal Committee

Ms. Chen Xin (*Chairwoman of the committee*)

Mr. Li Baozhong

Mr. Shang Jinfeng

Ms. Shen Lifeng

Mr. Chan Ngai Sang Kenny

Nomination Committee

Ms. Chen Xin (*Chairwoman of the committee*)

Mr. Li Baozhong

Mr. Shang Jinfeng

Ms. Shen Lifeng

Mr. Chan Ngai Sang Kenny

Note: During the Reporting Period, due to reaching his retirement age, Mr. Xiao Xuwen did not seek re-election of directors upon the expiration of his term of office as a Director on 23 June 2020, and he ceased to take the role as an independent non-executive Director of the Company.

Strategic Committee

Mr. Li Baozhong (*Chairman of the committee*)
Mr. Cao Qingshe
Mr. Shang Jinfeng

REGISTERED OFFICE

125 Lugang Road
Jingxiu District
Baoding, Hebei Province
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

125 Lugang Road
Jingxiu District
Baoding, Hebei Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
248 Queen's Road East
Wanchai, Hong Kong

STOCK SHORT NAME AND STOCK CODE

HEBEI CONS (01727)

H SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

COMPANY WEBSITE

<http://www.hebjs.com.cn>

INVESTOR RELATIONS CONTACT

Tel: (86) 312 331 1000
Fax: (86) 312 301 9434
E-mail: hebeijianshe@hebjs.com.cn
Address: 125 Lugang Road,
Jingxiu District,
Baoding, Hebei Province, PRC
Postal code: 071000

LEGAL ADVISORS

As to Hong Kong law

Clifford Chance
27/F, Jardine House
One Connaught Place
Central, Hong Kong

As to PRC law

Jia Yuan Law Offices
F408, Ocean Plaza
158 Fuxing Men Nei Street
Xicheng District, Beijing
PRC

AUDITOR

Ernst & Young Hua Ming LLP
Certified Public Accountants
Level 16, Ernst & Young Tower, Oriental Plaza
No. 1 East Chang An Avenue
Dong Cheng District, Beijing
PRC

FINANCIAL HIGHLIGHTS

In 2020, our revenue amounted to RMB40,150 million, representing a decrease of 2.3% as compared with that of 2019.

In 2020, our net profits amounted to RMB752 million, representing a decrease of 1.4% as compared with that of 2019.

In 2020, our earnings per Share amounted to RMB0.43, which remained the same as that of 2019.

PART I: BUSINESS REVIEW

We are a leading non-state-owned construction group in China and are principally engaged in the following businesses:

- Construction contracting business. We provide construction project contracting services mainly as a general contractor for building construction projects and infrastructure construction projects.
- Other businesses. We are also engaged in service concession arrangements, property management and other businesses.

A substantial majority of our revenue is generated from the construction contracting business, which mainly comprises of building construction business, infrastructure construction business and specialized and other construction contracting business. In 2020, the outbreak of the COVID-19 pandemic (the “**Pandemic**”) has caused significant impact on the production activities and daily life in various regions. With lockdown imposed in many regions of the country, operation in construction industry was disrupted, public services were suspended, tendering and bidding business cannot be conducted, and staff in infected area were unable to return to work. In view of this, the Pandemic caused certain impact on the volume of business undertaken by us in 2020 with our new contract value amounted to RMB56,621 million, representing a decrease of 21.45% as compared to RMB72,084 million for the corresponding period in 2019. Our outstanding contract value was RMB81,705 million, representing a decrease of 16.76% as compared to RMB98,157 million for the corresponding period in 2019.

BUSINESS OVERVIEW

New contract value (by region):

Year	2020		2019	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	566.21	100%	720.84	100%
Beijing-Tianjin-Hebei	277.69	49.04%	387.52	53.76%
Other	288.52	50.96%	333.32	46.24%

New contract value (by segment):

Year	2020		2019	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	566.21	100%	720.84	100%
Building construction	401.27	70.87%	490.64	68.07%
Infrastructure construction	130.11	22.98%	181.59	25.19%
Specialized and other construction	34.83	6.15%	48.61	6.74%

BUILDING CONSTRUCTION BUSINESS

We provide construction contracting services for residential, public works, industrial and commercial construction projects. We undertake most of such construction projects as a general contractor. As a general contractor, we undertake all main aspects of construction projects, including building construction, foundation work, curtain wall construction, building decoration and fire engineering. We are also responsible for engaging subcontractors in providing construction services and the labor force for construction projects, coordinating the works of all parties, providing the major equipment and machinery, procuring raw materials and ensuring that construction projects are carried out on schedule. In 2020, the new contract value from the building construction business was RMB40,127 million, compared with RMB49,064 million for the corresponding period of last year.

New contract value of the building construction business (by segment):

Year	2020		2019	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	401.27	100%	490.64	100%
Residential construction	234.81	58.52%	303.93	61.94%
Public building construction	113.54	28.30%	125.98	25.68%
Industrial building construction	34.09	8.50%	48.65	9.92%
Commercial building construction	18.83	4.68%	12.08	2.46%

Infrastructure Construction Business

We provide construction contracting services for municipal and transportation infrastructure projects, including facilities for water supply and treatment, gas and heating, urban pipelines, landscaping, roads, bridges and airport runways. We undertake most of such construction projects as general contractor. Our infrastructure construction customers are primarily local governments. In 2020, the new contract value from the infrastructure construction business was RMB13,011 million, compared with RMB18,159 million for the corresponding period of last year.

BUSINESS OVERVIEW

New contract value of the infrastructure construction business (by segment):

Year	2020		2019	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	130.11	100%	181.59	100%
Municipal infrastructure construction	82.97	63.77%	103.29	56.88%
Transportation infrastructure construction	47.14	36.23%	78.30	43.12%

Specialized and Other Construction Contracting Business

We also undertake construction contracting projects by leveraging our qualifications and experience in specialized areas such as electrical and mechanical installation and construction of steel structures. Our electrical and mechanical installation works generally cover the supply, installation and maintenance of equipment for power plants, pipelines for heating and natural gas, as well as air-conditioning, mechanical ventilation and exhaust air systems. Steel structure construction generally refers to the building of the structural supporting elements comprising steel columns, girders and beams of a construction project. In 2020, new contracts from the specialized and other construction contracting business were valued at RMB3,483 million, compared with RMB4,861 million for the corresponding period of the last year.

New contract value of the specialized and other construction contracting business (by segment):

Year	2020		2019	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	34.83	100%	48.61	100%
Mechanical and electrical installation	7.59	21.79%	10.70	22.01%
Steel structures	6.41	18.41%	9.36	19.25%
Decoration	11.21	32.19%	17.32	35.63%
Other construction business	9.62	27.61%	11.23	23.11%

Representative projects of the building construction business are as follows:

Representative projects of new contracts

No.	Name of project	Contract value <i>(RMB100 million)</i>	Business segment	Region
1	Project of Court No.9 of Country Garden Xiliuhu City (G29-01) (Building 1# to Building 9#, Non-motor Vehicle Shed with Charging Outlets, Basement and Underground Parking Lot) (碧桂園西流湖名城九號院 (G29-01)項目 (1#樓-9#樓、充電非機動車車棚、地下室及地下車庫))	4.91	Residential building	Henan
2	Sichuan Tourism Investment Group - Jinjiang Mansion (旅投·錦江公館)	6.08	Residential building	Sichuan
3	EPC General Contracting Project of Xianyang Blue Light Future City (咸陽藍光未來城項目總包工程)	3.94	Residential building	Shaanxi
4	EPC General Contracting of Section II of Land Plots FS16-0201-0012 for Type 2 Residential and Basis Education Purposes in Eastern Part of Qinglonghu Town, Fangshan District, Beijing (北京市房山區青龍湖鎮東部局部FS16-0201-0012等地塊二類居住及基礎教育用地項目二標段總承包工程)	4.40	Residential building	Beijing
5	Construction Project of Renovation of Pitou Village Shanty Town in Huyi District (鄠邑區坡頭村棚戶區改造項目施工)	9.90	Residential building	Shaanxi
6	Main Body and Supporting Construction Project of the First Phase (Plots A, B and D) of Tangshan Evergrande Hushan Peninsula Project (唐山恒大湖山半島項目首開區 (A、B、D地塊)主體及配套建設工程)	3.08	Residential building	Hebei

BUSINESS OVERVIEW

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
7	Construction Project of Outpatient Complex and Ophthalmology Building of the East Campus of Baoding No.1 Central Hospital (保定市第一中心醫院東院門診綜合樓和眼科大樓項目施工)	3.85	Public building	Hebei
8	Knowledge City ZSCXN-B3-2 (Medical City) Project (知識城ZSCXN-B3-2 (醫療城)項目)	12.60	Public building	Guangdong
9	EPC Project of Infrastructure in Jining Taibai Lake College Technology Park (濟寧太白湖新城大學科技園基礎設施 EPC 項目)	5.37	Public building	Shandong
10	PPP Project of Infrastructure and ancillary Facilities and Dual Innovations Industry Park in the Economic Development Zone of Fengtai County, Huainan, Anhui Province (安徽省淮南市鳳台縣經濟開發區基礎配套設施及雙創產業園PPP項目)	6.88	Public building	Anhui
11	EPC General Contracting of Construction of Funan County Urban and Rural Medical and Health Service System - Elderly Care Center and Ancillary Facilities under the Hospital Construction Project in Chengbei New District of Funan County People's Hospital (阜南縣城鄉醫療衛生服務體系建設項目—阜南縣人民醫院城北新區醫院建設項目養老中心及附屬配套 (epc)工程設計施工總承包)	4.51	Public building	Anhui
12	Construction Project of Phase I of Technology Innovation Section (for Production Service Industry) in Baoding National College Technology Park (保定國家大學科技園科創分園項目 (生產性服務業)一期工程施工)	7.82	Public building	Hebei

Representative projects of the infrastructure construction business are as follows:

Representative projects of new contracts

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
1	General Contracting of the Land Level Project (Phase II) of the Northern Zone of Knowledge City (知識城北片區土地平整工程(二期)施工總承包工程)	3.01	Municipal infrastructure construction	Guangdong
2	EPC General Contracting of Road Greening and Landscaping of the First Phase of Langfang Airport Economic Zone (廊坊臨空經濟區起步區道路綠化及生態綠地EPC工程總承包)	2.69	Municipal infrastructure construction	Hebei
3	Construction of Airfield (Section I) of the Guangdong Zhanjiang Airport Relocation Project (廣東湛江機場遷建工程飛行區場道工程施工(一標段))	3.13	Transportation infrastructure construction	Guangdong
4	Construction of Airfield (Section III) of Siem Reap-Angkor International Airport Project (暹粒吳哥國際機場項目飛行區工程施工(三標段))	3.33	Transportation infrastructure construction	Cambodia
5	Construction of Airfield (Section II) of the Lanzhou Zhongchuan International Airport Phase III Expansion Project (蘭州中川國際機場三期擴建工程飛行區場道工程(二標段))	4.08	Transportation infrastructure construction	Gansu
6	EPC General Contracting of the Construction Project of Bazhou Connecting Section (East Extension of Yingbin Road) of Beijing-Dezhou Expressway (京德高速霸州連接線(迎賓道東延)建設工程設計施工總承包)	4.07	Transportation infrastructure construction	Hebei
7	Section TJ02 of Phase I of the Section between Xiaoshan Nanyang and Yipeng in Qiantang New Area of Zhenhai-Xiaoshan Highway (鎮海至蕭山公路蕭山南陽至錢塘新區義蓬段一期工程第TJ02標段)	5.48	Transportation infrastructure construction	Zhejiang
8	EPC General Contracting of the Renovation Project of the Connecting Section (Donggao Line) of Beijing-Dezhou Expressway (京德高速連接線(東高線)改造工程設計施工總承包)	4.23	Municipal infrastructure construction	Hebei

BUSINESS OVERVIEW

Representative projects of the specialized and other construction contracting business are as follows:

Representative projects of new contracts

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
1	Procurement and Installation of In-depth Treatment Equipment for Yindingzhuang Wastewater Treatment Plant in Baoding (保定市銀定莊污水處理廠深度處理工程設備採購及安裝)	3.98	Mechanical and electrical installation	Hebei

Representative projects of construction in progress

Project type	Name of project	Executive contract value (RMB100 million)	Project location
Building Construction Business			
Public building	Knowledge City ZSCXN-B3-2 (Medical City) Project (知識城 ZSCXN-B3-2 (醫療城)項目)	12.60	Guangdong
	Beijing New Airport Administrative Comprehensive Business Premise, Police Station, Business Premise Project (北京新機場行政綜合業務用房、派出所、業務用房工程)	6.35	Beijing
	Construction of Funan County Urban and Rural Medical and Health Service System - Hospital Construction Project (Second) in Chengbei New District of Funan County People's Hospital (阜南縣城鄉醫療衛生服務體系建設—阜南縣人民醫院城北新區醫院建設項目(二次))	3.44	Anhui
	EPC General Contracting of Hangzhou Economic Technical Development Area Cultural Ancillary Housing (杭州經濟技術開發區文化配套用房EPC總承包)	5.49	Zhejiang
	Construction of 1#-11# Residential Buildings, S1# Complex Building, S2# Kindergarten, Main Body of Underground Parking Garage and Ancillary Facilities of Hohhot Evergrande Royal Scenic Bay Project (呼和浩特恒大御景灣項目1#-11#住宅樓、S1#綜合樓、S2#幼兒園、地下車庫主體及配套建設工程)	3.44	Inner Mongolia Autonomous Region
	Project of Outpatient Complex and Ophthalmology Building of the East Campus of Baoding No.1 Central Hospital (保定市第一中心醫院東院門診綜合樓和眼科大樓項目)	3.85	Hebei
	Construction of Area A of Diangu Financial Center (電谷金融中心A區施工)	6.82	Hebei

Project type	Name of project	Executive contract	
		value (RMB100 million)	Project location
	Major Pandemic Medical Treatment Base Project of Hebei University Affiliated Hospital (河北大學附屬醫院重大疫情救治基地項目)	2.32	Hebei
	Construction of Phase I of Technology Innovation Section (for Production Service Industry) in Baoding National College Technology Park (保定國家大學科技園創分園項目(生產性服務業)一期工程施工)	7.82	Hebei
	Beijing New Airport Education and Scientific Research Station Project (北京新機場教育科研基地項目)	7.17	Beijing
Residential building	EPC General Contracting of Section II of Phase II of Country Garden in Yingbin Avenue in Guigang (貴港迎賓大道碧桂園二期二標總承包工程)	2.28	Guangxi
	EPC General Contracting of Phase II of the Commercial and Residential Project on Land Lot JD23-01 in Ma'an Central Area (馬安中心區JD23-01地塊商住項目二期工程施工總承包工程)	2.06	Guangdong
	44 Items including 1# Residential Building (19#-21# Residential Buildings, 23#-25# Residential Buildings, 27# - 39# Residential Buildings, 40-a# Residential Building, 40-b# Ancillary Building, 41# Residential Building, Ancillary Room A at Ground Floor (Gatehouse) and Underground Parking Garage - A) (1#住宅樓等44項 (19#-21#住宅樓、23#-25#住宅樓、27#-39#住宅樓、40-a#住宅樓、40-b#配套樓、41#住宅樓、地面附屬用房A(門房)、地下車庫-A))	4.40	Beijing
	Zipeng Resettlement Project of Shangpai Town (上派鎮紫蓬安置點工程)	3.60	Anhui
	Phase II of Fancheng District Relocation Housing Project (Xiangtou Xinyue City) (Second Bid Package) (樊城區棚改安置房項目(襄投•欣悅城)二期(貳標包))	4.06	Hubei
	Buildings 1-3#, 5-13#, 15-18#, S1-S3# and S5#, Guardhouse 1, Guardhouse 2 and Underground Parking Garage of Haitang Bay Project (海棠灣項目1-3#、5-13#、15-18#樓、S1-S3#、S5#樓、門衛1、門衛2及地下車庫工程)	2.10	Hebei
	EPC General Contracting of Phase IV and V of Hengshui Yongjin Peninsula Project (衡水雍錦半島項目四期、五期總包工程)	2.53	Hebei
	Residential Buildings 1#-4#, Heat Exchange Station and Property Management Building 5#, Commercial Building 6# and Underground Parking Garage of South Area of Shanghai Mansion (上海公館南區1#-4#住宅樓、5#換熱站及物業管理、6#商業樓及地下車庫)	2.62	Hebei

BUSINESS OVERVIEW

Project type	Name of project	Executive contract	
		value (RMB100 million)	Project location
	Construction of Shengshi Kangcheng Resettlement Project (Buildings 14#, 15#, 16# and 17#) in Dongsheng District, Ordos (鄂爾多斯市東勝區盛世康城安置小區(14#樓、15#樓、16#樓、17#樓)建設項目)	2.41	Inner Mongolia Autonomous Region
	Engineering, procurement and construction (EPC) of the Project of Renovation of Shanti Towns in Biangezhai Third Village and Biangezhai Fourth Village in Urban Villages in Lubei District, Tangshan (唐山市路北區城中村邊各寨三村、邊各寨四村棚戶區改造項目設計採購施工(EPC))	9.20	Hebei
Commercial building	Gu'an Laikangjun North Lakeside Commercial (Elderly Care and Healthcare Project Phase II) Project (固安來康郡大湖北側商業(養老健康養生項目二期項目)項目)	4.00	Hebei
	Beidou Start-up Headquarter (北斗創業總部)	1.22	Hebei
Industrial building	Beijing Electronic City IT Industry Park Electronic Industry Factory Project (D3 Workshop (for High and New Technology Industry) and B3 Workshop (for High and New Technology Industry)) (北京電子城IT產業園電子工業廠房項目(D3廠房(高新技術產業用房)、B3廠房(高新技術產業用房)))	2.49	Beijing
	Construction Project of Hangzhou Renhe Grain Storage Depot (Second Bid Section) (杭州市仁和糧食儲備庫建設工程(標段二))	3.56	Zhejiang
Infrastructure Construction Business			
Transportation infrastructure construction	Quinta, Ethiopia - Garsner Road Project Contract I (埃塞俄比亞昆塔-加斯納道路工程1合同)	4.59	Ethiopia
	Mozambique Saskatchewan Airport Project (Bid Section for Airfield) (援莫桑比克賽賽機場項目(飛行區標段)工程)	2.27	Mozambique
	ZT2 Section of Type I of Main Body Construction Project of Beijing-Hebei Boundary to Tianjin-Shijiazhuang Expressway Section along Beijing New Airport - Dezhou Expressway (北京新機場至德州高速公路京冀界至津石高速段主體工程施工I類ZT2標段)	11.91	Hebei
	Construction of Airfield (Section I) of the Guangdong Zhanjiang Airport Relocation Project (廣東湛江機場遷建工程飛行區場道工程施工(一標段))	3.13	Guangdong
Municipal infrastructure construction	Fudong New Tow Road Construction Project (滏東新城道路建設項目)	1.50	Hebei

Project type	Name of project	Executive contract	
		value	Project location
<i>(RMB100 million)</i>			
Specialized and Other Construction Contracting Business			
Mechanical and electrical installation			
Steel structures	EPC General Contracting of Multifunctional Integrated Education and Training Base of Hebei Institute of International Business and Economics (河北對外經貿職業學院多功能綜合教學實訓基地EPC總承包合同)	1.37	Hebei
Decoration	Decoration of Commercial Office Building of the Hebei Construction Business Center Project (河北建設商務中心項目商務辦公樓裝飾裝修工程)	0.9	Hebei
Other construction business	EPC Project of Road Greening and Landscaping of the First Phase of Langfang Airport Economic Zone (廊坊臨空經濟區起步區道路綠化及生態綠地EPC工程)	2.69	Hebei
	Section 2 (Construction) of Jin'an Lake Project (晉安湖項目第2標段(施工))	2.59	Fujian
	Construction Project of Western China (Guangyuan) Green Home Industry Startup Zone (中國西部(廣元)綠色家居產業城啟動區建設項目)	19.98	Sichuan

BUSINESS OVERVIEW

Representative projects of completed projects

Project type	Name of project	Executive contract value (RMB100 million)	Project location
Building Construction Business			
Public building	Construction of General Medicine Complex of No. 2 Affiliated Hospital of Baotou Medical College (包頭醫學院第二附屬醫院內科綜合樓建設工程)	1.20	Inner Mongolia Autonomous Region
	Construction of Operation and Technology Building of Hohhot Public Security Bureau (呼和浩特市公安局業務技術用房工程)	1.17	Inner Mongolia Autonomous Region
	Construction of New Shijiazhuang Children's Hospital (City Maternity and Child Healthcare Hospital) Project (新建石家莊市兒童醫院(市婦幼保健院)項目施工)	6.45	Hebei
	Construction of Oriental International Commercial Center Project (東方國際商務中心項目施工)	2.19	Hebei
	No. 2 R&D and Production Building of Diangu Technology Center (電谷科技中心2號研發生產樓)	2.57	Hebei
	Residential building	Zhengzhou Shangdong International Project (鄭州上東國際項目)	3.00
Wuzhong Litong Country Garden Project (吳忠利通碧桂園項目)		1.99	Ningxia Hui Autonomous Region
Construction of Anyue Jiayuan Residence Affordable Housing Project (Phase I) (安悅佳苑小區保障性住房項目一期施工)		1.91	Hebei
Industrial building	20 items including Building 1# of Research and Development, Trial Production and Testing Platform (Xiaomi Internet Electronic Industrial Park Project) (Phase I) (研發試製檢測平台1#樓等20項(小米互聯網電子產業園項目)一標段)	4.63	Beijing
	Factory 203# of Jingshi Collaboration and Innovation Demonstration Park (京石協作創新示範園203#廠房)	1.44	Hebei

Project type	Name of project	Executive contract value (RMB100 million)	Project location
Infrastructure Construction Business			
Municipal infrastructure construction	Construction of Municipal Project (Phase I) of East Yaozihe Street and West Yaozihe Street in Fuping County (阜平縣鷓子河東街、鷓子河西街市政工程(一期)施工)	1.37	Hebei
	Construction of Infrastructure (Phase I) of Fudong Industrial Park in Fuping County (阜平縣阜東產業園區基礎設施(一期工程)建設項目)	12.00	Hebei
	Construction of Phase I and II of the Road Network Construction Project in Dongcheng District, Fuping County (阜平縣東城區一、二期路網建設項目工程施工)	6.36	Hebei
	EPC General Contracting of Phase I of the Widening and Reconstruction Project of Lianmeng Road - Shifang Road - Fengshou Road (聯盟路-石紡路-豐收路拓寬打通工程一標段EPC總承包)	2.56	Hebei
	Section II of the Airfield of Shandong Heze Airport Project (山東菏澤機場工程飛行區場道工程二標段)	1.87	Shandong
Specialized and Other Construction Contracting Business			
Other construction business	Construction of Health Park (People's Park on Land Lot No. 63) (健康公園(63號地人民公園)施工)	1.09	Hebei

PART II: RESEARCH AND DEVELOPMENT ACHIEVEMENTS AND AWARDS

As of present, we had launched 24 projects and participated in 15 projects that won the Lu Ban Awards. Hebei Construction Group has received the “National Quality Award (全國質量獎)”, “National Quality Project Award (國家優質工程獎)”, “Steel Structure Gold Award (鋼結構金獎)”, “Star of China Installation Award (安裝之星獎)” and “National Decoration Award (全國裝飾獎)”, and was accredited for over 700 “Provincial Quality Construction (省優工程)”.

The Company was awarded the “Second Prize of the National Science and Technology Progress Award (國家科技進步二等獎)”, the “Innovation Achievement Award of the China Construction Industry Association (中國建築業協會創新成果獎)” and a large number of provincial-level science and technology achievements and patents.

Following the introduction of the performance excellence management model, the Company won the “National Quality Award (全國質量獎)” and two “Provincial Government Quality Awards (省政府質量獎)”. Recognized by the MOHURD, it was one of the 20 recipients of the “National Excellent Project Quality Management Enterprise Award (全國工程質量管理優秀企業)”. It also received the title of “National Model of Workers’ Home (全國模範職工之家)” and the “National 1st May Labour Award (全國五一勞動獎狀)”.

Science and Technology Research and Development

1. In 2020, the project of “Innovation and Demonstration of Key Technologies for Construction of Sponge Cities in Hebei Province” (河北省海綿城市建設關鍵技術創新與示範) was awarded the Third Prize of Science and Technology Progress Award by the Hebei Provincial Government.
2. In 2020, we received 30 “Scientific and Technological Progress Awards for Construction Systems in Hebei Province (河北省建設系統科技進步獎)”, five “Baoding Science and Technology Awards (保定市科學技術獎)” and three “Science and Technology Awards of Construction Industry in Hebei Province (河北省建築業科學技術獎)”.
3. In 2020, two MOHURD Green Construction Technology Model Projects, namely the “Project of Newly Established Huaneng Shanxi Low-carbon Technology Research and Development Center (新建華能山西低碳技術研發中心項目)” and “Three Projects including Teaching and Laboratory Building (Biomedical Center of Tsinghua University) (教學實驗樓等3項(清華大學生物醫學館))”, passed the final inspection and acceptance process.

4. In 2020, we led or participated in the formulation of 7 sets of regulations, standards and rules, and were accredited for 11 provincial process methodologies in Hebei Province.
5. In 2020, the Company submitted 185 patent applications in China, including 57 applications for invention patents, and was granted 211 patents (including 7 invention patents).

Leading Innovation

The Company strictly followed the Science and Technology Development Management System, the Measures for Management of Enterprise Level Science and Technology Research Projects, the Management Procedures of Science and Technology Research Projects, and the Measures for Quality, Safety and Science and Technology Incentive Funds to promote the development strategy for the financial and technology wings of the Group and stimulate employees' passion for technological innovation. We have established a quality and technology system and implemented a three-level management model composed of the Group, subsidiaries and project departments to govern the management of science and technology innovation.

In 2020, two projects were admitted as key research and development projects by Hebei Provincial Department of Science and Technology, nine projects were admitted as construction science and technology research projects of Hebei Province, 14 project were included in the 26th batch of new technology demonstration projects in Hebei Province, and three projects were recognized as smart construction site demonstration projects of Hebei Province. We conducted an annual R&D project initialization review and issued the annual scientific and technological management highlights of the Group. We had 359 research projects and 56 demonstration projects during the year, and prioritized the scientific and technological projects with high technological content and great promotion value.

BUSINESS OVERVIEW

High-quality Works

1. The Project of Newly Established Huaneng Shanxi Low-carbon Technology Research and Development Center constructed by the Group won the 2020 Lu Ban Award. We also participated in the construction of one project that won the Lu Ban Award.
2. We won the “National Quality Project Award (國家優質工程獎)” for our “Relocation and Construction Project of Baoding Maternity and Child Healthcare Hospital (保定市婦幼保健院遷址新建項目)” and participated in two projects that won the “National Quality Project Award”.
3. We garnered two “China Construction Project Decoration Awards (中國建築工程裝飾獎)” and one “Bronze Award of Landscape Engineering of the Science and Technology Awards by the Chinese Society of Landscape Architecture (中國風景園林學會科學技術獎園林工程銅獎)”.
4. 100 projects were recognized as provincial-level quality projects.

PART III: OUTLOOK

The year 2021 is important for the Company to make a good start and lay a solid foundation for implementing the “14th Five-Year Plan”. In 2021, to respond to the opportunities and challenges and fight for glory amid adversities, we will continue to adhere to the strategy of “foundation strengthening, business upgrade, further innovation and sustainable development”. Centering on the performance excellence model and focusing on efficiency, we will pursue various goals with information technology and innovative measures, while the Project Department will be guided by the operation manual to provide strong support. With the dual growth drivers of construction segment and diversified operation, we will make a good start and lay a solid foundation in order to fully achieved all the goals under the “14th Five-Year Plan”.

I. Improving the Standards and Spreading “Two Wings” to Facilitate Corporate Development

We will continuously strengthen our “two wings” of finance and technology to further enhance the market competitiveness of the Company and facilitating corporate development.

II. Adhering to Strategic Leadership and Strengthening Organizational Construction

Organization is one of the core competitiveness of the Company. To strengthen organizational construction, the Company will focus on connecting the business team with benefiting parties, thereby realizing the idea of “Jointly Creating Value and Sharing both Interests and Risks”.

1. We will establish an “intelligent headquarter” to exert its leading function with focus on developing “Two Service Providers”, namely leading comprehensive construction service provider and leading municipal service provider. At headquarter level, we will put emphasis on platform establishment, operation and management.
2. We will develop “subsidiaries and branches with great strengthen” to form a powerful fleet of business. A shareholding-like system will be implemented at subsidiary and branch level to build a community of common benefits and undertaking among the core backbone teams of our subsidiaries and branches, thereby stimulating their entrepreneurial spirit and forming an atmosphere of co-creation and share of interests and responsibilities.

BUSINESS OVERVIEW

3. We will cultivate “competent project management entities” and facilitate healthy competition among these entities with a goal of establishing one thousand stable project management entities by the end of the “14th Five-Year Plan” period, thereby providing organizational support to meet the ultimate goal of reaching RMB100 billion of revenue.

III. Focusing on Key Development Sectors to Strengthen Market Position

Market is the lifeline of corporate development. As such, the company will strive to continuously improve its ability to dominate the market.

We will put full efforts in serving the new dual-cycle development pattern, strive to capture opportunities from national policies such as rural revitalization campaign, new-type urbanization construction and renovation of old urban areas; carry out regional market development with focus on Xiong’an New Area; expand our market presence in Hebei Province to maintain the Group’s strength in its headquarter area; focus on national strategies, increase our market shares in other regions, and facilitate the development in Inner Mongolia with our best efforts; steadily expand to international market under the general plan; and seize the new opportunities from the reform of national qualification system by strengthening qualification construction to support market expansion.

IV. Strengthening Project Management and Control to Garner Market Recognition with High-quality On-site Management

The conditions of construction sites have direct impact on the brand and corporate image, therefore the Company will continuously promote the concept of “the Site is the Market”.

We will strengthen production safety management and quality management by centering on the performance excellence model and constantly improving standardized management.

V. Strengthening Operation Management to Prevent Operational Risks

We will mitigate the risks by continuously improving our operating ability and profitability. We will also further promote centralized procurement to reduce cost and enhance efficiency of procurement.

VI. Maintaining System Rigidity and Strengthening Financial Management

We will further improve the influence of the person in charge of finance and strictly implement the financial system; attach great importance to the safety of capital chain and implement unified collection and settlement of funds; and put more efforts in lowering the debt to asset ratio and control the ratio of profits to cost in a reasonable manner.

VII. Giving Back to the Society with Gratitude

- (i) We will actively assume our social responsibilities, shape our employees into people who are responsible for the Company, their families, customers and the society; and develop the Company into a legal entity that is responsible for the “five major stakeholders”.
- (ii) We will actively promote green construction, prefabricated construction and ultra-low energy buildings, save resources and energy, reduce environmental pollution, promote harmonious relationship between enterprises and the society, and achieve high-quality development of the construction industry.
- (iii) We will diligently carry out honest operation and standardized management, pay taxes according to relevant laws, promote employment and make active contribution to the society. We will also continue to perform our responsibilities through donation, sponsorship and charitable activities, thereby becoming an enterprise that accomplishes the purposes of its own and others.

A new year brings new hopes, and a new journey carries new dreams. In 2021, the Company will continue to forge ahead with determination, confidence and diligence, and strive to realize the vision of becoming “a happy enterprise that accomplishes the purposes of its own and others, a century-old company with an ever-lasting business”.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The global outbreak of the Pandemic since the beginning of 2020 impacted the economy in many regions of China throughout the year. Lockdown was imposed in Wuhan since the outbreak of the Pandemic in the beginning of 2020 and was ended on 8 April 2020. The Pandemic remained volatile in many areas of China. In particular, confirmed cases were reported in districts including Fengtai District and Daxing District of Beijing in June 2020, in Qingdao on 12 October 2020, in Inner Mongolia and Shanghai in December 2020, and in Hebei on 2 January 2021. As of the end of February 2021, all cases in medium risk areas in the Beijing-Tianjin-Hebei region were cleared. Due to the impact of the Pandemic, many countries or regions have required local businesses to restrict or suspend their operations and have implemented travel restrictions and quarantine measures. These measures and policies have had (or are expected to have) an adverse impact on the operations of many businesses, particularly in sectors such as tourism, hospitality, transportation, retailing and entertainment industries where the adverse impact of the Pandemic was more immediate and pronounced, while other sectors such as manufacturing and finance are also expected to be affected. As the Pandemic is still ongoing, it is difficult to predict at present the scope and duration of the business and economic impact of the Pandemic in the future.

As the Company carries out construction and garden engineering business mainly in Northern China such as the Beijing-Tianjin-Hebei region where operations shall be suspended during winter time (normally November to the end of March) according to relevant national laws and regulations, despite the nationwide large-scale operation suspension during the Pandemic, the actual operation duration of the Group in the year had no material change due to the Pandemic as compared to previous years. At the end of March 2020, as the Pandemic subsided in China, construction sites throughout the country, except for Hubei, resumed work gradually and the Group's projects resumed production and operations. The impact of the Pandemic on the Group's revenue in 2020 was relatively small as the delayed progress due to the impact of the Pandemic was largely caught up in the second and third quarters.

In addition, the Group's customers are mainly government departments, real estate enterprises, general contractors of infrastructure construction and other companies in infrastructure industry, which were less affected by the impact of the Pandemic. Although the relevant construction projects were suspended, we were not aware that the impact of the Pandemic has caused our customers not being able to continue their business and settle the contract sum. Considering the regular suspension of operation in previous years, the Group believed that the Pandemic will not have a significant impact on the Group's ongoing operations.

Given the solid net cash position of the Group, the Group did not expect to face any liquidity pressure as a result of the Pandemic.

Operating income, operating cost and gross profit

The revenue of the Group for 2020 amounted to RMB40,150 million, representing a decrease of approximately RMB927 million as compared with last year, which was mainly due to the decrease in revenue from construction contracting segment of RMB692 million.

In particular:

(1) Segment Operating Results of Construction Contracting Business

	As at 31 December 2020				As at 31 December 2019			
	Revenue <i>RMB100</i> <i>million</i>	Cost <i>RMB100</i> <i>million</i>	Gross profit %	Percentage %	Revenue <i>RMB100</i> <i>million</i>	Cost <i>RMB100</i> <i>million</i>	Gross profit %	Percentage %
Building construction business	259.92	248.00	4.6	65.8	286.99	273.64	4.7	71.4
Infrastructure construction business	89.75	83.89	6.5	22.7	80.90	77.16	4.6	20.1
Specialized and other construction business	45.37	42.93	5.4	11.5	34.07	32.31	5.2	8.5
Total	395.04	374.82	5.1		401.96	383.11	4.7	

The revenue from construction contracting segment for 2020 decreased by RMB692 million, and the overall change was not significant. The change in revenue from construction contracting segment is analyzed as follows:

- (1) The revenue from building construction business, being the largest revenue contributor to construction contracting business, decreased by RMB2,707 million for the year as compared with that of 2019, which was mainly due to the fact that the projects undertaken in 2019 and previous years carried out large-scale construction in 2019, which led to less revenue recognized in the current year for projects undertaken in previous years.

MANAGEMENT DISCUSSION AND ANALYSIS

- (2) The revenue from infrastructure construction business increased by RMB885 million for the year as compared to last year, which was mainly due to the fact that the new projects undertaken by the Group in recent years are more quality-oriented with higher gross profit for infrastructure construction projects, thus the Group has undertaken more such projects in recent years, resulting in an upward trend in revenue from the infrastructure construction business of the Group.
- (3) The revenue from specialized and other construction business for 2020 increased slightly as compared with that of 2019, which was within normal range of business fluctuation without significant overall change.

Selling Expenses

Selling expenses amounted to RMB1.19 million in 2020, representing a decrease of RMB9.04 million or 88% as compared with that of 2019, which was mainly because the Group made strategic adjustment to divest its property development business, resulting in decrease in salary of sales staff, advertising expense, business expense and other relevant expenses related to real estate companies.

Administrative Expenses

Administrative expenses amounted to RMB501 million in 2020, representing a decrease of RMB4.32 million as compared with that of 2019, and such change was insignificant.

Research and Development Costs

Research and development costs amounted to RMB94 million in 2020, representing an increase of RMB1.58 million as compared with that of 2019. The research and development costs mainly include the Group's costs incurred for research of special projects or production process. The Group increased its investment in research and development during the Reporting Period, resulting in increase in research and development costs.

Credit Impairment Losses

Reversal of credit impairment losses amounted to RMB55 million in 2020, representing an increase in reversal of RMB4.03 million as compared with that of 2019, which was mainly due to the Group's enhanced management of accounts receivable recovery in 2020 and the good status of accounts receivable recovery in the current year, hence the reversal of credit impairment loss on the recovered accounts receivable recognized in previous years.

Asset Impairment Losses

Asset impairment losses amounted to RMB325 million in 2020, representing an increase of RMB314 million as compared with that of 2019, which was mainly because the Group made provision for individually impaired contract assets in relation to certain projects on a prudent basis in view of the macro-economic condition and the slow progress in settlement with the counterparties of certain projects.

Investment Income

Investment income amounted to RMB28 million in 2020, representing a decrease of RMB23 million as compared with that of 2019, which was mainly due to the decrease in gains from the Group's long-term equity investment under equity method, increase in investment loss as a result of the increase in factoring fees and the gain on disposal of subsidiaries in the prior year but not in the current year.

Income Tax Expenses

Income tax expenses amounted to RMB184 million in 2020, representing a decrease of RMB262 million as compared with that of 2019, which was mainly due to the reversal of deferred income tax assets previously recognized for losses from subsidiaries in 2019, resulting in significant amount of deferred income tax expenses in 2019.

Net Profit

Based on the above factors, net profit amounted to RMB752 million in 2020, representing a decrease of approximately RMB11 million from last year.

Liquidity, Financial Sources and Capital Structure

The Group finances operations primarily through cash generated from operating activities and interest-bearing borrowings. As of 31 December 2020 and 31 December 2019, the Group had cash and cash equivalents that can be withdrawn on demand of approximately RMB8,001 million and approximately RMB6,675 million, respectively. For the liquidity and capital structure of the funds of the Group, please refer to the financial ratios below.

Currency Funds

As of 31 December 2020, currency funds of the Group were RMB8,453 million, representing an increase of RMB1,408 million as compared to that at the end of 2019, which was mainly due to the greater amount of net cash inflows from operating activities.

Financial Policy

The Group regularly monitors cash flow and cash balances. Furthermore, it is dedicated to maintaining the optimal liquidity level required for working capital and keeping its business and multiple growth strategies at a stable and healthy level during the Reporting Period. In the future, the Group intends to finance operations through cash generated from operating activities and interest-bearing borrowings.

Accounts Receivable Financing

As of 31 December 2020, accounts receivable financing of the Group was RMB1,699 million, representing an increase of RMB442 million compared with the end of 2019, which was mainly because the Group strengthened the collection management during the year and our clients mostly paid in the form of bills for construction services.

Long-term Equity Investments

On 31 December 2020, the long-term equity investment was RMB541 million, representing an increase of RMB11 million compared with that at the end of 2019, which was mainly due to the Group's investment in Bazhou Hengzhiheng Gardening and Greenery Engineering Co., Ltd. during the year and changes in profit or loss of investments under equity method.

Accounts Receivable

As of 31 December 2020, the net value of accounts receivable was RMB5,427 million, representing a decrease of approximately RMB322 million compared with that at the end of 2019, which was mainly because the Group strengthened the management of recovery of accounts receivable during the year.

Other Receivables

On 31 December 2020, balance of other receivables of the Group was RMB2,437 million, representing a decrease of approximately RMB32 million or 1% compared with that at the end of last year, and the overall change was insignificant.

Contract Assets and Contract Liabilities

The net value of contract assets as of 31 December 2020 was RMB40,524 million, representing an increase of approximately RMB4.69 million as compared with that at the end of 2019, which was mainly due to the increase in long-term contract assets for projects completed but unsettled. Contract liabilities as of 31 December 2020 were RMB6,015 million, representing an increase of approximately RMB1,526 million as compared to that at the end of 2019, which was mainly because the Group undertook new quality projects during the Year and received payment in advance from clients to ensure normal operation of the projects.

Other Equity Instrument Investment

The carrying value of other equity instrument investment on 31 December 2020 was RMB769 million, representing a decrease of approximately RMB10 million compared to the other equity instrument investment at the end of 2019, which was a relatively insignificant change.

Borrowings

The bank borrowings of the Group mainly include long-term and short-term borrowings from financial institutions.

As at 31 December 2020, the Group's interest-bearing borrowings were approximately RMB5,186 million (31 December 2019: approximately RMB5,029 million).

Details of secured borrowings of the Group are set out in note VI-19 to the financial statements.

Bills and Accounts Payable

The balance of accounts payable on 31 December 2020 was RMB35,026 million, representing a decrease of RMB920 million or 3% compared with that at the end of 2019, which was within normal range of fluctuation and was mainly because we accelerated the progress of settlement with the suppliers in the second half of the year, resulting in decrease in accounts payable. The balance of bills payable increased by RMB191 million compared with that at the end of the previous year, which was mainly due to the increase in the proportion of bill payment in the whole industry affected by the economic conditions in 2020.

Capital Expenditures

Capital expenditures in 2020 were approximately RMB697 million, representing an increase of RMB621 million compared to that of 2019, which was mainly due to the acquisition, construction and decoration of office building.

Capital Commitment

As at 31 December 2020, the Group has commitment of RMB1 million.

Financial Ratios

	31 December 2020	31 December 2019
Current ratio (times) ⁽¹⁾	1.1	1.1
Quick ratio (times) ⁽²⁾	1.1	1.1
Gearing ratio ⁽³⁾	80.5%	85.2%
Return on assets ⁽⁴⁾	1.2%	1.2%
Return on equity ⁽⁵⁾	12.2%	12.6%

Notes:

- (1) Current ratio (times) represents total current assets divided by total current liabilities as at the relevant date.
- (2) Quick ratio (times) represents total current assets minus inventory divided by total current liabilities as at the relevant date.
- (3) Gearing ratio represents total interest-bearing liabilities divided by equity as at the relevant date and multiplied by 100%.
- (4) Return on assets represents profit for the year divided by the average of total assets at the beginning and end of the year and multiplied by 100%.
- (5) Return on equity represents profit for the year divided by the average of total equity at the beginning and end of the year and multiplied by 100%.

Significant Acquisition or Disposal

During the Reporting Period, the Group increased the investment in Bazhou Hengzhiheng Gardening and Greenery Engineering Co., Ltd. by RMB6.29 million.

Contingent Liabilities

As at 31 December 2020, the Group had contingent liabilities arising from external guarantees amounting to RMB153 million and contingent liabilities arising from pending litigation or arbitration amounting to RMB4 million.

RMB Exchange Rate Fluctuations and Exchange Risk

Most of the Group's businesses and all bank loans have been traded in RMB so there is no significant foreign exchange fluctuation risk. The Board does not expect that fluctuations in the RMB exchange rate and exchange fluctuations of other foreign currencies will have a significant impact on the Group's business or performance. The Group currently has no relevant foreign exchange risk hedging policies and therefore it has not carried out any hedging transactions to manage the potential risks of foreign currency fluctuations.

Acquisitions and Disposals of Subsidiaries

During the Reporting Period, the Group had no material acquisition and disposal of subsidiaries.

Employee and Remuneration Policies

As of 31 December 2020, the Group has had a total of 8,773 full-time employees (31 December 2019: 8,062). Through integrating human resources strategy and based on different job classification, the Group has established a performance and competence-oriented remuneration system and competitive remuneration standards with reference to the remuneration level of relevant enterprises in the same region and the same industry, which provided effective guarantee for recruiting, retaining and motivating talents, as well as the pursuit of human resources strategy of the Company.

OTHER INFORMATION

Significant Subsequent Events

The Group has no significant subsequent events as of the date of this report.



REPORT OF THE BOARD OF DIRECTORS

The Board hereby presents this report of the Board of Directors, this annual report, and the audited consolidated financial statements of the Group for 2020, which have been prepared in accordance with the CASBE, to the Shareholders.

CORPORATE INFORMATION AND INITIAL PUBLIC OFFERING

The Company is a joint stock company incorporated in the PRC with limited liability on 7 April 2017. The H Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 15 December 2017.

Basic information of the Company is set out in “Corporate Information” on page 4 to page 5 of this report.

BUSINESS REVIEW

The Company is a leading non-state owned construction group in China, providing integrated solutions primarily for the construction contracting of buildings and infrastructure projects. Rooted in Hebei Province for 69 years, we are well-positioned to benefit from the coordinated development of the Beijing-Tianjin-Hebei Region, a national strategy of China.

The Company is principally engaged in the following businesses:

- **Construction contracting business.** The Group provides construction contracting services mainly as a general contractor for building construction projects and infrastructure construction projects.
- **Other businesses.** The Group also engages in service concession arrangements and other businesses.

The discussion and analysis of the Group’s results and performance, major factors affecting the results and financial condition during the Year, and future development are set out in “Business Overview” on page 7 to page 25, “Management Discussion and Analysis” on page 26 to page 34, this “Report of the Board of Directors” and “Significant Events” on page 64 to page 65 of this report.

Details of major subsidiaries of the Company are set out in note V-1 to the financial statements.

ENVIRONMENTAL POLICY AND PERFORMANCE OF THE COMPANY

The Group has established and implemented an environmental compliance system to specify various environmental protection procedures and measures and ensure the Group's compliance with international standards and the relevant PRC laws and regulations. The Group has 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.

Further details of the environmental policy and performance of the Company are set out in the Environmental, Social and Governance Report on page 92 to page 173.

COMPLIANCE WITH LAWS AND REGULATIONS

As a joint stock limited liability company established in the PRC with H Shares listed on the Hong Kong Stock Exchange, the Company is governed by the Company Law and other relevant domestic laws and regulations, the Listing Rules and the Securities and Futures Ordinance. The Company mainly conducts business in China and all of its operations are subject to the applicable PRC laws, administrative regulations, departmental regulations and other regulatory documents. The Company is principally under the supervision of various government bodies in China including the MOHURD, the NDRC, the MOFCOM, the Ministry of Emergency Management, the Ministry of Ecology and Environment and the local administrative authorities for environmental protection and is required to follow the regulations promulgated by such authorities in relation to qualifications for construction contracting and construction design, bids, property development, production safety, supervision of the quality and inspection and acceptance, environmental protection and labor and personnel.

The Group strictly abides by the following laws and regulations:

The Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, Regulation on the Implementation of the Employment Contract Law of the People's Republic of China, the Labor Dispute Mediation and Arbitration Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the Implementing Measures for Having Interviews for the Work Safety Purpose (for Trial Implementation), the Administrative Measures for the Identification and Investigation of and Punishment Against Illegal Acts During Award and Undertaking of the Construction Contracts for Construction Projects, Administrative Measures for Construction Permits of Construction Projects (Revised), Regulations of Hebei Province on Water Pollution Prevention, Audit Law of the People's Republic of China, Accounting Standards for Business Enterprises-Basic Standards, Implementing Regulations of the Audit Law of the People's Republic of China, Supervision Law of the People's Republic of China, Criminal Law of the People's Republic of China, Civil Procedure Law of the People's Republic of China, Environmental Protection Law of the People's Republic of China, the Construction Law of the People's Republic of China, Bid Invitation and Bidding Law of the People's Republic of China, the Accounting Law of the People's Republic of China, the Budget Law of the People's Republic of China, Law of the People's Republic of China on Enterprise Income Tax, the Individual Income Tax Law of the People's Republic of China, Company Law of the People's Republic of China, Trademark Law of the People's Republic of China, Labor Union Law of the People's Republic of China and the Civil Code of the People's Republic of China.

The Group has implemented internal control to ensure the compliance with such laws and regulations. Having reviewed the Group's business, the Board is of the view that the Group is in compliance with the requirements of relevant laws and regulations in material respects.

USE OF PROCEEDS FROM THE IPO AND CHANGE OF USE

The Company was listed on the Main Board of the Hong Kong Stock Exchange on 15 December 2017. According to the Appraisal Report on the Use of Previously Raised Proceeds (An Yong Hua Ming (2019) Zhuan Zi No. 61319209_J03) issued by Ernst & Young Hua Ming LLP (the **"Appraisal Report on the Use of Previously Raised Proceeds"**), the Company intended to use the net proceeds (net of Stock Exchange trading fee, SFC transaction levy, registration fee and fees charged by the receiving banks) from the Company's IPO of new Shares for the purpose of its listing on the Stock Exchange and issue of new Shares upon partial exercise of the Over-allotment Option (as defined in the Prospectus) amounted to approximately HK\$1,972.25 million.

REPORT OF THE BOARD OF DIRECTORS

Reference is made to the circular of 2019 first extraordinary general meeting of the Company dated 14 January 2019 and the poll results announcement of 2019 first extraordinary general meeting dated 25 February 2019. On 25 February 2019, the resolution in respect of the change in use of net proceeds from the Global Offering was considered and approved at the 2019 first extraordinary general meeting of the Company, including (1) the equity investment amount initially to be used under the Group's existing and future PPP projects be adjusted to be used to fund the Group's existing and future equity investment; (2) certain net proceeds initially to be used to fund the Group's equity investment commitments under existing and future PPP projects (approximately RMB160.81 million) be allocated to be used for general corporate purposes of the Group, including but not limited to payment of office rent, maintenance costs, employee costs, professional expenses and other expenses in the daily operation of the Company (the "Change"). Other than the above Changes, there is no other change in use of net proceeds from the Global Offering of the Company.

As of the end of the Reporting Period, the use of net proceeds from the Global Offering of the Company is as follows:

The use of net proceeds	Amount of net proceeds used as of 31 December 2020		Remaining net proceeds as of 31 December 2020	
	Approximate amount (RMB million)	Approximate percentage (%)	Approximate amount (RMB million)	Approximate percentage (%)
Proceeds used to undertake the construction of certain construction contracting projects remain to be completed	643.25	40.00	0.00	0.00
To fund the Group's existing and future equity investment commitments	482.44	30.00	0.00	0.00
To repay the principal of and interest on the Group's loans on or before their respective maturity dates	160.81	10.00	0.00	0.00
General corporate purposes	321.63	20.00	0.00	0.00
Total*	1,608.13	100.00	0.00	0.00

* The Company adopted the applicable exchange rate of RMB0.81538 to HK\$1.000 the actual settlement of the raised funds. When preparing the above table, the applicable exchange rate is also RMB0.81538 to HK\$1.000.

REPORT OF THE BOARD OF DIRECTORS

The Company confirmed that, during the Reporting Period, the aforementioned use of raised funds was in line with the use of the proceeds after the Change. The Company strictly recycled the raised funds in accordance with the relevant requirements of the SAFE. As of 31 December 2020, the total amount of recycling funds was approximately HK\$1,380.50 million, the total amount of recycling funds was approximately RMB416.40 million and the proceeds from the settlement of exchange of HK dollars were approximately RMB1,126.12 million.

The Company strictly controlled the use of raised funds according to the instructions of policy documents of the SAFE and the use of proceeds after the Change. As of 31 December 2020, the accumulative amounts of the raised funds paid for various purpose by the Company was approximately RMB1,608.13 million. Among them, approximately RMB643.25 million was used to undertake the construction of certain construction contracting projects remained to be completed; approximately RMB482.44 million was used to fund the Group's existing and future equity investment commitments; approximately RMB160.81 million was used to repay the principal of and interest on bank loans on or before the due date; and approximately RMB321.63 million was used for general corporate purposes. As of 31 December 2020, the Company has fully used the remaining proceeds according to the use and proportion of proceeds after the Change, and the proceeds from the Global Offering of the Company has been fully used.

RESULTS AND DISTRIBUTIONS

The results of the Group for the year ended 31 December 2020 are set out in the audited Consolidated Income Statement on page 201 to page 202 of this report. The financial condition of the Group as of 31 December 2020 is set out in the audited Consolidated Balance Sheet on page 199 to page 200 of this report.

According to the Profit Distribution Proposal of the Company for 2019 considered and approved by the Shareholders at the 2019 annual general meeting on 23 June 2020, on Monday, 10 August 2020, the Company distributed 2019 final dividend of RMB0.14 per share (tax inclusive) in cash to its domestic Shareholders and H Shareholders whose names appear on the register of members of the Company on Wednesday, 8 July 2020. The 2019 final dividend was denominated and declared in Renminbi, in particular, domestic Shareholders were paid in Renminbi while H Shareholders were paid in HK dollars. The exchange rate for HK dollars was calculated in accordance with the average central parity rate (being HK\$1 = RMB0.91372) as announced by the PBOC three business days before the date of the 2019 annual general meeting (inclusive of the date of the 2019 annual general meeting), i.e. HK\$0.1532 per H Share (tax inclusive) in cash. For details, please refer to the announcement dated 23 June 2020 issued by the Company on the website of the Hong Kong Stock Exchange.

PROPOSAL AND POLICY FOR THE DISTRIBUTION OF THE FINAL DIVIDEND

Final Dividend

Based on the 2020 financial report of the Company, the distributable profit of the parent company as of 31 December 2020 was RMB2,284,772,000. Given the actual condition of the Company and Shareholders' return, the Company proposed to distribute cash dividends out of 32% of the net profit attributable to the listed company's shareholders for the year ended 31 December 2020 to Shareholders, totalling RMB243,584,000. The Board proposes to distribute 2020 final dividend of RMB0.14 per share (tax inclusive) in cash to its domestic Shareholders and H Shareholders whose names appear on the register of members of the Company on Thursday, 17 June 2021 based on total share capital of the Company as of 31 December 2020 of 1,761,383,500 shares. The 2020 final dividend is denominated and declared in Renminbi, in particular, domestic Shareholders will be paid in Renminbi while H Shareholders will be paid in HK dollars. The exchange rate for HK dollars will be calculated in accordance with the average central parity rate as announced by the PBOC three business days before the day of the dividend distribution is announced (inclusive of the day of the dividend distribution is announced). It is expected that the final dividend will be distributed on Friday, 16 July 2021. The above profit distribution proposal is subject to approval at the 2020 annual general meeting of the Company.

Details on closure of register of members due to dividend distribution are set out in "Significant Events" on page 64.

For the year ended 31 December 2020, the Company was not aware of any Shareholders who have waived or agreed to waive any dividend arrangements.

Dividend Policy

The Company adopted the dividend policy on 25 March 2019. According to the dividend policy, the Company's dividend distribution plan is formulated by the Board and subject to consideration and approval by the general meeting. After taking into account the financial position of the Company and in accordance with relevant requirements of relevant laws and regulations, the Board may submit to the general meeting to authorize the Board to distribute and pay dividends by way of an ordinary resolution.

The Board will determine whether to declare and pay dividends based on the following factors, including but not limited to: operating results, cash flow, financial position, Shareholders' equity, overall business conditions and strategies, capital requirements, and cash dividends paid to the Company by subsidiaries and other factors that the Board may consider relevant.

FINAL DIVIDEND INCOME TAX APPLICABLE TO OVERSEAS SHAREHOLDERS

Withholding and Payment of EIT on behalf of Overseas Non-Resident Enterprise Shareholders

Pursuant to the applicable provisions of the EIT Law of the PRC (《中華人民共和國企業所得稅法》) and its implementing rules and the requirements under the Circular on Issues Relating to the Withholding of EIT by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (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稅有關問題的通知》(國稅函[2008]897號)) issued by the SAT, the Company will withhold and pay EIT at the rate of 10% when it distributes the final dividend to overseas non-resident enterprise Shareholders of H Shares (including any H Shares of the Company registered in the name of HKSCC Nominees Limited, but excluding any H Shares of the Company registered in the name of HKSCC Nominees Limited which are held by China Securities Depository and Clearing Corporation Limited as nominee Shareholder on behalf of investors who invest in the H Shares of the Company through Shanghai-Hong Kong Stock Connect).

Withholding and Payment of Individual Income Tax on behalf of Overseas Individual Shareholders

Pursuant to the applicable provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementing rules, the Notice of the State Administration of Taxation on Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) (the “**Tax Notice**”) and other relevant laws, regulations and requirements under normative documents, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on behalf of the overseas individual H Shareholders:

- For individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these individual H Shareholders in the distribution of the final dividend;

REPORT OF THE BOARD OF DIRECTORS

- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, such Shareholders shall submit the required documents within the prescribed timeline in accordance with the Measures for Non-resident Taxpayers to Benefit from the Taxation Treaties (No. 35 of the Announcement of the State Administration of Taxation for 2019) (the “**Taxation Treaties Measures**”) and require the treatment of taxation treaties on or before Friday, 18 June 2021. The relevant files shall be kept for future inspection. If the information filed is complete, the Company will withhold and pay individual income tax according to the requirements of the taxation laws of the PRC and the Taxation Treaties Measures. If such individual H Shareholders fail to submit the information, the Company will withhold and pay individual income tax at the rate of 10% on behalf of them;
- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these individual H Shareholders in the distribution of the final dividend; and
- For individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these individual H Shareholders in the distribution of the final dividend.

SHARE CAPITAL IN ISSUE

As of 31 December 2020, the total share capital of the Company was RMB1,761,383,500, divided into 1,761,383,500 Shares with a nominal value of RMB1.00 each. Details of the movement of the share capital of the Company during the Reporting Period are set out in Note VI-28 to the financial statements.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, the Company and the Group did not repurchase, sell or redeem any of the Company's listed securities.

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group for 2020 are set out in Note VI-14 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, total sales to the five largest customers of the Company accounted for less than 30% of the total revenue for the year.

For the year ended 31 December 2020, the total purchase from the five largest suppliers of the Company accounted for less than 30% of the cost of sales for the year.

For the year ended 31 December 2020, so far as the Directors are aware, none of the Directors, associates of the Directors or the Shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in any of the Group's five largest customers or five largest suppliers during the Year.



REPORT OF THE BOARD OF DIRECTORS

The construction contracting customers of the Group mainly include universities, hospitals, civil aviation authorities, other government agencies and public institutions, state-owned enterprises and large property development companies in the PRC. The Group has been able to establish long-term and stable relationships with customers by leveraging the track record of providing high-quality, timely and safe construction contracting services. Most of the large customers have cooperated with the Group for multiple times, and the Group's longest cooperation with existing customers has been over 30 years. As of the end of the Reporting Period, the Group had over 600 customers to whom it has provided services in two or more projects. The Group will continue to designate members of senior and mid-level management maintain relationships with major clients by conducting periodic visits to collect their feedback, understand their needs and learn about their new projects. The Group typically wins contracts for the construction services through bidding and tender procedures.

The Group's procurement of raw materials and leasing of equipment and machinery are typically conducted either through a bidding process or directly from suppliers selected from a list of qualified suppliers. Since April 2016, the majority of such biddings have been conducted through Yuncai Network, a business-to-business online procurement platform developed, operated and owned by the Group. In addition, the Group's membership in the China Construction Industry Association also offers it access to a broader range of suppliers.

During the Reporting Period, the Group maintained good cooperation with major customers and suppliers. The Group kept close connection with customers and suppliers, and established a wide range of channels, including telephone, email and physical meeting to communicate with them on an ongoing basis, so as to obtain their feedbacks and suggestions.

EMPLOYEES

Employees are the key to the Group's sustainable development. For details of the Group's employees, please refer to "Directors, Supervisors, Senior Management and Employees – Staff Information" on page 174 to page 189.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group as at 31 December 2020 are set out in Notes VI-20 and VI-26 to the financial statements.

EXTERNAL DONATION

In 2020, the Company donated a total of RMB3 million to local charities and governments of impoverished counties.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Set out below are details of the Directors, Supervisors and senior management of the Company during the year of 2020 and as of the Latest Practicable Date:

Name	Position in the Company	Date of Appointment
Directors, Supervisors and senior management currently in office		
Directors		
Executive Directors		
Mr. Li Baozhong	Chairman and executive Director	25 October 2010
Mr. Shang Jinfeng	Executive Director and president	31 March 2017
Mr. Liu Yongjian	Executive Director and vice president	20 December 2013
Mr. Zhao Wensheng	Executive Director, chief accountant and director of finance	25 February 2019
Non-executive Directors		
Mr. Li Baoyuan	Honorary chairman and non-executive Director	26 October 1997
Mr. Cao Qingshe	Vice chairman and non-executive Director	25 October 2010
Independent Non-executive Directors		
Ms. Shen Lifeng	Independent non-executive Director	15 December 2017
Ms. Chen Xin	Independent non-executive Director	15 December 2017
Mr. Chan Ngai Sang Kenny	Independent non-executive Director	15 December 2017
Supervisors		
Mr. Yu Xuefeng	Chairman of the Board of Supervisors and Shareholder Supervisor	25 June 2018
Mr. Liu Jingqiao	Employee Supervisor	31 March 2017
Ms. Feng Xiujian	Shareholder Supervisor	23 January 2013
Mr. Yue Jianming	Employee Supervisor	31 March 2017
Mr. Wang Feng	Shareholder Supervisor	31 March 2017

REPORT OF THE BOARD OF DIRECTORS

Name	Position in the Company	Date of Appointment
Senior Management		
Mr. Shang Jinfeng	Executive Director and president	31 March 2017
Mr. Liu Yongjian	Executive Director and vice president	17 January 2008
Mr. Zhao Wensheng	Executive Director, chief accountant and director of finance	23 January 2013
Mr. Zhang Wenzhong	Vice-president and Chief economic officer	26 March 2018
Mr. Li Wutie	Board secretary and assistant to president	31 March 2017
Mr. Tian Wei	Vice president	23 June 2020
Mr. Li Zhongyi	Vice president	30 December 2020
Mr. Lü Qian	Vice president	30 December 2020
Resigned Directors, Supervisors and senior management		
Mr. Xiao Xuwen	Former independent non-executive Director	15 December 2017 to 23 June 2020
Mr. Gao Qiuli	Former vice president, chief engineer	22 July 2001 to 30 December 2020

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, Mr. Xiao Xuwen, an independent non-executive Director of the first session of the Board of Directors, did not seek re-election of Director upon the expiration of his term of office as a Director due to reaching his retirement age, and he ceased to take the role as an independent non-executive Director of the Company with effect from 23 June 2020.

During the Reporting Period, Mr. Tian Wei was elected as the vice president of the Company at the first meeting of the second session of the Board of the Company held on 23 June 2020, and his term of office shall start from 23 June 2020 and end on date when the third session of the Board of the Company is established and the new session of senior management is appointed. Mr. Li Zhongyi and Mr. Lü Qian were elected as the vice presidents of the Company at the seventh meeting of the second session of the Board of the Company held on 30 December 2020, and their terms of office shall start from 30 December 2020 and end on date when the third session of the Board of the Company is established and the new session of senior management is appointed.

Save as disclosed above, as of the Latest Practicable Date, there was no other change of Directors, Supervisors and senior management.

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographies of the Directors, Supervisors and senior management of the Company are set out on page 174 to page 187 of this report.

SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company. The principal particulars of these service contracts: (1) include the term of appointment, which commences from the date of appointment and ends on the date of expiry of the current session of the Board/Board of Supervisors; and (2) are subject to termination in accordance with the respective terms.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to enter into a service contract with any members of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors and Supervisors of the Company receive compensation in the form of fees, salaries, pension scheme contributions, discretionary bonus, housing and other allowances and benefits in kind. The remuneration of the Directors of the Company are determined in accordance with the relevant provisions of the Articles of Association and the relevant contracts entered into by the Company and the Directors, which are considered and approved at annual general meetings.

Details of the Directors and the five highest paid individuals of the Company are set out in note XV-2 to the financial statements.

During the Reporting Period, the remuneration of the senior management (except for Ms. Wong Wai Ling, one of the joint company secretaries of the Company who serves as the vice president of SWCS Corporate Services Group (Hong Kong) Limited) whose biographies are included in “Directors, Supervisors, Senior Management and Employees” in this report is disclosed in the corporate governance report herein.

As of the Latest Practicable Date, the Company was not aware of any Directors or Supervisors who have waived or agreed to waive any dividend arrangements.

INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the Reporting Period, the Group has not directly or indirectly entered into any major transactions, arrangements or contracts relating to the business of the Company, in which the Directors, Supervisors or any of their connected entities have material interests, which still remain valid during or by the end of the Year.

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN COMPETING BUSINESSES

During the Reporting Period, none of the Directors, Supervisors, the senior management or their respective associates had any interests in any business which competes or is likely to compete directly or indirectly with the business of the Group or had any other conflicts of interest with the Group.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed under the section headed “Non-Exempt Continuing Connected Transactions” and paragraphs headed “Related Party Relationships and Transactions” under note X of the Notes to the Financial Statements of this report, there is no contract of significance, whether for the provision of services or otherwise, to the business of the Group between the Company, or any of its subsidiaries, or a controlling shareholder or any of its subsidiaries during the Reporting Period.

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

As of 31 December 2020, save as disclosed in “Directors, Supervisors, Senior Management and Employees” in this report, none of the Directors, Supervisors and chief executives of the Company had any interests and/or short positions in Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she has 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 will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out under Appendix 10 to the Listing Rules (“**Model Code**”) to be notified to the Company and the Hong Kong Stock Exchange.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

For the year ended 31 December 2020, the Company, its holding company, or any of its subsidiaries or fellow subsidiaries did not have or has participated at any time during the Year in any arrangement through which the Directors and Supervisors of the Company may benefit by purchasing shares or debentures of the Company or any other entities.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2020.

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

For details of shareholding of substantial Shareholders in the Company, please refer to “Changes in Share Capital and Information of Shareholders – Interests and Short positions of Substantial Shareholders in the Shares and Underlying Shares of the Company” on page 70.

PRE-EMPTIVE RIGHT AND SHARE OPTION ARRANGEMENTS

During the year ended 31 December 2020, the Company had no pre-emptive right and share option arrangements. There are no specific provisions under the PRC laws or the Articles of Association of the Company in relation to pre-emptive rights.

PERMITTED INDEMNITY PROVISIONS

Save as the above, the Company has maintained appropriate liability insurance for its Directors, Supervisors and senior management. The permitted indemnity provisions are set out in such liability insurance. As of 31 December 2020, none of the Directors of the Company were benefited from any effective permitted indemnity provisions.

COMPLIANCE WITH THE NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

The Company received the confirmation letters from Mr. Li Baoyuan, Zhongru Investment and Qianbao Investment, confirming that, in 2020, Mr. Li Baoyuan, Zhongru Investment and Qianbao Investment have fully complied with all undertakings given by them in favor of the Company under the non-competition undertakings.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors of the Company, as of the Latest Practicable Date, public Shareholders held not less than 26.2% of the Shares in issue of the Company, which was in compliance with the public float requirements under rules 8.08(1)(a) and (b) of the Hong Kong Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the following continuing connected transactions of the Group were entered into on normal commercial terms. Pursuant to Chapter 14A of the Listing Rules, they are subject to the reporting, annual review, announcement and independent Shareholders' approval (as the case may be) requirements under Chapter 14A of the Listing Rules.

Labor Subcontract Framework Agreement

Parties

The Company (as contractor) and Baoding Tianli (as subcontractor)

Principal Terms

The Company entered into a labor subcontract framework agreement with Baoding Tianli on 31 December 2019 (the “**Labor Subcontract Framework Agreement**”), pursuant to which Baoding Tianli provides labor subcontract services to the Group in the ordinary course of business of the Group, including but not limited to contracting for building construction projects and infrastructure construction projects, for which Baoding Tianli charges the Group subcontract fees (including subcontract service fees, labor wages and social insurance expenses, taxation, auxiliary materials and tools costs, and other fees). The principal terms of the Labor Subcontract Framework Agreement include:

- (1) the pricing policy (see below);
- (2) relevant subsidiaries or associated companies of both parties will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the Labor Subcontract Framework Agreement; and
- (3) the Labor Subcontract Framework Agreement, after being approved at the 2020 first extraordinary general meeting of the Company, is valid from 1 January 2020 to 31 December 2022.

Pricing Policy

In accordance with the Labor Subcontract Framework Agreement, the total subcontract fee paid by the Group to Baoding Tianli is determined based on the following pricing policy: when the Group subcontracts labor supply for the construction projects, public bidding procedures will be applied. Prior to the bidding procedures, the Group will publish announcements on its bidding invitation on public websites. There must be at least three bidders who are Independent Third Parties attending the bidding procedures, otherwise the bidding will be canceled. The review panel for any bidding will consist of experts selected by the Group as well as the project manager, and the comparable quoted bidding prices (including subcontract service fees, labor wages and social insurance expenses, taxation, auxiliary materials and tools costs, and other fees) is an important, but not the only, factor to be considered. The review panel will also take into consideration factors including, but not limited to, the bidder’s sufficient licenses and qualifications, business scale and capacities and its historical results, as well as make reference to prevailing market terms and prices. The bidder with the highest score comprehensively determined by the review panel wins, and the bidding price offered by the bidder will be implemented. Therefore, only in the event that Baoding Tianli wins the bidding with the highest score determined by the review panel, the Group will enter into business agreements with Baoding Tianli under the Labor Subcontract Framework Agreement.

Listing Rules Implications

Baoding Tianli is a wholly-owned subsidiary of Zhongming Zhiye, which is owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, respectively. As Zhongru Investment and Qianbao Investment are Controlling Shareholders, Baoding Tianli is our connected person by virtue of Rule 14A.07(4) of the Listing Rules. Pursuant to the Listing Rules, the transactions contemplated under the Labor Subcontract Framework Agreement entered into between the Company and Baoding Tianli constitute continuing connected transactions of the Company under the Listing Rules.

As the relevant highest applicable percentage ratio (as defined under the Listing Rules) for the transactions contemplated under the Labor Subcontract Framework Agreement entered into between the Company and Baoding Tianli calculated according to the Listing Rules is higher than 5%, such transactions shall be subject to the reporting, announcement, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reasons for the transaction

Baoding Tianli has expertise in labor subcontract services and has established a good reputation for its quality services in the labor industry. Baoding Tianli has become familiar with our business needs and operational requirements through its long-term cooperation with us and thus can provide us with a sufficient number of laborers who have the requisite expertise and experience for our construction business, in a timely manner and in accordance with applicable laws and regulations.

Implementation of such connected transaction during the Reporting Period

During the Reporting Period, the continuing connected transaction under the Labor Subcontract Framework Agreement was capped at RMB4,000 million for 2020. The actual total transaction amount under the above agreement between the Group and Baoding Tianli was RMB3,455 million for 2020.

For details of the transaction above, please refer to the Company's announcement dated 31 December 2019 and the circular dated 22 January 2020.

Engineering Construction Service Framework Agreement

Parties

The Company (as the service provider) and Zhongming Zhiye (as the service recipient)

Principal Terms

On 17 May 2019, the Company and Zhongming Zhiye entered into an engineering construction service framework agreement (“**Engineering Construction Service Framework Agreement**”) and formulated the annual caps for transactions under such agreement for 2019, 2020 and 2021. Pursuant to it, the Group provides engineering construction services, including but not limited to engineering procurement construction, decoration and landscape engineering, to Zhongming Zhiye and its associates in the daily business process, and Zhongming Zhiye and its associates will pay service fees to the Group. Principal terms of the Engineering Construction Service Framework Agreement include:

- (1) the pricing policy (see below);
- (2) the Group provides construction services, including but not limited to engineering procurement construction, decoration and landscape engineering, to Zhongming Zhiye and its associates in the daily business process, and Zhongming Zhiye and its associates will pay service fees to the Group; and
- (3) the term of the Engineering Construction Service Framework Agreement starts from the completion of the Equity Swap and Transfer (i.e. 20 June 2019) until 31 December 2021 (inclusive), and can be renewed for another three years upon its expiry as agreed by the specific parties to the agreement.

Pricing Policy

According to the Engineering Construction Service Framework Agreement, the cost for the Group to provide construction services to Zhongming Zhiye and its associates is determined based on arms-length negotiation with Zhongming Zhiye and its associates. The main reference factors include: (i) availability and cost of raw materials and equipment and machinery, labor and subcontractors; (ii) the local guiding prices of all kinds of raw materials as set out in the monthly cost information manual subscribed by the Company from the cost units under the local housing and urban-rural construction bureaus; (iii) the project schedule, the complexity and scale of the construction project, and the potential revision of the scope of work; (iv) the geographical location and environmental conditions of the project site; (v) the Group’s estimate of competitive bidding; and (vi) contractual risks.

REPORT OF THE BOARD OF DIRECTORS

Regarding the evaluation and analysis of competitive bidding, the Company has mainly formulated the following mechanisms: (i) the competitive quotation analysis mechanism, which is based on collecting bid opening records, network data, competitors' usual quotation methods and the importance attached to the project, which provides a comprehensive and overall analysis basis for quotation decision-making procedures; (ii) the bidding decision-making process mechanism led by the market operation department with the overall participation of each functional department (including but not limited to the production and technology department, the material procurement department and the finance department), where the bidding documents will be interpreted and the bidding strategic plan, division of responsibilities and specific timetable will be formulated through the pre-bidding meeting with the participation of the management of the above departments; and (iii) the final quotation decision-making team comprising the Company's general manager and market operation manager will determine the final quotation of the project with reference to the relevant information of competitors, the specific needs of the project and the impact on the Company's macro strategy.

In order to ensure that the fees charged by the Group for the provision of construction services are fair and reasonable and conform to market practices, the Group will closely follow the current level of market fees and market conditions and Independent Third Party cost consultation institutions will review the pricing. In addition, the Group will also refer to the fees charged historically for providing similar construction services to Independent Third Party customers.

Listing Rules Implications

As Zhongming Zhiye was owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the controlling Shareholders of the Company, respectively, therefore, Zhongming Zhiye is a connected person of the Group, and thus according to the Listing Rules, the transactions contemplated under the Engineering Construction Service Framework Agreement constitute continuing connected transactions of the Company. As its highest applicable percentage ratio (as defined under the Listing Rules) is higher than 5%, therefore, it shall comply with the annual review, notice, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reasons for the transaction

(i) The Group has provided construction engineering services to Zhongming Zhiye and its branches and subsidiaries in the past, and the relevant services provided in the past have provided stable and substantial profits to the Group; (ii) the pricing of construction services provided by the Group to Zhongming Zhiye and its affiliated real estate companies is fair and on normal commercial terms; and (iii) Zhongming Zhiye and its affiliated real estate companies have made timely payments in the past without bad debts. In the future, Zhongming Zhiye and its affiliated real estate companies will also give priority to the payment of project funds to the Group.

Implementation of such connected transaction during the Reporting Period

During the Reporting Period, the continuing connected transaction under the Engineering Construction Service Framework Agreement was capped at RMB1,200 million for 2020. The actual total transaction amount under the above agreement between the Group and Zhongming Zhiye was RMB410.53 million for 2020.

Confirmation by Independent Non-executive Directors

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions were conducted in the ordinary course of business of the Group and on normal commercial terms or better, or where there were no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Company no less favorable than term available to or from (as appropriate) Independent Third Parties, and the transactions were conducted in accordance with the relevant agreement governing the transactions, on fair and reasonable terms and in the interests of the Shareholders as a whole.

Auditor's Letter

Pursuant to Rule 14A.56 of the Listing Rules, the Company has appointed Ernst & Young Hua Ming LLP (“EY”) as the auditor to report on the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. Based on the works performed, EY has issued the letter to the Board confirming that, in respect of the continuing connected transactions disclosed above:

- (a) nothing has come to EY’s attention that causes it to believe that the disclosed continuing connected transactions have not been approved by the Board;
- (b) for transactions involving the provision of products and service by the Group, nothing has come to EY’s attention that causes it to believe that the transactions were not, in all material respects, conducted in accordance with the pricing policies of the Group;
- (c) nothing has come to EY’s attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;
- (d) in connection with the total amount of each of the continuing connected transaction disclosed above, nothing has come to EY’s attention that causes it to believe that such continuing connected transactions have exceeded the annual cap set by the Company.

Save as disclosed above, the Company and its connected parties did not enter into any other non-exempt connected transactions during the Reporting Period.

RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group entered into certain transactions with parties regarded as “related parties” under the applicable accounting standards. Details of related party transactions entered into by the Group during the Reporting Period are set out in Note X to the financial statements. Save as disclosed in the “Report of the Board of Directors-Non-Exempt Continuing Connected Transactions” of this report, the related party transactions as disclosed in Note X do not constitute connected transactions or are exempt from the reporting, announcement and Shareholders’ approval requirements under the Listing Rules. During the Reporting Period, the Company complied with the related regulations under Chapter 14A of the Listing Rules.

Ernst & Young Hua Ming LLP has audited the 2020 annual financial report of the Company and issued a standard unqualified audit report, indicating that the 2020 annual financial report prepared by the Company has given a fair view of the financial position and operating results of the Company.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the annual results and annual report of the Company for 2020 and the audited consolidated financial statements for the year ended 31 December 2020 prepared under the CASBE.

ACCOUNTING POLICY

The critical accounting policies adopted by the Company in the preparation of the audited consolidated financial statements for 2020 are the same as those adopted for the audited consolidated financial statements for the year ended 31 December 2019, except for the changes in accounting policies as set out in Note III-30 to the financial statements.

AUDITOR

In June 2018, upon consideration and approval at the 2017 annual general meeting of the Company, Ernst & Young was engaged as the auditor of the Company for 2018 under the IFRSs and Ernst & Young Hua Ming LLP as the auditor of the Company for the audit of the annual financial report for 2018 under the CASBE for a term commencing from the date of conclusion of the 2017 annual general meeting of the Company to the date of conclusion of the 2018 annual general meeting of the Company.

In March 2019, in view of the proposed adoption of the CASBE to prepare financial statements of the Company only, the Board proposed not to re-appoint Ernst & Young as the overseas auditor of the Company for the year of 2019. The Shareholders of the Company has approved the resolution of non-reappointment of overseas auditor by voting at the 2018 annual general meeting held on 20 June 2019. Ernst & Young confirmed that there is no matter in relation to the proposed non-reappointment of overseas auditor that needs to be brought to the attention of the Shareholders or the Stock Exchange. The Board and the Audit Committee of the Board of the Company confirmed that the Company had no disagreement with Ernst & Young regarding the proposed non-reappointment of overseas auditor.

In June 2019, upon consideration and approval at the 2018 annual general meeting of the Company, Ernst & Young Hua Ming LLP was engaged as the auditor of the Company for the audit of the annual financial report for 2019 under the CASBE for a term commencing from the date of conclusion of the 2018 annual general meeting of the Company to the date of conclusion of the 2019 annual general meeting of the Company.

In June 2020, upon consideration and approval at the 2019 annual general meeting of the Company, Ernst & Young Hua Ming LLP was engaged as the auditor of the Company for the audit of the annual financial report for 2020 under the CASBE for a term commencing from the date of conclusion of the 2019 annual general meeting of the Company to the date of conclusion of the 2020 annual general meeting of the Company.

REPORT OF THE BOARD OF DIRECTORS

In March 2021, the Board proposed to re-appoint Ernst & Young Hua Ming LLP as the auditor of the Company for the audit of the annual financial report for 2021 under the CASBE for a term commencing from the date of conclusion of the 2020 annual general meeting of the Company to the date of conclusion of the 2021 annual general meeting of the Company. At the same time, the Board submitted to the general meeting to grant authorization to the Board to further delegate such authority to the President, to determine the remuneration for the appointment of the above auditor. The above proposals are subject to consideration and approval of the Shareholders at the 2020 annual general meeting of the Company.

By order of the Board

Hebei Construction Group Corporation Limited

Li Baozhong

Chairman



REPORT OF BOARD OF SUPERVISORS

In 2020, the Board of Supervisors of the Company adhered to the principle of good faith, diligently performed its supervisory duties and effectively safeguarded the legitimate rights and interests of the Company, the Shareholders and employees based on the principle of accountability to all Shareholders of the Company, in strict compliance with relevant rules and regulations such as the Company Law, the Articles of Association and the Rules of Procedure of the Board of Supervisors. The work report of the Board of Supervisors is as follows:

1. MEETINGS

On 30 March 2020, the ninth meeting of the first session of the Board of Supervisors was convened by the Board of Supervisors of the Company onsite at the headquarters of the Company. Of the 5 Supervisors entitled to attend the meeting, 5 Supervisors were present. The procedures for convening and holding the meeting were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Board of Supervisors. The proposals considered and approved at the meeting are as follows:

Proposal on the 2019 Unaudited Results Announcement of Hebei Construction Group Corporation Limited; Proposal on the 2019 Working Report of the Board of Supervisors of Hebei Construction Group Corporation Limited.

On 12 May 2020, the tenth meeting of the first session of the Board of Supervisors was convened by the Board of Supervisors of the Company onsite at the headquarters of the Company. Of the 5 Supervisors entitled to attend the meeting, 5 Supervisors were present. The procedures for convening and holding the meeting were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Board of Supervisors. The proposals considered and approved at the meeting are as follows:

Proposal on the 2019 Annual Report and Results Announcement of Hebei Construction Group Corporation Limited; Proposal on the 2019 Financial Report of Hebei Construction Group Corporation Limited; Proposal on the 2019 Profit Distribution Plan of Hebei Construction Group Corporation Limited, Proposal on the Salary of Supervisors of Hebei Construction Group Corporation Limited in 2019; and Proposal on Nomination of Supervisors of the Second Session of the Board of Supervisors of Hebei Construction Group Corporation Limited.

REPORT OF BOARD OF SUPERVISORS

On 23 June 2020, the first meeting of the second session of the Board of Supervisors was convened by the Board of Supervisors of the Company onsite at the headquarters of the Company. Of the 5 Supervisors entitled to attend the meeting, 5 Supervisors were present. The procedures for convening and holding the meeting were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Board of Supervisors. The proposals considered and approved at the meeting are as follows:

- Proposal on Election of the Chairman of the Second Session of the Board of Supervisors of the Company

On 24 August 2020, the second meeting of the second session of the Board of Supervisors was convened by the Board of Supervisors of the Company onsite at the headquarters of the Company. Of the 5 Supervisors entitled to attend the meeting, 5 Supervisors were present. The procedures for convening and holding the meeting were in compliance with the provisions of the Articles of Association and the Rules of Procedure of the Board of Supervisors. The proposals considered and approved at the meeting are as follows:

Proposal on the 2020 Interim Results Announcement and Interim Report of Hebei Construction Group Corporation Limited; and approved the 2020 Interim Results Announcement of Hebei Construction Group Corporation Limited and 2020 Interim Report of Hebei Construction Group Corporation Limited prepared by the Company.

2. ATTENDANCE OF IMPORTANT MEETINGS

In 2020, the Supervisors attended 2 general meetings as required and were present at 10 Board meetings as non-voting delegates. By attending these important meetings, the Supervisors not only developed insights into the operation and management of the Company, but also actively participated in the consideration and discussion of resolutions and put forward their opinions and suggestions in a responsible manner, thus effectively supervised the procedures for convening these meetings and the discussion of proposals.

3. ROUTINE INSPECTIONS AND RESEARCHES

In 2020, the Board of Supervisors continually monitored the compliance of the Company's operation to ensure that the internal operation was in line with regulations and listing requirements.

4. INDEPENDENT OPINIONS AND SPECIAL EXPLANATIONS

- (1) Having monitored the performance of duties of the Directors and senior management members of the Company and the legal compliance of the operation of the Company, the Board of Supervisors was of the view that the Board of the Company was able to make decisions according to the laws and in strict compliance with various requirements such as the Company Law and the Articles of Association and the major business decision-making procedures of the Company were lawful and valid; that the Company further optimized and improved various internal management systems and internal control mechanisms; that the Company disclosed significant information about the Company in a timely manner pursuant to the securities regulatory requirements such that the information disclosure was in compliance with regulations and the securities trading system for the informed parties of insider information was in place properly; that the Directors and senior management members of the Company were able to implement diligently and thoroughly relevant laws and regulations, the Articles of Association and the resolutions of the general meetings and the Board during the performance of the duties for the Company in a faithful, pioneering and ambitious manner; and that no Directors or senior management members of the Company were found to have violated the laws, regulations or the Articles of Association or harmed the interests of the Company and the rights and interests of the Shareholders when performing their duties for the Company.

- (2) By communicating with the accounting firms in charge of the audit and review services for the Company, the Board of Supervisors examined the Company's financial statements, considered its periodic reports of the Company and the audit report of the accounting firm, regularly listened to the report of the internal audit department of the Company on the progress of internal audit work, and carried out effective supervision and inspection on the Company's financial management and operation through on-site inspection, research, etc. The Board of Supervisors was of the view that the Company had a sound financial system, regulated management practices and reasonable spending of fees during 2020. Ernst & Young Hua Ming LLP has audited the 2020 annual financial report of the Group and issued a standard unqualified audit report. It was of the view that the 2020 annual financial report prepared by the Group has given a fair view of the financial position and operating results of the Group.

REPORT OF BOARD OF SUPERVISORS

- (3) The Board of Supervisors monitored the utilization of the proceeds by the Company. It was of the view that, during the Reporting Period, the Company was able to manage and utilize the proceeds in accordance with national laws and regulations, the commitments made in the Prospectus, and the provisions in the proposal of change in use of net proceeds from the Global Offering as considered and approved at the 2019 first extraordinary general meeting of the Company. As of 31 December 2020, the proceeds from the Global Offering have been fully used.
- (4) The Board of Supervisors monitored the related party transactions and connected transaction conducted by the Company. It was of the view that such transactions were conducted in accordance with the Company Law, the Hong Kong Listing Rules as well as the Company's Articles of Association and the Rules Governing Related Party Transactions (《關聯交易管理制度》), and that the pricings of these related party transactions and connected transaction were fair, without violating the principles of openness, fairness and impartiality, and did not harm the interests of the Company and its minority Shareholders.
- (5) The Board of Supervisors made a special explanation of the Company's internal control. It was of the view that in 2020, the internal control system of the Company underwent continuous enhancement, the evaluation of the internal control was effectively implemented and the internal control continued to improve as a whole, hence it was able to provide a reasonable assurance regarding the achievement of the internal control objective.

SIGNIFICANT EVENTS

CONVENING THE 2020 ANNUAL GENERAL MEETING

The 2020 annual general meeting of the Company will be convened at 9 a.m. on Tuesday, 8 June 2021 at Meeting Room, 3/F, No. 125 Lugang Road, Jingxiu District, Baoding, Hebei Province, the PRC. The notice and circular of convening the 2020 annual general meeting will be dispatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The 2020 annual general meeting

In order to ascertain the entitlements of the Shareholders to attend the 2020 annual general meeting, the register of members of the Company will be closed from Thursday, 3 June 2021 to Tuesday, 8 June 2021 (both days inclusive), during which period no transfer of Shares of the Company will be effected. Shareholders whose names appear on the register of members of the Company on Tuesday, 8 June 2021 will be eligible to attend the 2020 annual general meeting. To be eligible to attend and vote at the 2020 annual general meeting, all duly completed and signed share transfer documents together with relevant share certificates must be lodged with the Company's H Share Registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by holders of H Shares no later than 4:30 p.m. on Wednesday, 2 June 2021.

Final dividend

In order to ascertain the entitlements of the Shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Tuesday, 15 June 2021 to Thursday, 17 June 2021 (both days inclusive), during which period no transfer of Shares of the Company will be effected. To be eligible to receive the proposed final dividend, all duly completed and signed share transfer documents together with relevant share certificates must be lodged with the Company's H Share Registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by holders of H Shares no later than 4:30 p.m. on Friday, 11 June 2021.

Further details on the distribution of final dividend are set out in "Report of the Board of Directors" on page 35 to page 59.

MAJOR LITIGATION, ARBITRATION AND ISSUES GENERALLY QUESTIONED BY THE MEDIA

During the Reporting Period, the Group was not involved in any major litigation, arbitration and issues generally questioned by the media. The Directors were also not aware of any pending or potential significant litigations or claims.

MAJOR TRANSACTIONS OF ASSETS AND MERGERS OF ENTERPRISES

Save as disclosed in this report, during the Reporting Period, the Company was not involved in any major transactions of assets and mergers of enterprises.

EQUITY INCENTIVES SCHEME OF THE COMPANY AND ITS IMPACT

During the Reporting Period, the Company did not have any equity incentives scheme.

MATERIAL CONTRACTS

Saved as disclosed in this report, during the Reporting Period, the Company or any of its subsidiaries had not entered into any material contracts with the Controlling Shareholders or any of their subsidiaries other than the Group, and the Group did not have any material service contracts with the Controlling Shareholders or any of their subsidiaries other than the Group.

EXPOSURE TO RISKS OF SUSPENSION AND TERMINATION OF LISTING

During the Reporting Period, the Company was not involved in any circumstances which may lead to suspension or termination of Listing, nor involved in any detailed arrangement and planning of investor relations management as a result of suspension or termination of Listing.

SIGNIFICANT SUBSEQUENT EVENTS

From 1 January 2021 to the Latest Practicable Date, there were no significant subsequent events.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

SHARE CAPITAL AND CHANGES IN SHARE CAPITAL

The overseas-listed foreign-invested shares (H Shares) of the Company were listed on the main board of the Stock Exchange on 15 December 2017, with a total share capital of 1,733,334,000 Shares. As at 5 January 2018, the over-allotment option described in the prospectus was partially exercised, and 28,049,500 H Shares were allotted, increasing the number of shares to 1,761,383,500 Shares.

As at 31 December 2020, the total registered share capital of the Company was RMB1,761,383,500, divided into 1,761,383,500 ordinary Shares with a nominal value of RMB1.00 each, including 1,300,000,000 Domestic Shares and 461,383,500 H Shares. During the Reporting Period, there was no change in the share capital of the Company.

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

As at 31 December 2020, the interests and short positions of the Directors, the Supervisors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept under Section 352 of the SFO; or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES OF THE COMPANY

Name of the Directors, Supervisors and chief executives	Capacity	Number of Shares interested	Class of Shares	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares as at 31 December 2020	Approximate percentage of shareholding in the total issued share capital of the Company as at 31 December 2020
					Shares as at 31 December 2020	as at 31 December 2020
Mr. Li Baoyuan ¹	Interest in controlled corporation	1,300,000,000	Domestic Shares	Long position	100%	73.8%

Note:

- As at 31 December 2020, Qianbao Investment directly holds 5.54% of the equity interests in the Company and 43.63% of the equity interests in Zhongru Investment. In addition, each of the 119 individuals holding in aggregate the remaining 56.37% of the equity interests in Zhongru Investment has respectively undertaken that they have followed since the establishment of Zhongru Investment or when each of them became a shareholder of Zhongru Investment, and will continue to follow Qianbao Investment in exercising their voting powers at shareholders' general meetings of Zhongru Investment and all other rights of shareholders of Zhongru Investment. Therefore, Qianbao Investment is deemed to be interested in 100% of the equity interests in Zhongru Investment and thus be interested in the 1,202,500,000 Shares held by Zhongru Investment for the purpose of Part XV of the SFO. As at 31 December 2020, Mr. Li Baoyuan directly holds 90% of the equity interests in Qianbao Investment, and Qianbao Investment directly or indirectly holds 100% of the equity interests in Zhongru Investment and directly holds 7.5% of the equity interests in the Company. Therefore, Mr. Li Baoyuan is deemed to be interested in 100% of the equity interests, or 231,500,000 shares, in Zhongru Investment and thus be interested in the 1,300,000,000 Shares directly or indirectly held by Qianbao Investment for the purpose of Part XV of the SFO.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES OF ASSOCIATED CORPORATIONS OF THE COMPANY

Name of the Directors, Supervisors and chief executives	Name of associated corporation	Capacity	Number and class of Shares interested	Nature of interest	Approximate percentage of issued share capital of associated corporation as at 31 December 2020
<i>Directors</i>					
Mr. Li Baoyuan ¹	Qianbao Investment ²	Beneficial owner	45,000,000 shares	Long position	90.00%
	Zhongru Investment ³	Interest in controlled corporation	231,500,000 shares	Long position	100.00%
Mr. Li Baozhong	Qianbao Investment ²	Beneficial owner	5,000,000 shares	Long position	10.00%
Mr. Cao Qingshe	Zhongru Investment ³	Beneficial owner	5,000,000 shares	Long position	2.16%
Mr. Shang Jinfeng	Zhongru Investment ³	Beneficial owner	1,000,000 shares	Long position	0.43%
Mr. Zhao Wensheng	Zhongru Investment ³	Beneficial owner	1,000,000 shares	Long position	0.43%
Mr. Liu Yongjian	Zhongru Investment ³	Beneficial owner	2,000,000 shares	Long position	0.86%
<i>Supervisors</i>					
Mr. Yu Xuefeng	Zhongru Investment ³	Beneficial owner	1,000,000 shares	Long position	0.43%
Mr. Liu Jingqiao	Zhongru Investment ³	Beneficial owner	500,000 shares	Long position	0.22%
Mr. Yue Jianming	Zhongru Investment ³	Beneficial owner	500,000 shares	Long position	0.22%

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

Notes:

1. As at 31 December 2020, Mr. Li Baoyuan directly holds 90% of the equity interests in Qianbao Investment, and Qianbao Investment directly holds 43.63% of the equity interests in Zhongru Investment. In addition, each of the 119 individuals holding in aggregate the remaining 56.37% of the equity interests in Zhongru Investment has respectively undertaken that they have followed since the establishment of Zhongru Investment or when each of them became a shareholder of Zhongru Investment, and will continue to follow Qianbao Investment in exercising their voting powers at shareholders' general meeting of Zhongru Investment and all other rights of shareholders of Zhongru Investment. Therefore, Mr. Li Baoyuan (through Qianbao Investment) is deemed to be interested in 100% of the equity interests, or 231,500,000 shares, in Zhongru Investment.
2. As at 31 December 2020, the total share capital of Qianbao Investment is 50,000,000 shares.
3. As at 31 December 2020, the total share capital of Zhongru Investment is 231,500,000 shares.

Save as disclosed above, so far as any Directors, Supervisors or chief executives of the Company are aware, as at 31 December 2020, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept under Section 352 of the SFO; or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As of 31 December 2020, none of the Directors or Supervisors or their respective spouses or children under the age of 18 was granted any rights to acquire benefits by means of acquisition of Shares or debentures of the Company, nor exercised any such rights. The Company or any of its subsidiaries did not make any arrangement to enable the Directors or their respective spouses or children under the age of 18 to acquire such rights from any other body corporate.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

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

As at 31 December 2020, to the best of the Directors' knowledge, the following persons (not being the Directors, Supervisors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company which would be required to be recorded in the register kept under Section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares		Nature of interest	Approximate	Approximate
		interested	Class of Shares		percentage	percentage
					of shareholding in the relevant class of Shares as at 31 December 2020	of shareholding in total issued share capital of the Company as at 31 December 2020
Zhongru Investment	Beneficial owner	1,202,500,000	Domestic Shares	Long position	92.50%	68.27%
Qianbao Investment ¹	Interest in controlled corporation	1,202,500,000	Domestic Shares	Long position	92.50%	68.27%
	Beneficial owner	97,500,000	Domestic Shares	Long position	7.50%	5.54%

Note:

- As at 31 December 2020, Qianbao Investment directly holds 5.54% of the equity interests in the Company and 43.63% of the equity interests in Zhongru Investment. In addition, each of the 119 individuals holding in aggregate the remaining 56.37% of the equity interests in Zhongru Investment has respectively undertaken that they have followed since the establishment of Zhongru Investment or when each of them became a shareholder of Zhongru Investment, and will continue to follow Qianbao Investment in exercising their voting powers at general meetings of Zhongru Investment and all other rights of shareholders of Zhongru Investment. Therefore, Qianbao Investment is deemed to be interested in 100% of the equity interests in Zhongru Investment and thus be interested in the 1,202,500,000 Domestic Shares held by Zhongru Investment for the purpose of Part XV of the SFO.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2020.

For the year ended 31 December 2020, the Company has complied with the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (the “**CG Code**”) set out in Appendix 14 to the Listing Rules. It has established a set of corporate governance system with respect to Board composition, Board diversity policy, duties and procedures, remuneration structure of the Directors and senior management and appraisal of the Board, internal control and audit, joint company secretaries and communication between the Company and Shareholders.

In particular, the Chairman assumes the major responsibility for ensuring that sound corporate governance practices and procedures of the Company are in place. The Company has adopted a corporate governance policy, which sets out terms of reference for the Board, including but not limited to: formulation and review of the corporate governance policy and practices of the Company; review and monitoring of the training and continuous professional development of the Directors and senior management; review and monitoring of the policies and practices of the Company in relation to compliance with laws and regulatory requirements; formulation, review and monitoring of compliance by staff and Directors with the code of conduct and compliance manual; and review of the compliance of the Company with the CG Code.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high level of corporate governance to meet business needs and Shareholders’ requirements. To ensure that the Company is able to fully fulfill its obligations under the Listing Rules, the Company has established an effective corporate supervision structure and is committed to continually improving its internal control and corporate governance mechanisms. The Company also operates in strict accordance with the Articles of Association, the Working Rules of the Committees under the Board of Directors, the Company Law, and the relevant laws, regulations and regulatory documents, as well as the relevant provisions of the Hong Kong Stock Exchange, so as to do a good job in corporate information disclosure and investment relationship management and service.

During the year ended 31 December 2020, the Company had complied with all the code provisions as set out in the CG Code and had adopted most of the recommended best practices as set out therein.

BOARD

Responsibilities

The Board is held accountable for the general meeting and is primarily responsible for overall management and control of the Company as well as providing leadership and approving strategic policies and plans with a view to enhancing Shareholder value. All Directors carry out their duties in good faith and in compliance with the applicable laws and regulations, and act in the interest of the Company and its Shareholders at all times.

All Directors have full and timely access to all relevant information as well as the advice and services of the joint company secretaries and senior management, with a view to ensuring compliance with the Board procedures and all applicable laws and regulations.

The Board is responsible for making decisions on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, operating plans and investment proposals, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment or dismissal of senior management of the Company and other significant financial and operational matters.

Directors have full and timely access to independent consultation with the senior management. Any Director and committee under the Board may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board.

The Board has delegated the authority and responsibility for day-to-day management and operation of the Company to the management. The management of the Company decides the investment, financing, contracts, transactions and other matters of the Company within the scope of the Articles of Association and the authorization of the Board of Directors. The respective functions of the Board and management of the Company were established and will be reviewed from time to time as appropriate. To oversee particular aspects of the Company's affairs, the Board has established four Board committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee, and the Strategic Committee. The Board has delegated to these Board Committees responsibilities as set out in their respective terms of reference.

BOARD COMPOSITION

As at the Latest Practicable Date, the Directors were as follows:

Executive Directors

Mr. Li Baozhong¹
Mr. Shang Jinfeng
Mr. Liu Yongjian
Mr. Zhao Wensheng

Non-executive Directors

Mr. Li Baoyuan²
Mr. Cao Qingshe

Independent Non-executive Directors³

Ms. Shen Lifeng
Ms. Chen Xin
Mr. Chan Ngai Sang Kenny

Notes:

1. Mr. Li Baozhong is the brother of Mr. Li Baoyuan and uncle of Mr. Li Wutie.
2. Mr. Li Baoyuan is the brother of Mr. Li Baozhong and the father of Mr. Li Wutie.
3. Due to reaching his retirement age, Mr. Xiao Xuwen did not seek re-election of directors upon the expiration of his term of office as a Director on 23 June 2020, and he ceased to take the role as an independent non-executive Director of the Company.

Biographies of the Directors are set out in the section headed “Directors, Supervisors, Senior Management and Employees” in this report.

Saved for disclosed above, there are no relationships among the Directors, Supervisors and senior management, including financial, business, family or other material/relevant relationships.

During the year ended 31 December 2020, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing the appropriate professional accounting qualifications or related financial management expertise. The Company has also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

CORPORATE GOVERNANCE REPORT

Each of the independent non-executive Directors has provided on annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors have brought a wide range of valuable business experience, knowledge and expertise to the Board for its effective functioning. Moreover, through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on the committees under the Board, all non-executive Directors make various contributions to the effective leadership of the Company.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors are encouraged to participate in continuous professional development programs to sharpen and update their knowledge and skills. The Company has participated in continuous professional development through seminars and/or reading materials to develop and refresh its knowledge and skills. All Directors have provided training records to the Company.

During the year ended 31 December 2020, the key methods of attaining continuous professional development by each of the Directors are summarised as follows:

Name of Directors	Attending courses/seminars	Reading regulatory materials
Executive Directors		
Mr. Li Baozhong	✓	✓
Mr. Shang Jinfeng	✓	✓
Mr. Liu Yongjian	✓	✓
Mr. Zhao Wensheng	✓	✓
Non-executive Directors	✓	✓
Mr. Li Baoyuan	✓	✓
Mr. Cao Qingshe	✓	✓
Independent non-executive Directors	✓	✓
Ms. Shen Lifeng	✓	✓
Ms. Chen Xin	✓	✓
Mr. Chan Ngai Sang Kenny	✓	✓

CHAIRMAN AND PRESIDENT

The positions of the Chairman and the President of the Company are held separately. The role of Chairman of the Company is held by Mr. Li Baozhong, and the role of President of the Company is held by Mr. Shang Jinfeng.

The division of responsibilities between the Chairman and President is clearly established and set out in writing. The Chairman exercises such functions as presiding over general meetings, convening and presiding over meetings of the Board; supervising and checking on the implementation of the resolutions of the general meetings and the Board of Directors and receiving the work reports of the President, other senior management members of the Company and the persons-in-charge of the invested enterprises of the Company, so as to ensure that the Board performs its responsibilities and all key and appropriate issues are discussed by the Board in a timely manner. The President is responsible for the Board, appointed by the Board and has the delegated power to manage the Company and to oversee the activities of the Company on a day-to-day basis. His major functions include being in charge of the production, operation and management of the Company, to organize the implementation of the resolutions of the Board of Directors, and to report on his or her work to the Board of Directors; arranging for the implementation of the Company's annual business plans and investment plans, drafting the plan for establishment of the Company's internal management organization and the Company's basic management system and formulating the basic rules and regulations of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Pursuant to the Articles of Association, Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall be subject to election at the general meetings with a term of office of three years and may be re-elected. However, an independent non-executive Director shall not serve more than nine years consecutively. The Company has implemented a set of effective procedures for the appointment of new Directors. The Nomination Committee shall, in accordance with provisions of the relevant laws and regulations and the Articles of Association, taking into account the actual situations of the Company, consider the selection criteria, selection procedures and terms of office of the Directors of the Company, and record and submit the resolutions to the Board for approval. All newly nominated Directors are subject to election and approval at the general meetings. Each of the Directors and Supervisors has entered into a contract pursuant to Rule 19A.54 and Rule 19A.55 of the Listing Rules with our Company which provides for, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with the Company.

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee on 15 December 2017, with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee include:

1. to review significant financial policies of the Company and their implementation, and supervise the financial activities of the Company;
2. to review the financial information and relevant disclosures of the Company;
3. to consider and approve the risk management and internal control evaluation proposal of the Company, and supervise and evaluate the risk management and internal control of the Company;
4. to consider and approve the audit budget, remuneration of staff and appointment and dismissal of key senior officers of the Company, supervise and evaluate the internal audit of the Company and formulate the medium-to-long-term audit plan, annual working plan and the plan on structure of the internal audit system of the Company as authorized by the Board, and report to the Board;
5. to propose the appointment or dismissal of the external accounting firm, supervise the work of the external accounting firm, and evaluate the report of the external accounting firm to ensure that the external accounting firm undertakes its audit responsibilities;
6. to facilitate communications and monitor the relationship between the internal audit department and the external accounting firm;
7. to monitor the non-compliance of the Company in respect of financial reporting and risk management and internal control; and
8. other matters required by laws, regulations, regulatory documents, the rules of the securities regulatory authority of the place where the Shares of the Company are listed and the requirements of the Articles of Association, and as authorized by the Board.

The Audit Committee currently consists of five non-executive Directors, three of whom are independent non-executive Directors. The members of the Audit Committee are currently Ms. Shen Lifeng, Mr. Li Baoyuan, Mr. Cao Qingshe, Ms. Chen Xin and Mr. Chan Ngai Sang Kenny. It is currently chaired by Ms. Shen Lifeng, an independent non-executive Director.

During the year ended 31 December 2020, the Audit Committee convened 3 meetings to review the annual result announcement and annual report for the year ended 31 December 2019, the Financial Report for Year 2019 and the Financial Budget for Year 2020, to approve and review the internal control and risk management system of the Group and to oversee the audit process, and to review the interim results announcement and interim report for the six months ended 30 June 2020.

Nomination Committee

The Company established the Nomination Committee on 15 December 2017, with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee include:

1. to formulate procedures and standards for the election of Directors and senior management and make recommendations to the Board in this regard;
2. to make recommendations to the Board on the nomination of candidates for Directors, Presidents and secretary of the Board;
3. to conduct preliminary examination of the eligibility of candidates for Directors and senior management;
4. to make recommendations to the Board on the nomination of candidates for chairmen and members of the Board Committees; and
5. other matters required by laws, regulations, regulatory documents, the rules of the securities regulatory authority of the place where the Shares of the Company are listed and the requirements of the Articles of Association, and as authorized by the Board.

The Nomination Committee currently consists of two executive Directors and three independent non-executive Directors. The members of the Nomination Committee are currently Ms. Chen Xin, Mr. Li Baozhong, Mr. Shang Jinfeng, Ms. Shen Lifeng and Mr. Chan Ngai Sang Kenny. It is currently chaired by Ms. Chen Xin, an independent non-executive Director.

During the year ended 31 December 2020, the Nomination Committee convened 1 meeting, to nominate the candidates of the Second Session of the Board and review the structure, size and composition of the Board, assess the independence of independent non-executive Directors and the diversity of the Board.

Board Diversity Policy

The Company adopted the Board diversity policy on 5 June 2017, which is summarized as follows:

Overview of the policy

With a view to achieving sustainable and balanced development, the Company considers increasing diversity at the Board level as an essential element in achieving strategic objectives and sustainable development. All Board appointments are based on meritocracy and candidates are considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

Measurable objectives and progress on achieving such objectives

The selection of candidates is based on a wide range of diversity perspectives with reference to the business model and special requirements of the Company, including but not limited to gender, ethnicity, language, cultural background, educational background, industry experience and professional experience. The Nomination Committee reviews the policy and the measurable objectives on an annual basis, so as to ensure the continued effectiveness of the Board.

As at the Latest Practicable Date, the Company had a total of nine Directors, covering different gender and age groups. In addition to construction projects, members of the Board also have industry and professional experience in finance, legal affairs and corporate governance. The Nomination Committee has reviewed the Board diversity policy and considers that, appropriate balance has been stricken among the Board members in terms of skills, experience and perspectives and the Board diversity policy has been effective.

Nomination policy

The Company adopted the Director nomination policy on 25 March 2019.

According to the Director nomination policy, the Nomination Committee adopts the following selection procedures when recommending candidates for Directors:

- (1) The Nomination Committee shall actively communicate with all business and functional departments of the Company to study the Company's need for Directors;
- (2) The Nomination Committee may extensively look for suitable candidates among substantial Shareholders, the Company and its subsidiaries, as well as relevant industry institutions and market institutions;
- (3) According to the criteria listed in the Company's Board diversity policy and Director nomination policy, identify and select the recommended candidates, and collect relevant information of the primary candidates to form written materials;
- (4) Obtaining the nominee's consent to the nomination, otherwise he/she cannot be taken as the recommended candidate;
- (5) Convening a meeting of the Nomination Committee to examine the qualifications of the primary candidates according to the qualifications of Directors;
- (6) Before the election of new directors, providing relevant materials of the recommended candidates to the Board for consideration; and
- (7) Carrying out other follow-up work according to the Board's decisions and feedback.

CORPORATE GOVERNANCE REPORT

In considering the nomination of recommended Directors, the Nomination Committee will take into account the Board diversity policy of the Company and abide by the following criteria:

- i. The candidates will be recommended based on a series of diversified categories with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience;
- ii. The impact of the proposed candidates on the structure and diversity of the Board;
- iii. Whether the recommended candidates have the commitment to devote sufficient time and effectively perform his/her duties as Directors. Therefore, consideration should be given to the number and nature of positions held by the candidate in public companies or organizations, as well as other work burdens that the candidate has undertaken;
- iv. Whether the proposed candidate has caused potential/actual conflicts of interest as a result of his/her election;
- v. Industry status, professionalism and independence of independent non-executive Director candidates;
- vi. As for the proposed re-appointment of the independent non-executive Director, the time period he/she has served in the Company; and
- vii. Other factors that the Nomination Committee may consider relevant.

Remuneration and Appraisal Committee

The Company established the Remuneration and Appraisal Committee on 15 December 2017, with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration and Appraisal Committee include:

1. to organize and formulate the remuneration policy and plan of the Directors and senior management and submit to the Board for approval, and propose the remuneration distribution plan according to the performance evaluation of the Directors and senior management and submit to the Board for approval; and
2. other matters required by laws, regulations, regulatory documents, the rules of the securities regulatory authority of the place where the Shares of the Company are listed and the requirements of the Articles of Association, and as authorized by the Board.

The Remuneration and Appraisal Committee currently consists of two executive Directors and three independent non-executive Directors. The members of the Remuneration and Appraisal Committee are currently Ms. Chen Xin, Mr. Li Baozhong, Mr. Shang Jinfeng, Ms. Shen Lifeng and Mr. Chan Ngai Sang Kenny. It is currently chaired by Ms. Chen Xin, an independent non-executive Director.

During the year ended 31 December 2020, the Remuneration and Appraisal Committee convened 1 meeting, to review the policies of the remuneration of the Directors and senior management and the remunerations of the Directors and senior management in 2019.



Strategic Committee

The Company established the Strategic Committee on 19 July 2019. The primary duties of the Strategic Committee include:

1. to study and provide proposals for the interim and long-term development strategy and overall planning of the Company;
2. to study and provide proposals for the industrial structural adjustments, significant assets and business reorganization protocol of the Company;
3. to study and provide proposals for the investment and financing plans approved by the Board according to the Articles of Association;
4. to study and provide proposals for the significant capital operation, significant external investment and asset operation projects approved by the Board according to the Articles of Association;
5. to review, assess and to provide adjustment proposals at an appropriate time for the implementation situations of above matters;
6. to accomplish other duties given by the Board.

The Strategic Committee currently consists of two executive Directors and one non-executive Director. The members of the Strategic Committee are currently Mr. Li Baozhong, Mr. Shang Jinfeng and Mr. Cao Qingshe. It is currently chaired by Mr. Li Baozhong, the Chairman of the Board.

During the year ended 31 December 2020, the Strategic Committee convened 1 meeting, to review the investment budget plan for 2020; the financing plan for 2020; issuance of debt financing instruments in 2020; and to propose to the general meeting to grant the general mandate to the Board to issue additional domestic Shares and H Shares.

CORPORATE GOVERNANCE FUNCTION

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

- (a) to formulate, review and improve the corporate governance system and the implementation of the Company;
- (b) to review and supervise the training and continuous professional development of the Directors and senior management;
- (c) to review and supervise the compliance of the Company's policies with laws and relevant regulations of the securities regulatory authority where the Shares are listed and to make the relevant disclosure;
- (d) to formulate, review and monitor the code of conduct and compliance manual applicable to the employees and Directors of the Company; and
- (e) to review the Company's compliance with the CG Code and the disclosure in the Corporate Governance Report.

During the year ended 31 December 2020, the above corporate governance function was performed and executed by the Board and the Board has reviewed the Company's compliance with the CG Code.

BOARD MEETINGS, BOARD COMMITTEE MEETINGS AND THE GENERAL MEETING

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

During the year ended 31 December 2020, the Company convened 10 Board meetings and two general meetings.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the attendance record of individual Director at the meetings of the Board, the Audit Committee, the Nomination Committee, the Remuneration and Appraisal Committee and the Strategic Committee and the general meetings is set out below:

Name of Directors	Board meeting	Number of attendance/meeting(s)				
		Audit Committee meeting	Nomination Committee meeting	Remuneration and Appraisal Committee meeting	Strategic Committee meeting	General meeting
Executive Directors						
Mr. Li Baozhong	10/10	-	1/1	1/1	1/1	2/2
Mr. Shang Jinfeng	10/10	-	1/1	1/1	1/1	2/2
Mr. Liu Yongjian	10/10	-	-	-	-	2/2
Mr. Zhao Wensheng	10/10	-	-	-	-	2/2
Non-executive Directors						
Mr. Li Baoyuan	10/10	3/3	-	-	-	2/2
Mr. Cao Qingshe	9/10	3/3	-	-	1/1	1/2
Independent non-executive Directors						
Mr. Xiao Xuwen ¹	2/10	-	-	-	-	2/2
Ms. Shen Lifeng	10/10	3/3	1/1	1/1	-	2/2
Ms. Chen Xin	10/10	3/3	1/1	1/1	-	2/2
Mr. Chan Ngai Sang Kenny	10/10	3/3	1/1	1/1	-	2/2

Note:

1. Mr. Xiao Xuwen has retired as an independent non-executive Director of the Company since 23 June 2020.

COMPLIANCE WITH THE NON-COMPETITION UNDERTAKINGS

Each of Mr. Li Baoyuan, Zhongru Investment and Qianbao Investment (the Controlling Shareholders of the Company as defined in the Listing Rules) has confirmed to the Company that he/it has complied with the non-competition undertakings given to the Company on 23 November 2017 during the year ended 31 December 2020. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-competition undertakings and confirmed that the undertakings thereunder have been complied with for the year ended 31 December 2020.

REMUNERATIONS OF THE SENIOR MANAGEMENT

Details of Directors' remuneration are set out in note XV-2 to the audited consolidated financial statements. Remunerations paid to a total of 4 senior management (excluding the Directors) by bands for the year ended 31 December 2020 are set out below:

Remuneration band	Number of individuals
RMB200,001 to RMB500,000	1
RMB500,001 to RMB1,000,000	3

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they have complied with the standards specified in the Model Code during the year ended 31 December 2020.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has established the Inspection and Auditing Department to assist in supervision of the performance of duties and implementation of basic work system of headquarters' functional departments of the Group and oversee the internal operation and implementation of basic work system of subsidiaries of the Group.

In particular, the Board acknowledges its responsibilities for overseeing the risk management and internal control system of the Group. It also supervises and inspects the works and the risk management and internal control of the Company through the Audit Committee, and reviews the effectiveness at least annually. Considering that the purpose of risk management and internal control system monitoring is to manage rather than eliminate the risk of failure to achieve business objectives, the Board can only reasonably, not absolutely guarantee that the above system and internal control can prevent any material misrepresentation or loss. For the year ended 31 December 2020, the Board had reviewed the annual effectiveness of the risk management and internal control system and considers that, the design and function of the risk management and internal control system remain effective and appropriate in all material aspects.

CORPORATE GOVERNANCE REPORT

Based on the “Basic Standard of Corporate Internal Control” and its implementation guidelines, and with reference to the requirements of the SFC and the actual conditions of the Company, the Company formulated the “Internal Control Appraisal Management System of Hebei Construction Group (《河北建設集團內部控制評價管理制度》)” and “Articles of the Risk Management Committee of Hebei Construction Group (《河北建設集團風控委員會章程》)”. This facilitated the establishment of a more comprehensive internal control and risk management system aiming at upgrading the operation management and risk management capabilities of the Company, promoting the sustainability of the Company and safeguarding the legal rights and interest of the investors. The “internal control” of such systems refers to the business systems and operating processes implemented by the Board, Board of Supervisors, management and all staff of the Company for attaining management goals of internal control. Business systems under such systems include all individual business units of the Group managed with the top-down approach, such as the market development system, operation management system, human resources system and financial management system, as well as the wholly-owned subsidiaries, controlled subsidiaries, branches and project groups under direct management. The Board of the Company is in charge of building and maintaining the internal control and risk management system. It has established the Audit Committee for reviewing the formulation and implementation of the internal control and risk management system. The management of the Company has established the risk management committee, which leads the internal control and risk management of the Company, while the supervision and audit department evaluates the construction and implementation of the internal control system. Based on the internal control and risk management system, the Company organizes risk assessment on a yearly basis to collect information on risks for rectification or elimination. In 2020, the Company performed relatively comprehensive risk assessment and internal control evaluation, which covered the headquarters and the subsidiaries of the Group. It also prepared the 2020 Risk and Internal Control Work Report. The Board and the senior management of the Company attach great importance to the problems and risks identified and carried out rectification and improvement one by one, which ensured compliant and efficient business operation of the Company.

In view of the above, the Company has a complete internal control structure in place, and an appropriate set-up for the internal audit department and staff, which effectively ensure the supervision and implementation of internal control procedures. The internal control and evaluation of the Company give a full and fair view of the actual situation and play an important role in supporting the compliant operation of the Company in the long run.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Company:

- (i) is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced as soon as reasonably practicable if it is the subject of a decision;
- (ii) conducts its affairs with close regard to the applicable laws and regulations; and
- (iii) has communicated to all relevant staff regarding the requirement under the applicable laws and regulations. During the Relevant Period, no person with knowledge of inside information was found using inside information to buy and sell the Company's Shares.

JOINT COMPANY SECRETARIES

The joint company secretaries of the Company are Mr. Li Wutie (“**Mr. Li**”) and Ms. Wong Wai Ling (“**Ms. Wong**”).

Mr. Li is the Board secretary and the assistant to the President of the Company. He is mainly responsible for assisting the President in dealing with various affairs, acting as the contact person of the Company with the Stock Exchange, and handling information disclosures and investor management as well as corporate governance affairs of the Company.

Ms. Wong Wai Ling, the other joint company secretary of the Company, is the vice president of SWCS Corporate Services Group (Hong Kong) Limited. She assists Mr. Li in his performance of duties as the joint company secretary of the Company. Ms. Wong's primary corporate contact person at the Company is Mr. Li.

For the year ended 31 December 2020, each of Mr. Li and Ms. Wong has taken no less than 15 hours of the relevant professional training on review of the Listing Rules and other compliance requirements.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020 in accordance with statutory requirements and applicable accounting standards.

The Board is accountable to the Shareholders for a clear and balanced assessment on the Company's financial position and prospects. The management of the Company provides all relevant information and records to the Board, which enables it to prepare the accounts and perform the above assessments.

The Audit Committee has reviewed and recommended to the Board to adopt the audited accounts for the year ended 31 December 2020. The Board is not aware of any material uncertainties relating to the events or conditions that may undermine the Company's ability to continue as a going concern.

The report of the independent auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the independent auditor's report on page 190 to page 198.

AUDITORS

Ernst & Young Hua Ming LLP was the auditor of the Company for the year ended 31 December 2020, and shall retire at the 2020 annual general meeting and, be eligible, will offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young Hua Ming LLP as the auditor of the Company will be proposed at the 2020 annual general meeting.

The remuneration paid to Ernst & Young Hua Ming LLP in respect of the audit services rendered for the year ended 31 December 2020 was RMB5 million. Ernst & Young Hua Ming LLP did not provide any non-audit services to the Company for the year ended 31 December 2020.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Shareholders' communication policy of the Company aims to maintain transparency and provide timely information of the major development of the Group to Shareholders and investors. General meetings of the Company are formal channels for communication between Shareholders and the Board. The Chairman of the Board and the chairman of the committees under the Board (or, in their absence, other members of the respective committees) will make themselves available at the general meetings to have direct communication with the Shareholders.

Shareholders may also send their enquiries and concerns to the Board by addressing them to the investor relations department of the Company at the following address or to the following email account:

Address: No. 125 Lugang Road, Jingxiu District, Baoding City, Hebei Province, the PRC
Email: hebeijianshe@hebjs.com.cn

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting by Shareholders

In accordance with Article 70 to the Articles of Association, a Shareholder alone or the Shareholders together holding at least 10 percent of the Company's Shares shall have the right to make a request to the Board in writing to call for convening an extraordinary general meeting. The Board shall, in accordance with laws and the Articles of Association, give a written response on whether or not it agrees to convene such meeting within 10 days after receipt of the request.

If the Board agrees to convene an extraordinary general meeting, it shall issue a notice convening such meeting within 5 days after it has so resolved. The consent of the relevant Shareholder(s) is required for any changes to be made in the notice to the original request.

If the Board does not agree to convene such meeting, or fails to give a response within 10 days after receipt of the request, the Shareholder alone or Shareholders together holding at least 10 percent of the Shares shall have the right to propose to the Board of Supervisors in writing to call for convening the extraordinary general meeting.

CORPORATE GOVERNANCE REPORT

If the Board of Supervisors agrees to convene the extraordinary general meeting, it shall issue a notice calling such meeting within 5 days after receipt of the request. The consent of the relevant Shareholder(s) is required for any changes to be made in the notice to the original request.

If the Board of Supervisors fails to issue the notice of the general meeting by the prescribed deadline, it shall be deemed to have failed to convene and preside over such meeting, and a Shareholder alone or Shareholders together holding at least 10 percent of the Shares of the Company for at least 90 days in succession may himself/herself/themselves convene and preside over such meeting.

In accordance with Article 71 to the Articles of Association, Shareholders requesting the convening of a class meeting shall do so by the procedure set forth below:

- (i) two or more Shareholders holding in aggregate at least 10 percent of the Shares carrying the voting right at the meeting to be held may sign one or more written requests of identical form and content requesting that the Board convene a class meeting and stating the topics to be discussed at the meeting. The Board shall convene the class meeting as soon as possible after having received the aforementioned written request. The shareholding referred to above shall be calculated as of the day on which the written request is made by the Shareholders.
- (ii) if the Board fails to issue a notice to convene such meeting within 30 days after having received the aforementioned written request, the Shareholders who made such request may themselves convene the meeting within four months after the Board received the request. The procedure for the Shareholders to convene such meeting shall, to the extent possible, be identical to the procedure for the Board to convene the general meetings.

If Shareholders convene and hold a meeting themselves because the Board failed to hold such meeting pursuant to the request as mentioned above, the reasonable expenses incurred by such Shareholders shall be borne by the Company and shall be deducted from the sums owed by the Company to the negligent Directors.

Putting Forward Proposals at General Meetings

In accordance with Article 76 to the Articles of Association, when the Company is to hold an annual general meeting, the Board, the Board of Supervisors and a Shareholder alone or Shareholders together holding 3 percent or more of the Company's Shares shall be entitled to propose motions to the Company.

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

CONSTITUTIONAL DOCUMENTS

The following changes regarding the Articles of Association have taken place for the year ended 31 December 2020 and up to the Latest Practicable Date:

1. At the 2020 first extraordinary general meeting held on 30 March 2020, the Company approved the revised Articles of Association for amending the notice period for general meetings of the Company and facilitating the potential arrangement of "full circulation" of the H Shares of the Company in the future, which came into effect on 30 March 2020.
2. At the 2019 annual general meeting held on 23 June 2020, the Company approved and adopted the revised Articles of Association which came into effect on 23 June 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

OVERVIEW

This is the fourth Environmental, Social and Governance (the “**ESG**”) Report issued by Hebei Construction Group Corporation Limited (the “**Company**”). It focuses on the disclosure of relevant information on the ESG aspects of the Company. The Report covers a period for the financial year from 1 January 2020 to 31 December 2020 (the “**Reporting Period**”), and certain content covers the first quarter of 2021.

BASIS OF PREPARATION

This Report is prepared based on the revised Environmental, Social and Governance Reporting Guide (the “**Guide**”) in the Appendix 27 of the Listing Rules issued by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in December 2015.

The content of this Report is determined based on a set of systematic rules. The relevant procedures include identifying and ranking important stakeholders and the important issues relating to ESG, determining the scope of the ESG Report, collecting relevant materials and data, preparing the report based on related information and reviewing the information contained in the Report.

SCOPE OF THE REPORT

The policies, statements and data in this Report cover Hebei Construction Group Corporation Limited and its subsidiaries (“**we**” or the “**Group**”). Unless otherwise specified, reference to currencies in this Report is RMB.

DATA SOURCE AND RELIABILITY ASSURANCE

The data and cases of this Report are mainly derived from the Group’s statistical reports and related documents. The Group undertakes that there is no false record or misleading statement in this Report and is responsible for the authenticity, accuracy and completeness of the contents hereof in all material respects.

CONFIRMATION AND APPROVAL

Upon confirmation by the management, this Report was approved by the Board of Directors on 31 March 2021.

1 STABLE OPERATION WITH RESPONSIBILITIES

The Group always upholds the core values of “pursue excellence, devote sincerity, unbounded organization, create value together”. In the concluding year of the “13th Five-Year” plan, based on the strategic goal of “foundation strengthening, business upgrade, further innovation and sustainable development”, we continuously facilitated the transformation and upgrade of the construction industry, contributed our efforts in building a high-quality industry, and joined force with all parties to create a sustainable and bright future. While continuously creating stable income, we abide by social commitments, go ahead with our remarkable and high-quality development, and strived to fulfill our corporate vision of being “A happy enterprise that accomplishes the purposes of its own and others, a century-old company with an ever-lasting business” with relentless efforts.

1.1 ESG MANAGEMENT

We strive to integrate the concept of corporate sustainable development into our strategic development, persist in promoting technological advancement and creating green buildings, establish and continuously improve the sustainable management system and structure, and through communication and interaction with stakeholders, we continue to improve the corporate strategy to achieve value creation and shared benefits for different communities.

ESG CONCEPT

Since the establishment of the Group, we have been always committed to “create space with love” and actively undertaken our corporate social responsibilities. In the course of business operations, we adhere to the basis of continuous maintenance of ecological health, and actively create value for our customers, reward our employees and shareholders and contribute to the society. While adhering to innovation-driven development, we continuously promote industry development, and gather more power to promote the sustainable development of human, buildings, environment and the society.

Corporate Mission	Corporate Vision	Corporate Spirit	Corporate Value
Create space with love	A happy enterprise that accomplishes the purposes of its own and others, a century-old company with an ever-lasting business	Thoughtful enterprise Credible corporation	Pursue excellence Devote sincerity Unbounded organization Create value together



GOVERNANCE STRUCTURE

The Group continues to deepen the integration of the ESG responsibility concept with our corporate development strategy. In order to integrate ESG management strategies into corporate governance, the Group has established a three-level top-down ESG governance structure, comprising the Board, the Strategy Committee and the ESG Working Team. In particular, the Board is the highest body responsible for ESG governance and plays a leading and supervisory role in ESG governance; the Strategy Committee is authorised by the Board to take the lead in advising the Board and coordinating and promoting various ESG works; the ESG Working Team is responsible for facilitating the implementation of specific ESG-related works and carrying out the overall implementation and enhancement of ESG works.

Board

- Reviews the risks and importance associated with ESG matters;
- Reviews and approves the ESG development strategies and objectives;
- Supervises and reviews the policy, management, performance and progress of ESG objectives;
- Considers and approves the public disclosure of performance on ESG-related matters

Strategy Committee

- Identifies, determines and assesses the risks and importance associated with ESG matters;
- Assesses and formulates ESG strategies and objectives;
- Supervises, assesses and reviews the policy, management, performance and progress of ESG objectives;
- Reviews the public disclosure of performance on ESG-related matters;
- Other matters as authorized by the Board

ESG Working Team

- Formulates policies and action plans on ESG matters in line with ESG strategies and objectives;
- Manages ESG-related risks and matters in daily operation;
- Responsible for communication with relevant departments branches and subsidiaries to coordinate and promote the implementation of ESG-related matters;
- Collects, compiles and prepares the public disclosure on ESG-related matters

ESG Governance Structure

1.2 INTEGRITY AND COMPLIANCE

Integrity and compliance are the bottom line of an enterprise's operation, as well as the cornerstone of its sustainable development. During the operation, the Group strictly abides by the applicable laws and regulations, adheres to its corporate personality of "integrity-based and ethics-oriented" operations, strengthens problem, risk, value and strategy orientation, integrates the compliance management into the entire process of our production and operation management, and strives to build a comprehensive compliance management system covering all staff and the entire operation process.

COMPLIANT OPERATION

The Group advocates a fair and just competition environment, complies with all applicable laws and regulations and expects to boost the orderly development of the industry by regulating its own business practices in daily operation so as to stimulate the vitality of the industry. We adhere to honest practices and business ethics, strictly abide by the Anti-Unfair Competition Law of the People's Republic of China and other laws and regulations, actively maintain a standardized and transparent trading relationship with customers, suppliers and competitors, and advocate a sustainable development model of win-win cooperation.

While actively advocating a fair and proper competitive environment, the Group has always focused on standardizing the Group's risk management, strengthening the management mechanism, clarifying the process of evaluating potential risks and effectively tracking the progress of risk rectification. During the Reporting Period, through special inspections, special audits and internal control evaluation, we inspected the legal compliance and system compliance of the organizations at all levels of branches and subsidiaries in the production and operation process, identified the main causes and persons responsible for non-compliance, standardized deviations in system implementation, provided timely warnings on possible risks and hidden danger, made internal disclosures in the audit reports and internal control evaluation reports and supervised and organized the rectification and improvement. In 2020, we identified and controlled a total of 58 internal control risks, and completed the collection and acceptance of information on rectification of each risk.

In addition, during the Reporting Period, in order to continuously emphasize the functions and roles of internal audit, we actively conducted training activities for the Group's internal audit position, and through case studies, we continued to strengthen frontline staff's understanding of the concepts of audit risk management and risk control prior, during and after events, so as to give full play to the monitoring and service roles of internal audit.



Internal audit position training activities of the Group

ANTI-CORRUPTION

Anti-corruption is the basis for ensuring healthy and orderly production and operation of our business. The Group actively fosters a fair and honest environment and working atmosphere. We are firmly opposed to bribery and corruption and require all staff to conduct business professionally, fairly, honestly and with integrity. We have issued the *Code of Business Ethics and Code of Conduct* and *Code of Conduct for Staff Handling Organizational Matters*, which clarify the obligations and responsibilities of the company and its employees in anti-bribery and anti-corruption. To address the risk of bribery and corruption in the supply chain, we formulated the *Supplier Blacklist Management System* during the Reporting Period to strictly manage and control the compliance in tendering and bidding, procurement and project settlement. In addition, we incorporated integrity risk assessment into our annual corporate risk assessment, strengthened our anti-corruption system and normalized the supervision and inspection.

We have established various reporting channels to receive clues anonymously through emails, special telephone lines, mails, etc. and conduct investigation and processing in a timely manner. We continue to improve the whistleblower protection mechanism to ensure that all whistleblowers will not be treated unfairly. During the Reporting Period, the Group did not involve in any litigation related to corruption.

Channels to report bribery or corruption	
Special telephone line for reporting	0312-3311119
E-mail for reporting	wangfeng@hebjs.com.cn
Mailbox for reporting	Mailbox for reporting set up in the office premise of the supervision and audit department
Reporting through letters	Letters can be delivered by courier or presented in person to the discipline inspection department or inspection office

During the Reporting Period, we formulated the *Code of Conduct for Staff Handling Organizational Works* in order to continuously strengthen the style and efficiency of organization works and regulate the daily conducts of the staff handling organizational matters. Meanwhile, with the release of such rules, we conducted training activities for our staff on the “Five Principles and Four Regulations” to help them further develop the values of integrity and pragmatism.



“Five Principles and Four Regulations” training activities

1.3 MATERIALITY ANALYSIS

STAKEHOLDER COMMUNICATION

The Group’s development is dependent on the support of various stakeholders. As such, we attach great importance to the opinions and expectations of various stakeholders and hope to respond in a timely manner through effective communication and exchange. We insist on maintaining multi-channel and active two-way communication and collaboration with six stakeholders including our employees, shareholders/investors, government authorities, proprietors, suppliers/subcontractors, and communities, and work together to achieve the sustainable development for the economic, social and environmental value.



Six major categories of stakeholders of the Group

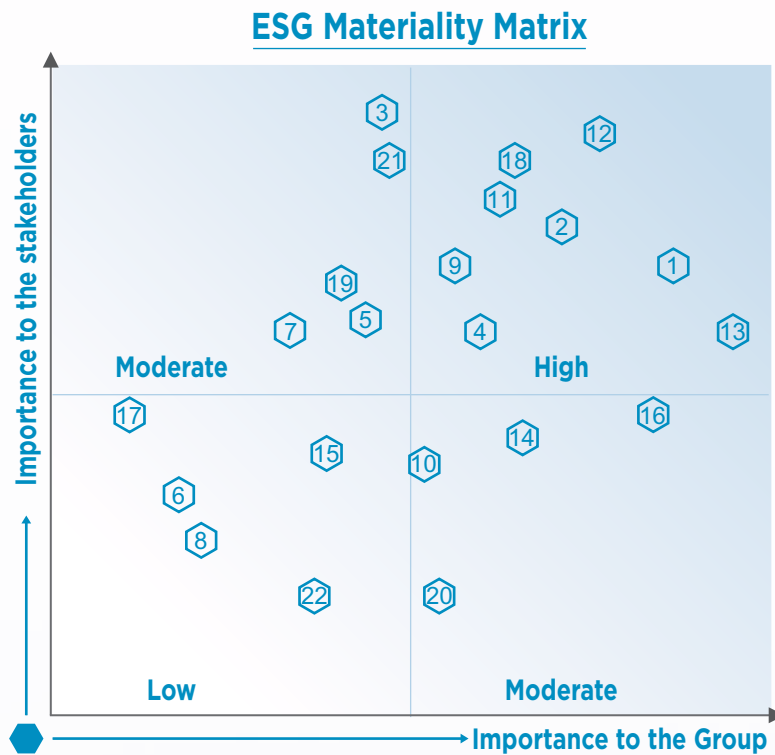
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group strives to maximize the value of cooperation with all stakeholders and establish long-term stable and trustworthy friendly relations with them. We actively establish and improve a diversified communication mechanism, sincerely listen and respond to the expectations of different stakeholders, fully understand the issues they care about, and regularly review the effectiveness of related works. The following table lists the issues that different stakeholder categories are particularly concerned about during the Reporting Period.

Stakeholder categories	Issues that stakeholders are particularly concerned about	Communication or response methods
Employees	Health and safety Remuneration and benefits	Young employees symposium Annual meetings Survey on employees' satisfaction
Shareholders/Investors	Compliant operation On-going profitability	Shareholders' general meeting Results announcement Roadshow
Government authorities	Compliant operation Promote local employment and economic and social development	Communication through meetings Standard formulation and idea exchange
Proprietors	Project quality Protection of commercial information	Communication of sales and inspection Purchase and sales of commercial houses
Suppliers/Subcontractors	Supply chain management Environmental impact of construction work Project quality	Daily transactions Annual recognition Qualification review Communication throughout the tender and bidding process
Communities	Promote local employment and economic and social development Environmental impact of construction work	Charity activities Activities to promote community's development

Materiality Identification and Matrix

During the Reporting Period, the Group conducted more than ten in-depth interviews with stakeholders, and continued to collect opinions and expectations from various stakeholders categories in daily close communication. On the basis of the materiality assessment in 2019, we adjusted the importance of issues such as the health and safety of employees, environmental impact of construction work, business opportunity and technological innovation and customers’ satisfaction, taking into account the operating characteristics of the Group, the concerns of stakeholders and the current situation of the pandemic. We have formed a materiality matrix for the Reporting Period as follows:



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No.	Category	Topics	No.	Category	Topics
1	Corporate governance and development	Compliant operation	12	Labor and community	Employees' health and safety
2		Compliant risk responses	13		Training and career development
3		Preventing corruption risks	14		Caring about employees
4		Business opportunity and technological innovation	15		Channels for employees to conduct internal communication, lodge complaints and give feedback
5	Environment	Application of clean technology and energy	16	Business operations	Charity
6		The utilization of water resources	17		Promote industry and local economic and social development
7		Emissions and waste disposal	18		Project quality assurance
8		Resource recycling	19		Customers' satisfaction
9		Environmental impact of construction work	20		Protection of the commercial information of the Company and customers
10		Green office	21		Quality management of the supply chain
11	Labor and community	Remuneration and benefits	22		Requirements of suppliers on ESG

During the Reporting Period, the Group identified 8 ESG issues of high importance, 9 ESG issues of moderate importance and 5 ESG issues of low importance. The ESG issues of high importance constitute an important part of the content of this Report, and we will disclose the relevant content in detail in this Report.

2 PURSUING EXCELLENCE WITH INGENIOUS SERVICES

The Group insists on high standards of construction quality, constantly reviews and improves the project quality management system, and pursues excellent quality to reward our customers. We are innovative and willing to share, and work hand in hand with our partners to achieve mutual growth with the industry.

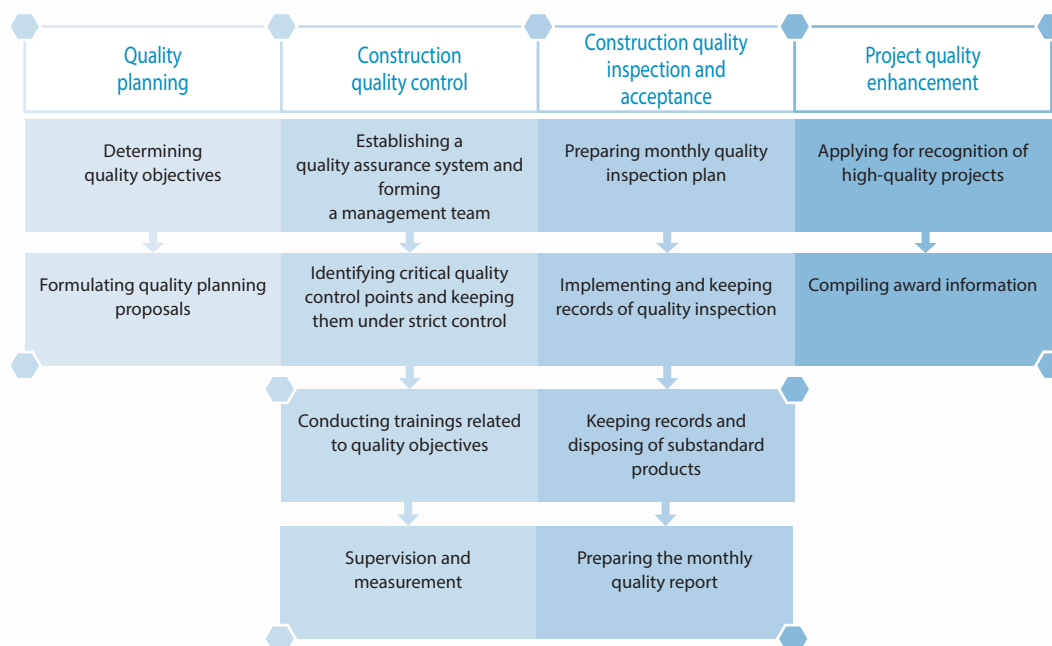
2.1 QUALITY ASSURANCE

The Group has established a comprehensive project quality management and supervision system, persists in delivering high-quality projects, strictly implements quality standardization, developed strict quality control approaches and continuously improves its quality management model through in-depth industry exchanges and cooperation to guarantee high-quality development.

Quality Control

The Group strictly complies with the standards and regulations relating to project quality such as the *Construction Law of the People's Republic of China* and the *Regulations on the Quality Management of Construction Projects*. During the Reporting Period, we revised and improved 13 quality management systems, including the *Quality Responsibility System*, the *Project Quality Assessment System*, the *Management System for Prevention of Common Quality Problems* and the *Quality Inspection System*, to maintain our relentless pursuit of high quality in construction projects. We continued to implement the three-level project quality management model of “Group - Branch - Project Department”, and on the basis of implementation of the three-level management model, we continued to improve project quality from project quality planning, construction quality control, construction quality inspection and acceptance, project quality enhancement and other processes to continuously promote the Company's high-quality management level.

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We actively promoted the development of standardized quality management and formulated and implemented standardized management measures in accordance with the *Charts of Technical Quality Standardization in Construction Projects* published by the Group. During the Reporting Period, we managed demonstration projects based on the problems sorted out by each unit, and summarized common problems and effective management measures through a point-to-surface approach, thereby improving the overall quality of the construction projects. All of the Group's major branches have passed the ISO 9001 quality management system certification, covering different aspects including construction works, municipal and public works, road construction, mechanical and electrical works, foundation works, airport runways construction, steel structures construction, ready-mixed concrete and engineering design for the construction industry. As of 31 December 2020, the Group had a total of 21 professional qualifications covering different expertise including municipal infrastructure, highway construction, bridge construction and highway pavement construction.

In order to comprehensively supervise and control the quality of construction projects and achieve our target of high-quality delivery, we have formulated the regular project quality inspection process. During the Reporting Period, we set up the Group's project inspection office and, in accordance with the requirements of the *Project Management Inspection Workflow* and the *Management Measures for Quality and Safety Inspections of Construction Projects (for Trial Implementation)*, adopted various measures such as targeted inspections, joint inspections, special inspections and unscheduled inspections to effectively improve the capability of construction project quality management across the Group. During the project inspection process, we carried out key tests and kept records on four aspects, namely quality management activities, internal construction data, quality of construction bodies and actual test and measurement of quality of construction bodies. As of 31 December 2020, we had inspected 108 projects in 17 provinces (cities), autonomous regions and municipalities directly, issued 331 inspection records and 17 notices for rectification of hidden defects, and carried out secondary inspections of 19 projects for rectification of hidden defects in the form of follow-up inspection.

Quality Culture Building

We are well aware of the power of culture as we continue to improve our quality management. We actively carry out quality-related training and communication activities, promote the quality management system and requirements among internal staff, learn advanced quality management methods from external industries, and continuously optimize the quality management level of the Company.



In September 2020, we carried out the “Quality Month” campaign in which each unit actively carried out various thematic activities based on actual situation. In the “Quality Month” campaign, we focused on promoting advanced quality management experience, carried out quality knowledge competitions, formed the QC (Quality Control) teams, and organized quality and technical management personnel of each project department to directly participate in the “Quality Month” campaign to continuously strengthen quality awareness.



In September 2020, we organized the chief engineers, production managers and other backbone staff of each unit to visit the “Beijing New Airport Education and Research Base Project” and the “Beijing-Dezhou Expressway ZT2 Project” to observe and learn from the excellent practices and experience in scientific and technological innovation, which broadened their vision and improved the project management level.



In order to improve the management ability and business skills of the project chief engineers and data clerks, we organized training activities for project chief engineers and data clerks in August and December 2020 respectively. Through in-depth explanation of national standards and regulatory requirements and on-site Q&A session, we continuously improved the knowledge reserve and management ability of the participants.

Participation in the excellent quality management team exchange conference organized by China Construction Industry Association

In September 2020, the Group organized all branches and subsidiaries to participate in the Excellent Quality Management Team Results Exchange Conference of China Construction Industry Association, at which we shared our innovative achievements and quality management experience with the attended industry peers. After being evaluated by the expert panel, 10 of our achievements were granted relevant awards, which fully demonstrated the effectiveness of our efforts in attaching importance to quality management and improvement and showcased our strength of quality management.



Quality Recognition

With the Group's comprehensive and excellent quality management and control system, we actively accomplished the targets for quality recognition and participated in the construction of one project that won the Lu Ban Award for Construction Engineering in China, one project with National Quality Project Award and 100 projects with provincial quality project awards. The project acceptance rate of the Group in 2020 reached 100%. As of 31 December 2020, the Group had undertaken a total of 24 Lu Ban Award projects.

**Lu Ban Award for Construction Engineering in China -
New Huaneng Shanxi Low-Carbon Technology R&D Center Project**

The New Huaneng Shanxi Low-Carbon Technology R&D Center Project is located in the core start-up area of Science and Technology Innovation City in Xiaodian District, Taiyuan, Shanxi Province, with a total gross floor area of 66,475 m², forming a centralised layout based on the unique architectural culture of courtyard houses in Shanxi. It is a comprehensive smart building and green building integrating R&D, experiments, office and conference functions which is recognized as a “Key Project of Shanxi Province”. The project is a building that maximises resource conservation (energy saving, material saving, water saving and land saving), protects the environment and reduces pollution throughout its lifetime, which provides people with a healthy, suitable and efficient space and is in harmony with nature. The project has passed the on-site review for the first batch of Lu Ban Award for Construction Engineering in China for 2020-2021 and was granted the award through public announcement.



**National Quality Project Award -
Baoding Maternal and Child Health Hospital Relocation and Construction Project**

The Baoding Maternal and Child Health Hospital Relocation and Construction Project has a total gross floor area of 127,280.8 m², including above-ground gross floor area of 90,509.68 m² and underground gross floor area of 36,771.12 m². It is a modern large-scale comprehensive smart medical building integrating outpatient, office, conference and inpatient functions. The project takes full account of the characteristics of the hospital and adopts human-oriented approach in colour design and space design to provide a physically and mentally pleasing space for patients to recover. The design makes use of the ecological properties of plants to ensure green vegetation while reducing maintenance costs. The project has also passed the on-site review and was granted the first batch of National Quality Project Award for 2020-2021 through public announcement.



2.2 LEADING INNOVATION

Innovative research is a key element for companies to maintain and gain competitiveness and ensure long-term sustainable development. The Group adheres to the guidance of the “14th Five-Year” plan and continues to promote innovation in the industry while consolidating its own strength. We have formulated the *Science and Technology Innovation Management System*, the *Workflow of Science and Technology R&D Project Management*, the *Project Innovation Management* and other management rules, and issued the *Project Management Measures for Technology Research Programme of Enterprises* during the Reporting Period to continuously standardize the scientific management of the whole process of innovation projects and encourage more staff to actively participate in innovation and research work, so as to ensure that the Company has the momentum for continuous innovation.

Innovative Research and Development

The Group focuses on innovative research and development in different fields and segments. We require that excellence indicators should be included in the internal operation contract for new projects that are evaluated to have the condition for creating excellence in the early stage, and encourages the Group to continuously strengthen technological excellence creation. Our innovation efforts mainly cover sponge city, BIM technology application, pre-fabricated component construction and green building. By standardizing the management and investment of innovative research and development, we actively strive to create more projects with national quality awards such as “Lu Ban Award” and “National Quality Project Award”.

During the Reporting Period, the Group made new breakthroughs in the innovation of prefabricated component construction. We compiled and published the internal document of *Construction Process Standard for Ultra-Low Energy Consumption Buildings* to continuously enhance our standards and technologies in the field of prefabricated component construction. As of 31 December 2020, we were granted 20 new utility model patents related to prefabricated component construction and 10 applications for invention patents were accepted. In addition, in order to further enhance our research and development ability in prefabricated component construction and other diversified fields, we successfully applied for the Baoding Municipal Technology Innovation Centre in 2020, which provides strong support to accelerate our technology cultivation and development of core competitiveness.

Research and development of prefabricated component construction

During the Reporting Period, the Group's project of "Research, Development and Application of Ultra Low Energy Consumption Key Technology for Prefabricated Steel Structure Residential Buildings" was approved as a 2020 key research and development project by the Hebei Provincial Department of Science and Technology and was granted RMB400,000 funding support by the government. The results of such research and development project can help achieve the overall alignment of building safety, green construction, energy saving, comfort, aesthetics and economic benefits, promote the development of pre-fabricated steel structure residential buildings in relevant cities, provinces and the whole country, and provide important support for the special plan of industry development.

Technology research and development

- Air tightness
- Thermal bridge blocking
- Renewable energy
- Installation technology

Design

- Body Design
- Enclosure and insulation
- Form of load-bearing components, etc.

Analysis

- Overall economic effectiveness
- Factors affecting natural ventilation and sunlight

Key Technology System for Ultra Low Energy Consumption Prefabricated Steel Structure Residential Buildings

Sponge City key technology innovation and demonstration

We collaborated with Hebei Agricultural University to conduct research and development of the project of “ Innovation and Demonstration of Key Technologies for Construction of Sponge Cities in Hebei Province”, which helps cities solve various water resources problems such as rainwater utilization, water circulation and water shortage through various technologies, and facilitates the construction of sponge cities. During the Reporting Period, the project was granted the Third Prize of Science and Technology Progress Award by the Hebei Provincial Government.

The demonstration project has been promoted in more than 30 cities, including Beijing, Qian’an in Hebei and Baicheng in Jilin, as well as in countries along the “Belt and Road” such as Benin and Togo, by combining the overall demonstration of the pilot projects of national sponge city construction with technical services. The demonstration project has completed a total of 289 km² of urban low-impact development in Hebei Province in the past three years, with the technology radiating to more than 40% of the sponge city construction demonstration areas across the country, and the projects which the results have been applied have won four Lu Ban Awards for Construction Engineering in China (National Quality Project Awards), directly collecting and utilizing 180 million m³ of rainwater, generating a total of RMB2.2 billion in new direct sales, and providing training for 106,000 people, which effectively promoted the sponge city construction process.

Intellectual Property Management

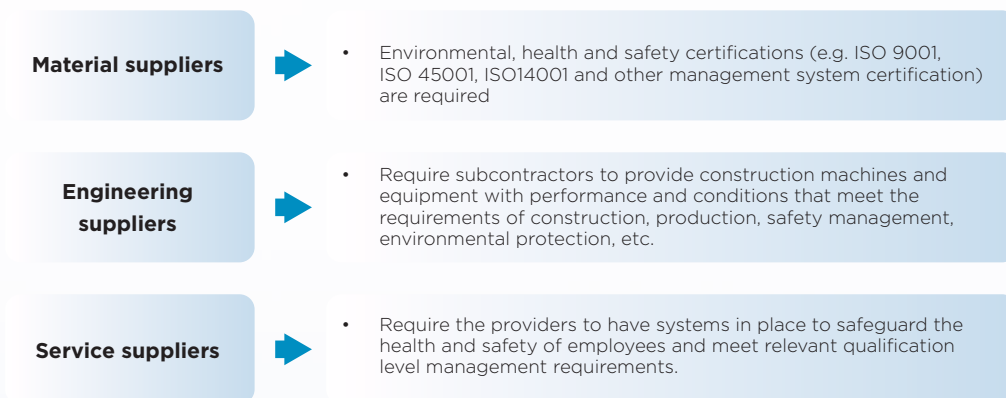
The Group strictly complies with the *Trademark Law of the People’s Republic of China* and the *Patent Law of the People’s Republic of China* and other laws and regulations and continuously improves the protection and management of intellectual property rights. During the Reporting Period, we completed the revamping of the technology management module of the Group’s information platform to enable online dynamic enquiry and aggregation of intellectual property information to further standardize and manage our research and development achievements. During the Reporting Period, the Group was granted a total of 211 new patents, including 7 invention patents, and applied for 185 new patents, including 57 invention patents, which mainly included invention patent for black smelly water treatment agents and invention patent for by-product from drinking water disinfection. As of 31 December 2020, the Group possessed a total of 502 valid patents, including 25 invention patents.

2.3 WIN-WIN UNDER THE SAME GOAL

The Group values high-quality collaboration, and we insist on sharing technological advancement and promoting industry innovation with various partners with an open and transparent mindset. We insist on further improving our technology to create more value and continuously improve customer satisfaction while empowering our customers, thereby achieving sustainable corporate development.

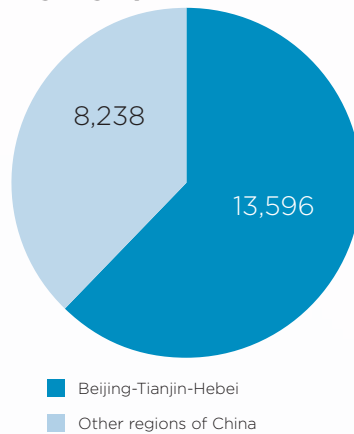
Management of Suppliers

The Group adheres to the idea of win-win cooperation and promises to treat all partners in a fair and open manner. We implement full control of the supply chain in strict accordance with internal management policies such as the *Supplies Management System*, the *Subcontractor Management System* and the *Machine and Equipment Management System*. When selecting suppliers, we conduct strict assessments on potential suppliers' qualification levels, product quality, service prices and service quality, and take into account the suppliers' ESG-related performance such as environmental management, safety and security, and labour rights and interests as one of the important assessment indicators in the approving process. We will set different ESG performance requirements for different types of suppliers and are committed to prioritizing suppliers who meet ESG requirements.



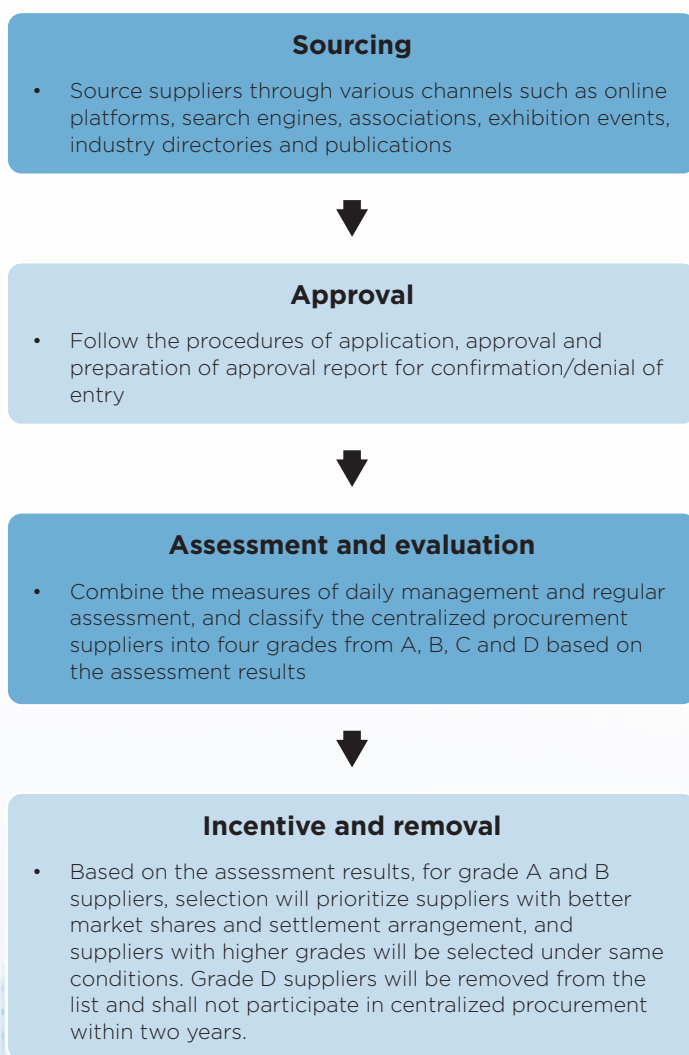
After reaching a cooperation agreement with a supplier, we will assess the supplier in terms of quality management, production safety, delivery schedule, contract performance and work cooperation. Our assessment is divided into three main stages, namely during the cooperation process, after the completion of cooperation and regular annual assessment. Based on the real-time assessment results of the three stages, we will promptly remove suppliers who do not meet the cooperation requirements and continuously optimize our list of suppliers. As of 31 December 2020, we had a total of 21,834 suppliers, which mainly include engineering suppliers material suppliers and service suppliers, with the distribution of suppliers by region as follows:

Number of suppliers by geographical location



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During the Reporting Period, we established the Group's centralized procurement department to centralize the management and procurement of steel, wood and formwork, and formulated management documents such as the *Management Measures for Suppliers under Centralized Procurement*, the *Implementation Rules for Centralized Procurement Management* and the *Supplier Blacklist Management System* to continuously standardize the management of the entire process of sourcing, approval, assessment and evaluation, incentive and removal of centralized procurement suppliers. In addition, based on the Group's "cloud-based procurement information platform", we gradually implemented the digitalization and informatization of centralized procurement based on the principle of "unified management, dynamic assessment and selection of the best and elimination of the worst". During the Reporting Period, a total of 109 centralized procurement suppliers were included in the Group's list of suppliers.



Centralized procurement management process

The Group always maintains various open communication channels with our suppliers to facilitate cooperation and exchange while reducing supply chain-related risks. During the Reporting Period, we continued to build a mutually supportive and win-win cooperation ecosystem by organizing various forms of supplier communication and exchange activities.



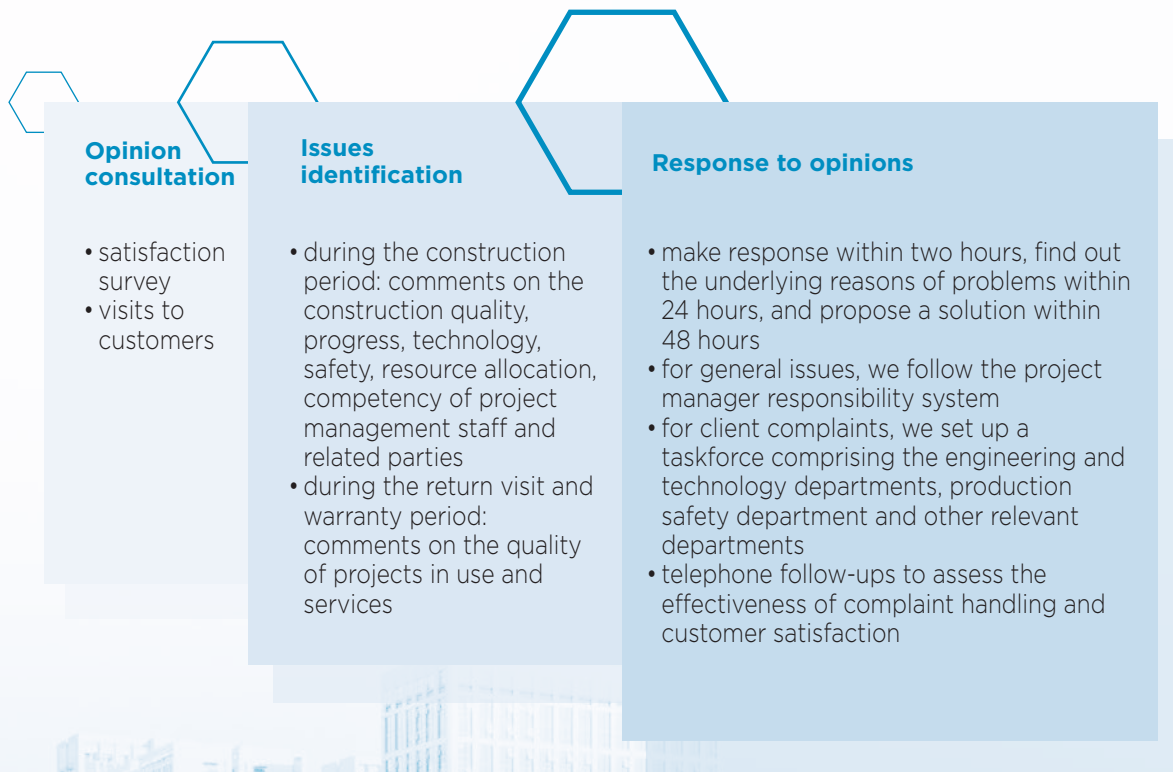
Regular meeting of centralized procurement

Customer Service

Under the Group's aim and mission of providing quality services to our customers, we strive to provide quality products to our customers, actively protect their rights and interests, open up customer feedback channels and listen to customers' suggestions in order to continuously improve customer satisfaction. We have formulated the *Implementation Regulations on Management of Major Customers* and other customer service management systems, established a three-level service management organization system comprising the Group, its subsidiaries and project departments, and built an effective mechanism to manage and handle customer feedback.

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In order to continuously improve our service level, we set up 400 customer service hotlines and actively carry out customer satisfaction surveys, carefully analyze the comments and suggestions made by our customers and formulate improvement measures to continuously improve our service standard and quality. During the construction period, we pay attention to our customers' comments on project quality, progress, technology, safety, resource allocation, competency of project management staff and related parties. We conduct customer satisfaction surveys in two-month intervals, and collect and analyze the results of the surveys. During the project warranty period, we require all branches and subsidiaries to visit the customer one by one under the requirements of the return visit plan and collect their opinions on project quality and services during their use of relevant projects. In addition, in response to customer complaints, we will conduct satisfaction surveys after the complaints have been handled to identify the shortcomings in our services and summarize our experience for continuous improvement. During the Reporting Period, the coverage rate of the customer satisfaction survey of the Group reached 100%. The branches and subsidiaries conduct a summary analysis of the survey situation every six months and the Group summarizes and analyzes the surveys and issues a customer satisfaction report every year.



Satisfaction survey process

In addition to improving our service quality, we ensure the privacy and security of our customers' information and will not allow any form of disclosure of customer information. In *the Code of Business Ethics and Code of Conduct of Hebei Construction Group Corporation Limited*, we clarifies the requirements of staff for protecting the confidentiality of customer information and the authority and procedures for the use of customer information by personnel at each position to fully protect customer information security.

External Cooperation

In response to the “14th Five-Year” plan and relevant policy guidance, the Group has been actively expanding its business coverage and strengthening cooperation with external parties such as universities, enterprises and the government to jointly nurture industry talents and drive the industry forward. We actively cooperate with Tongji University, Shanghai Jiao Tong University, Central South University, Fudan University, the Ecological and Environmental Research Centre of the Chinese Academy of Sciences, Hebei University and Hebei Agricultural University to innovate and develop new technologies in the industry by combining the research strengths of universities and our own engineering practices. In addition, in terms of government-enterprise cooperation, we carry out cooperation projects with the government of Inner Mongolia Autonomous Region and China Gezhouba Group to promote the Group's engineering development and practice in different fields and continue to seek more breakthroughs in the industry.

Establishing the Inner Mongolia Construction Investment Group through cooperation with the government of Inner Mongolia Autonomous Region

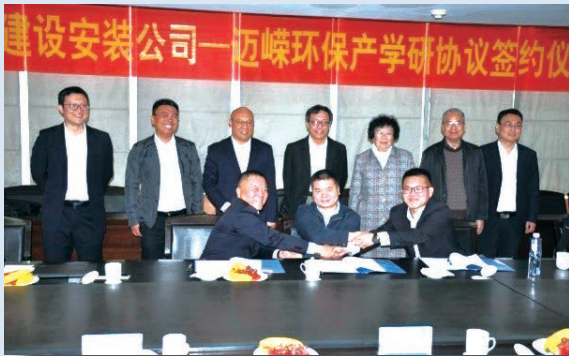
During the Reporting Period, we made joint investment with Inner Mongolia Transportation Investment (Group) Co., Ltd., Inner Mongolia Xiong'an Investment Co., Ltd. and Hohhot Sharing Logistics Park Industrial Development Co., Ltd. to establish the Inner Mongolia Construction Investment Group whose main business scope involves public transportation projects, municipal infrastructure and government public construction projects such as civil aviation facilities, highways and railways in the autonomous region. Inner Mongolia Construction Investment Group, upon commencement of operation, will greatly promote the development of governmental construction projects in the Inner Mongolia Autonomous Region and Hohhot City.



Cooperation among enterprises, universities and research institutes

We strive to continuously learn new technologies, recruit talents and make breakthrough in more areas through industry-academia-research projects with different universities. As of 31 December 2020, we have signed industry-academia-research cooperation agreements with Tongji University on research topics such as ecological restoration of artificial wetlands at the water inlet of Baiyang Lake, full-circulation ecological toilets, disposal of by-products from drinking water disinfection, emergency water supply equipment, solid waste treatment technology and smart water services. In addition, we have signed cooperation agreements with Shanghai Jiao Tong University on environmental management topics such as watershed water pollution control, soil-groundwater pollution remediation, waste treatment, disposal and recycling.

Through diverse cooperation projects, we strengthen the interaction between the industry and research projects of universities in order to jointly develop more research projects and innovative achievements for the industry.



Industry Development

The Group actively participates in industry exchange activities and formulation of industry standards to fully utilize the Company's technological advantages and facilitate industry development.

Special Training Workshop on Prefabricated Component Construction in Baoding

In October 2020, we organized quality and technical personnel from our branches and subsidiaries to attend the “Special Training Workshop on Prefabricated Component Construction in Baoding” held by the Baoding Construction Association. Through lectures and on-site observation of the fabrication and construction of prefabricated steel structure high-rise residential buildings and the manufacturing and production of prefabricated reinforced concrete structures (PC components), we improved the technical skills and business competency of relevant staff.



Event of China Construction Industry Association on Summary, Exchange, Promotion and Application of Construction Project Management Achievements

In December 2020, we organized our branches and subsidiaries to participate in the Event of China Construction Industry Association on Summary, Exchange, Promotion and Application of Construction Project Management Achievements, in which four projects of the third branch, the Inner Mongolia branch and the construction and installation branch of the Group were reported for sharing of project management achievements. We also participated in the project management experience exchange meeting to learn from the excellent management experience of other entities and enhance the level of project management.



Through participation in different industry exchange activities, we leverage our strengths to formulate industry standards and facilitate industry development. During the Reporting Period, we actively participated in the formulation of industry standards to enhance our influence in various professional fields.

Standard	No.	Implementation date	Formulation
Technical regulations of constructed wetlands for wastewater treatment	DB13 (J)/T8366-2020	2020/10/1	Lead
Operation evaluation standard of municipal wastewater treatment plant	DB13 (J)/T8365-2020	2020/10/1	Participant
Energy saving operation standard of town sewage treatment plant	DB13 (J)/T8364-2020	2020/10/1	Participant
Technical specification for aluminium alloy space frame structures	T/CECS 634-2019	2020/4/1	Participant
Technical standards for effects of construction vibration on the buildings	DB13 (J)/T8347-2020	2020/6/1	Participant
Technical specification for exhibition construction	DB13 (J)293-2019	2019/5/1	Participant
Xiong'an New Area Green Building Guidelines (trial)	/	2019/3	Participant

3 ENVIRONMENTAL PROTECTION THROUGH GREEN AND LOW-CARBON OPERATION

The Group upholds the concept of green development, continuously improves the construction of green management system, actively practices green construction and green office, vigorously promotes energy conservation and emission reduction, promotes the concept of green operation and environmental protection, and actively undertakes the corporate social responsibility of sustainable development to make contribution to safeguarding the lucid waters and lush mountains.

3.1 ENVIRONMENTAL MANAGEMENT

The Group attaches importance to reducing the environmental impact of its own operations. We strictly abide by the *Environmental Protection Law of the People's Republic of China*, the *Environmental Impact Assessment Law of the People's Republic of China*, the *Regulations on the Administration of Construction Project Environmental Protection* and other laws and regulations, and have formulated the *Environmental Protection Management Policy*, the *Green Construction Implementation Rules* and other internal environmental management rules based on relevant laws, regulations and industry standards. We also continuously strengthen our environmental management systems, fully implement green construction, and strive to create resource-saving and environmentally-friendly construction sites in order to continuously improve our environmental performance. We have obtained ISO 14001 Environmental Management System Certificate, covering 19 subsidiaries specializing in areas including construction works, municipal and public works, mechanical and electrical works, foundation works, airport runways construction, steel structures construction, ready-mixed concrete and engineering design for the construction industry .



ISO 14001 Environmental Management System Accreditation Certificate

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To ensure the orderly implementation of the Group's environmental protection tasks throughout the year, during the Reporting Period, we formulated and issued the management document of "2020 Safety and Environmental Protection Management Targets and Measures" to continuously improve our environmental protection management level by determining our annual environmental protection targets and responsibilities and clarifying responsibility management processes. During the Reporting Period, we created a total of 35 safe and civilized (green) standardized construction sites at provincial level and above, exceeding our annual target.

In addition, we issued management guidelines such as the "2020 List of Important Environmental Factors" and the "List of Major Hazardous Sources and Control Plans" during the Reporting Period, and identified and evaluated a total of 12 important environmental factors such as noise emission, dust emission and transportation spills through the Group's risk classification and control and hidden danger investigation and management works, and took corresponding measures to control every major environmental risk points. As of 31 December 2020, the Group did not have any major environmental incidents.

The Group incorporates the concept and practice of environmental protection into the entire process of construction operations, continuously explores green construction techniques and creates a green office environment to facilitate the green development of the Group with best efforts.

Green Construction

The Group attaches great importance to the environmental management of construction sites. We have formulated the management requirements of *Green Construction Implementation Rules* and set up the goals of "four savings and one environmental protection" (i.e. savings of energy, land, water, materials and environmental protection) to fully promote green construction in terms of construction management and environmental protection. We advocate the adoption of advanced environmental protection technologies on the premise of ensuring quality and safety, and minimize the negative impact of the construction process on the environment through refined management of energy and resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To continuously promote the upgrade of the construction industry and accelerate the innovation and development capabilities of enterprises, during the Reporting Period, we vigorously promoted the application of the “10 New Technologies for the Construction Industry” and garnered economic benefits of RMB46.607 million through 1,175 technology applications throughout the year. Under the guidance of the green construction concept, our green construction technology demonstration projects of “New Huaneng Shanxi Low-Carbon Technology R&D Center Project “ and “3 items including teaching and experiment building (Biomedical Building of Tsinghua University)” passed the final inspection for acceptance, and the Baoding Maternal and Child Health Hospital Relocation and Construction Project was recognized as a “Hebei Province Green Construction Demonstration Site”.



Hebei Province Green Construction Demonstration Site Certificate

Green Office

The Group always adheres to the idea of green office and creates a low-carbon and environmentally friendly office atmosphere. We actively promote the use of energy-saving office equipment and encourage our staff to conserve water, electricity, paper and office supplies, thereby effectively incorporating the concept of sustainable development into our daily office operation.

Paperless office

To further promote the concept of green office, during the Reporting Period, the Group fully implemented the electronic file management for financial, human resources, administrative and marketing systems, and sorted out and stored all historical files electronically, which effectively reduced the use of office consumables such as paper and ink cartridges. Meanwhile, we posted green office slogans in our office premises to encourage our staff to save office consumables through double-sided printing and other means to continuously improve the level of paperless office.



Green office slogans

3.2 CONSERVATION OF RESOURCES

In response to the national call to build a “resource-saving and environment-friendly” society, we continue to improve the resource utilization efficiency, strive to reduce carbon emissions, and incorporate the concept of green development into daily office operation and construction with a view to building a green society in which nature and mankind coexist in harmony and environment and economy prosper together.

Energy Management

The Group actively explores ways to improve the efficiency of energy consumption and attaches great importance to energy management at construction sites. We promote the standardization and normalization of energy conservation through a clear responsibility system for energy consumption. In selecting construction equipment, we prioritize the use of energy-saving, efficient and environmentally-friendly construction equipment and tools recommended by the government and the industry. During the organization of construction, we make reasonable arrangement on the construction sequence and working surface to reduce the number of construction equipment in the working area and improve the utilization rate and full load rate of various construction equipment in adjacent working areas to continuously reduce the unit energy consumption of equipment. During the construction process, we set the respective electricity consumption control indicators for production, living, office and construction equipment at the construction site, conduct measurement, check, comparative analysis on a regular basis and formulate preventive and corrective measures based on the analysis. In addition, when arranging the construction process, we prioritize the construction process that consumes less electricity or other kinds of energy, and make full use of renewable energy such as solar energy and geothermal energy based on local climate and natural resource conditions.

Moreover, the Group persists in promoting green construction with innovative ideas and technologies. We continue to use green construction and energy-saving application technologies, renewable energy comprehensive utilization technology and electricity consumption comprehensive control technology for the construction site and the living area to continuously control energy consumption.



Temporary facilities

- The temporarily built colored steel plate houses and temporary road in the office and living area adopt prefabricated structure, which is convenient for demolition and transportation and can be reused for many times;
- The temporarily built steel plate houses are made of insulated materials, and energy loss is minimized through measures such as fully enclosed external corridors and fully suspended ceilings in the steel plate houses.

Construction equipment

- Establish the *Machinery and Equipment Management Rules* and conduct regular repair and maintenance of construction equipment to keep machinery and equipment in a working condition with low energy consumption and high efficiency;
- Select construction machinery and equipment with matching power and load to avoid long-term low load operation of high-power construction machinery and equipment.

Electricity consumption for lighting

- Solar road lamps are used for lighting of roads in construction sites, the configuration rate of on-site energy-saving equipment reaches 100%, and the "Saving Electricity" sign is posted;
- We adopt various electricity consumption control technologies in the living areas and staff quarters at the construction sites, including low-voltage lighting system, area-specific time-limited and power-limited measures, low-voltage power strip with USB sockets and unified charging cabinet, which ensure safety and enable energy-saving.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's energy consumption and greenhouse gas emissions data are as follows:

Type		Unit	2018	2019	2020
Direct energy consumption	Petroleum	Litre	4,404,372	5,485,589	5,825,152
	Diesel	Litre	30,493,885	19,713,916	19,818,965
	LPG	Tonne	50,715	12,890	8,552
	Kerosene	Tonne	249	61	31
	Natural gas	m ³	/	30,666	411,959 ¹
Indirect energy consumption	Purchased electricity	kWh	102,255,567	138,330,265	130,979,950
	Purchased thermal power	million Joule	7,025,000	10,140,480	7,805
Total energy consumption		Tonne standard coal	142,135	69,556	62,047
Energy intensity		Tonne standard coal/ RMB10,000 total revenue	0.03	0.02	0.02
Scope 1² GHG emissions		tCO ₂ -eq	240,864	102,516	91,385
Scope 2³ GHG emissions		tCO ₂ -eq	80,612	108,413	104,701
Total GHG emissions		tCO ₂ -eq	321,476	210,929	196,086
Scope 1, 2 GHG emissions intensity		tCO ₂ -eq/ RMB10,000 total revenue	0.07	0.05	0.05

¹ During the Reporting Period, we increased the use of LNG vehicles, and with the increase in production demand and gradual stable supply of gas, the consumption of natural gas increased as compared to 2019.

² Scope 1 - GHG comes from the combustion of petroleum, diesel, LPG, kerosene and natural gas;

³ Scope 2 - GHG comes from the use of purchased electricity and purchased thermal power.

Water Management

The Group has established a strict water resources management system and continuously improves its water resources management through initiatives such as reducing water resources consumption and improving water resources utilization. We set up separate meters for on-site construction water and domestic water to regularly record the water consumption in each area at each stage and, through statistical analysis, take timely and effective management and control measures against abnormal water consumption to prevent accidental leakage. During the Reporting Period, we increased our capital investment in water conservation and strived to maximize water conservation by upgrading both water technologies and equipment.

Technology optimization

- To protect the groundwater environment, we adopt slope support technology with good water barrier performance;
- When the excavation pumping volume is greater than 500,000 m³, we recharge groundwater to avoid groundwater pollution;
- For the washing of pump tube after the concrete is poured on site, the air compressor suction ball cleaning method is adopted to reduce the consumption of water resources.

Equipment optimization

- Water-saving appliances are used in the office area and living area of the construction site, the allocation rate of water-saving materials reaches 100%, and clear signs of “Saving Water” are posted at water sources;
- Automatic rocker sprinklers are used for irrigation in the greening area, which have large and even coverage and remarkable water saving effect. Grassland greenery is watered by sprinklers and rainwater is used with the on-site rainwater collection system;
- We strive to improve the water utilization efficiency by making reasonable arrangement for the water supply network and taking effective measures to reduce leakage from the network and water appliances;
- Damaged appliances are repaired or replaced in time to prevent waste of water such as dripping, leaking and long running water.

In addition, we attach great importance to the reuse of water resources. We set up a rainwater collection system based on the actual situation of the project construction site and reuse the collected rainwater for dust reduction and greening irrigation. By setting up a sedimentation tank in the car wash tank system, the water is recycled for automatic car washing devices at the construction site after sedimentation.

The Group's water consumption data during the Reporting Period is as follows:

Type		Unit	2018	2019	2020
Water consumption	Water consumption volume	Tonne	13,905,600	9,617,325	9,821,292
	Water consumption intensity	Tonne/ RMB10,000 total revenue	2.98	2.34	2.45

Conservation of Material

The Group uses a wide range of building materials during the construction process, mainly including concrete, mortar and steel. As an active promoter of the green construction concept, we constantly optimize the management of construction materials by controlling both material selection and material conservation.



Material selection

- In selecting quality materials, we have vigorously promoted the use of ready-mixed concrete, commercial mortar and high-strength reinforcement and high-performance concrete.
- In selecting green materials, we use materials with good weather resistance, durability and sound insulation for windows, doors, roofs, external walls and other enclosures. In addition, we use new non-wooden materials or man-made panels instead of wooden panels.
- In selecting makeshift materials, we prioritize durable makeshift materials and machinery that are easy to maintain and dismantle, and choose professional teams that offers integrated services of production, installation and dismantling of formwork.

Material conservation

- In terms of design planning, we fully consider matters related to material conservation and material recycling at the drawing stage to reduce the material loss rate by 30% compared to the fixed loss rate;
- In terms of material turnover, we make reasonable arrangement for the procurement and delivery of materials according to the construction progress, material turnaround time and inventory level to reduce the overstock situation;
- In terms of material maintenance, we require orderly stacking of materials on site, a suitable storage environment and proper loading and unloading methods to avoid and reduce secondary handling.

Conservation of Land

The Group insists on achieving land conservation and reducing land reclamation through design optimization and efficient management. We reasonably determine the minimum area occupancy targets for temporary facilities based on factors such as the scale of construction and site conditions. We make full use of existing buildings, structures, roads and pipelines for construction purposes, and minimize abandoned land and dead ends. In addition, we use economical, aesthetically pleasing temporary office and living accommodation with a small footprint, and roads in construction sites are arranged according to the principle of combining permanent and temporary roads to form a circular access road, so as to minimize the amount of land occupied by roads.

3.3 EMISSION REDUCTION

During the construction process, the Group minimizes the negative impact of operational activities on the surrounding environment and residents. We strictly control the compliant discharge of waste and wastewater, and conduct regular monitoring of noise and dust level. During the Reporting Period, the Group did not have any non-compliant emission or major complaints of nuisance to the public.

Waste Management

The Group strictly complies with the *Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution* and other relevant laws and regulations, reasonably classifies and disposes of waste generated during the construction and operation process, and implements refined management in all aspects of waste classification, collection, storage, transfer and disposal, and ensures the compliant disposal and discharge of waste through effective assessment, indicator monitoring and other measures.

During the project construction process, we set up enclosed waste containers at the construction site to ensure timely removal of the waste generated. For recyclable construction waste such as rubble and earthwork, we use such waste for foundation backfill and road pavement to improve the reuse rate. In addition, to avoid the possible impact of waste disposal on the local environment, we strictly prohibit the burning of waste on construction sites or the backfilling of hazardous waste on site.

In office operation, we separate office and domestic waste for disposal, while hazardous waste such as batteries, ink cartridges, paints and coatings are collected and handed over to qualified third parties for disposal.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The non-hazardous waste generated by the Group during construction mainly included construction waste and office domestic waste and the hazardous wastes mainly included toner cartridges, waste fluorescent tubes, etc. The amount of construction waste recycled by the Group during the Reporting Period reached 168,593 tonnes, accounting for 52.8% of the total construction waste generated. The Group's waste discharge data is as follows:

Type		Unit	2018	2019	2020
Non-hazardous waste	Total volume	Tonne	1,719,061	786,777	338,318
	Intensity	Tonne/ RMB10,000 total revenue	0.37	0.19	0.08

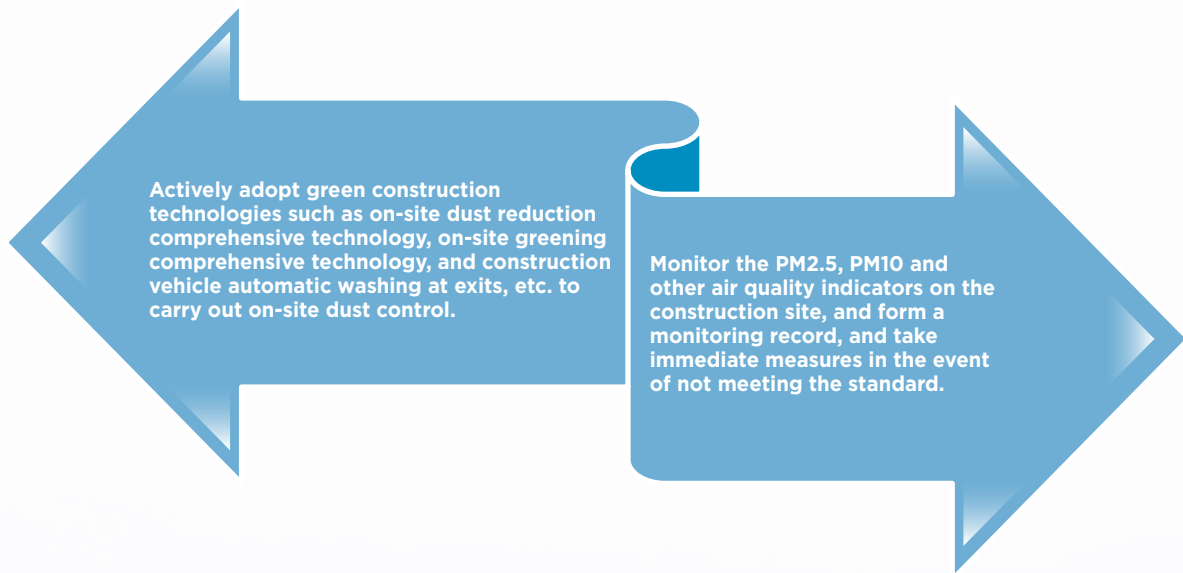
Type		Unit	2018	2019	2020
Hazardous waste	Total volume	Tonne	/	71	37
	Intensity	Kg/ RMB10,000 total revenue	/	0.02	0.01

Wastewater Management

We strictly monitor and manage the production and discharge of wastewater by way of source control in accordance with the *Law of the People's Republic of China on the Prevention and Control of Water Pollution* and the requirements of relevant internal wastewater management rules. We set up treatment facilities such as sedimentation tanks, grease traps and septic tanks at the construction sites, and recycle the treated wastewater or use it for sprinkling to reduce dust. The office domestic wastewater we produce is all discharged into the municipal pipeline network.

Dust Control

The Group strictly abides by the *Air Pollution Prevention Law of the People's Republic of China* and regards dust pollution as a key environmental control project. We continue to summarize construction methods to reduce dust in the production process and continue to promote the normalization of dust management at construction sites. In the process of building demolition, we take dust reduction measures such as cleaning up dust, watering the demolition body and setting up partitions. In the transportation of earthwork, garbage, equipment and construction materials on site, we strictly adopt tight enclosure measures (e.g. covering cloth, container, bag, etc.) and set up vehicle-washing facilities at the entrances and exits of the construction site to reduce dust pollution caused by transport vehicles. In addition, we focus on scientific control and detection of dust through innovative technologies and means.



Noise Control

According to the requirements of the *Emission Standard of Environment Noise for Boundary of Construction Site* (GB12523-2011), we detect and record the noise at the boundary of construction site to carry out renovation for noise reduction, so as to minimize the impact on the surrounding environment. We prioritize construction equipment with low noise and low vibration to avoid or reduce construction noise and vibration. For strong noise equipment at the construction site, we try to locate them away from hospitals, schools and residential area, and strictly control the time of operation while adopting enclosed or semi-closed operation methods. In addition, we require transport vehicles entering and exiting the construction site to operate lightly, and strictly prohibit the sounding of horns.

Noise reduction technology and equipment

- The noise reduction technology is adopted in the processing shed, and the fully enclosed working mode is adopted for the woodworking processing shed;
- Self-compacting concrete technology is applied in the construction of piling steel bar, enhancing concrete pouring quality and reducing the pounding noise on site; and
- We use environmentally friendly low-noise vibrators, and clean and maintain in time after use. When vibrating the concrete, it is forbidden to touch the formwork and the steel bar, and such process must be carried out with a quick plug and slow poke. We also appoint a corresponding person to control the switch of the power cord to prevent the vibrator from idling.

4 MUTUAL DEVELOPMENT WITH EMPLOYEES

The Group always upholds the core corporate value of “Unbounded organization, Create value together”, and regards its employees as the driving force for sustainable development in the marketplace. We respect and protect the basic rights and interests of each employee, encourage diversified development of employees, promote a fair, friendly and inclusive work environment, and continue to realize the unity of employees’ individual value and corporate value.

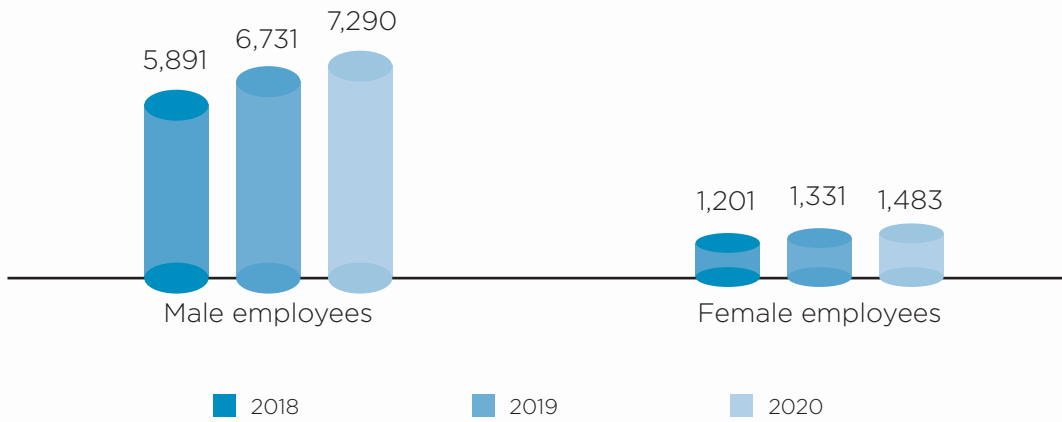
4.1 Overview of Employees

Interests Protection

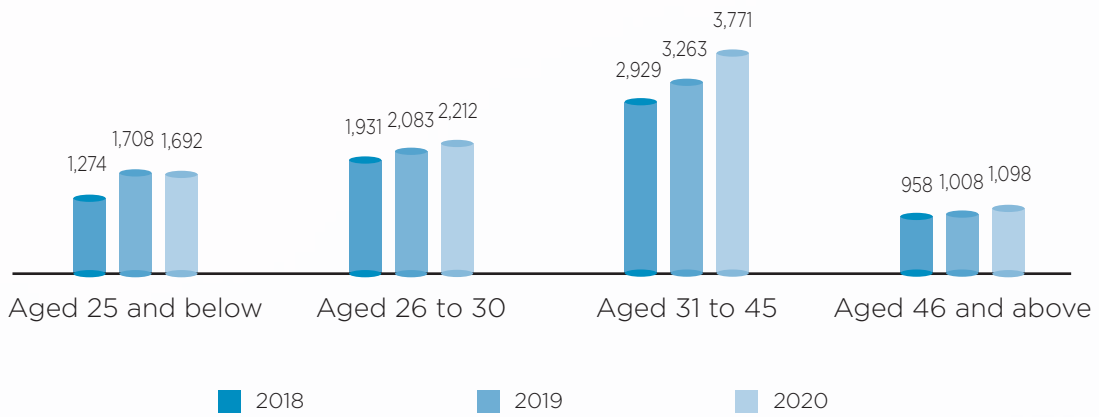
The Group implements the concept of “people-oriented”, strictly complies with the *Labour Law of the People’s Republic of China*, the *Employment Promotion Law of the People’s Republic of China* and *Social Insurance Law of the People’s Republic of China* and other laws and regulations, regulates employment management and effectively protects the rights and interests of employees. During the Reporting Period, we updated and improved our human resources management systems including the *Remuneration Management System*, the *Leadership Management Measures* and the *Staff Education and Training System*, and made every effort to protect the legitimate rights and interests of our employees in terms of recruitment, remuneration and benefits, training and development, and benefits and care.

We are committed to creating a diverse working environment, and treat all employees equally without discrimination on the basis of nationality, gender, age, race, religion, pregnancy or disability. We comply with the *Provisions on the Prohibition of Using Child Labor* and prohibit the recruitment of minors under the age of 16, and work with our supply chain partners to fulfil our responsibilities by strengthening inspection on the illegal use of child labour by subcontractors. As of 31 December 2020, the Group had a total 8,773 employees, with increase of 9% over 2019.

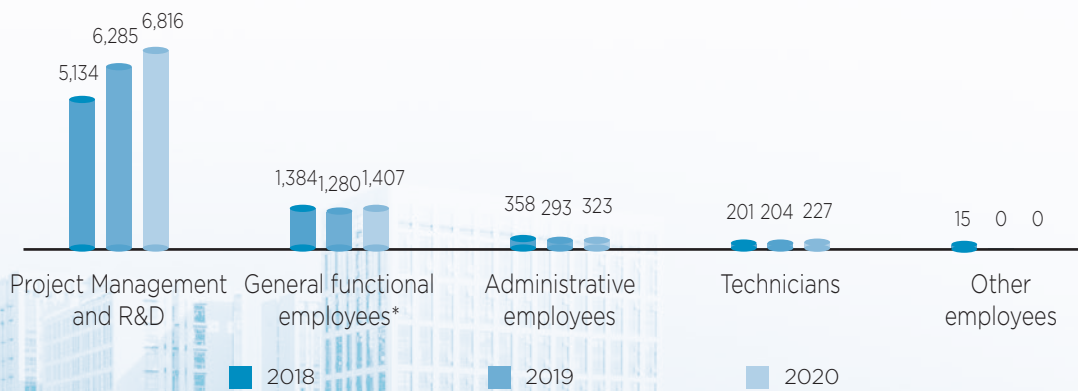
Number of employees by gender



Number of employees by age



Number of employees by type



*: The employees of the general functions refer to employees of human resources, legal affairs, audit and finance, market operation departments

Unit: person

Recruitment Management

The Group takes an inclusive stance in recruiting talents. We follow the *Recruitment Interview and Hiring Management Regulations* and strive to maintain equal employment opportunities by continuously introducing outstanding talents through multiple channels such as campus recruitment, online recruitment and experienced hires in a fair and transparent manner. By fully attracting, uniting, motivating and using diversified and outstanding talents, we have built a harmonious and efficient staff team.

Local recruitment to improve the quality of life of local people

We advocate an inclusive and cooperative mindset, implement staff localization policy and strengthen the recruitment of local staff. During the Reporting Period, the Group's branches and subsidiaries continuously deepened the localization strategy to boost local employment while contributing to local economic development.

- Chengdu branch of the Group recruited a total of 60 local employees in the past three years, with local employees in Sichuan and Chongqing accounting for 46% of the total number of employees in the Chengdu branch as of December 2020;
- Inner Mongolia branch of the Group recruited a total of 234 local employees in the past three years, with local employees in Inner Mongolia accounting for 64% of the total number of employees in Inner Mongolia branch as of December 2020;
- Shaanxi branch of the Group recruited a total of 122 local employees in the past three years, with local employees in Shaanxi accounting for 65% of the total number of employees in Shaanxi branch as of December 2020; at the same time, our Shaanxi branch has established a university-enterprise partnership with Huaqing College of Xi'an University of Architecture and Technology to establish an internship base for the School of Civil Engineering.

4.2 HEALTH AND SAFETY

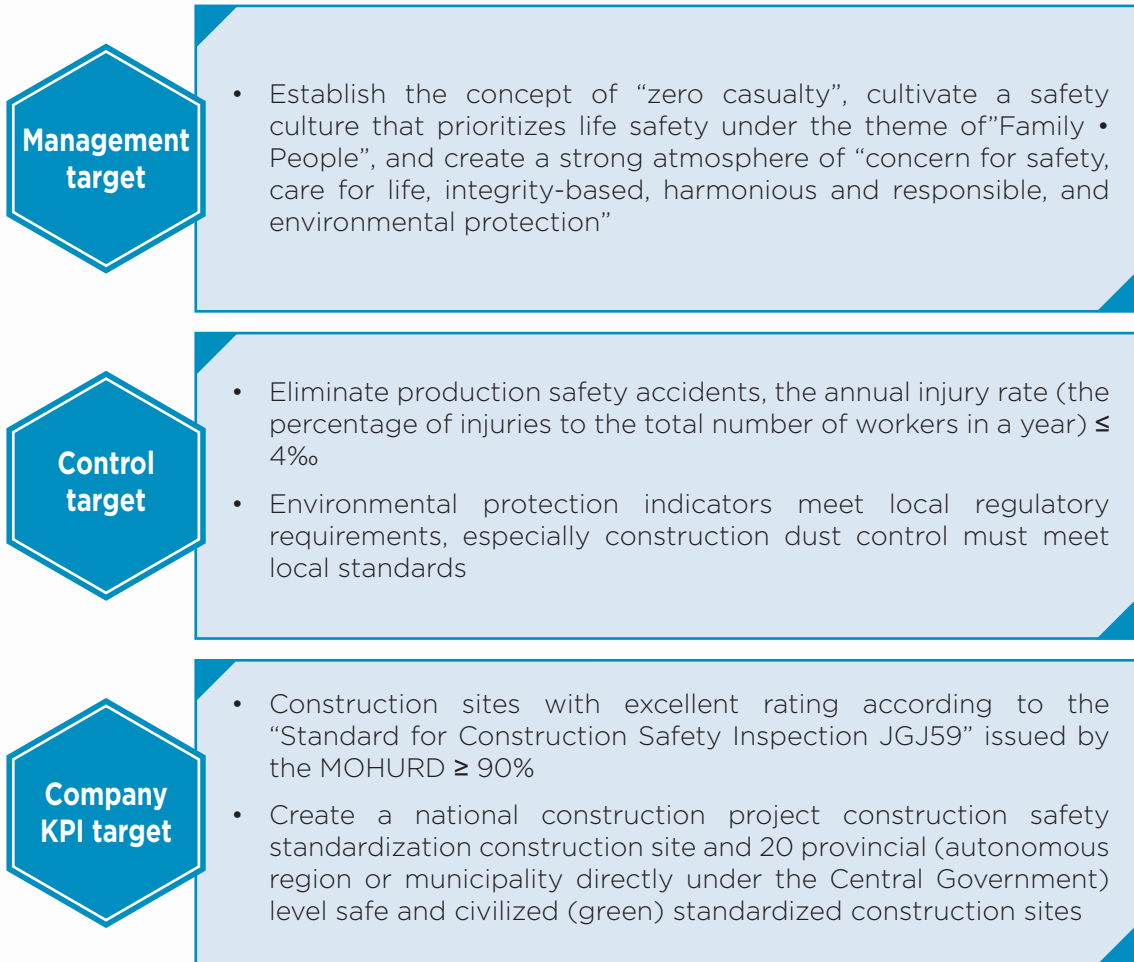
The Group attaches great importance to the physical and mental health of its employees and is committed to establishing a sound system for the prevention and control of occupational diseases. We organize regular medical check-ups for employees, establish occupational health records and conduct follow-up reviews, strengthen construction site management, strictly provide labour protection equipment and actively carry out publicity and education on work safety, so as to effectively safeguard the health, safety, rights and interests of employees.

Safety Production Management

We strictly abide by the *Production Safety Law of the People's Republic of China*, the *Administrative Measures on Production Safety Accident Emergency Plans* and other national laws and regulations, always adhere to the safety production policy of “safety first, prevention prioritized, and overall governance”, effectively promote the centralized management of safety production, improve the construction of emergency management system, enhance the reasonableness, relevance and effectiveness of emergency plans. We strive to build a “horizontal to the edge, vertical to the end” system of responsibility for the management of production safety, establish a position-specified responsibility system for production safety with clear hierarchy and scientific management, and require staff of each level to sign a production safety responsibility statement so as to implement safety supervision at every level.

- *Production Safety Targets*

In order to guide the effective implementation of production safety throughout the year and improve the overall level of production safety management, we developed and issued the *2020 Safety and Environmental Management Targets and Measures* during the Reporting Period to guide the normal implementation of safety work throughout the year.



Production safety targets for 2020



• *Production Safety Assurance*

Focusing on the production safety targets for 2020, we have carried out production safety work in an orderly manner, implemented the two key tasks of “risk prevention and control” and “creating safety excellence” in terms of organizational structure, rules and regulations, safety investment and dual control of safety. Taking excellent performance as the goal, we utilized information technology in project construction with focus on the management and control of major hazards, and effectively ensured production safety to facilitate corporate development and safeguard the happiness of our employees and their families. During the Reporting Period, the Group had no work-related fatalities.

Adjusted the organizational structure	Updated the rules and regulations
<ul style="list-style-type: none"> Maintained the relative independence of safety management functions and increased the number of dedicated safety personnel in the Group's subsidiaries and branches. The “integration of six standards” was effectively implemented, and the system management level was continuously improved according to PDCA, forming a comprehensive grid-based production safety organization system which is “vertical to the end and horizontal to the edge” under the system of double responsibilities for one post. 	<ul style="list-style-type: none"> The <i>Management System for Grading and Control of Production Safety Risks and Hidden Dangers</i> was updated to ensure its current effectiveness, so that the Group's production safety activities can be carried out based on law and regulations. 23 management systems were formed with the “Production Safety Responsibility System” as the core, and the standardized production safety management was continuously promoted to enable systematic, procedural, information-based and unified management.
Determined the safety investment	Implemented dual control of safety
<ul style="list-style-type: none"> Issued the <i>Notice on Further Strengthening the Management of the Use of Production Safety Expenses</i>, which clarifies the responsibilities of relevant departments such as production safety and financial management departments to ensure that investment in all necessary resources such as people, materials and machines required for safety works are made based on relevant plans with relevant records and receipts to prevent risks. 	<ul style="list-style-type: none"> 7,754 major hazards were dynamically identified and assessed at the group company level with focus on “dual control of safety”. For large-scale dangerous projects, we effectively carried out plan preparation and review, discussion and demonstration, briefing, acceptance, inspection, monitoring, education and training, and emergency response to strengthen the control on safety and environmental protection. Implemented supervision and inspection works, and conducted regular and irregular system inspection and special management using various measures such as information system, network and joint inspection of urban corporate projects.

Production safety management highlights of 2020

- *Safety Awareness Promotion*

In addition to strengthening the implementation of safety responsibilities and risk identification, we also attach great importance to safety education and training of employees, strive to enhance the safety awareness and operational skills of employees, consolidate the foundation of safe production work and put in place a “three-level safety education” training system to provide a strong support for production work. During the Reporting Period, we organized the “Safety Production Month” campaign under the theme of “Eliminate hidden dangers and build a firm safety line”, established a leadership organizational structure, and carried out the Q&A activity of “Safety Consultation Day for Frontline Staff” based on the formulated action plan. We also organized production safety training, online classes and on-site observation activities.



The Group’s construction and installation branch organized safety warning education at the front line of the project



The Group’s installation company organized the “Unity of Knowledge and Action” safety knowledge competition



Safety production slogan hanging at a construction site in Beijing



The Group’s fourth branch held a mobilization meeting for the “Safety Month” campaign

“Safety Month” training and promotion activities

During the Reporting Period, we also conducted a number of safety-specific training sessions, covering a wide range of topics such as system training, safety management personnel, special post examination training, registered safety officers and safety permits.



Special Safety Trainings

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to raise the overall safety awareness of our staff, we conducted a number of safety promotion activities in the form of seminars, knowledge examinations, observation sessions and emergency drills during the Reporting Period to strengthen the engagement of employees and enhance the quality of training. During the Reporting Period, the Group's safety training covered a total of 11,129 participants.



We carried out promotion and training on the Regulations on Safety Management of Hazardous Construction Projects and Sections and other laws and regulations through a combination of on-site lectures and Dingding livestreaming



“2020 Zhangjiakou Construction Quality and Safety Production and Dust Control Observation Meeting” organized by the Zhangjiakou Winter Olympic Project



We organized an emergency drill for rescue action in collapsed foundation pit and record relevant videos to promote and share the training in the city through the corporate Wechat account

Daily safety training and promotion activities

Occupational Health Protection

To protection the occupational health of employees, we strictly comply with the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, *Administrative Measures for Occupational Health Inspection* and *Work-related Injury Insurance Regulations* and other national and local laws and regulations related to occupational health, and have formulated an occupational health and safety management system and *Occupational Health Management Policy* according to ISO 45001-2018 Occupational Health and Safety Management System. We have obtained ISO 45001 Occupational Health and Safety Management System Certificate, covering 22 branches and subsidiaries specializing in areas including construction, municipal engineering, road construction, electrical & mechanical engineering, foundation work, airport runway construction, structural steel construction, ready-mixed concrete, and construction industrial design. We constantly strengthen the closed-loop management of occupational health PDCA (Plan, Do, Check, Act) and regularly carry out occupational hazard factor testing and organized occupational health examinations. During the Reporting Period, the Group's occupational health check coverage rate reached 100%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In early 2020, in the face of the sudden outbreak of COVID-19 pandemic, the Group made immediate response and established a pandemic prevention and control leading group headed by the President to take overall responsibility for leading and directing the Group in pandemic prevention and control. Meanwhile, based on our production safety system, we actively implemented the prevention and control measures of local government and industry authorities in accordance with the pandemic prevention and control plan, and effectively carried out pandemic prevention and control at construction sites, thereby ensuring the safety and health of employees while actively facilitating the resumption of operation of all projects.



The Langfang Municipal Waste Landfill Project conducts daily construction site disinfection, and carries out real-name access control for employees and health supervision and inspection for people entering and leaving the site in order to normalize pandemic prevention and control



The Beijing-Dezhou Expressway ZT2 project department enhanced the pandemic prevention measures for employees based on the current development trend of the pandemic, passed the local inspection for acceptance and fully resumed production and operation



The project of Shijiazhuang Children's Hospital did not stop operation during the pandemic, and through policy support, safety education and strict prevention and control, the construction period was shortened from 540 days to 267 days, making it one of Shijiazhuang's "Ten Practical Things for the Benefit of the People"



In order to facilitate the departments, branches and subsidiaries of the Company to resume operation in an orderly manner and to ensure the safety of all employees, based on the actual situation of different branches and subsidiaries, the Group's trade union spent nearly RMB200,000 to purchase and distribute pandemic prevention supplies such as masks, hand sanitizers, safety goggles and gloves to the employees

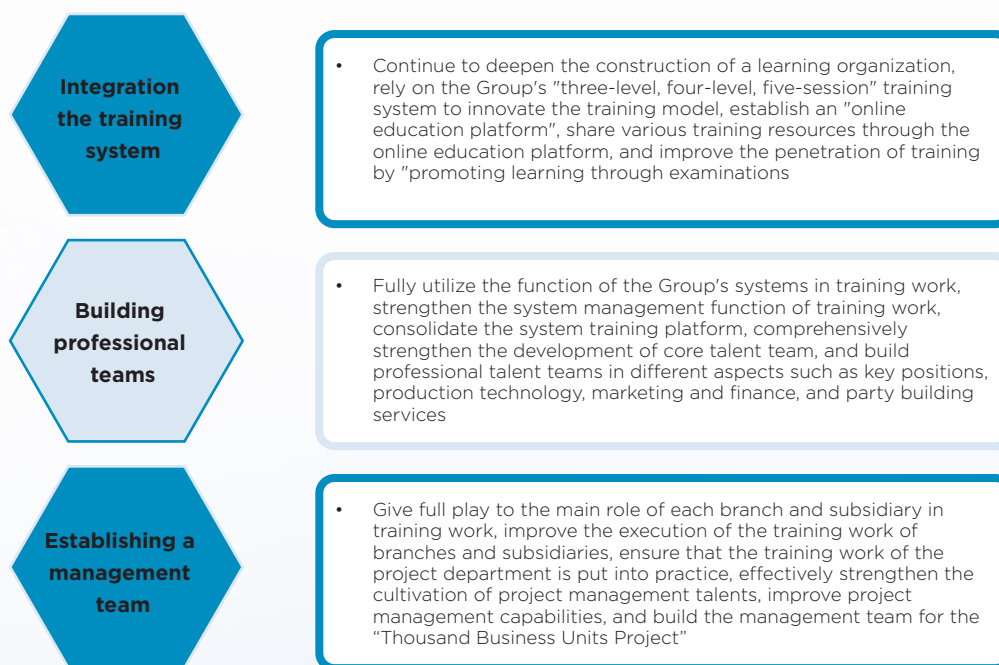
4.3 STAFF CULTIVATION

The Group upholds the “people-oriented” concept and actively pays attention to the career development of employees. We have established a comprehensive training system and a scientific promotion mechanism to build a smooth career development path for our employees, inspire them to fully develop and utilize their talents and help them to realize their self-worth.

Staff Training

In order to continue to strengthen the development of the talent team, we take staff capacity building as the core, focus on training of job skills and knowledge update, carry out multi-level, multi-channel and multi-modal staff training, comprehensively improve the competence and technical level of the staff, and provide a good platform for the staff to realize their personal value.

During the Reporting Period, based on the results of the 2020 annual survey on training needs and with reference to the Staff Education and Training System, we formulated the staff training plan for the year which required each branch, subsidiary and department to clarify their training responsibilities and training objectives and fully motivate the staff to learn.



Objectives of training works for 2020

Focusing on the Group's annual training objectives, we adopted a combination of online and offline training modes and carried out diversified training programs such as new employee induction, first-class constructor training and project manager training course to ensure that the Company maintains a competitive and sustainable talent pool.

Continuous development of the “Internet + training” online education platform

During the Reporting Period, in order to better respond to the limitation of face-to-face training affected by the COVID-19 pandemic, we continued to promote the development of our “Internet + training” online education platform, and strived to establish a diversified, collaborative and intelligent training system through various initiatives:

- Purchasing high-quality courseware and uploading them to the platform in batches to enrich the online training courses
- Establishing the “registration examination online classroom”, “internal trainer micro-classroom” and other modes to enhance the interaction on the online education platform
- Making reasonable credit rules and organizing different examinations to promote learning through examinations and credits

We are committed to making the “Hebei Construction Group Online Education and Training Platform” a leading online education and training platform with powerful learning functions, wide training coverage, rich content of courseware and high staff participation rate, so as to standardize and regulate the training tasks and significantly improve the quality and effectiveness of staff online learning.

Training for on-site managers

During the Reporting Period, the Group obtained the qualification of “Training Institution for On-site Managers of Construction Enterprises” issued by the Hebei Provincial Department of Housing and Urban-Rural Development. After obtaining the qualification, we formally launched the vocational training for on-site managers of construction enterprises. Through this training, the level of standardization and professionalism of on-site construction personnel were improved, which further ensured the effective promotion of safety and quality work.



Training for new staff

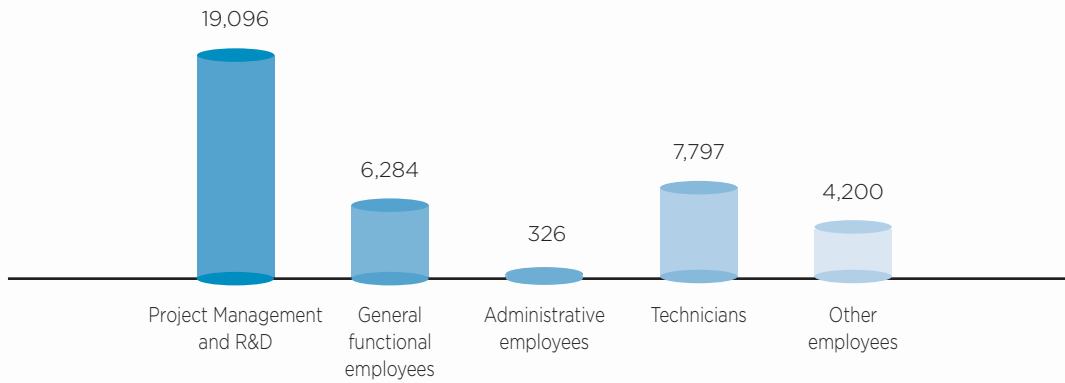
In order to help new staff gain a deeper understanding of the Group’s corporate culture and values, and to help more new campus recruits adopt to work environment from school life, we organized induction training for new graduates during the Reporting Period, which included meeting with leaders and promotion of corporate culture and safety knowledge. Through the induction training, new staff had better understanding of our “Family • People” culture.



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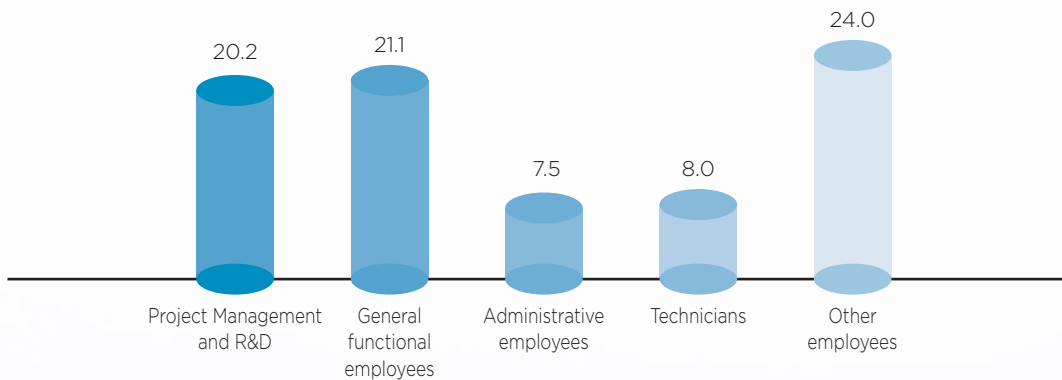
During the Reporting Period, we provided training to a total of 37,703 employees with a total training time of 85,494 days and an average training time of 18.20 hours per employee.

Number of trained employees by type



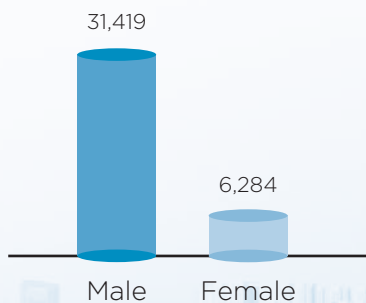
Unit: person

Average training hours per employee by type



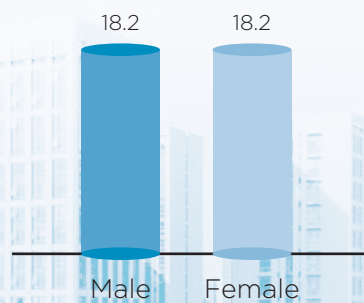
Unit: hours

Number of trained employees by gender



Unit: person

Average training hours per employee by gender



Unit: hours

Promotion and Development

We strive to create equal promotion opportunities and build a clear career development path for our employees. We have formulated the *Human Resources Management System* and the *Promotion Appraisal Form* to provide comprehensive assessment on the employees in terms of working years, academic level and personal ability. We also support our employees to become outstanding management and professional talents through the “Eagle Program for Young Talent Development”, mentorship and apprenticeship, merit assessment and seminars of senior management and leaders to maximize the potential and value of our employees. To provide all-round support to outstanding young talents, we have set up the Group’s Youth Entrepreneurship Foundation and contributed a total of RMB19 million in the past three years to encourage young employees to start and develop their own businesses.

Selection of the 11th session of “Outstanding Youths”

The selection of “Outstanding Youths” is a long-established brand project where we could discover and select outstanding young talents, which is held once every two years. During the Reporting Period, we successfully selected and awarded 15 employees with the title of the 11th session of “Outstanding Youth” after employee voting, system assessment and presentation sessions. Most of the outstanding youth selected under this activity have now become the backbone for the development of the Company and have played a positive role in promoting the sustainable and healthy development of the Company.



During the Reporting Period, we published the *Mentorship Management System and Implementation Plan (Trial)*, which matches new employees with mentors on a one-to-one basis to help them familiarize themselves with the work pattern and improve their working ability as soon as possible. Through this program, we are also able to incorporate outstanding mentors into the talent pool of the Company and broaden the scope of our talent pool.

Conversation between leaders and reserve cadres

In order to recruit outstanding talents, the Group has established an advanced training course for reserve cadres at Tsinghua Business School in cooperation with Tsinghua University, training a total of more than 350 people for the talent pool of secondary reserve cadres at company level. In addition, to further promote talent communication and selection, the Group's management holds seminars to communicate with the reserve cadres every year.

During the Reporting Period, Mr. Shang Jinfeng, the Group's President, had one-on-one conversation with nearly 100 elite reserve cadres of the first session of Tsinghua Business School to understand their basic information, performance, work experience, ability level, reasonable suggestions on their respective branches and subsidiaries and the Group and problems that need to be solved. This initiative not only laid a solid foundation for the Company to better know and employ talents, but also effectively facilitated the Company to improve its management level.

4.4 CARE AND SUPPORT

We deeply understand that employees are an important force for the development of enterprises, and cherish their devotions in their work. We strive to establish a smooth communication mechanism for our staff, provide them with industry-competitive remuneration package and enrich their lives through diversified cultural and sports activities to help them realize their aspirations for a better life.

Communication with Employees

We respect the demands of each and every employee and strive to build more transparent and convenient communication channels. During the Reporting Period, we carried out staff communication projects such as leadership seminars, satisfaction surveys and the "Voice of Staff" email box of the Chairman to encourage more staff to actively voice their opinions, make suggestions on the development of the company and themselves, and participate in the production and operation management of the company through practical actions.

Launch of the “Voice of Staff” email box

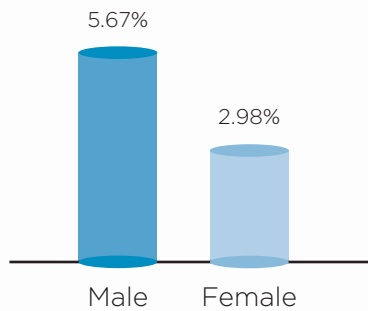
During the Reporting Period, Mr. Li Baozhong, the Group’s Chairman, met with the staff through the Douyin platform and sent messages and encouragement to the young staff. During the livestreaming, Chairman Li Baozhong also announced the “Voice of Staff” email box to encourage people to express their thoughts and expectations by email, so that the management level can listen to more employees, especially the young staff, thereby improving the management level of the Company and bridging the gap between management members and frontline staff.



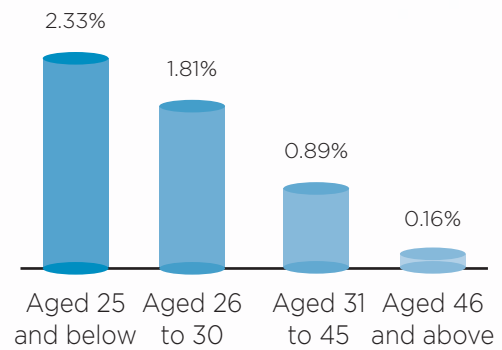
We attach great importance to employee satisfaction and are willing to listen to and accept suggestions from our employees. In June 2020, we conducted a satisfaction survey for employees who have been employed for three years in terms of five aspects, namely management, remuneration, employee training, work relationship and work environment. In December 2020, we conducted a satisfaction survey for all employees through the Company’s management information platform. Leveraging the advantages of the platform in data consolidation and analysis, we can understand the level of satisfaction of a specific branch, subsidiary, group and aspect. In 2020, the overall annual satisfaction rate was 85.25%. In response to the satisfaction survey results, we shared the findings with each branch and subsidiary and requested that corresponding improvement measures be taken in response to the results.

In order to further enhance employee satisfaction, we improved our remuneration management system during the Reporting Period and strived to provide more competitive remuneration packages to our employees to continuously enhance their happiness and reduce the turnover rate. During the Reporting Period, the employee turnover rate of the Group was 5.19%. The employee turnover rate by gender and age is as follows:

Employee turnover rate by gender



Employee turnover rate by age



Employee Benefits

The Group insists on integrating the culture and concept of “Family • People” into the work and life of our employees. We are committed to continuously improving the benefit protection system for our employees. In addition to national statutory benefits, we understand the demands and expectations of our employees and strive to provide a diverse range of benefit packages for all employees. Meanwhile, we also provide more humanistic care for new employees, employees in difficulty and female employees, and continuously share the results of corporate development with all contributors.



“Connecting our Home with Love and Care” activities

During the Reporting Period, the Group’s branches and subsidiaries carried out the “Connecting our Home with Love and Care” activities. Based on different ages and actual needs of our employees’ family members, we selected suitable gifts and delivered them to employees’ homes by courier, which further promoted the Company’s “Family • People” culture through letters, photos and gifts that sent home, bringing the Company closer to the employees and their families, showing the warmth and care for employees.



Caring activities for female employees on “March 8 Women’s Day”

During the Reporting Period, due to the limitation on communication affected by the COVID-19 pandemic, we actively carried out various online activities to send greetings to female employees on “March 8 Women’s Day”. In addition, the Group’s trade union provided subsidies, gifts and other festive benefits to female employees in each entity to thank them for their hard work and dedication to the Company.



Employee Activities

In order to enrich the cultural and spiritual life of our employees in their leisure time and to allow more staff to relax and enjoy life outside of work, we conducted a wide variety of employee care activities during the Reporting Period. In order to prevent possible infection of COVID-19 due to close contact, we strictly followed the relevant requirements and organized offline cultural and sports activities based on the pandemic situation of each branch and subsidiary in addition to carrying out online activities to entertain our staff.

<p>HCG Zhuocheng Road and Bridge Engineering Co., Ltd. under the Group: performance by the “Heart to Heart” culture and art team</p>	<p>HCG Installment Engineering Co., Ltd. under the Group”: “Three-legged” badminton competition</p>	<p>Hebei Construction Group Garden Engineering Co., Ltd. under the Group: “New Year’s Day” basketball match</p>
		



5 DEDICATION TO BUILDING A HARMONIOUS SOCIETY

Upholding the idea of “being grateful for the source of benefit and giving back to the society”, the Group always regards the social responsibility as an important part of its corporate development strategy, and continuously explores and innovates sustainable public welfare models and actively carries out various public welfare activities to create a harmonious and caring community.

5.1 PRECISE POVERTY ALLEVIATION

Precise poverty alleviation is an important part of our performance of corporate social responsibility. We actively respond to the national policy guidelines on poverty alleviation and poverty reduction, and carries out a series of precise poverty alleviation work based on the Group’s business and actual situation in the supported areas in order to effectively perform our social responsibilities and support China’s critical task of poverty eradication.

Facilitating poverty alleviation by supporting the agricultural industry

The Group has always paid attention to the economic development of impoverished villages and continuously explores new modes of poverty alleviation. Affected by the COVID-19 pandemic, the sales of agricultural products are generally stagnant across the country, especially in impoverished areas, and there is an increased risk of returning to poverty for those who have been lifted out of poverty. To address the problem of stagnant sales of agricultural products in impoverished areas, we carried out production and marketing matching, promoted poverty alleviation through consumption, broadened sales channels through the internet, and solved the problem of difficulty in selling agricultural products through multiple channels, thereby assuming its corporate responsibility in a technology-driven approach.

Promoting sales through livestreaming to facilitate poverty alleviation

On 10 August 2020, Mr. Li Baozhong, a deputy to the National People's Congress and Chairman of the Company, participated in our livestreaming session on Douyin platform to help the farmers in Fuping County to promote the sales of pears, which attracted the attention of many viewers. In just two and a half hours, more than 4,000 people watched the livestreaming, over 500 boxes of pears were sold and RMB160,000 of recharge cards were purchased.



Active marketing activity in the ecological park

On 11 September 2020, the “Under the Wisteria Tree” column team of the Literary and Art Promotion Centre of the Hebei Provincial Federation of Literary and Art Circles and the “Financial Afternoon Tea” of Ta Kung Pao jointly presented a live program of “The Green Avenue on the Way out of Poverty” at the Company's Dadao Agricultural and Ecological Demonstration Park, showing the achievements of poverty alleviation in the old revolutionary area of Fuping County from different perspectives.



Facilitating poverty alleviation through education support

In addition to supporting the agricultural industry, as a provincial leading enterprise in poverty alleviation, the Group continuously carries out education support activities to share love and care with sincerity and repay the society with practical actions, thereby creating a better future for more children.

Supporting the education in Fuping County

In April 2020, the Group organized its employees to visit Fuping County, an old revolutionary area, to carry out education support activity by donating a total of RMB60,000 to 10 impoverished students with good character and academic performance from Fuping Middle School to help them complete their studies.



Helping underprivileged college student to complete education

In July 2020, employees from HCG Installment Engineering Co., Ltd. under the Group visited Xiaolin Village in Quyang County with the Baoding Charity and Respect for Elderly Association to send scholarship and supplies such as rice, noodles and oil to student Wang, a disabled and impoverished university student.



Facilitating poverty alleviation through building construction

Poverty alleviation and relocation bring great changes to mountainous areas. The Group makes solid contribution to the construction work of poverty alleviation projects in Hebei Province, by fully utilizing its own industry advantages, and continuously explores new modes of industrial poverty alleviation, thereby making great contributions to poverty eradication in old areas.

Creating a better home through relocation and renovation

As new residential buildings and school buildings complete construction, local residents gradually move in their much anticipated warm homes, and students may enjoy the bright and spacious classrooms, and the logo of “Hebei Construction Group” has also been imprinted on the hearts of the people in the old areas along with the construction of poverty alleviation projects. In recent years, the Group has undertaken dozens of key poverty alleviation projects in Fuping County such as the Fudong Industrial Park, the Fuping Vocational Education Centre and the project of construction of beautiful villages, with the contract value of infrastructure and housing projects exceeding RMB10 billion.



Improving the appearance of villages by active sponsoring construction projects

In response to the call of the Party and the government for “precise poverty alleviation and eradication”, the Group made donation to the construction of village appearance improvement projects of nine villages along National Highway 207 in Datai Town, Fuping County during the Reporting Period. In addition, we donated a total of RMB600,000 for the construction of a road improvement project from the northern section of Tianjin-Baoding Highway to Beishakou Village in Xiong County to serve the construction of Xiong’an New Area.



Working together to achieve the goal of building a moderately prosperous society

During the Chinese New Year of 2020, a ceremony organized by the Fuping County Party Committee and County Government was held in the auditorium of Fuping County Vocational Education Centre to welcome the Chinese New Year and appreciate the enterprises which participated in the construction project of relocation for poverty alleviation. At the ceremony, the Group was honoured again as a representative of the enterprises and was awarded a plaque on site by Liu Jing, secretary of the Fuping County Party Committee who expressed special gratitude for our contribution to poverty alleviation in the old revolutionary areas over the years.



During the Reporting Period, the Group made external donations RMB20 million in total, invested RMB6,378,900 in precise poverty alleviation, benefited 85 people through poverty alleviation and helped 15,000 migrant workers get employed. In the future, we will continue to assume our corporate social responsibility with focus on promoting the development of an integrated industrial park that integrates health, tourism, ecological protection and farming, thereby bringing more job opportunities and development momentum to local community.

5.2 CHARITY ACTIVITIES

We encourage share of love and voluntary services, and continuously promote the mutual development of enterprises and the society by actively participating in charitable donations, voluntary activities, fighting against epidemics and supporting emergency disaster relief. In addition, with our efforts, we hope to bring together a wider range of social forces to make different acts of kindness and share love and care, thereby continuously practicing, innovating and promoting public welfare in China.

Supporting the Fight against Pandemic

Since the outbreak of the COVID-19 pandemic, the Group has been assuming its responsibility by making active contribution. In addition to effectively carrying out pandemic prevention and control, the Group also actively contributed to the pandemic prevention and control in various regions, taking practical actions to overcome the difficulties together with the whole nation. At the beginning of outbreak, the Group set up a pandemic prevention and control team and actively cooperated with the local government to promote pandemic prevention and control in various ways to ensure the safety of our employees and their families. In addition, we have always been concerned about the pandemic areas and made various forms of donations and contributions. During the Reporting Period, we made donations of over RMB3.1 million in cash and supplies to support the fight against the COVID-19 pandemic.



Donated RMB1 million to Fuping County to help prevent and control the pandemic in old revolutionary areas



Donated anti-pandemic materials for frontline workers in Anguo to send our care and warmth

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Donated 1,000 kgs of disinfectant and 525 kgs of alcohol to Baoding No. Central Hospital



Donated anti-pandemic materials to Baoding Urban Management and Comprehensive Administration and Law Enforcement Bureau and Fuping County Urban and Rural Construction Bureau



Donated RMB300,000 to Hejian Hospital of Traditional Chinese Medicine to fight against the COVID-19 pandemic



Donated RMB60,000 and sent pandemic prevention materials such as disinfectant and alcohol to Maternal and Child Health Hospital in Xushui District and Laiyuan County



Donated essential anti-pandemic materials to several villages around the project in Lindian Town, Weinan, Shaanxi Province



Donated cash and materials to the Hubei Charity Federation, Qinhuangdao Red Cross Society, Baoding Charity Association and Red Cross Society

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We worked day and night to accelerate the construction of pandemic control facilities. During the Reporting Period, we closely monitored the development of the COVID-19 pandemic in various regions, and actively participated in the construction of quarantine facilities for pandemic prevention and control with our business strength, thereby interpreting our responsibility and commitment as one of the “Pillar Enterprises of China” with practical actions and contributing the strength of construction industry to the fight against the pandemic.

Fighting the pandemic with concerted efforts

At the beginning of 2021, the COVID-19 pandemic ravaged Shijiazhuang in Hebei Province. After being aware of the shortage of construction personnel at the quarantine site of Huangzhuang Apartment in Zhengding, Shijiazhuang, our road and bridge branch made coordinated decision and scientific arrangement, and quickly formed a supporting team of ten managers to assist in the construction of the quarantine site of Huangzhuang Apartment. During the period from 17 to 21 January 2021, facing the tight schedule and heavy workload, our project department overcame many difficulties in four days and worked day and night to successfully complete the construction assistance task, once again showing the style of as an “Iron Army” by fighting against the pandemic amid adversities.



Voluntary Services

We always adhere to the volunteer spirit of “Share and Love”, and actively participate in social welfare undertakings by carrying out various charitable activities such as helping the underprivileged, traffic command support, environmental protection, tree planting and blood donation to send warmth to more people in need. During the Reporting Period, a total of 212 employees of the Group participated in voluntary services.

Caring for left-behind children

Left-behind children are a special disadvantaged group and caring for them is the common responsibility of the whole society. During the Reporting Period, the Group’s steel structure branch visited the left-behind children in Fudong New District, Fuping County to send 20 left-behind children in great difficulties with chairs, basketballs and footballs and read books and play games with the children, bringing a touch of care and warmth to them.



Visited the elderly of no family in Tianyi Welfare Home

Caring for elderly of no family is a way to promote the traditional Chinese virtue of respecting and honoring the elderly. On the occasion of the National Day and Mid-Autumn Festival in 2020, the Group's employees joined the Baoding Charity and Respect for Elderly Association and came to Tianyi Welfare Home in Yihezhuang Village, Baigou New Town, to visit Zhou Weimin, the "Good Man of Baoding", and the 10 elderly of no family or disabled he has been taking care of for free, and sent them subsidies. This is the ninth time we have visited this special group of people in the past five years, and the total amount of donations and household items donated was over RMB30,000.



Made donation to Li County affected by flooding

In July 2020, Northern China entered the main flooding season. In order to enhance the flood control capacity and ensure the safety of people in Li County in Baoding City during the flooding season, the Group's Yueming River Project Division donated 35 flood control tents and 25,000 woven bags to the Li County Flood Control Command, with a total amount of approximately RMB70,000. After the flooding season, Li County Flood Control Command sent a banner with the words "Supporting Li County to overcome flooding safely, assuming the corporate social responsibility" to the Yueming River Project Division of HCG Installment Engineering Co., Ltd. under the Group and issued a donation certificate as a token of appreciation.



Supported the building of a civilized city by maintaining smooth traffic flow

In response to the call to build a provincial civilized city and in order to maintain smooth traffic flow, during the Reporting Period, we organized our employees to help organize the traffic on the streets of Baoding and actively participate in voluntary services to support the building of a national civilized city with practical actions, which showed the spirit of Baoding people and improved the order of the city.



Sharing love through blood donation

Blood donation is a noble act to promote the humanitarian spirit and the Lei Feng spirit of helping people. During the Reporting Period, the Group carried out several blood donation activities and actively encouraged all employees to donate their blood, thereby demonstrating the volunteer spirit of “share, love, mutual assistance and progress” with practical actions.



Building a green home together through tree planting activities

As a national outstanding enterprise in urban landscaping and greenery, the Group actively utilizes its strength to facilitate ecological construction, participates in afforestation and forestry ecological construction, and practice the development concept of “lucid waters and lush mountains are invaluable assets” by assuming the responsibility of afforestation and ecological greening. During the Reporting Period, a number of our branches and subsidiaries organized and encouraged the employees to participate in tree planting activities, creating a favorable atmosphere for tree planting and greening.



APPENDIX I: LIST OF MAJOR LAWS AND REGULATIONS COMPLIED WITH

Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》)

Law Against Unfair Competition of the People's Republic of China and Certain Opinions of the State Council on Promoting Fair Competition in the Market and Maintaining the Normal Order of the Market (《國務院關於促進市場公平競爭維護市場正常秩序的若干意見》)

Construction Law of the People's Republic of China (《中華人民共和國建築法》)

Regulations on the Quality Management of Construction Projects (《建設工程質量管理條例》)

Patent Law of the People's Republic of China (《中華人民共和國專利法》)

Trademark Law of the People's Republic of China (《中華人民共和國商標法》)

Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》)

Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》)

Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》)

Law of the People's Republic of China on Prevention and Control of Solid Waste Pollution (《中華人民共和國固體廢物污染防治法》)

Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》)

Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》)

Emission Standard of Environment Noise for Boundary of Construction Site (《建築施工場界環境噪聲排放標準》)

Labor Law of the People's Republic of China (《中華人民共和國勞動法》)

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Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》)

Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》)

Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》)

Safety Law of the People's Republic of China (《中華人民共和國安全生產法》)

Measures for the Administration of Contingency Plans for Work Safety Accidents (《安全生產事故應急預案管理辦法》)

Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》)

Administrative Measures for Occupational Health Inspection (《職業健康檢查管理辦法》)

Work-related Injury Insurance Regulations (《工傷保險條例》)



APPENDIX II: CONTENT INDEX OF STOCK EXCHANGE ESG REPORTING GUIDE

Major Scope, Aspect, General Disclosures and KPIs		2020 ESG Report
Aspect A1	Emissions	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	3.1 Environmental management 3.2 Conservation of resources 3.3 Emission reduction
KPI A1.1	The types of emissions and respective emissions data.	3.3 Emission reduction
KPI A1.2	GHG emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.2 Conservation of resources
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.3 Emission reduction
KPI A1.4	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.3 Emission reduction
KPI A1.5	Description of measures to mitigate emissions and results achieved.	3.3 Emission reduction
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	3.3 Emission reduction

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Major Scope, Aspect, General Disclosures and KPIs		2020 ESG Report	
Aspect A2	Use of Resources		
General Disclosure	<p>Policies on the efficient use of resources, including energy, water and other raw materials.</p> <p>Resources can be used for production, storage, transportation, buildings, electronic equipment, etc.</p>	3.2	Conservation of resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	3.2	Conservation of resources
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	3.2	Conservation of resources
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	3.2	Conservation of resources
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	3.2	Conservation of resources
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.		The operation of the Group basically does not involve the use of product packaging
Aspect A3	The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	3.1 3.2 3.3	Environmental management Conservation of resources Emission reduction
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.1 3.2 3.3	Environmental management Conservation of resources Emission reduction

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Major Scope, Aspect, General Disclosures and KPIs		2020 ESG Report
Aspect B1	Employment	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	4.1 Overview of employees 4.3 Staff cultivation 4.4 Care and support
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	4.1 Overview of employees
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	4.4 Care and support
Aspect B2	Health and Safety	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.2 Health and safety
KPI B2.1	Number and rate of work-related fatalities.	4.2 Health and safety
KPI B2.2	Lost days due to work injury.	The Group plans to implement refined management in the future
KPI B2.3	Description of occupational health and safety measures adopted and how they are implemented and monitored.	4.2 Health and safety

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

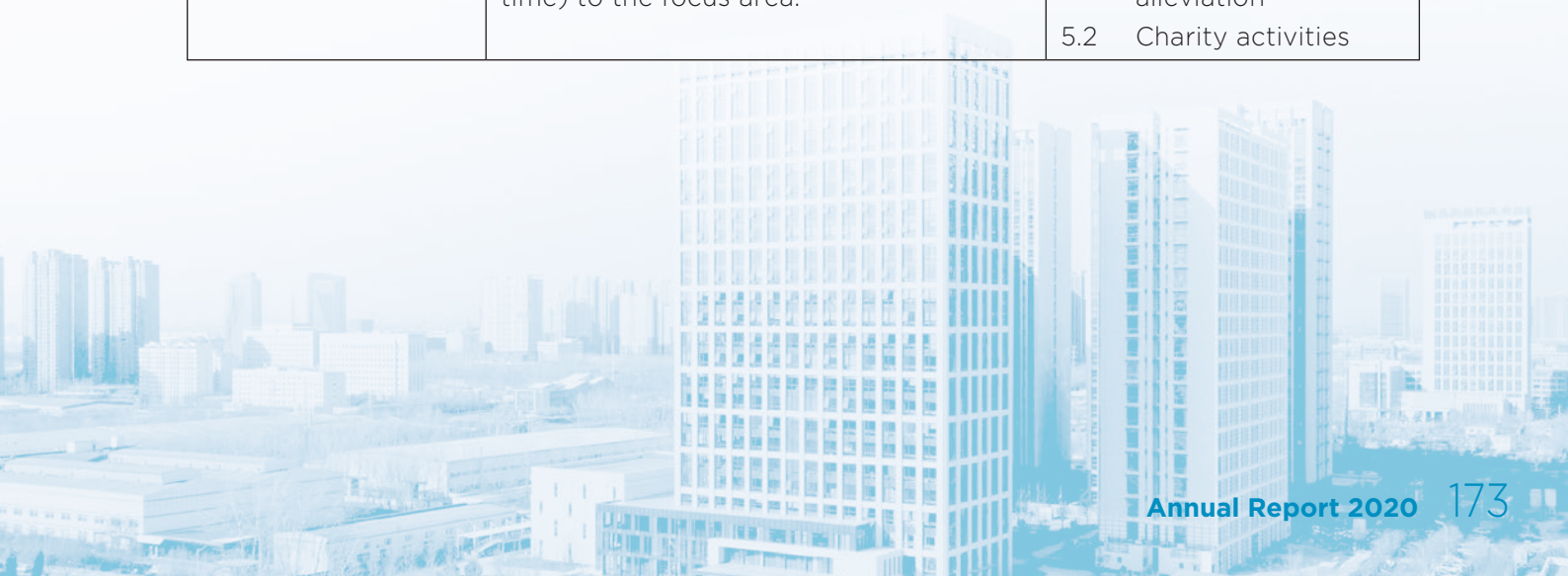
Major Scope, Aspect, General Disclosures and KPIs		2020 ESG Report
Aspect B3	Development and Training	
General Disclosure	<p>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.</p> <p>Training activities refers to professional training and may include internal and external courses paid by the employer.</p>	4.3 Staff cultivation
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	4.3 Staff cultivation
KPI B3.2	The average training hours completed per employee by gender and employee category.	4.3 Staff cultivation
Aspect B4	Labor Standards	
General Disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.</p>	4.1 Overview of employees
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	4.1 Overview of employees
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	4.1 Overview of employees

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Major Scope, Aspect, General Disclosures and KPIs		2020 ESG Report	
Aspect B5	Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	2.3	Win-win under the same goal
KPI B5.1	Number of suppliers by geographical region.	2.3	Win-win under the same goal
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	2.3	Win-win under the same goal
Aspect B6	Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	2.1	Quality assurance
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	The Group's operations do not involve product recycling	
KPI B6.2	Number of products and service related complaints received and how they were dealt with.	2.3	Win-win under the same goal
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	2.2	Leading innovation
KPI B6.4	Description of quality assurance process and recall procedures.	2.1	Quality assurance
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	2.3	Win-win under the same goal

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Scope, Aspect, General Disclosures and KPIs		2020 ESG Report	
Aspect B7	Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	1.2	Integrity and compliance
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	1.2	Integrity and compliance
KPI B3.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	1.2	Integrity and compliance
Aspect B8	Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	5.1 5.2	Precise poverty alleviation Charity activities
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	5.1 5.2	Precise poverty alleviation Charity activities
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	5.1 5.2	Precise poverty alleviation Charity activities



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Executive Directors

Mr. Li Baozhong (李寶忠), aged 51, is the Chairman of the Board and an executive Director of the Company since 22 December 2015. Mr. Li is also the chairman of the Strategic Committee and a member of the Nomination Committee and the Remuneration and Appraisal Committee under the Board of the Company, and has served as the secretary to the Party Committee of the Company since January 2021. Mr. Li also serves as the chairman of Zhongming Zhiye, Baoding Langzhuo Gu'an-Baoding Railway Construction Co., Ltd. and Shenzhen Zhongru Investment Co., Ltd., a vice chairman of the board of directors of Zhongru Investment, an executive director and the general manager of Baoding Zhongcheng, a supervisor of Qianbao Investment and Guoxing Global Land Consolidation and Development Co., Ltd. (國興環球土地整理開發有限公司) and a director of Zhongcheng Real Estate, Bank of Baoding Co., Ltd. (保定銀行股份有限公司) and Zhongji United Investment Holdings Co., Ltd. (中冀聯合投資控股有限公司), respectively. Mr. Li is a vice president of Hebei Construction Industry Association and the president of Baoding Construction Industry Association. Mr. Li has over 28 years of experience in corporate management and in the construction engineering industry. His previous primary work experience includes: serving as a technician, a deputy project manager and the project manager of Work Zone I of the Fourth Branch of No. 1 Construction Engineering Company of Hebei Province from July 1992 to December 1996; a vice manager of the Fourth Branch of No. 1 Construction Engineering Company of Hebei Province from January 1997 to December 1997; the manager of the Fourth Branch of the Company from January 1998 to December 2010; and a vice Chairman of the Board and a vice President of the Company from December 2010 to December 2015. Mr. Li was elected as a Deputy of the thirteenth session to the National People's Congress in March 2018.

Mr. Li obtained an executive master's degree in business administration from Cheung Kong Graduate School of Business in Beijing, the PRC in September 2015. Mr. Li obtained the qualification of national certified constructor from the Ministry of Construction of the PRC in January 2008 and the qualification of senior engineer from the Qualification Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室) in December 2009, respectively. Mr. Li was awarded the "Model Worker of Baoding (保定市勞動模範)" by the People's Government of Baoding in April 2013, the "Model Worker of Hebei Province (河北省勞動模範)" by the People's Government of Hebei Province in April 2014, the "National Excellent Worker in Construction Industry (全國建築業先進工作者)" by China Construction Industry Association in October 2016 and the "Quality Award of Hebei Government (河北省政府質量獎)" by the People's Government of Hebei Province in June 2017, and was appointed as an "Expert with Special Allowance of Hebei Provincial Government" by the People's Government of Hebei Province in September 2019.

Mr. Li Baozhong is the brother of Mr. Li Baoyuan, the Honorary Chairman and non-executive Director of the Company, and uncle of Mr. Li Wutie, the Board Secretary, joint company secretary and assistant to the President of the Company.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Shang Jinfeng (商金峰), aged 44, is an executive Director and the President of the Company since 31 March 2017. Mr. Shang is also a member of the Nomination Committee, the Remuneration and Appraisal Committee and the Strategic Committee under the Board of the Company. Mr. Shang also serves as a director of HCG Tianchen Construction Engineering, Hebei Lvjian Investment Company (河北綠建投資股份公司), Inner Mongolia Construction Investment Group Co., Ltd. (內蒙古建設投資集團有限公司) and Zhongcheng Real Estate Development Co., Ltd. (中誠房地產開發股份有限公司), and the chairman of Hebei Construction Group Infrastructure Construction Co., Ltd. (河北建設集團基礎設施建設有限公司). Mr. Shang has over 23 years of experience in the construction engineering industry and corporate management. His previous primary work experience includes: serving as a technician, the person in charge of technology and the project manager of HCG Tianchen Construction Engineering from July 1998 to October 2008; a vice general manager in charge of production of HCG Tianchen Construction Engineering from March 2008 to December 2010; a standing vice general manager and the general manager of HCG Tianchen Construction Engineering from December 2010 to January 2017; and a vice President and a standing vice President of the Company from December 2013 to March 2017.

Mr. Shang obtained an undergraduate diploma in urban construction from the Agricultural University of Hebei Province in Baoding, the PRC in July 1998 and an EMBA degree from Peking University in Beijing, the PRC in January 2016. Mr. Shang obtained the qualifications of national certified constructor from the Ministry of Construction of the PRC in January 2008 and senior engineer from the Qualification Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室) in December 2013. Mr. Shang was accredited the “Wusi Youth Medal of Baoding City (保定市五四青年獎章)” jointly from China Communist Youth League Baoding Committee, Bureau of Human Resources and Social Security of Baoding and Baoding Youth Federation in May 2012. Mr. Shang has been awarded as the “Excellent Enterprise Manager in Construction Industry (建築業優秀企業管理者)” by Hebei Building Industry Association for five times from 2012 to 2017 and a second-level candidate of “New Century Triple Talents Project of Hebei Province” (河北省新世紀“三三三人才工程”) by Leading Group of “Triple Talents Project” of Hebei Province (河北省“三三三人才工程”領導小組) in December 2015.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Zhao Wensheng (趙文生), aged 51, is the chief accountant and the director of finance of the Company since 23 January 2013 and an executive Director of the Company since 25 February 2019. Mr. Zhao also serves as a director of Tianjin Tianzheng Construction Engineering Co., Ltd., Zhuozhou Zhongzhou Water Co., Ltd. (涿州市中洲水業有限公司), Hebei Construction Group Infrastructure Construction Co., Ltd. (河北建設集團基礎設施建設有限公司), Guangdong Huarong Construction Engineering Co., Ltd. (廣東華融建設工程有限公司) and Beijing Tianjia Construction Engineering Co., Ltd. (北京天佳建築工程有限公司). Mr. Zhao Wensheng also serves as the chairman of the board of supervisors of HCG Zhuocheng Road and Bridge Engineering Co., Ltd. (河北建設集團卓誠路橋工程有限公司), HCG Installment Engineering, HCG Decoration Engineering Co., Ltd. (河北建設集團裝飾工程有限公司) and Zhongji United Investment Holdings Co., Ltd. (中冀聯合投資控股有限公司), and a supervisor of HCG Tianchen Construction Engineering Co., Ltd. (河北建設集團天辰建築工程有限公司), Zhongcheng Real Estate Development Co., Ltd. (中誠房地產開發股份有限公司), Hebei Lvjian Investment Company (河北綠建投資股份有限公司), Hebei Construction Group Qianqiu Management Co., Ltd. (河北建設集團千秋管業有限公司), Shenzhen Zhongru Investment Co., Ltd. (深圳中儒投資有限公司), Hebei Haikuo Environmental Technology Co., Ltd. (河北海闊環境科技有限公司) and Hebei Zhongbao New Building Materials Manufacturing Co., Ltd. (河北中寶新型建材製造有限公司) respectively. Mr. Zhao is also a standing member of China Construction Accounting Institute (中國建設會計學會) and a vice president of Hebei Institute of Construction Accounting (河北省建設會計協會). Mr. Zhao's previous primary work experience includes: serving as an accountant of No. 1 Construction Engineering Company of Hebei Province (河北省第一建築工程公司) from July 1989 to January 1997; the head of finance department of HCG Decoration Engineering Co., Ltd. from January 1997 to July 2005; a deputy head of the Financial Audit Department of the Company from June 2005 to April 2006; and the head of Financial Management Department of the Company from April 2006 to January 2013.

Mr. Zhao obtained a bachelor's degree in management majoring in accounting (self-study) from Hebei University of Economics and Business in Shijiazhuang, the PRC in June 2004. Mr. Zhao obtained the qualification of senior accountant from Qualification Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室) in June 2019.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Liu Yongjian (劉永建), aged 57, is an executive Director of the Company since 20 December 2013 and a vice President of the Company since 17 January 2008. Mr. Liu is also an external postgraduate tutor in the Institute of Urban and Rural Construction of Agricultural University of Hebei and an adjunct professor at the College of Civil Engineering and Architecture of Hebei University. Mr. Liu has over 36 years of experience in the construction engineering industry and corporate management. His previous primary work experience includes: serving as a technician, quality inspection technician of Engineering Division I of No. 1 Construction Engineering Company of Hebei Province and project manager of the Company from July 1985 to December 2000; a vice manager and the manager of the First Branch of the Company from January 2001 to December 2010; and a vice President (non-standing) of the Company from January 2008 to December 2010.

Mr. Liu obtained a technical secondary school diploma in industrial and civil construction from Hebei University of Architecture in Zhangjiakou, the PRC in July 1985, an academic diploma from a post-secondary course for construction engineering (through correspondence course) from Hebei University of Architecture in Zhangjiakou, the PRC in June 2001, a master of engineer degree in water conservancy and hydropower engineering from Agricultural University of Hebei Province in Baoding, the PRC in June 2002 and a doctor's degree of engineering in structural engineering from Tianjin University in Tianjin, the PRC in June 2012. Mr. Liu obtained the qualifications of national certified constructor (in construction engineering major) from the Ministry of Construction of the PRC in January 2008 and senior engineer from the Qualification Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室) in June 2009. Mr. Liu was selected as a third-level candidate of the “New Century Triple Talents Project of Hebei Province” (河北省新世紀“三三三人才工程”) by the Leading Group of New Century “Triple Talents Project” of Hebei Province (河北省“三三三人才工程”領導小組) in December 2007; the “2008 Young and Middle-aged Experts with Outstanding Contribution to Hebei Province (河北省有突出貢獻中青年專家)” by the People's Government of Hebei Province in August 2008.

Non-Executive Directors

Mr. Li Baoyuan (李寶元), aged 70, is the honorary Chairman of the Board and a non-executive Director of the Company since 22 December 2015. Mr. Li is also a member of the Audit Committee under the Board of the Company. Mr. Li also serves as the chairman of the board of directors of Zhongru Investment and Hebei Baocang Expressway Co., Ltd. (河北保滄高速公路有限公司), an executive director and the general manager of Qianbao Investment, and a director of Zhongming Zhiye. Mr. Li is the president of the SME Committee of China Construction Industry Association. Mr. Li has over 50 years of experience in corporate management and the construction engineering industry. His previous primary work experience includes: serving as a trainee, budget planner, vice subsection chief of the planning subsection of Division I, a deputy head of Team 2 of Division I and the head of Team 2 of Division I of No. 1 Construction Engineering Company of Hebei Province from 1970 to 1984; the head of Team 2 of Division I, the head of the 101 Engineering Team (formerly Team 2 of Division I), the director of Working Area I, the manager and an assistant to the manager of the Fourth Branch of No. 1 Construction Engineering Company of Hebei Province from October 1986 to September 1991; a vice manager of the No. 1 Construction Engineering Company of Hebei Province from September 1991 to August 1995; the general manager and secretary to the Party Committee of No. 1 Construction Engineering Company of Hebei Province from August 1995 to October 1997; the Chairman of the Board from October 1997 to December 2015 and the honorary Chairman of the Board and a non-executive Director of the Company since December 2015; the President of the Company from October 1997 to January 2006; and the secretary to the Party Committee of the Company from October 1997 to January 2021. Mr. Li was elected as a representative of the ninth, tenth and eleventh sessions of the National People's Congress from March 1998 to March 2013.

Mr. Li obtained an academic diploma from a post-secondary course for Party and government cadres from Hebei Radio and TV University in Shijiazhuang, the PRC in July 1986, an undergraduate degree in economics and management (through correspondence course) from the Correspondence College of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) in Beijing, the PRC in December 1998. He also obtained a PhD degree in business administration from International East-West University in the United States in May 2009. Mr. Li obtained the qualifications of senior economist from the Qualification Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室) in December 2006. Mr. Li was granted a special government allowance and the certificate by the State Council in April 2007. He was awarded the title of “Outstanding Pioneer in Corporate Reform of Hebei Province (河北省企業改革標兵)” by the People's Government of Hebei Province in December 1998, the “Model Worker of Hebei Province (河北省勞動模範)” by the People's Government of Hebei Province in April 1999, the “National Model Worker (全國勞動模範)” by the State Council in April 2000 and “Excellent Enterprise Director (河北省優秀企業家)” by the People's Government of Hebei Province in June 2001. He received the “Hebei Province Special Quality Award (河北省質量特別獎)” from the People's Government of Hebei Province in December 2003 and the title of “Young and Middle-aged Expert with Outstanding Contributions in Hebei Province” by the People's Government of Hebei Province in April 2005.

Mr. Li is the brother of Mr. Li Baozhong, the Chairman and executive Director of the Company, and the father of Mr. Li Wutie, the Board secretary, joint company secretary and assistant of the President of the Company.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Cao Qingshe (曹清社), aged 56, is a vice Chairman of the Board and a non-executive Director of the Company since 31 March 2017. Mr. Cao is also a member of the Audit Committee and the Strategic Committee under the Board of the Company. Mr. Cao also serves as an executive director and the general manager of Zhongming Zhiye, the general manager and vice chairman of Zhongru Investment, and a director of Zhongcheng Real Estate, Shenxian Mountain Tourism Development Co., Ltd. (神仙山旅遊發展有限公司), Datang Baoding Heat Supply Co., Ltd. and Baoding Langzhuo Gu'an-Baoding Railway Construction Co., Ltd. respectively. Mr. Cao has over 34 years of experience in corporate management and the construction engineering industry. His previous primary work experience includes: serving as a vice manager and the manager of the Instalment Branch of No. 1 Construction Engineering Company of Hebei Province (河北省第一建築工程公司安裝分公司) from September 1996 to December 2004; a vice President of the Company from June 2001 to December 2004; a standing vice President of the Company from January 2005 to December 2005; and the President of the Company from January 2006 to March 2017.

Mr. Cao obtained a bachelor's degree of engineering in heating ventilation from the Urban Construction Department of Hebei University of Architecture (河北建築工程學院) in Zhangjiakou, the PRC in July 1987 and a master's degree of engineering in architecture and civil engineering from Tianjin University in Tianjin, the PRC in March 2003. Mr. Cao obtained the qualification of senior engineer from the Professional Technician Management Division of the Hebei Provincial Department of Human Resources and Social Security (河北省人力資源和社會保障廳專業技術人員管理處) in December 2003 and the qualification of national first-class certified constructor from the Ministry of Construction of the PRC in January 2008, respectively. Mr. Cao was awarded the first session of "Top Ten Excellent Youth (十大傑出青年)" jointly by China Communist Youth League Baoding Committee (共青團保定市委員會) and other authorities in September 1995, the "Model Worker of Baoding City for years 1998 to 2000 (保定市1998-2000年勞動模範)" by the People's Government of Baoding City in April 2001; "Excellent Worker for Urban Construction for 2001 (2001年度城市建設先進工作者)" by the People's Government of Baoding City in March 2002; "Excellent Individual for Construction of Lu Ban Award (創建魯班獎工程先進個人)" by China Construction Industry Association in December 2012; and "National Excellent Worker in Construction Industry (全國建築業先進工作者)" by China Construction Industry Association in October 2016. He also obtained the "First-class Award for Technology Improvement (科技進步一等獎)" from the Ministry of Construction of Hebei Province in April 2003 for the Experiment and Device Development Project of Biofilm Filtering Reactor for Recycling of Urban Sewage (用於城市污水回用的生物膜過濾反應器實驗及設備開發項目), the "Second-class Award for Science and Technology of Hebei Province (河北省科學技術二等獎)" from the People's Government of Hebei Province in December 2014, and the "Quality Award (Individual) of Hebei Government (河北省政府質量獎 (個人獎))" from the People's Government of Hebei Province in December 2013.

Independent Non-Executive Directors

Ms. Shen Lifeng (申麗鳳), aged 55, is an independent non-executive Director of the Company since 15 December 2017. Ms. Shen is also the chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration and Appraisal Committee under the Board of the Company. Ms. Shen also serves as the chief executive officer of Porda Havas International Finance Communications (Group) Holdings Company Limited (博達浩華國際財經傳訊(集團)控股有限公司); and a founding arbitrator of the Arbitration Committee of Langfang City (廊坊市仲裁委員會). Ms. Shen was a standing committee member of the Federation of Industry and Commerce of Hebei Province (河北省工商業聯合會) and a vice president of the General Chamber of Commerce of Hebei Province (河北省總商會) and her term ended on 31 December 2017. Ms. Shen served as a founding arbitrator of the Arbitration Committee of Shijiazhuang City (石家莊市仲裁委員會) and her term ended on 31 December 2018. Ms. Shen has more than 31 years of experience in law, investment and financing management and corporate management. Her previous primary work experience includes: serving as a teaching assistant in the Department of Law of Hebei University from September 1987 to October 1989; the director of the legal department, an assistant to the general manager and a vice general manager of Hebei Textiles Import and Export (Group) Company (河北省紡織品進出口(集團)公司) from October 1989 to May 2006; a standing vice general manager and a member of the discipline-inspection committee of Shenglun International Industrial Group Co., Ltd. (聖倫國際實業集團股份有限公司), responsible for the reorganization and restructuring of the state-owned enterprise from May 2006 to December 2007; an executive director and the general manager of Shaanxi Kunzheng Mining Co., Ltd. (陝西坤正礦業股份有限公司) from September 2008 to August 2014; and the chief director in charge of PRC businesses of Chong & Partners LLP from September 2016 to February 2019.

Ms. Shen obtained a bachelor of law degree from the Department of Law of Hebei University in Baoding, the PRC in July 1987, graduated from the Department of Economics of Hebei University in Baoding, the PRC in May 1999 and obtained a master's degree of economics in world economy, obtained a doctor of law degree in civil and commercial law from the School of Law of Peking University in Beijing, the PRC in June 2005 and a master's degree in Buddhist studies from the Faculty of Arts of the University of Hong Kong in Hong Kong in November 2015. Ms. Shen obtained the qualifications of lawyer from the Lawyer's Qualification Review Committee of the Ministry of Justice (司法部律師資格審查委員會) in June 1998 and senior economist from the Qualification Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室) in November 1998, respectively. Ms. Shen was accredited the 2004 "Top Ten Excellent Youth of Hebei (河北十大傑出青年)" and the first-class merit for individuals (個人一等功) by the China Communist Youth League Committee of Hebei Province (共青團河北省委員會) and Hebei Provincial Department of Human Resources and Social Security and the "Top Ten Excellent Youth of Enterprises contributed by Hebei SASAC (河北省國資委所出資企業十大傑出青年)" by Hebei SASAC in 2005, respectively. Ms. Shen was also elected and served as the representative of the sixth and seventh sessions of the Party Congress of Hebei Province.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Chen Xin (陳欣), aged 38, is an independent non-executive Director of the Company since 15 December 2017. Ms. Chen is also the chairman of the Nomination Committee and the Remuneration and Appraisal Committee and a member of the Audit Committee under the Board of the Company. Ms. Chen is currently the director of human resources consultant of Talentpool (HK) Limited. Ms. Chen has more than 13 years of experience in corporate management. Her previous primary work experience includes: serving as a financial advisor and accountant assistant in the financial department, and a deputy manager of the personnel unit in administration & personnel department of COSCO (HK) Industry & Trade Holdings Ltd. from February 2008 to February 2016; and the head of HR and administration department of Zhongrong International Securities Co., Ltd. from February 2016 to May 2016. Ms. Chen was the Hong Kong director of human resources of Fortune Fountain Capital Limited in 2017.

Ms. Chen obtained a bachelor's degree in accounting and finance from University of Southampton in Southampton, the United Kingdom in June 2006, and a master's degree in international management from University of London, King's College in London, the United Kingdom in December 2007.

Mr. Chan Ngai Sang Kenny (陳毅生), aged 56, is an independent non-executive Director of the Company since 15 December 2017. Mr. Chan is also a member of the Audit Committee, the Nomination Committee and Remuneration and Appraisal Committee of the Board of the Company. Prior to joining the Company, Mr. Chan worked at Ernst & Young from July 1989 to March 1997. Since April 1997 to date, he has served as the principal of Kenny Chan & Co. Mr. Chan has served as an independent non-executive director of CMIC Ocean En-Tech Holding Co., Ltd. (stock code: 00206) since October 2005, an independent non-executive director of Kingland Group Holdings Limited (stock code: 1751) since December 2016, an independent non-executive director of Minsheng Education Group Company Limited (stock code: 1569) since March 2017 and an independent non-executive director of Zhongyuan Bank Co., Ltd. (stock code: 1216) since May 2017. All the companies above are listed on the Main Board of the Hong Kong Stock Exchange.

Mr. Chan obtained a Bachelor of Commerce degree in accounting and finance from the University of New South Wales in Sydney, Australia in October 1988. He is a certified public accountant and a fellow member of the Hong Kong Institute of Certified Public Accountants and a chartered accountant (New Zealand).

Supervisors

Mr. Yu Xuefeng (于學峰), aged 58, is the deputy secretary of the Party Committee, secretary of the discipline committee and chairman of the trade union of the Company as well as the chairman of the Board of Supervisors and Shareholder Supervisor since 25 June 2018. Mr. Yu also serves as the chairman of Sanhe Baolan Heat Co., Ltd., the legal representative, manager and director of Baoding Langzhuo Guan-Baoding Railway Construction Co., Ltd., and serves as a director of Luanping Zhongcheng Real Estate Development Co., Ltd. (灤平中誠房地產開發有限公司), Zhongming Zhiye Co., Ltd., Hebei Baocang Expressway Co., Ltd. (河北保滄高速公路有限公司), Jiuzhou Zongheng Railway. Investment Co., Ltd. (九州縱橫城際鐵路投資有限公司), Baoding Taihang Heyi Environmental Technology Co., Ltd. (保定太行和益環保科技有限公司), Baoding Baofeng Agricultural Ecology Technology Co., Ltd. (保定市保豐農業生態科技有限公司), Hebei Tianbo Construction Technology Co., Ltd. (河北天博建設科技有限公司) and Laiyuan Zhongcheng Construction Development Co., Ltd. (涞源中誠建設發展有限公司). Mr. Yu's previous primary work experience includes: serving as the deputy chief of the industry section of Baoding Economic and Trade Commission from August 1984 to July 1998; the assistant to the President of the Company from August 1998 to July 2001; the vice President of the Company from August 2001 to April 2017; the chief accountant of Baoding Taihang Heyi Cement Co., Ltd. from September 2002 to November 2004; the chief accountant of Hebei Baocang Expressway Co., Ltd from December 2004 to October 2011; the general manager, chief accountant, vice chairman and secretary of the party general branch of Zhongcheng Real Estate Development Co., Ltd. from November 2011 to September 2017.

Mr. Yu graduated from Hebei College of Engineering, majoring in automation in July 1984, and graduated from Hebei University, majoring in economics in July 1997. Mr. Yu is a senior economist.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Liu Jingqiao (劉景喬), aged 59, is an employee Supervisor of the Company since 31 March 2017. Mr. Liu also serves as the director of the Office of Party and Administration of the Company, the chairman of board of directors of Yuncai Network Technology Co., Ltd. (雲採網絡技術有限公司), Shenxian Mountain Tourism Development Co., Ltd. (神仙山旅遊發展有限公司) and Fuping County Ruifu Building Material Co., Ltd. (阜平縣瑞阜建材有限公司), respectively and a director of Hebei Qianyuan Red Agricultural Technology Co., Ltd. (河北乾元紅色農業科技有限公司). Mr. Liu's previous primary work experience includes: serving as an employee of the health system of Fuping County of Hebei Province from August 1981 to August 1986; the head of the reporting group of the publicity department of the Party committee of Fuping County of Hebei Province and an organizer (at deputy division level) of the organization department of the Party Committee of Fuping County of Hebei Province; a secretary of the Company from September 1994 to January 2001; a deputy director of the office of the Party Committee and the Board secretary of the Company from January 2001 to December 2012; a deputy office director of the Company from April 2002 to February 2009; an office director of the Company, a director of the General Management Office, a deputy head of the Security Department and the secretary to the Party Committee of the Company from February 2009 to December 2012; and the Board secretary of the Company from November 2010 to April 2017.

Mr. Liu obtained an undergraduate academic diploma in law (through correspondence course) from Correspondence College of the Central Party School of C.P.C. (中共中央黨校函授學院) in Beijing, the PRC in December 2001.

Ms. Feng Xiujian (馮秀健), aged 43, is a Shareholder Supervisor of the Company since 23 January 2013. Ms. Feng also serves as a vice Chief Accountant and the general manager of Finance Management Department of the Company, a director of Tianjin Tianzheng Construction Engineering Co., Ltd. (天津天正建築工程有限責任公司), a director of Beijing Tianjia Construction Engineering Co., Ltd. (北京天佳建築工程有限公司) and a supervisor of Zhongcheng Real Estate, Hebei Zhiping Construction Equipment Leasing Co., Ltd. (河北治平建築設備租賃有限公司), Yuncai Network Technology Co., Ltd. (雲採網絡技術有限公司), Hebei Zhongru Software Technology Co., Ltd. (河北中儒軟件科技股份有限公司), Hebei Construction Group Steel Structure Engineering Co., Ltd. (河北建設集團鋼結構工程有限公司), Hebei Construction Group Zhengyuan Concrete Co., Ltd. (河北建設集團正源混凝土有限公司), Jiuzhou Zongheng Railway. Investment Co., Ltd. (九州縱橫城際鐵路投資有限公司), Baoding Langzhuo Gubao Intercity Railway Engineering Co., Ltd. (保定廊涿固保城際鐵路工程有限公司), Hebei Lvjian Investment Company (河北綠建投資股份公司) and Baoding Taihang Heyi Environmental Technology Co., Ltd. (保定太行和益環保科技有限公司), respectively. Ms. Feng's previous primary work experience includes: serving as an accountant of the Steel Structures Branch of the Company from September 2000 to August 2004; a deputy head and the head of the Finance Division of Concrete Branch of the Company from August 2004 to May 2009; and a deputy head of the Finance Management Department of the Company from June 2009 to December 2009.

Ms. Feng obtained a bachelor's degree in accounting from Hebei University of Economics and Business in Shijiazhuang, the PRC in July 2000. Ms. Feng obtained the qualification of senior accountant from the Office of Qualification Reform Leading Group of Hebei Province (河北省職稱改革領導小組辦公室) in December 2019.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Yue Jianming (岳建明), aged 48, is an employee Supervisor of the Company since 31 March 2017. Mr. Yue also serves as the general manager of the Market Development Department of the Company, the legal representative and executive director of Beijing Zhongjian Zhilian Management Consulting Co., Ltd. (北京中建智聯管理諮詢有限公司), a director of Inner Mongolia Xinglifeng Construction Management Co., Ltd. (內蒙古興利豐建設管理有限公司), a director of Hebei Haikuo Environmental Technology Co., Ltd. (河北海闊環境科技有限公司), a supervisor of Beijing Tianjia Construction Engineering Co., Ltd. (北京天佳建築工程有限公司) and a supervisor of Tianjin Tianzheng Construction Engineering Co., Ltd. (天津天正建築工程有限責任公司), Beijing Rungucheng Investment Management Co., Ltd. (北京市潤穀誠投資管理有限公司), HCG Tianchen Construction Engineering, HCG Zhuocheng Road and Bridge Engineering, HCG Installment Engineering and HCG Garden Engineering, respectively. He is also a consultation expert of National Development and Reform Commission, a mediator of Mediation Centre of China Construction Industry Association, an arbitrator of China International Economics and Trade Arbitration Commission and Shanghai Arbitration Commission, a consultant expert of Hebei Urban Construction Investment & Financing Association, an editor of textbook for the National Grade I Practising Qualification Certificate Constructor Examination, a vice director committee member of the Real Estate and Construction Engineering Law Profession Committee of China Legal Consulting Centre (中國法律諮詢中心房地產與建築工程法律專業委員會), an expert in the NDRC PPP expert pool (國家發改委PPP專家庫), a council member of China Experts Association (中國專家學者協會), an adjunct professor at the College of Political Science and Law of Hebei University, a researcher of Real Estate Law Research Centre of China University of Political Science and Law, a member of the Legal Expert Consulting Committee of the People's Government of Baoding (保定市人民政府法制專家諮詢委員會), a researcher of the China Behavior Law Association and Joint Major and Difficult Cases Research Centre (中國行為法學會·法聯重大疑難案件研究中心), an arbitrator of Harbin Arbitration Commission and a researcher of China Arbitration Law Research Association. Mr. Yue's previous primary work experience includes: serving as the legal counsel of the Company from September 1995 to March 2006; and a deputy head of the Economic Contract Department of the Company from April 2006 to March 2009.

Mr. Yue obtained a master's degree in law from China University of Political Science and Law in Beijing, the PRC in July 2015. Mr. Yue obtained the qualifications of senior economist from Qualification Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室) in December 2013. He also obtained the qualification of corporate legal counsel jointly issued by the Ministry of Personnel, National Economics and Trade Commission and the Ministry of Justice in June 1999, the legal profession qualification from the Ministry of Justice in February 2006, and the qualification of construction project manager from China Construction Industry Association in June 2010.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Wang Feng (王豐), aged 41, is a Shareholder Supervisor of the Company since 31 March 2017. Mr. Wang also serves as the general manager of the Inspection and Auditing Department of the Company, and a supervisor of HCG Tianchen Construction Engineering, HCG Decoration Engineering, Beijing Tianjia Construction Engineering Co., Ltd. (北京天佳建築工程有限公司), Guangdong Huarong Construction Engineering Co., Ltd. (廣東華融建設工程有限公司), HCG Zhuocheng Road and Bridge Engineering, HCG Installment Engineering, HCG Garden Engineering, Tianjin Tianzheng Construction Engineering Co., Ltd. (天津天正建築工程有限責任公司) and Hebei Construction Group Infrastructure Construction Co., Ltd. (河北建設集團基礎設施建設有限公司), respectively. Mr. Wang's previous primary work experience includes: serving as a teacher at No.10 Middle School of Dalad Qi, Inner Mongolia from September 2003 to August 2004, an information commissioner of the office of the Party Committee of Dalad Qi, Inner Mongolia from September 2004 to August 2005, the human resource manager of Aishengya (Baoding) Package Company Limited (愛生雅(保定)包裝有限公司) from September 2008 to June 2010, the human resource manager of Baoding International Paper Package Company Limited (保定國際紙業包裝有限公司) from September 2010 to December 2013, and the secretary to the vice Chairman of the Board of the Company from January 2014 to September 2014.

Mr. Wang obtained an academic diploma from a post-secondary course for computer and application from Inner Mongolia University of Technology in Hohhot, the PRC in July 2003, and an academic diploma of undergraduate course in English language from Hebei University in Baoding, the PRC in April 2009. Mr. Wang obtained the qualification of constructor from the Qualification Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室) in September 2016.

Senior Management

Mr. Shang Jinfeng (商金峰). For biography of Mr. Shang, please refer to "Directors - Executive Directors" above.

Mr. Zhao Wensheng (趙文生). For biography of Mr. Zhao, please refer to "Directors - Executive Directors" above.

Mr. Liu Yongjian (劉永建). For biography of Mr. Liu, please refer to "Directors - Executive Directors" above.

Mr. Li Zhongyi (李忠義), aged 51, is a vice president of the Company since July 2020. Mr. Li's previous primary work experience includes working in the Installation Company, the Fourth Branch, the Beijing Branch, the Eighth Branch and other entities of the Company from September 1994 to March 2019. Mr. Li also serves as a director of Zhongru Investment Co., Ltd., Hebei Construction Group Garden Engineering Co., Ltd., Hebei Construction Group Decoration Engineering Co., Ltd. and Hebei Haikuo Environmental Technology Co., Ltd. and a supervisor of Changzhou Zhongwei Survey and Design Co., Ltd.

Mr. Li obtained an academic diploma in political education from Baoding University (保定學院) in July 1994; obtained an undergraduate degree in law (through correspondence course) from the Central Party School of C.P.C. (中央黨校) in December 2001; and obtained a college diploma (adult education) in operation management of construction enterprises from Hebei University of Architecture in June 2004. Mr. Li obtained the qualification of senior engineer from the Office of Qualification Reform Leading Group of Hebei Province (河北省職稱改革領導小組辦公室) in December 2012.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Zhang Wenzhong (張文忠), aged 45, is a Vice President of the Company since 31 March 2017 and has been the chief economic officer of the Company since 25 January 2019. He also serves as a director of Hebei Haikuo Environmental Technology Co., Ltd., Hebei Zhiping Construction Equipment Leasing Co., Ltd. and Rongcheng County Xinrong City Development Co., Ltd (容城縣鑫融城市發展有限公司). Mr. Zhang's previous primary work experience includes working in Tianli Labor Company, Tianchen Construction Engineering Company Limited and the Third Branch of the Company from July 1998 to December 2020.

Mr. Zhang obtained an academic diploma in industrial and civil construction from Agricultural University of Hebei in July 1998; and obtained an undergraduate degree (adult education) in industrial and civil construction from Tianjin University in August 2017. Mr. Zhang obtained the qualification of national first-class certified constructor from the Ministry of Housing and Urban-Rural Development of the PRC in January 2020, and obtained the qualification of senior engineer from the Office of Qualification Reform Leading Group of Hebei Province (河北省職稱改革領導小組辦公室) in December 2020.

Mr. Tian Wei (田偉), aged 51, is a Vice President of the Company since 10 October 2019. Mr. Tian's previous primary work experience includes working in the First Branch and Inner Mongolia Branch of the Company from December 1991 to October 2019. Mr. Tian also serves as a director of HCG Tianchen Construction Engineering Co., Ltd., HCG Installment Engineering Co., Ltd., Hebei Haikuo Environmental Technology Co., Ltd. and Hebei Zhiping Construction Equipment Leasing Co., Ltd.

Mr. Tian obtained an academic diploma (adult education) in construction engineering from Hebei University of Architecture (河北建築工程學院) in June 2001, and obtained an academic diploma (adult education) in operation management of construction enterprises from Hebei University of Architecture in June 2004. Mr. Tian obtained the qualification of national first-class certified constructor from the Ministry of Construction of the PRC in April 2006, and obtained the qualification of senior engineer from the Office of Qualification Reform Leading Group of Hebei Province (河北省職稱改革領導小組辦公室) in November 2011.

Mr. Lü Qian (呂謙), aged 55, is a Vice President of the Company since 1 September 2020. Mr. Lü's previous primary work experience includes working in the 11th Working Area, the Fifth Branch and the Airport Branch of the Company from July 1987 to September 2020.

Mr. Lü obtained an academic diploma in agricultural construction and environmental engineering from Agricultural University of Hebei in 1987, and obtained an undergraduate degree in industrial and civil construction from Harbin University of Architecture in July 1997. Mr. Lü obtained the qualification of national first-class certified constructor from the Ministry of Construction of the PRC in April 2006, and obtained the qualification of senior engineer from the Office of Qualification Reform Leading Group of Hebei Province (河北省職稱改革領導小組辦公室) in December 2013.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Li Wutie (李武鐵), aged 34, is the Board secretary of the Company since 31 March 2017, the joint company secretary of the Company since 15 December 2017 and the assistant to the President of the Company since January 2015, and served as the head of the Financial and Securities Department of the Company since 4 June 2018. Mr. Li also serves as a director and the general manager of Shenzhen Zhongru Investment Co., Ltd. (深圳中儒投資有限公司). Mr. Li's previous primary work experience includes working at the Inspection and Audit Department and Market Operation Department of the Company from July 2013 to December 2014.

Mr. Li obtained a Bachelor of Science (economics) degree in financial and business economics from Royal Holloway and Bedford New College of University of London in London, the United Kingdom in August 2011, and a Master of Science degree in accounting, accountability and financial management from King's College of London in London, the United Kingdom in December 2012.

Mr. Li is the son of Mr. Li Baoyuan, the Honorary Chairman and non-executive Director of the Company, and nephew of Mr. Li Baozhong, the Chairman and executive Director of the Company.

Joint Company Secretaries

Mr. Li Wutie (李武鐵). For biography of Mr. Li, please refer to "Senior Management" above.

Ms. Wong Wai Ling (黃慧玲), is one of the joint company secretaries of the Company. Ms. Wong has more than 16 years of experience in corporate secretarial affairs. Ms. Wong is the vice president of SWCS Corporate Services Group (Hong Kong) Limited and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, she worked in a corporate service provider and the company secretarial department of an international accounting firm. Ms. Wong obtained a Bachelor of Arts degree in marketing and public relations from the Hong Kong Polytechnic University and a master's degree in corporate governance from the Open University of Hong Kong. Ms. Wong has been an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

STAFF INFORMATION

Staff Composition

As at 31 December 2020, the Group had 8,773 full-time employees. Set out below is a breakdown of the number of staff by function:

Employees of	Number of employees
The Company	6,703
The subsidiaries of the Company	2,070
Total	8,773

STAFF INCENTIVE

The Group has established a comprehensive performance appraisal system. Through the combination of monthly target assessment and yearly all-round appraisal, it linked annual operating goals with the performance appraisal of all departments and staff. The appraisal system combined objective appraisal, indicator appraisal, appraisal based on letter of commitment to objectives at the management level, quantitative appraisal on KPI indicators, monthly appraisal and yearly all round appraisal, building the comprehensive performance appraisal system covering the Company, departments, branches, subsidiaries and individuals. Tasks were broken down level by level for full coverage of key indicators and level-by-level management was adopted for attaining goals. The Company aligns business operation with individual incentive by a number of measures and means, for the purpose of boosting creativity of the organisation and individuals. It pursues long-term corporate development in a manner responsible to the Shareholders and the society.

STAFF TRAINING

The Group attaches great importance to building a sound corporate culture, strives to improve the overall quality of employees and actively conducts comprehensive staff training at different levels. During the Reporting Period, it has pushed forward the development of systems, training courses, trainer qualification and training management in accordance with corporate strategy and arrangement of key undertakings of the year, and with the support of the Company's training system. On that basis, it coordinated and planned Company-level training programs for different departments and subordinate companies. As at 31 December 2020, the Group has provided training for a total of 37,703 employees in 85,494 days with total training expenditure amounting to approximately RMB3.1181 million.

EMPLOYEE EVALUATION AND REMUNERATION

Taking into account the human resources strategy, the Group has established a remuneration system for different job levels based on individual performance and competence, with reference to the prevailing rates of relevant enterprises in the same region and same industry. This competitive remuneration system provided great support to the Company in talent recruitment, retention and motivation, and the implementation of human resources strategy.

PENSION SCHEME

A total of 48 employees of the Company retired in 2020. Such employees are entitled to the social pension insurance scheme approved by local labour and social security authorities, which is a defined contribution plan and should be made monthly contribution by the Group. For details of the social pension insurance scheme, please refer to Note III-18 to the financial statements.

Further details of employment policy of the Company are set out in the “Environmental, Social and Governance Report” on page 92 to page 173.



INDEPENDENT AUDITOR'S REPORT

Ernst & Young Hua Ming (2021) Shen Zi No. 61319209_J01
Hebei Construction Group Corporation Limited

To the Shareholders of Hebei Construction Group Corporation Limited:

I. OPINION

We have audited the financial statements of Hebei Construction Group Corporation Limited (the “Company”), which comprise the consolidated and company balance sheets as at 31 December 2020, and the consolidated and company income statements, the consolidated and company statements of changes in owners’ equity and the consolidated and company statements of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and the Company’s financial position as at 31 December 2020, and the consolidated and the Company’s financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises (“ASBEs”).

II. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing (“CSAs”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with *China Code of Ethics for Certified Public 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.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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 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 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 financial statements.

III. KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
<i>Income recognition on construction contracts</i>	
<p>The revenue of the Company is mainly derived from the construction contracts and the income therefrom is recognised based on the progress of performance. Recognising income in accordance with the progress of the performance involves significant judgements and estimates of contract income and total contract costs, including the management's continuous evaluation and corresponding adjustment on the estimated contract income and total contract costs based on factors such as the scope of contract delivery and costs for unfinished works during contract execution. In addition, due to changes in circumstances, the estimated contract income and total contract costs may vary from the original estimates.</p> <p>For the accounting policies and related disclosures for the recognition of construction contract income, please refer to Notes III-20, VI-34 and XVI-5 to the financial statements.</p>	<p>The procedures relating to the income recognition of construction contracts which we have implemented mainly included:</p> <ol style="list-style-type: none"> <li data-bbox="831 720 1396 1086">(1) We evaluated and tested the internal control of the income recognition process of the Company, including the internal control relating to the estimated total contract income and estimated contract cost preparation and calculation of income in accordance with the progress of the performance; <li data-bbox="831 1129 1396 1274">(2) We selected major construction contracts and reviewed the key contract terms including the contract price; <li data-bbox="831 1317 1396 1504">(3) We checked the contract costs incurred by selecting samples to check against supporting documents such as delivery and acceptance notes and invoices;

III. KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
	<p>(4) We evaluated management's judgement and estimates in the determination of estimated total contract costs by selecting samples to discuss the progress of the construction contracts with those in charge of the projects and comparing actual contract costs incurred with budgeted contract cost; and</p> <p>(5) We re-calculated the progress of the performance and the income based on the costs incurred and the estimated total contract costs and performed analytical review procedures according to different construction contract types.</p>

III. KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
<p><i>Provision for expected credit losses on accounts receivable, other receivables and contract assets</i></p>	
<p>As at 31 December 2020, the Company had accounts receivable, other receivables and contract assets amounting to RMB49,664,765,000. The provisions for impairment of accounts receivable, other receivables and contract assets are recognised based on expected credit losses and involve significant judgements and estimates.</p> <p>The management of Hebei Construction Group Corporation Limited assesses the credit risk of accounts receivable, other receivables and contract assets by analysing the historical collection of accounts receivable and other receivables and the historical settlement of contract assets, the credit ratings of counterparties and future economic conditions.</p>	<p>The procedures relating to the assessment of expected credit losses for accounts receivable, other receivables and contract assets which we have implemented mainly included:</p> <ol style="list-style-type: none"> (1) We evaluated the internal control relating to the accounting process of provision for expected credit losses for accounts receivable, other receivables and contract assets of the Company; (2) We evaluated the expected credit losses for accounts receivable, other receivables and contract assets by selecting samples to check the historical collection of accounts receivable and other receivables and the historical settlement of contract assets; (3) We tested the accuracy of the ageing of balances of accounts receivable, other receivables and contract assets by tracing details in the supporting documents of the selected samples, such as invoices and contracts with debtors; (4) We reviewed bank advice for the payments received subsequent to the end of the reporting period by selecting samples;

III. KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
The accounting policies and related disclosures for accounts receivable, other receivables and contract assets are included in Notes III-8, VI-3, 6, 8 and XVI-2, 3 to the financial statements.	(5) We evaluated the credit risk assessment on the accounts receivable, other receivables and contract assets conducted by management.

IV. OTHER INFORMATION

The management of the Company is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

V. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with ASBEs, and for designing, implementing and maintaining such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

V. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS (Continued)

In preparing the financial statements, the management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally 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 financial statements.

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

- (1) Identify and assess the risks of material misstatement of the 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.
- (2) 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 internal control.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (Continued)

- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's 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 Company'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 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 Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the 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 those charged with governance 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 those charged with governance 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.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

Ernst & Young Hua Ming LLP

Chinese Certified Public Accountants:
Yang Lin
(Project Partner)

Chinese Certified Public Accountants:
Chen Zhiwang

Beijing, the PRC

20 April 2021

CONSOLIDATED BALANCE SHEET

31 December 2020

Unit: RMB'000

Assets	Note VI	31 December 2020	31 December 2019
Current assets			
Currency funds	1	8,453,271	7,045,270
Financial assets held for trading	2	743	4,931
Accounts receivable	3	5,427,035	5,748,686
Accounts receivable financing	4	1,699,431	1,257,760
Prepayments	5	822,212	1,285,168
Other receivables	6	2,437,425	2,468,999
Inventories	7	337,772	241,145
Contract assets	8	38,503,175	39,231,476
Non-current assets due within one year	10	35,102	26,061
Other current assets	9	180,561	117,736
Total current assets		57,896,727	57,427,232
Non-current assets			
Long-term receivables	10	85,792	93,840
Long-term equity investments	11	540,801	530,015
Contract assets	8	2,020,415	1,287,426
Other equity instrument investments	12	769,108	779,054
Investment property	13	136,700	134,750
Fixed assets	14	362,101	378,117
Construction in progress	15	575,027	15,764
Right-of-use assets	16	31,773	46,544
Intangible assets	17	100,746	35,633
Deferred tax assets	18	274,692	198,196
Total non-current assets		4,897,155	3,499,339
Total assets		62,793,882	60,926,571

The notes form an integral part of these financial statements

CONSOLIDATED BALANCE SHEET

31 December 2020

Unit: RMB'000

Liabilities and owners' equity	Note VI	31 December 2020	31 December 2019
Current liabilities			
Short-term borrowings	20	2,269,541	2,250,713
Bills payable		571,443	380,677
Accounts payable	21	35,025,888	35,946,252
Contract liabilities	22	6,015,490	4,489,727
Employee benefits payable	23	202,579	185,954
Taxes payable	24	694,775	636,184
Other payables		5,304,087	5,300,272
Non-current liabilities due within one year		964,713	922,400
Other current liabilities	25	3,323,576	3,016,571
Total current liabilities		54,372,092	53,128,750
Non-current liabilities			
Long-term borrowings	26	1,959,599	1,864,424
Lease liabilities	27	22,112	29,825
Total non-current liabilities		1,981,711	1,894,249
Total liabilities		56,353,803	55,022,999
Owners' equity			
Share capital	28	1,761,384	1,761,384
Capital reserve	29	1,661,232	1,661,232
Other comprehensive income	30	141,182	119,557
Surplus reserve	32	500,912	417,681
Retained earnings	33	2,181,233	1,760,756
Total equity attributable to owners of the parent		6,245,943	5,720,610
Minority interests		194,136	182,962
Total owners' equity		6,440,079	5,903,572
Total liabilities and owners' equity		62,793,882	60,926,571

The financial statements have been signed by:

Legal Representative:

Principal in charge of
accounting:

Head of accounting
department:

The notes form an integral part of these financial statements

CONSOLIDATED INCOME STATEMENT

2020
Unit: RMB'000

	Note VI	2020	2019
Operating revenue	34	40,149,925	41,077,029
Less: Operating costs		38,010,238	39,023,724
Taxes and surcharges		113,346	109,276
Selling costs		1,193	10,237
Administrative expenses		501,124	505,448
Research and development costs		94,476	92,895
Finance expenses	35	263,207	212,878
Including: Interest expenses		304,527	366,221
Interest income		39,167	158,720
Add: Other income	36	10,759	310
Investment income	37	27,754	50,992
Including: Gains on investments in joint ventures and associates		3,225	8,572
Losses on derecognition of financial assets at amortised cost		(59,197)	(50,764)
Gains/(losses) from changes in fair values	38	1,950	(2,721)
Credit impairment losses	39	55,392	51,364
Losses on asset impairment	40	(325,197)	(11,159)
Gains from disposal of assets		214	304
Operating profit		937,213	1,211,661
Add: Non-operating income		2,444	1,490
Less: Non-operating expenses		3,523	4,402
Total profit		936,134	1,208,749
Less: Income tax expenses	42	183,903	445,626
Net profit		752,231	763,123
Including: Net profit of a party being acquired prior to business combination under common control		-	37,906
Classified by business continuity			
Net profit from continuing operations		752,231	725,232
Net profit from discontinued operations		-	37,891

The notes form an integral part of these financial statements

CONSOLIDATED INCOME STATEMENT

2020

Unit: RMB'000

	Note VI	2020	2019
Classified by shareholdings			
Net profit attributable to owners of the parent		759,856	770,415
Minority interests		(7,625)	(7,292)
Other comprehensive income, net of tax	30	12,072	58,657
Other comprehensive income attributable to owners of the parent, net of tax		12,072	58,657
Other comprehensive income that will not be reclassified to profit or loss			
Changes in fair value of other equity instrument investments		23,715	73,100
Other comprehensive income that may be reclassified to profit or loss			
Changes in fair value of accounts receivable financing		(11,643)	(14,443)
Total comprehensive income		764,303	821,780
Including:			
Total comprehensive income attributable to owners of the parent		771,928	829,072
Total comprehensive losses attributable to minority shareholders		(7,625)	(7,292)
Earnings per share (RMB/share)			
Basic and diluted earnings per share	43	0.43	0.43

The notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2020
Unit: RMB'000

2020

	Attributable to owners of the parent							Minority interests	Total owners' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Subtotal		
I. Opening balance of the current year	1,761,384	1,661,232	119,557	-	417,681	1,760,756	5,720,610	182,962	5,903,572
II. Changes for the year									
(I) Total comprehensive income	-	-	12,072	-	-	759,856	771,928	(7,625)	764,303
(II) Capital contribution and reduction by shareholders									
1. Capital contribution by minority shareholders	-	-	-	-	-	-	-	18,799	18,799
(III) Profit distribution									
1. Appropriation to surplus reserve	-	-	-	-	83,231	(83,231)	-	-	-
2. Distribution to shareholders	-	-	-	-	-	(246,595)	(246,595)	-	(246,595)
(IV) Special reserve									
1. Appropriation for the year	-	-	-	802,999	-	-	802,999	-	802,999
2. Use in the year	-	-	-	(802,999)	-	-	(802,999)	-	(802,999)
(V) Transfer within owners' equity									
1. Other comprehensive income transferred to retained earnings	-	-	9,553	-	-	(9,553)	-	-	-
III. Closing balance of the year	1,761,384	1,661,232	141,182	-	500,912	2,181,233	6,245,943	194,136	6,440,079

The notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
2020
Unit: RMB'000

2019

	Attributable to owners of the parent							Minority interests	Total owners' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Subtotal		
I. Closing balance of the previous year	1,761,384	1,462,156	60,900	-	267,706	1,625,641	5,177,787	510,606	5,688,393
Add: Business combinations under common control	-	124,776	-	-	27,540	76,388	228,704	15,248	243,952
Effects of the first application of new leases standard	-	-	-	-	-	(838)	(838)	-	(838)
II. Opening balance of the year	1,761,384	1,586,932	60,900	-	295,246	1,701,191	5,405,653	525,854	5,931,507
III. Changes for the year									
(I) Total comprehensive income	-	-	58,657	-	-	770,415	829,072	(7,292)	821,780
(II) Capital contribution and reduction by shareholders									
1. Capital contribution by minority shareholders	-	-	-	-	-	-	-	17,886	17,886
2. Effects of business combination under common control as at the date of combination and the effect of disposal of the discontinued operations	-	8,300	-	-	-	-	8,300	(353,486)	(345,186)
3. Waiver of corporate debts under common control	-	66,000	-	-	-	-	66,000	-	66,000
(III) Profit distribution									
1. Appropriation to surplus reserve	-	-	-	-	122,435	(122,435)	-	-	-
2. Distribution to shareholders	-	-	-	-	-	(588,415)	(588,415)	-	(588,415)
(IV) Special reserve									
1. Appropriation for the year	-	-	-	721,653	-	-	721,653	-	721,653
2. Use in the year	-	-	-	(721,653)	-	-	(721,653)	-	(721,653)
IV. Closing balance of the year	1,761,384	1,661,232	119,557	-	417,681	1,760,756	5,720,610	182,962	5,903,572

The notes form an integral part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

2020
Unit: RMB'000

	Note VI	2020	2019
I. CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from sales of goods or rendering of services		46,810,023	42,236,101
Other cash receipts related to operating activities		6,825,580	6,121,533
Subtotal of cash inflows from operating activities		53,635,603	48,357,634
Cash paid for goods and services		42,117,457	40,447,645
Cash paid to and for employees		847,399	823,157
Taxes paid		1,469,386	1,332,080
Other cash payments related to operating activities		7,229,429	5,419,129
Subtotal of cash outflows from operating activities		51,663,671	48,022,011
Net cash flows from operating activities	44	1,971,932	335,623
II. CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received from return of investment		7,727	4,500
Cash received from investment income		113,853	227,888
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		43,713	10,427
Net cash received from disposal of subsidiaries		690	16
Subtotal of cash inflows from investing activities		165,983	242,831
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		368,560	81,828
Cash paid to acquire investments		11,774	587,174
Net cash paid for the acquisition of subsidiaries		-	282,671
Subtotal of cash outflows from investing activities		380,334	951,673
Net cash flows used in investing activities		(214,351)	(708,842)

The notes form an integral part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

2020

Unit: RMB'000

	Note VI	2020	2019
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from capital contributions		18,799	17,886
Including: Cash received from minority shareholders' capital contributions to subsidiaries		18,799	17,886
Cash received from borrowings		7,433,352	4,423,788
Other cash receipts related to financing activities		10,000	462,835
Subtotal of cash inflows from financing activities		<u>7,462,151</u>	<u>4,904,509</u>
Cash paid for repayments of debts		7,275,502	2,727,010
Cash paid for distribution of dividends or interest repayment		541,113	935,931
Other cash payments related to financing activities		80,131	198,612
Subtotal of cash outflows from financing activities		<u>7,896,746</u>	<u>3,861,553</u>
Net cash flows (used in)/from financing activities		<u>(434,595)</u>	<u>1,042,956</u>
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		<u>2,153</u>	<u>(5,377)</u>
V. NET INCREASE IN CASH AND CASH EQUIVALENTS			
		1,325,139	664,360
Add: Opening balance of cash and cash equivalents		<u>6,675,426</u>	<u>6,011,066</u>
VI. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS			
	45	<u>8,000,565</u>	<u>6,675,426</u>

The notes form an integral part of these financial statements

BALANCE SHEET

31 December 2020

Unit: RMB'000

Assets	<i>Note XVI</i>	31 December 2020	31 December 2019
Current assets			
Currency funds	1	6,664,897	5,566,335
Accounts receivable	2	4,355,725	4,133,415
Accounts receivable financing		1,231,371	902,718
Prepayments		684,958	1,009,335
Other receivables		1,834,776	1,803,262
Inventories		221,683	181,974
Contract assets	3	31,202,348	32,455,838
Other current assets		57,567	53,548
Total current assets		46,253,325	46,106,425
Non-current assets			
Long-term equity investments	4	2,814,656	2,554,241
Other equity instrument investments		769,108	779,054
Investment property		136,700	134,750
Fixed assets		138,389	135,070
Construction in progress		577,151	14,950
Right-of-use assets		11,580	19,287
Intangible assets		547	610
Deferred tax assets		171,828	133,558
Total non-current assets		4,619,959	3,771,520
Total assets		50,873,284	49,877,945

The notes form an integral part of these financial statements

BALANCE SHEET

31 December 2020

Unit: RMB'000

Liabilities and shareholders' equity	31 December 2020	31 December 2019
Current liabilities		
Short-term borrowings	1,704,483	1,812,213
Bills payable	219,719	124,828
Accounts payable	28,825,668	29,165,296
Contract liabilities	4,945,036	4,121,521
Employee benefits payable	141,230	97,881
Taxes payable	508,128	454,840
Other payables	4,749,745	4,758,205
Non-current liabilities due within one year	574,124	518,084
Other current liabilities	2,784,252	2,508,029
Total current liabilities	44,452,385	43,560,897
Non-current liabilities		
Long-term borrowings	475,990	785,464
Lease liabilities	11,638	13,087
Total non-current liabilities	487,628	798,551
Total liabilities	44,940,013	44,359,448
Owners' equity		
Share capital	1,761,384	1,761,384
Capital reserve	1,447,379	1,447,379
Other comprehensive income	146,817	123,730
Surplus reserve	292,919	228,135
Retained earnings	2,284,772	1,957,869
Total owners' equity	5,933,271	5,518,497
Total liabilities and owners' equity	50,873,284	49,877,945

The notes form an integral part of these financial statements

INCOME STATEMENT

2020
Unit: RMB'000

	Note XVI	2020	2019
Operating revenue	5	33,105,760	32,949,903
Less: Operating costs		31,400,542	31,161,206
Taxes and surcharges		88,800	77,439
Selling costs		911	1,736
Administrative expenses		441,552	350,181
Research and development costs		75,715	67,270
Finance expenses		127,875	90,452
Including: Interest expenses		186,753	180,713
Interest income		56,725	164,016
Add: Other income		3,465	200
Investment income		33,991	35,474
Including: Gains on investments in joint ventures and associates		4,631	(2,124)
Losses on derecognition of financial assets at amortised cost		(55,040)	(50,764)
Gains/(losses) from changes in fair values		1,950	(2,652)
Credit impairment losses		61,403	42,397
Losses on asset impairment		(238,263)	(14,781)
Gains from disposal of assets		-	304
Operating profit		832,911	1,262,561
Add: Non-operating income		5,452	15,133
Less: Non-operating expenses		2,503	289
Total profit		835,860	1,277,405
Less: Income tax expenses		188,025	310,196
Net profit		647,835	967,209
Other comprehensive income, net of tax		13,534	62,830
Other comprehensive income that cannot be reclassified to profit or loss			
Changes in fair value of other equity instrument investments		23,715	73,100
Other comprehensive income that will be reclassified to profit or loss			
Changes in fair value of accounts receivable financing		(10,181)	(10,270)
Total comprehensive income		661,369	1,030,039

The notes form an integral part of these financial statements

STATEMENT OF CHANGES IN OWNERS' EQUITY

2020

Unit: RMB'000

2020

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total owners' equity
I. Closing balance of the previous year	1,761,384	1,447,379	123,730	-	228,135	1,957,869	5,518,497
II. Changes for the year							
(I) Total comprehensive income	-	-	13,534	-	-	647,835	661,369
(II) Profit distribution							
1. Appropriation to surplus reserve	-	-	-	-	64,784	(64,784)	-
2. Distribution to shareholders	-	-	-	-	-	(246,595)	(246,595)
(III) Special reserve							
1. Appropriation for the year	-	-	-	662,115	-	-	662,115
2. Use in the year	-	-	-	(662,115)	-	-	(662,115)
(III) Transfer within owners' equity							
1. Other comprehensive income transferred to retained earnings	-	-	9,553	-	-	(9,553)	-
III. Closing balance of the year	1,761,384	1,447,379	146,817	-	292,919	2,284,772	5,933,271

The notes form an integral part of these financial statements

STATEMENT OF CHANGES IN OWNERS' EQUITY

2020

Unit: RMB'000

2019

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total owners' equity
I. Closing balance of the previous year	1,761,384	1,462,156	60,900	-	131,414	1,617,678	5,033,532
Add: Effects of the first application of new leases standard	-	-	-	-	-	(1,882)	(1,882)
Opening balance of the year	<u>1,761,384</u>	<u>1,462,156</u>	<u>60,900</u>	<u>-</u>	<u>131,414</u>	<u>1,615,796</u>	<u>5,031,650</u>
II. Changes for the year							
(I) Total comprehensive income	-	-	62,830	-	-	967,209	1,030,039
(II) Capital contribution and reduction by shareholders							
1. Waiver of corporate debts under common control	-	66,000	-	-	-	-	66,000
2. Effects of business combination under common control as at the date of combination and the effect of disposal of the discontinued operations	-	(80,777)	-	-	-	-	(80,777)
(III) Profit distribution							
1. Appropriation to surplus reserve	-	-	-	-	96,721	(96,721)	-
2. Distribution to shareholders	-	-	-	-	-	(528,415)	(528,415)
(IV) Special reserve							
1. Appropriation for the year	-	-	-	635,218	-	-	635,218
2. Use in the year	-	-	-	(635,218)	-	-	(635,218)
III. Closing balance of the year	<u>1,761,384</u>	<u>1,447,379</u>	<u>123,730</u>	<u>-</u>	<u>228,135</u>	<u>1,957,869</u>	<u>5,518,497</u>

The notes form an integral part of these financial statements

CASH FLOW STATEMENT

2020

Unit: RMB'000

	2020	2019
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods or rendering of services	38,768,648	28,040,940
Other cash receipts related to operating activities	5,553,407	6,525,692
Subtotal of cash inflows from operating activities	44,322,055	34,566,632
Cash paid for goods and services	34,215,428	28,397,403
Cash paid to and for employees	594,260	681,113
Taxes paid	1,183,346	1,043,475
Other cash payments related to operating activities	6,069,971	3,009,975
Subtotal of cash outflows from operating activities	42,063,005	33,131,966
Net cash flows from operating activities	2,259,050	1,434,666
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from investment income	141,125	238,463
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	43,312	7,355
Net cash received from disposal of subsidiaries	-	3,220
Other cash receipts related to investing activities	-	126,517
Subtotal of cash inflows from investing activities	184,437	375,555
Cash paid for the purchase and construction of fixed assets	290,121	38,651
Cash paid to acquire investments	243,064	895,094
Net cash paid for the acquisition of subsidiaries	-	9,903
Subtotal of cash outflows from investing activities	533,185	943,648
Net cash flows used in investing activities	(348,748)	(568,093)

The notes form an integral part of these financial statements

CASH FLOW STATEMENT

2020

Unit: RMB'000

	2020	2019
III. CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received from borrowings	2,581,459	2,950,543
Other cash receipts related to financing activities	10,000	462,835
Subtotal of cash inflows from financing activities	2,591,459	3,413,378
Cash paid for repayments of debts	2,951,314	2,542,483
Cash paid for distribution of dividends or interest repayment	424,983	759,892
Other cash payments related to financing activities	89,085	185,948
Subtotal of cash outflows from financing activities	3,465,382	3,488,323
Net cash flows used in financing activities	(873,923)	(74,945)
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,153	(5,377)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS	1,038,532	786,251
Add: Opening balance of cash and cash equivalents	5,361,461	4,575,210
VI. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	6,399,993	5,361,461

The notes form an integral part of these financial statements

FINANCIAL STATEMENTS AND NOTES

2020

Unit: RMB'000

I. BASIC INFORMATION

Hebei Construction Group Co., Ltd. (河北建設集團有限公司), the predecessor of Hebei Construction Group Corporation Limited (the “Company”), was established on 29 September 1997 with the approval of the People’s Government of Baoding City. It was established by the state-owned enterprise restructuring of certain state-owned assets and legal entities of No. 1 Construction Engineering Company of Hebei Province (河北省第一建築工程公司), which had 50 years of history, as well as the merging of Architectural Design Institute, legal entities, Baoding Furnace Plant and Baoding Concrete Pipe Plant. On 7 April 2017, the Company completed the shareholding system reform, was converted into a joint stock company and renamed as “Hebei Construction Group Corporation Limited”. The registered address of the Company is No. 125 Lugang Road, Baoding, Hebei Province, and the legal representative is Li Baozhong. The Company does not have a fixed business term.

Upon the proposal by the Board of Directors of the Company and approval by the general meeting, and according to the Reply on the Approval of Issuance of Overseas-Listed Foreign-Invested Shares by Hebei Construction Group Corporation Limited (Zheng Jian Xu Ke [2017] No. 2056) (證監許可[2017]2056號文《關於核准河北建設集團股份有限公司發行境外上市外資股的批覆》) from the CSRC, the Company completed the initial issue of 433,334,000 overseas-listed foreign-invested shares (H shares) to overseas investors. The over-allotment option was exercised on 5 January 2018 and issued 28,049,500 additional overseas-listed foreign-invested shares (H shares), and a total of 461,383,500 H shares were issued, with a nominal value of RMB1.00 each. The H shares were verified by Zhonghingcai Guanghua Certified Public Accountants LLP with the capital verification report of Zhonghingcai Guanghua Yan Zi (2019) No. 309003. The registered capital of the Company increased to RMB1,761,383,500 after the initial public offering of H shares.

I. BASIC INFORMATION (Continued)

The major operating activities of the Company and its subsidiaries (hereinafter referred to as the “Group”) are: general contracting of construction works and property development and operations. The Company currently possesses special-grade qualification for national building construction project general contracting, and is one of the 43 enterprises with special-grade qualification for national building construction project general contracting. It also possesses first-grade general contracting for road construction, first-grade qualifications for general contracting for municipal public engineering construction, first-grade general contracting for electrical and mechanical installation construction, first-grade professional contracting for road pavement construction, first-grade professional contracting for road subgrade construction, first-grade professional contracting for pipeline construction, first-grade qualification for professional airport runway construction contracting, first-grade professional contracting for steel structure construction, third-grade general contracting for water resources and hydropower construction (interim) and contracting for international construction and qualification for dispatch of work force to overseas. The Company and each of its subsidiaries mainly engage in projects of building construction, municipal and public construction, electrical and mechanical installation, road construction, railway construction, port and waterways construction, water resources and hydropower construction, subgrade and pavement construction, steel structure construction, airport runway construction etc.

The Group’s parent company and ultimate parent company are Zhongru Investment Co., Ltd. (incorporated in the PRC) and Qianbao Investment Co., Ltd. (incorporated in the PRC), respectively, with their principal place of business in the PRC.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards issued by the Ministry of Finance, and the specific accounting standards, application guidance, interpretations and other relevant regulations issued and revised thereafter (hereafter referred to as the “Accounting Standards for Business Enterprises”).

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(Continued)

The financial statements have been prepared on a going concern basis.

The financial statements are prepared under the historical cost convention, except for certain financial instruments and investment properties. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant rules.

Statement of compliance with the Accounting Standards for Business Enterprises

The consolidated financial statements have been prepared in accordance with Accounting Standards for Business Enterprises, which truly and completely reflect the financial position of the Company and the Group as at 31 December 2020, as well as its operating results and cash flows in 2020.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The financial information included in the financial statements of the Company and the Group for the year ended 31 December 2020 has been prepared based on the following significant accounting policies and estimates formulated in accordance with Accounting Standards for Business Enterprises.

1. Accounting period

The accounting year of the Group is from 1 January to 31 December each year.

2. Functional currency

Renminbi (“RMB”) is the functional currency of the subsidiaries, joint ventures and associates under the Group, which is used in the preparation of these financial statements. Unless otherwise stated, the unit of the currency is RMB'000.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

3. Business combinations

Business combinations are classified into business combinations under common control and business combinations not under common control.

Business combinations under common control

A business combination under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination under common control, the party that, on the combination date, obtains control of another entity participating in the combination is the acquiring party, while that other entity participating in the combination is a party being acquired. The combination date is the date on which the acquiring party effectively obtains control of the party being acquired.

Assets and liabilities (including goodwill arising from the acquisition of the merged party by the ultimate controlling party) obtained by the merging party in a business combination shall be measured at their carrying amounts at the date of combination as recorded by the ultimate controlling party. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) is adjusted to share premium under the capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted against retained earnings.

Business combinations not under common control

A business combination not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not under common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

3. Business combinations (Continued)

Business combinations not under common control (Continued)

In a business combination not under common control, the acquirer measures the acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination at their fair values on the acquisition date.

Where the aggregate of the fair value of the considerations paid (or the fair value of the equity securities issued) and the fair value of the acquiree previously held equity interest before the acquisition date exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Goodwill is subsequently measured at cost less any accumulated impairment losses. Where the aggregate of the fair value of the considerations paid (or the fair value of the equity securities issued) and the fair value of the acquiree's previously held equity interest before the acquisition date is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer reassesses the measurement of the fair value of the considerations paid (or the fair value of the equity securities issued) and the fair value of the acquirer's previously held equity interest, if after that reassessment, the aggregate of the fair value of the considerations paid (or the fair value of the equity securities issued) and the fair value of the acquirer's previously held equity interest is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the difference immediately in profit or loss for the current period.

4. Consolidated financial statements

The consolidation scope of the consolidated financial statements is determined on the basis of control, including the financial statements of the Company and all of its subsidiaries. A subsidiary is an entity (including an enterprise, a separable part of an investee, and the structural entities controlled by the Company) which is under the control of the Company.

The accounting policies and accounting periods of the Company and subsidiaries are consistent in the preparation of the consolidated financial statements. All assets, liabilities, equity, income, expenses and cash flows arising from intra-group transactions are eliminated on consolidation.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

4. Consolidated financial statements (Continued)

When the amount of loss for the period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount is still charged against minority interests.

For a subsidiary that is acquired in a business combination involving enterprises not under common control, the operating results and cash flows of the acquiree shall be consolidated into the consolidated financial statements from the date on which the Group takes control of the acquiree to the date on which such control ceases. In the preparation of the consolidated financial statements, the financial statements of the subsidiary are adjusted based on the fair value of the subsidiary's identifiable assets, liabilities or contingent liabilities determined as at the acquisition date.

For a subsidiary that is acquired in a business combination involving enterprises under common control, the operating results and cash flows of the merged party shall be incorporated into the consolidated financial statements at the beginning of the current period. In the preparation of the consolidated financial statements, the relative items of the financial statements of the previous period are treated as if the merged party had been formed under the control of the Group at the very beginning.

If a change in any facts and circumstances gives rise to one or more changes in controlling factors, the Group will reassess whether it controls the investee or not.

Change in non-controlling interests that does not result in the loss of control over the subsidiary is accounted for as an equity transaction.

5. Joint arrangement classification and joint operation

Joint arrangement is classified as joint operation and joint venture. A joint operation refers to a joint arrangement whereby the parties concerned have rights to the assets, and obligations for the liabilities relating to the arrangement. A joint venture refers to a type of joint arrangement whereby the parties concerned have rights to the net assets of the arrangement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

5. Joint arrangement classification and joint operation

(Continued)

The party concerned recognises the following items in relation to its interest in a joint operation: its solely-held assets, including its share of any assets held jointly; its solely-assumed liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its solely-incurred expenses, including its share of any expenses incurred jointly.

6. Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be withdrawn on demand at any time. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Foreign currency transactions and translation of the financial statements prepared in foreign currencies

The Group's foreign currency transactions are translated and recorded in the respective functional currencies.

A foreign currency transaction is recorded in the functional currency on initial recognition, by applying the exchange rate on the date of transaction. At the balance sheet date, foreign currency monetary items are translated into the functional currency using the spot exchange rates at the balance sheet date. Exchange differences arising from the settlements and monetary items are recognised in profit or loss for the period, except that exchange differences that qualify for capitalisation related to a specific-purpose borrowing denominated in foreign currency are capitalised as part of the cost of the qualifying asset. Foreign currency non-monetary items measured at historical cost are translated at the spot exchange rate on the date of transaction but the amount of the functional currency is not changed. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. The exchange differences are recognised in profit or loss or as other comprehensive income depending on the nature of the non-monetary items.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

7. Foreign currency transactions and translation of the financial statements prepared in foreign currencies (Continued)

Cash flows arising from a transaction in foreign currency are translated at the spot exchange rate of the transaction date of cash flows. The effect of exchange rate changes on cash is regarded as a reconciling item and presented separately in the statement of cash flows.

8. Financial instruments

Financial instruments refer to contracts that form the financial assets of one company and form the financial liabilities or equity instruments of other companies.

The recognition and derecognition of financial instruments

The Group recognises a financial asset or financial liability when it becomes a party to a financial instrument contract.

A financial asset (or part of a financial asset, or a portion of a group of similar financial assets) is derecognised and written off from its account and balance sheet, when the following conditions are met:

- (1) The right to receive cash flows from financial assets expires;
- (2) Transferring the right to receive cash flows from financial assets, or under the “hands-on agreement”, undertaking the obligation to pay the full amount of cash flows to the third party in full; and (a) substantially transferring all risks and rewards of the ownership of the financial assets, or (b) abandoning the control of the financial assets, although it does not substantially transfer or retain almost all of the risks and rewards of the ownership of the financial assets.

If the responsibility for a financial liability has been fulfilled or revoked or has expired, the financial liability should be derecognised. If an existing financial liability is replaced by another financial liability of the same creditor on substantially virtually different terms, or if the terms of the existing liability are substantially modified, such replacement or modification is deemed to terminate the recognition of the original liability and to confirm the new disposal of liabilities, the difference is included in the current profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

8. Financial instruments (Continued)

The recognition and derecognition of financial instruments

(Continued)

The purchases and sales of financial assets in regular ways are recognised and derecognised on a trade date basis. The purchases and sales of financial assets in regular ways refer to the collection or delivery of financial assets within the time limit stipulated by regulations or common practices in accordance with the terms of the contract. The trading day is the date on which the Group commits to buy or sell the financial assets.

Classification and measurement of financial assets

The financial assets of the Group are classified upon the initial recognition based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: financial assets measured at fair value through profit or loss, financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income.

Financial assets are measured at fair value on initial recognition. However, if the accounts receivable or notes receivable arising from selling goods and the provision of services do not include significant financing components or do not consider financing components not exceeding one year, the financial assets shall be initially measured at the transaction price.

For financial assets measured at fair value through profit or loss, the related transaction expense is directly recognised in profit or loss for the current period. The related transaction costs of other types of financial assets are included in their initial recognition amount.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

8. Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

Subsequent measurement of financial assets depends on their classification:

Debt instrument investments measured at amortised cost

Financial assets are classified as financial assets measured at amortised cost if the financial assets meet the following conditions: The business model for managing the financial assets is to collect contractual cash flows; the contractual terms of the financial assets stipulate that cash generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount. The effective interest method is used to recognise interest revenue for such financial assets. The gains or losses arising from derecognition, modification or impairment are recognised in profit or loss for the current period.

Debt instrument investments measured at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held by the Group within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset state that the cash flows on specified dates are solely payments of principal and interest on the outstanding amount of principal. The interest income from such financial asset is recognised using the effective interest method. The change in fair value of such financial asset shall be recognised in other comprehensive income, except for interest income, impairment losses and exchange differences recognised in profit or loss for the current period. When the financial asset is derecognised, the cumulative gains or losses previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss for the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

8. Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

Equity instrument investments measured at fair value through other comprehensive income

The Group irrevocably opts to assign some of the investments in non-tradable equity instruments to financial assets at fair value through other comprehensive income, and only recognises relevant dividend income (excluding dividend income taken back clearly as part of investment cost) in profit or loss for the current period, while subsequent changes in fair value is recognised as other comprehensive income without provision for impairment. When the financial assets are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to retained earnings.

Financial assets at fair value through profit or loss

The financial assets other than those measured at amortised cost and at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. For such financial assets, fair value is used for subsequent measurement, and all changes in fair value are recognised in profit or loss for the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

8. Financial instruments (Continued)

Classification and measurement of financial liabilities

The financial liabilities of the Group are, on initial recognition, classified as financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities measured at fair value through profit or loss, the related transaction expense is directly recognised in profit or loss, while the related transaction expense on other financial liabilities is included in the initial recognition amount.

Subsequent measurement of financial liabilities depends on their classification:

Other financial liabilities

Such financial liabilities are subsequently measured at amortised cost by using the effective interest method.

Impairment of financial instruments

On the basis of expected credit losses, the Group performs the impairment treatment on financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, lease receivables, contract assets and financial guarantee contracts and confirms the loss provision.

For receivables and contract assets that do not contain significant financing components, the Group uses a simplified measurement method to measure loss provision based on the amount of lifetime expected credit losses.

For lease receivables, receivables and contract assets that contain significant financing components, the Group chooses to use a simplified measurement method to measure the loss provision based on the amount of lifetime expected credit losses.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

8. Financial instruments (Continued)

Impairment of financial instruments (Continued)

For financial assets and financial guarantee contracts other than those measured by the aforesaid simplified measurement method, the Group assesses whether its credit risk has increased significantly since the initial recognition on each balance sheet date. If the credit risk has not increased significantly since the initial recognition (at the first phase), the Group measures the loss provision based on the amount of expected credit losses over the next 12 months and calculates the interest income based on the book balance and effective interest rate; if the credit risk has increased significantly but the financial assets have not yet been credit-impaired since the initial recognition (at the second phase), the Group measures the loss provision based on the amount of lifetime expected credit losses and calculates the interest income based on the book balance and effective interest rate; if the financial assets have been credit-impaired since the initial recognition (at the third phase), the Group measures the loss provision based on the amount of lifetime expected credit losses and calculates the interest income based on the amortised cost and effective interest rate.

The Group assesses expected credit losses on financial instruments individually and collectively. The Group assesses expected credit losses on receivables on the basis of ageing groups, taking into account the credit risk characteristics of different customers.

Please refer to Note VIII-3 for disclosures regarding the Group's criteria for determining a significant increase in credit risk, the definition of credit-impaired assets, and assumptions for measurement of expected credit losses.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

8. Financial instruments (Continued)

Impairment of financial instruments (Continued)

When the Group no longer reasonably expects to be able to fully or partially recover the contractual cash flows of financial assets, the Group directly writes down the book balance of the financial assets.

Elimination of financial instruments

The net amount after eliminating financial assets and financial liabilities is presented in the balance sheet if the following conditions are satisfied: A lawful right exists for eliminating recognised amounts, and such lawful right is currently enforceable; it is planned that the financial assets and financial liabilities are to be netted off against each other, or that they are to be realised and settled simultaneously.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. Subsequent to initial recognition, financial guarantee contracts that are not designated as financial liabilities at fair value through profit or loss are measured at the higher of the expected credit loss provision recognised at the balance sheet date and the amount initially recognised less cumulative amortisation amount in accordance with the guidance for revenue recognition.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

8. Financial instruments (Continued)

Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee, it derecognises the financial asset; if the Group retains substantially all the risks and rewards of ownership of the financial asset, it does not derecognise the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it is accounted for as follows: if the Group has not retained control of the financial asset, it derecognises the financial asset and recognises any resulting assets or liabilities; if the Group has retained control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability.

9. Inventories

Inventories are initially measured at cost. Inventories comprise raw materials.

On the balance sheet date, the inventories shall be calculated at the lower of cost and net realisable value. When the cost is higher than the net realisable value, inventory impairment allowance shall be provided and the inventories shall be included in current profit or loss. In the case that the factors impacting the previous provision for the inventory impairment allowance are eliminated, making the net realisable value of the inventory higher than its carrying amount, the write-down amount should be recovered from the amount of inventory impairment allowance previously provided and the corresponding amount shall be reversed to current profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

9. Inventories (Continued)

The net realisable value represents the amount derived by deducting the potential cost, estimated sale cost and relative taxes to the completion date from the estimated selling price of the inventory in daily activities. When determining the provision for the inventory impairment allowance, raw materials shall be considered individually.

10. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates. A long-term equity investment is initially recorded at its initial investment cost on acquisition.

For a long-term equity investment where the Company can exercise control over the investee, the Company uses the cost method in the Company's separate financial statements. Control refers to the power over an investee, and exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.

Under the cost method, the long-term equity investment is measured at its initial investment cost. For addition or recovery of investments, the cost of long-term equity investments is adjusted accordingly. Cash dividend or profit declared to be distributed by an investee is recognised as profit for the current period.

The equity method is adopted for a long-term equity investment when the Group holds joint control, or exercises significant influence on the investee. Joint control refers to the contractually-agreed shared control over an arrangement and related activities under such arrangement shall be decided on with the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee rather than to control or jointly control with other parties over the formulation of those policies.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

10. Long-term equity investments (Continued)

Under the equity method, where the initial investment cost of a long-term equity investment is more than the share of the fair value of the investee's identifiable net assets when the investment is made, the cost is included in the initial investment cost of the long-term equity investment. Where the initial investment cost of the long-term equity investment is less than the share of the fair value of the investee's identifiable net assets when the investment is made, the difference is recognised in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognises its share in the net profit or loss and other comprehensive income made by the investee as investment income or losses and other comprehensive income after the acquisition of the long-term equity investment, and adjusts the carrying amount of the long-term equity investment accordingly. When recognising the Group's share in the net profit or loss of the investee, the Group recognises the net profit of the investee after making appropriate adjustments based on the fair values of the identifiable assets of the investee when the investment is acquired and in accordance with the Group's accounting policies and periods, after eliminating the portion of the profits or losses, arising from internal transactions with its joint ventures and associates, attributable to the investor according to its share ratio (but losses arising from internal transactions that belong to impairment losses on assets should be recognised in full), save for the business formed by assets invested or disposed of the carrying amount of the long-term equity investment is reduced accordingly based on the Group's share of profit or cash dividends declared to be distributed by the investee. The Group's share in the net loss of the investee is recognised to the extent that the carrying amount of the long-term equity investment and other long-term equity substantively forming net investments of the investee are written down to zero, except that the Group has incurred obligations to assume additional losses. The Group adjusts the carrying amount of the long-term equity investment for other changes in shareholders' equity of the investee (other than net profit or loss, other comprehensive income and profit appropriation of the investee) and includes the corresponding adjustments in the shareholders' equity.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

10. Long-term equity investments (Continued)

On disposal of the long-term equity investment, the difference between the carrying amount and the consideration actually received is recognised in profit or loss for the current period. For long-term equity investments under the equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be accounted for on the same basis as where the relevant assets or liabilities are disposed of directly by the investee. Shareholders' equity recognised as a result of changes in other shareholders' equity (other than the net profit or loss, other comprehensive income and profit appropriation of the investee) shall be taken in full to profit or loss for the current period. If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be accounted for on the same basis as where the relevant assets or liabilities are disposed of directly by the investee and taken to profit or loss for the current period in proportion. Shareholders' equity recognised as a result of changes in shareholders' equity (other than the net profit or loss, other comprehensive income and profit appropriation of the investee) shall be taken to profit or loss for the current period on a pro-rata basis.

11. Investment property

Investment property is any property held for rental earnings or capital appreciation or both. It includes buildings being leased.

An investment property is measured initially at cost. Expenditure subsequently incurred for such investment property is recognised in its cost if the economic benefits associated with such investment property are probable to flow in and relevant costs can be measured reliably, otherwise recognised in profit or loss for the period in which the economic benefits occur.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

11. Investment property (Continued)

The Group subsequently measures investment properties by adopting the fair value model. For investment properties subsequently measured using the fair value model, the accounting policy is selected based on the following:

- (1) There is an active market for property transactions in the location of the investment properties.
- (2) The Group is able to obtain market prices for similar or comparable properties and other relevant information from the property trading market in order to make a reasonable estimate of the fair value of the investment properties.

The Group does not depreciate or amortise investment properties and adjusts the carrying value of investment properties at the balance sheet date on the basis of their fair value, with the difference between the fair value and the original carrying value recorded in profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

12. Fixed assets

A fixed asset is recognised only when the economic benefits associated with the asset are probable to flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset when meeting the above confirming conditions, and the carrying amount of the replaced part is derecognised; otherwise the expenditures are recognised in profit or loss in the period in which they are incurred.

Fixed assets initially measured at cost. The cost of a purchased fixed asset consists of the acquisition price, relevant taxes, and other directly attributable expenditure for bringing the asset to its working condition for its intended use. A fixed asset is depreciated using the straight-line method. Other than those arising from the use and appropriation of safety production expenses, the useful lives, net of estimated residual value rate and annual depreciation rate of each category of fixed assets are as follows:

	Useful life	Net of estimated residual value rate	Annual depreciation rate
Buildings	10-30 years	3%	3.23%-9.70%
Machinery equipment	5-10 years	1%-10%	9.00%-19.80%
Transportation vehicles	5-12 years	5%	7.92%-19.00%
Office equipment and others	3-10 years	1%-5%	9.50%-33.00%

The Group reviews the useful lives, net of estimated residual value of a fixed asset and the depreciation method applied at least once at each year-end, and makes adjustments when necessary.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

13. Construction in progress

Construction in progress is recognised at its actual costs, which include various necessary construction expenditures during the construction period, borrowing costs capitalised before it is ready for intended use and other relevant costs.

Construction in progress is transferred to a fixed asset when it is ready for intended use.

14. Borrowing costs

Borrowing costs are interests and other related cost arising from the Group's borrowings, including borrowing interest, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency loans.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalised, and other borrowing costs are recognised in profit or loss for the period. Qualifying assets are assets such as inventories that necessarily take a substantial period of time for acquisition, construction or production activities to get ready for their intended use or sale.

Borrowing costs may be capitalised only when:

- (1) Expenditures for such asset are incurred;
- (2) Borrowing costs are incurred;
- (3) The acquisition, construction or production activities which are necessary to prepare the asset for its intended use or sale have started.

Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes is ready for its intended use or sale. Borrowing costs incurred subsequently are recognised in current profit or loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

14. Borrowing costs (Continued)

During the period of capitalisation, the amount of capitalised interest in each accounting period is determined by the following methods:

- (1) For dedicated borrowings, the amount of capitalised interests is the interest expenses actually incurred in the current period less the interest income earned on temporary deposits or investment income.
- (2) For general borrowings utilised, the amount of capitalised interest is the weighted average asset expenditures of the excess of accumulative asset expenditure over the dedicated borrowings multiplying the weighted average interest rate of the general borrowings utilised.

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 consecutive months, other than those necessary to prepare the asset for its intended use or sale, the capitalisation of the borrowing costs shall be suspended. Borrowing costs incurred during the interruption period are recognised as cost in profit or loss for the current period, until the acquisition or construction resumes.

15. Intangible assets

Intangible assets may be recognised and initially measured at cost only when economic benefits relating to them are likely to flow into the Group as well as the related cost can be measured reliably. However, for intangible assets acquired from business combination not under common control, if their fair value can be measured reliably, they are recognised separately as intangible assets and measured at fair value.

The useful life of an intangible asset shall be determined based on the term in which it can generate economic benefits for the Group. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable term in which it can generate economic benefits for the Group.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

15. Intangible assets (Continued)

The useful life of each category of intangible assets is as follows:

	Useful life
Land use rights	50 years

Land use rights that are purchased by the Group are accounted for as intangible assets. For buildings such as office buildings that are developed and constructed by the Group, the relevant land use rights and buildings are accounted for as intangible assets and fixed assets, respectively. Payments for the land and buildings purchased are allocated between the land use rights and the buildings; if they cannot be reasonably allocated, all of the land use rights and buildings are accounted for as fixed assets.

An intangible asset with finite useful life is amortised over its useful life period by using the straight-line method. The useful life and amortisation method of an intangible asset with finite useful life shall be reviewed at least once at each year-end, and adjusted when necessary.

16. Research and development expenditures

Internal research and development expenditures of the Group are classified as research expenditures and development expenditures. Research expenditure is recognised in profit or loss when it is incurred.

Development expenditure can only be capitalised if all of the following conditions are met, it is technically feasible to complete the intangible asset that can be used or sold; it is intended to use or sell the completed intangible asset; the intangible asset produced can generate economic benefits, including the ability to prove that the product produced by the intangible asset, or the intangible asset itself exists in the market, or that the intangible asset is useful for internal use; the Group has sufficient technologies, financial resources, and other resources to support and complete the development, and has the ability to use or sell the intangible asset once it is made; and the development expenditure of the intangible asset can be properly measured. If the development expenditure cannot meet the condition listed above, the development expenditure will be recognised in profit or loss when it is incurred.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

17. Impairment of assets

The Group determines the impairment of assets excluding inventories, contract assets, investment properties measured at fair value model, deferred income taxes and finance assets using the following methods:

The Group determines whether there is any indication that assets have suffered impairment losses at the balance sheet date. If an impairment indication exists, the recoverable amount is estimated and impairment test is carried out. For intangible assets with goodwill and indefinite useful life arising from business combination, impairment test should be performed at least once at the each year-end to assess whether an impairment indication exists. As for intangible assets that have not been ready for intended use, an impairment test should be carried out each year.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. Recoverable amount is estimated on an individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be recognised. The asset group is determined according to whether the main cash flows generated from the asset group are independent from those from other assets or asset group.

If such recoverable amount of the asset or asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount, the reduction amount is recognised in profit or loss for the current period and a provision for impairment losses of such assets shall be made.

Once an impairment loss is recognised for the above-mentioned assets, it will not be reversed in the subsequent accounting period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

18. Employee benefits

Employee benefits represent all kinds of reward or compensation for service rendered by employees or the termination of employment given by the Group. Employee benefits include short-term remuneration, post-employment benefit, termination benefits and other employee benefits. The benefits that the Group provide to employees' spouse, children, dependants, families of the deceased employees and other beneficiaries also belong to employee benefits.

Short-term remuneration

Short-term remuneration includes salaries, bonuses, allowances and subsidies, employee benefits, medical insurance, work-related injury insurance, maternity insurance, housing provident fund, trade union and employee education expenses, short-term paid leave, etc. The Group recognises the actual short-term remuneration incurred as a liability in the accounting period in which the employees render services and recognises it in profit or loss for the period or in the cost of the related assets. In particular, non-monetary benefits are measured at fair value.

Post-employment benefits (defined contribution plans)

The Group's employees participate in endowment insurance and unemployment insurance managed by local government and corresponding expenses are recognised in costs of related assets or profit or loss for the current period.

Termination benefits

Where the Group provides termination benefits to employees, a liability for employee compensation arising from termination benefits is recognised in profit or loss at the earliest of: when the enterprise is unable to unilaterally withdraw the termination benefits provided as a result of an employment termination plan or proposed redundancy; and when the enterprise recognises costs or expenses associated with a restructuring involving the payment of termination benefits.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

19. Provisions

Except for a contingent consideration and contingent liability assumed in a business combination not under common control, the Group recognises an obligation related to a contingency as a provision when all of the following conditions are satisfied:

- (1) the obligation is a present obligation of the Group;
- (2) it is probable that an outflow of economic benefits from the Group will be required to settle the obligation;
- (3) the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, with comprehensive consideration of factors such as the risks, uncertainty and time value of money relating to a contingency. The carrying amount of a provision is reviewed at each balance sheet date. If there is clear evidence that the carrying amount does not reflect the current best estimate, the carrying amount is adjusted to the best estimate.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

20. Revenue from contracts with customers

The Group recognises revenue when it performs the performance obligations in the contract, i.e., when the customer obtains control over relevant goods or services. Control over the relevant goods and services refers to the ability to direct the use of the goods, and obtain substantially all of the economic benefits from the provision of the services.

Construction contracts

The construction contract between the Group and the customer usually includes the performance obligation of building construction, infrastructure construction and specialized and other construction. As the customer can control the goods under construction during the performance of the Group, the Group regards it as a performance obligation performed within a certain period of time and recognises the income according to the progress of the performance, except that the progress of the performance cannot be reasonably determined. The Group determines the progress of the performance of the services provided in accordance with the input method. If the performance of the Group is expected to be compensated if the progress of the performance cannot be reasonably determined, the revenue will be recognised according to the amount of costs incurred, until the progress of the performance can be reasonably determined.

Property sale contracts

The property sale contracts between the Group and the customer generally contain the obligation of transferring the commercial housing only. The Group generally recognises the revenue when the relevant goods are delivered and confirmed as accepted by the customer, on the basis of taking full consideration of the following factors: the transfer of the key risk and return in the goods ownership, the transfer of the legal ownership of goods, the transfer of the physical asset of the goods, and the acceptance of the goods by the customer.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

20. Revenue from contracts with customers (Continued)

Contracts for sales of goods

The contracts for sales of goods between the Group and the customer usually contains only the performance obligations for the transfer of concrete products. The Group generally recognises revenue at the point of acceptance of the goods by the customer on the basis of a combination of the following factors: the current right of receiving payment for the goods, the transfer of major risks and benefits in the ownership of the goods, and the transfer of the legal ownership of the goods, the transfer of physical assets of the goods and that the customers have accepted the goods.

Significant financing components

For the existence of significant financing components in the contract, the Group determines the transaction price based on the amount payable immediately by cash upon the receipt of control of goods by the customer, and uses the discount rate which discounts the nominal amount of the contract consideration to the discounted price of the goods or services to amortise the difference between the determined transaction price and the consideration amount of the contract commitment using the effective interest method during the contract period. Where it is expected that the intervals between the customer's control over the goods and the payment by the customer will not exceed one year, the Group does not consider the significant financing components in the contract.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

20. Revenue from contracts with customers (Continued)

Quality assurance obligation

The Group provides quality assurance for the assets constructed pursuant to contractual agreements and laws and regulations. The Group performs accounting treatments in accordance with Note III-19 with a view to providing guarantees to the customers that the assets constructed meet the established quality standards. In addition to providing guarantees to the customers that the assets constructed meet the established quality standards, the Group provided the customers with a separate quality assurance for services, regarding it as a separate performance obligation. Based on the relative proportion of the individual selling prices of providing quality assurance for assets constructed and services, part of the transaction price is allocated to quality assurance of services and revenue is recognised when the customers take control of the services. In assessing whether quality assurance is provided as a separate service other than providing guarantees to the customers that the assets constructed meet the established quality standards, the Group considers factors such as whether the quality assurance is a statutory requirement, the term of quality assurance and nature of the Group's commitment to perform its obligations.

Principal/agent

The Group determines whether the Group is a principal or an agent when engaging in a transaction based on whether it has control over the goods or services before transferring them to the customer. If the Group is able to control the goods or services before transferring them to the customer, the Group is the principal and recognises revenue based on the total consideration received or receivable; otherwise, the Group is the agent and recognises revenue based on the amount of the commission or fee it expects to be entitled to receive, which should be determined as the net amount of the total consideration received or receivable less amounts payable to other related parties, or based on the predetermined amount or proportion of the commission.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

20. Revenue from contracts with customers (Continued)

Changes of a contract

When the contract for the construction contract between the Group and the customer changes:

- (1) If the contract change involves adding a clearly distinguishable construction service and contract price and the new contract price reflects the separate selling price of the new construction service, the Group treats the contract change as a separate contract for accounting treatment;
- (2) If the contract change does not fall within the above-mentioned situation (1), and the construction service transferred and not transferred can be clearly distinguished on the contract change date, the Group will regard it as the original contract termination, and at the same time, the non-compliance part of the original contract and the contract change part are merged into a new contract for accounting treatment;
- (3) If the contract change does not fall within the above-mentioned situation (1), and there is no clear distinction between the construction service transferred and not transferred on the contract change date, the Group will treat the changed part of the contract as part of the original contract for accounting treatment. The resulting impact on the recognised revenue is adjusted for current income on the contract change date.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

20. Revenue from contracts with customers (Continued)

Concession contract (“BOT Contract”)

The concession activities under the BOT contract usually include constructions, operations, and transfers. During the construction phase, the contract revenue for construction services is recognised in accordance with the above accounting policies of the construction contract. Revenue from construction services is measured based on the consideration received or receivable, and contract assets or intangible assets are recognised at the time of revenue recognition and the significant financing components of the contractual arrangements are accounted for.

The Group recognises contract assets while recognising the revenue to the extent that it has an unconditional contractual right to receive a definite amount of cash or another financial asset from the grantor within a certain period after the completion of construction. When the Group obtains the unconditional right to receive the consideration, the contract assets are transferred to financial assets for accounting purposes.

Where the contract provides that the Group has the right to receive a fee from the recipient of service during the operation period after the completion of construction, but the amount of the fee is uncertain, the intangible asset is recognised at the time of revenue recognition if such right does not constitute an unconditional right to receive a definite amount of cash or another financial asset. Upon completion of the related infrastructure project, intangible assets are amortised on a straight-line basis over the concession period.

During the operation phase, corresponding revenue is recognised when services are provided; and the daily maintenance or repair costs incurred are recognised as current expenses.

The contract stipulates that the Group shall maintain service ability of the relevant infrastructure or keep it in a good condition before returning to the grantor, and the current obligations undertaken by the Group in the expenses incurred are expected to be recognised as a provision.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

20. Revenue from contracts with customers (Continued)

Build and transfer contract (“BT Contract”)

The activities under the BT contract usually include building and transfer. For the construction services provided by the Group, during the construction phase, the relevant construction service contract revenue is recognised in accordance with the accounting policies of the construction contract mentioned above. Contract assets are recognised at the time of revenue recognition and the significant financing components of the contractual arrangements are accounted for. When the unconditional right to receive the consideration is available, such contract assets are transferred to financial assets and are eliminated upon the receipt of payment from the owner.

21. Contract assets and contract liabilities

The Group presents contract assets or contract liabilities in the balance sheet based on the relationship between the Group’s fulfilment of performance obligations and customers’ payment. The Group presents contract assets and contract liabilities under the same contract as the net amount after they offset with each other.

Contract assets

The contract assets represent the rights to receive considerations for goods or service transferred to customers (subject to factors other than passage of time).

Please refer to Note III-8 for the Group’s methods for determining and accounting for expected credit losses on contract assets.

Contract liabilities

The contract liabilities represent the the obligations for transfer of goods or services to customers for considerations received or receivable from customers, such as the relevant amounts received by the enterprises before transferring the promised goods or services.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

22. Government grants

Government grant is recognised when the Group can comply with the conditions attached to it and it can be received. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount. A government grant related to income is accounted for as follows: if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss or reduced related costs over the periods in which the related costs are recognised; if the grant is a compensation for related expenses or losses already incurred, it is recognised immediately in profit or loss of the current period. A government grant related to an asset shall be deducted from the carrying amount of the asset; or recognised as deferred income and included in profit or loss over the useful life of the related asset with a reasonable and systemic method, except that a government grant measured at a nominal amount is recognised immediately in profit or loss in the current period. Where the relevant asset is sold, transferred, scrapped or damaged prior to the end of its useful life, the related undistributed deferred income is transferred to the profit or loss of the disposal period.

23. Income tax

Income tax comprises current and deferred tax. Income tax is recognised as an expense or income in profit or loss for the current period, except for the tax arising from adjustment of goodwill arising from a business combination, or recognised in owners' equity if it arises from a transaction or event which is recognised directly in owners' equity.

Current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

For temporary differences at the balance sheet date between the carrying amounts of assets and liabilities and their tax bases, and temporary differences between the carrying amounts and the tax bases of items which have not been recognised as assets and liabilities but the tax bases of which can be determined for tax purposes, deferred income taxes are provided using the liability method in the balance sheet.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

23. Income tax (Continued)

A deferred income tax liability is recognised for all taxable temporary differences, except:

- (1) where the taxable temporary differences arise from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: the transaction is not a business combination; and at the time of the transaction, it affects neither accounting profit nor taxable profit or deductible loss.
- (2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

A deferred tax asset is recognised for deductible temporary differences, and the carryforward of unused deductible tax losses and tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of deductible tax losses and tax credits can be utilised, except:

- (1) where the deductible temporary differences arise from a transaction that is not a business combination and, at the time of the transaction, neither the accounting profit nor taxable profit or loss is affected.
- (2) in respect of the deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilised in the future.

At the balance sheet date, deferred income tax assets and liabilities are measured at the applicable tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects at the balance sheet date to recover the assets or settle the liabilities.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

23. Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the balance sheet date 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.

When all of the following conditions are satisfied simultaneously, the deferred income tax assets and deferred income tax liabilities are presented as the net amount after offsetting: the Group has a legal right to settle current tax assets and liabilities on a net basis; the deferred income tax assets and liabilities are related to the same tax payer within the Group and the same taxation authority, or related to different tax payers but during the period when each of the significant deferred income tax assets and deferred income tax liabilities is reversed, the tax payer involved intends to settle the current income tax asset and current income tax liability on a net basis, or simultaneously obtain assets and pay off the debts.

24. Leases

Identification of leases

On the contract start date, the Group assesses whether the contract is a lease or includes a lease. If one of the parties transfers the right to control the use of one or more identified assets for a certain period of time in exchange for consideration, the contract is a lease or includes a lease. In order to determine whether the contract has transferred the right of controlling the use of the identified assets within a certain period of time, the Group assesses whether the customers in the contract are entitled to almost all of the economic benefits arising from the use of the identified assets during the period of use and have the right of directing the use of identified assets during the period of use.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

24. Leases (Continued)

Identification of separate leases

Where the contract contains multiple separate leases, the Group will split the contract and separate the leases for accounting treatment. The right to use the identified asset constitutes a separate lease in the contract if the following conditions are met:

- (1) The lessee can profit from using the asset alone or in conjunction with other resources that are readily available;
- (2) The asset does not have a high degree of dependency or a high degree of association with other assets in the contract.

Split for the lease and non-lease components

If both lease and non-lease components are included in the contract, the lease and non-lease components shall be split and processed by the Group as lessor and lessee.

Assessment of a lease term

The lease term is the period during which the Group has the right to use the leased assets and it is irrevocable. Where the Group has the option to renew the lease, i.e., has the option to continue to lease the asset and can reasonably determine that the option will be exercised, the lease term shall also include the period covered by the option to renew the lease. Where the Group has the option to terminate the lease, i.e., has the option to terminate the lease of the assets and can reasonably determine that the option will not be exercised, the lease term shall include the period covered by the option to terminate the lease. In the event of a major event or change within the controllable scope of the Group and where it affects whether the Group reasonably determines that the corresponding option will be exercised, the Group shall re-assess whether it reasonably determines that it will exercise the option to renew the lease and purchase the option or not to exercise the option to terminate the lease.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

24. Leases (Continued)

As lessee

Right-of-use assets

The Group's right-of-use assets mainly include buildings and machinery equipment.

On the commencement date of the lease term, the Group recognises its right to use the leased assets over the lease term as right-of-use assets, including: the initially measured amount of lease liabilities; the lease payments paid on or before the commencement date of the lease term excluding the lease incentive related amount entitled where lease incentives exist; the initial direct expenses by the lessee; and the cost expected to incur by the lessee to dismantle and remove the leased assets, restore the site where leased assets are located or restore the leased assets to the status agreed in lease terms. The Group subsequently uses the straight-line method to depreciate the right-of-use assets. If it can be reasonably determined that the ownership of the leased assets can be obtained at the expiration of the lease term, the Group shall make depreciation during the remaining useful life of the leased assets. If it cannot be reasonably determined that the ownership of the leased assets can be obtained at the expiry of the lease term, the leased assets shall be depreciated over the shorter of the lease term or the remaining useful life of the leased assets.

The Group shall remeasure the lease liabilities according to the present value of the changed lease payments, and adjust the carrying amount of the right-of-use assets accordingly. However, if the carrying amount of the right-of-use assets is reduced to zero and there is a further reduction in the measurement of the lease liabilities, the Group recognises any remaining amount of the remeasurement in profit or loss for the current period.

Lease liabilities

On the commencement date of the lease term, the Group recognises the present value of the outstanding lease payments as lease liabilities, except for short-term leases and low-value asset leases. In calculating the present value of the lease payments, the Group uses the interest rate implicit in the lease as the discount rate; if the interest rate implicit in the lease cannot be determined, the lessee's incremental borrowing rate is used as the discount rate. The Group calculates interest expenses in each period during the lease term based on a constant periodic interest rate, and recognises the interest expenses in profit or loss for the current period. Variable lease payments not included in the measurement of the lease liabilities are recognised in profit or loss for the current period as incurred, except for those included in the costs of the relevant assets as otherwise specified.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

24. Leases (Continued)

As lessee (Continued)

Lease liabilities (Continued)

After the commencement date of the lease period, in the event of a change in the actual fixed payment amount, a change in the amounts expected to be payable under a residual value guarantee, a change in an index or a rate used to determine lease payments, or a change in the assessment and actual exercise of an option to purchase the underlying asset, to extend or terminate the lease, the Group shall remeasure the lease liabilities according to the present value of the changed lease payments.

Short-term leases and low-value asset leases

On the commencement date of the lease term, the Group shall recognise leases with a lease term of less than 12 months and not including a purchase option as a short-term lease; single leases with a value of less than RMB30,000 when being a new asset are recognised as leases of low-value assets. If the Group subleases or expects to sublease the leased assets, the original leases shall not be recognised as leases of low-value assets. The Group does not recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. During different periods in the lease terms, short-term leases and leases of low-value assets shall be recognised in the related asset cost or current profit or loss on a straight-line basis.

As lessor

At the lease commencement date, leases that substantially transfer almost all the risks and rewards related to the ownership of leased assets are classified as finance leases, and all other leases are classified as operating leases. When the Group is an intermediate lessor, the sublease is classified as a finance lease or an operating lease by reference to the right-of-use assets arising from the head lease.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

24. Leases (Continued)

As lessor (Continued)

As the lessor of an operating lease

Rental income under an operating lease is recognised by a lessor on a straight-line basis over the lease term through profit or loss for the current period. The variable lease payments not included in the measurement of the lease liability shall be recognised in profit or loss in the period in which it occurs.

25. Discontinued operation

Discontinued operation refers to a component of the Company which meets one of the following requirements and can be distinguished separately and has already been disposed of or classified as held-for-sale:

- (1) the component represents an independent major line of business or a major independent geographical area of operation;
- (2) the component is part of a plan for the contemplated disposal of an independent major line of business or a major independent geographical area of operation;
- (3) the component is a subsidiary acquired exclusively for the purpose of resale.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

26. Profit distribution

Cash dividends of the Company are recognised as a liability when they are approved at the general meeting.

27. Safety production expenses

The Group provides for safety production expenses in accordance with the requirements of the Circular on the Issuance of the Administrative Measures for the Appropriation and Use of Enterprise Safety Production Expenses by the Ministry of Finance and the State Administration of Work Safety (Cai Qi [2012] No. 16) and the Administrative Measures for the Appropriation and Use of Enterprise Safety Production Expenses.

The safety production expenses accrued in accordance with the regulations are recorded in the relevant product cost or profit or loss of the current period and the special reserve. The treatment for usage of the safety production expenses depends on whether fixed assets are formed or not. If the usage of the safety production expenses is an expenditure, it is directly charged against the special reserve. If the safety production expenses occurred is used to form fixed assets, the expenditure incurred is accumulated and recognised as fixed assets when the intended usage condition is achieved. Meanwhile, an equivalent amount is charged against the special reserve and recognised as accumulated depreciation.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

28. Fair value measurement

The Group measures its investment properties, other equity instrument investments, accounts receivable financing and financial assets held for trading at fair value at each balance sheet date. 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 measurement of the related assets and liabilities at fair value 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 is the market accessible by the Group as at the measurement date. 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 at its best use or by selling it to another market participant that would use the asset at its best use.

The Group uses valuation techniques that are appropriate in the current circumstances and for which sufficient data and other information are available to measure fair value, and prioritises the use of relevant observable inputs and only uses unobservable inputs under the circumstances when unobservable inputs are not available or impractical to obtain.

All assets and liabilities measured or presented at fair value 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 at the measurement date; Level 2 – inputs that are observable for the related assets or liabilities other than those of Level 1, either directly or indirectly; Level 3 – inputs that are unobservable for the related assets or liabilities.

For assets and liabilities that are measured at fair value and recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy for fair value measurement by reassessing categorisation at each balance sheet date.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimations and assumptions that affect the reported amounts and disclosures of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date. However, uncertainty about these assumptions and estimations 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 which have the most significant effect on the amounts recognised in the financial statements:

Operating leases - as lessor

The Group has entered into lease contracts on its investment properties and fixed assets. The Group has determined, based on the terms of lease contracts, that it retains all the significant risks and rewards of ownership of these properties, which are accounted for as operating leases.

Method for determining the performance progress of a construction contract

The Group determines the performance progress of the construction contract in accordance with the input method. Specifically, the Group determines the performance progress of the contract based on the cumulative actual construction cost as a percentage of the estimated total cost. The accumulated actual costs include the direct and indirect costs incurred for the transfer of goods to customers by the Group. The Group believes that the price of construction contract with the customer is determined on the basis of the construction cost, and the actual construction cost as a percentage of the estimated total cost can accurately reflect the performance progress of the construction service. In view of the long duration of construction contracts, which may span several accounting periods, the Group will review and revise the budget as the construction contract progresses, and adjust the revenue recognition amount accordingly.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Significant accounting judgements and estimates (Continued)

Judgements (Continued)

Business model

The classification of financial assets held by the Group at initial recognition depends on the business model of the Group's management of financial assets. In determining the business model, the Group takes into account the corporate evaluation and ways to report the performance of financial assets to key management personnel, risks affecting the performance of financial assets and their management style, and the manner in which relevant business management personnel are paid. In assessing whether the business model is based on the objective of collection of contractual cash flows, the Group needs to make analysis and judgements on the reasons, timing, frequency and value of the sale of financial assets before the maturity date.

Contractual cash flow characteristics

The classification of financial assets held by the Group at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to determine whether the contractual cash flow is only the payment of the principal and the interest based on the outstanding principal, including the assessment of the correction of the time value of money, it is necessary to determine whether there is a significant difference compared with the benchmark cash flow, and to determine whether the fair value of financial assets with prepayment characteristics is insignificant.

Classification of investment properties and self occupied properties

The Group determines that investment property is any property held for rental earnings or capital appreciation or both (including leased property).

Whether the contract is a lease or contains a lease

The Group has entered into equipment lease agreements for certain construction projects. The Group considers that there is no identified asset or asset supplier with substantial right to replace relevant equipment under certain lease agreements and therefore, the lease agreements do not contain leases and the Group treats them as receipt of services.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Significant accounting judgements and estimates (Continued)

Judgements (Continued)

Entities in which the Group holds less than 20% of voting rights but has a significant influence over them

The Group holds 15%, 5% and 11% equity interests in Jianwei County Yizongliangheng Project Management Company Limited (“Yizongliangheng”), Zhongyuan Environmental (Neihuang) Liangli Ecological Construction Project Management Company Limited (“Zhongyuan Environmental”) and Bozhou Xiangju Construction Company Limited (“Bozhou Xiangju”), respectively. The Directors of the Group considered that despite the less than 20% shareholding in each of Yizongliangheng, Zhongyuan Environmental and Bozhou Xiangju, the Group appointed three directors, one director and one director in each of Yizongliangheng, Zhongyuan Environmental and Bozhou Xiangju, respectively, according to the requirements of their respective articles of association, and can participate in the decision making of financial and operational policies. As such, the Group may exercise significant influence over Yizongliangheng, Zhongyuan Environmental and Bozhou Xiangju, and the Group’s equity investments in these companies are accounted for as investments in associates.

Classification of business of infrastructure construction under the BOT model

The concession right asset obtained by the Group through participation in the construction of a wastewater treatment plant under the Build-Operate-Transfer (“BOT”) model is accounted for as a financial asset, and is recognised as financial asset according to the contract provisions in relation to the right to collect payment upon completion of construction of the infrastructure, and such concession right asset is accounted for as contract asset.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Significant accounting judgements and estimates (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future accounting periods, are described below.

Impairment of financial instruments and contract assets

The Group uses the expected credit loss model to assess the impairment of financial instruments and contract assets. The application of the expected credit loss model requires significant judgements and estimations, and all reasonable and evidenced information, including forward-looking information. In making such judgements and estimations, the Group infers the expected changes in the debtor's credit risk based on the historical repayment data in combination with economic policies, macroeconomic indicators, and industry risks. Different estimates may affect the provision for impairment losses. The provision for impairment losses may not be equal to the actual amount of impairment losses in the future.

Fair value of unlisted equity investments

Unlisted equity investment is estimated using the market-based method and the assumptions on which it is based are unobservable inputs. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing ratio and strategy and compute appropriate price multiples in respect of each identified comparable company, such as price to book ("P/B") ratio or price to earnings ("P/E") ratio. Such multiples are calculated based on the relevant indexes of the comparable companies and discounted by a percentage for the lack of liquidity. The discounted multiple shall be used for the measurement of the corresponding profit or asset of the unlisted equity investment to arrive at its fair value. Please refer to Note IX-3 for estimation of fair value of unlisted equity investments.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

Deferred income tax assets

Deferred income tax assets are recognised for all unused deductible losses to the extent that it is probable that taxable profit will be available against which the deductible losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Construction and service contracts

The recognition of revenue and costs for construction and service contracts requires management to make relevant estimates. If losses are expected to be incurred on construction and service contracts, such losses are recognised as current costs. The Group's management anticipates potential losses based on the budget for construction and service contracts. The nature of the infrastructure, design and dredging business results in the contract award date and project completion date often falling within different accounting periods. As contracts progress, the Group reviews and revises the estimated total contract revenue and estimated total contract cost on an ongoing basis.

The Group monitors the payment progress of the owners on an ongoing basis in accordance with the terms of the contracts and regularly assesses the creditworthiness of the owners. If circumstances indicate that it is probable that the owner will default in the payment of all or part of the contract price, or that the owner will not be able to meet its obligations under the terms of the contract, the Group will reassess the impact of the matter on the consolidated financial statements and may revise the amount of the estimated loss on the contract. This revision will be reflected in the Group's financial statements in the period in which the Group reassesses and is required to revise the estimated loss on the contract.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

Estimation of fair value of investment properties

The best evidence of fair value of investment properties is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgement will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rents and maintenance costs.

Incremental borrowing rate of the lessee

For leases of which the interest rate implicit in the lease cannot be determined, the Group uses the lessee's incremental borrowing rate as the discount rate to calculate the present value of the lease payment. When determining the incremental borrowing rate, the Group uses the observable interest rate as the reference basis for determining the incremental borrowing rate based on the current economic environment. On this basis, the reference interest rate is adjusted according to the specific conditions of the lease business such as its own situation, the underlying asset situation, the lease period and the amount of lease liability in order to calculate the applicable incremental borrowing rate.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

Contingent liabilities for litigation and claims

The Group has been involved in a number of litigations and claims in the past in relation to certain construction projects. Management has assessed the contingent liabilities arising from such litigations and claims with reference to the advice of legal advisers. The Group has made provision for possible liabilities based on management's best estimates and judgement.

Depreciation of fixed assets

Depreciation of the Group's fixed assets is provided on a straight-line basis over their estimated useful lives, using the recorded value of the assets less their estimated net residual value. The Group periodically assesses the estimated useful lives and estimated net residual values to ensure that the depreciation methods and rates are consistent with the expected pattern of economic benefits to be realised from the fixed assets. The Group's estimates of the estimated useful lives and net residual values of fixed assets are based on historical experience and take into account expected technological updates. When there is a significant change in the estimated useful life and estimated net residual value, depreciation expense may need to be adjusted accordingly and therefore estimates based on current experience may differ from the actual results in the following year, which may result in significant adjustments to the carrying value and accumulated depreciation amounts of fixed assets.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

30. Changes in accounting policies and estimates

Scope of disclosure of related parties

According to the requirements of Accounting Standards for Business Enterprises – Interpretation No. 13, since 1 January 2020, the following parties not deemed as related parties previously shall be treated as related parties: joint ventures and their subsidiaries or associates and their subsidiaries of other members (including parent company and subsidiaries) within the same group as the Company. Such change in accounting policies has affected the determination of related parties and disclosure of related party transactions, and no retrospective adjustment to comparative data is required according to the transitional provisions.

Changes in presentation of financial statements

According to the Q&A of Implementation of Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance in December 2020, the Group reclassified the impairment loss for contract assets from “credit impairment losses” to “asset impairment losses” in the income statement, and made retrospective adjustments to relevant comparative data. Such change in accounting policies has had no effect on the consolidated and the Company's net profit and owners' equity.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

30. Changes in accounting policies and estimates (Continued)

Changes in presentation of financial statements (Continued)

The main effects on the financial statements of the retrospective adjustments arising from the above changes in accounting policies are as follows:

The Group

2020

	Before changes of accounting policies	Changes of accounting policies Effect of change in presentation of other financial statements	After changes of accounting policies
	Amount incurred during the year	Amount incurred during the year	Amount incurred during the year
Credit impairment losses	(269,805)	325,197	55,392
Asset impairment losses	-	(325,197)	(325,197)

2019

	Before changes of accounting policies	Changes of accounting policies Effect of change in presentation of other financial statements	After changes of accounting policies
	Amount incurred during the year	Amount incurred during the year	Amount incurred during the year
Credit impairment losses	40,205	11,159	51,364
Asset impairment losses	-	(11,159)	(11,159)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

30. Changes in accounting policies and estimates (Continued)***Changes in presentation of financial statements*** (Continued)

The Company

2020

	Before changes of accounting policies	Changes of accounting policies Effect of change in presentation of other financial statements	After changes of accounting policies
	Amount incurred during the year	Amount incurred during the year	Amount incurred during the year
Credit impairment gains	(176,860)	238,263	61,403
Asset impairment losses	-	(238,263)	(238,263)

2019

	Before changes of accounting policies	Changes of accounting policies Effect of change in presentation of other financial statements	After changes of accounting policies
	Amount incurred during the year	Amount incurred during the year	Amount incurred during the year
Credit impairment losses	27,616	14,781	42,397
Asset impairment losses	-	(14,781)	(14,781)

IV. TAXATION

Major categories of taxes and respective tax rates of the Group during the period are set out below:

- | | | |
|---------------------------------------|---|--|
| Value-added tax (VAT) | - | The output tax of general taxpayers shall be levied at a tax rate of 6%, 9% or 13% on the taxable income, and the VAT shall be levied after deducting the deductible input tax for the current period. The VAT of small scale taxpayers shall be levied at a tax rate of 3% on the taxable income. |
| City maintenance and construction tax | - | It is levied at 7%, 5% and 1% on the turnover taxes paid. |
| Educational surcharge | - | It is levied at 3% on the turnover taxes paid. |
| Local educational surcharge | - | It is levied at 2% on the turnover taxes paid. |
| Enterprise income tax (EIT) | - | It is levied at 25% on the taxable income. |
| Land appreciation tax | - | The land appreciation tax is levied at the ultra progressive tax rate based on the appreciation value from the property transfer. |

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

	Principal place		Registered capital RMB'000	Shareholding (%)		Proportion of votes (%)
	of business/ place of registration	Nature of business		Direct	Indirect	
HCG Tianchen Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	400,000	87	13	100
Bozhou Qihang Transportation Construction Co., Ltd.	PRC/PRC	Infrastructure construction	315,787	90	-	90
Haiyang Longhai Automobile Innovation Park Development Co., Ltd.	PRC/PRC	Automobile technology development and sales	300,000	90	-	90
Hengshui Jizhou District Jiuchen Construction Development Co., Ltd.	PRC/PRC	Infrastructure construction	220,000	80	-	80
Tibet Jiming Construction Co., Ltd.	PRC/PRC	Infrastructure construction	200,000	100	-	100
HCG Installment Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	180,000	61	39	100
Huainan Fengrui Infrastructure Construction Co., Ltd.	PRC/PRC	Infrastructure construction	161,651	80	-	80
HCG Henan Zhongyuan Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	150,000	100	-	100
Hebei Construction Group Garden Engineering Co., Ltd.	PRC/PRC	Garden engineering	108,000	100	-	100
HCG Zhuocheng Road and Bridge Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	105,000	100	-	100
Hebei Construction Group Decoration Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	101,000	100	-	100
Shaanxi Tianqin Jianan Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	100,000	100	-	100
Dangshan Soaring General Aviation Industry Development Co., Ltd.	PRC/PRC	Aviation industry	100,000	80	-	80
Dacheng County Zhongzhou Water Supply Co., Ltd.	PRC/PRC	Production and supply of running water	100,000	-	100	100

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Information about subsidiaries (Continued)

	Principal place of business/ place of registration	Nature of business	Registered capital RMB'000	Shareholding (%)		Proportion of votes (%)
				Direct	Indirect	
Anguo Jiuchen Construction Development Co., Ltd.	PRC/PRC	Infrastructure construction	90,157	-	90	90
Shandong Juhe Agricultural Service Development Co., Ltd.	PRC/PRC	Agricultural sale	76,160	89	-	89
Baoding Zhongcheng Investment Management Co., Ltd.	PRC/PRC	Investment management	69,000	100	-	100
Zhongrun Lvgu Ecological Development Co., Ltd.	PRC/PRC	Urban greening	60,000	-	51	51
Hebei Tongchuang Liantai Hospital Management Co., Ltd.	PRC/PRC	Hospital management	60,000	90	-	90
Hebei Lvjian Investment Company	PRC/PRC	Investment management	60,000	92	8	100
Baoding Zhongze Water Supply Co., Ltd.	PRC/PRC	Water production and supply	50,000	75	-	75
HCG Jimu Door and Window Co., Ltd.	PRC/PRC	Curtain wall engineering	50,000	-	100	100
HCG Tianding Construction and Installation Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
HCG Tianpeng Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
HCG Steel Structure Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
HCG Tiansheng Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
HCG Tianming Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
Hebei Zhongbao New Building Material Manufacturing Co., Ltd.	PRC/PRC	Sales of construction material	50,000	100	-	100

FINANCIAL STATEMENTS AND NOTES

2020

Unit: RMB'000

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Information about subsidiaries (Continued)

	Principal place of business/ place of registration	Nature of business	Registered capital RMB'000	Shareholding (%)		Proportion of votes (%)
				Direct	Indirect	
Tianjin Tianzheng Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
Hebei Construction Group Zhengyuan Concrete Co., Ltd.	PRC/PRC	Concrete production and sale	50,000	100	-	100
HCG Tianchu Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
Hebei Construction Group Infrastructure Construction Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
Yuncai Network Technology Co., Ltd.	PRC/PRC	Internet development and sale	50,000	80	-	80
Hebei Xiong'an Dayang Environmental Technology Co., Ltd.	PRC/PRC	Water treatment	50,000	70	-	70
HCG Smart Energy Co., Ltd.	PRC/PRC	Development of new energy technology	50,000	51	1	52
Shenzhen Zhongru Investment Co., Ltd.	PRC/PRC	Investment advisory and consultation	50,000	100	-	100
Sichuan Tianchuan Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
Beijing Tianjia Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	50,000	100	-	100
Hebei Shenning Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	31,500	100	-	100
Hebei Haikuo Environmental Technology Co., Ltd.	PRC/PRC	Environmental engineering	30,000	100	-	100
HCG Jianyuan Concrete Co., Ltd.	PRC/PRC	Concrete sale	25,000	-	100	100
Baoding Shitongyuan Electricity Sale Co., Ltd.	PRC/PRC	Electricity sales service	21,000	-	52	52

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Information about subsidiaries (Continued)

	Principal place of business/ place of registration	Nature of business	Registered capital RMB'000	Shareholding (%)		Proportion of votes (%)
				Direct	Indirect	
Hebei Tuowei Investment Co., Ltd.	PRC/PRC	Investment and management of new energy industry	21,000	-	100	100
Hebei Tuo'an Electrical Installation Co., Ltd.	PRC/PRC	Electrical equipment installation and sales	21,100	-	51	51
Hebei Zhiping Construction Equipment Leasing Co., Ltd.	PRC/PRC	Lease of machinery equipment	16,060	100	-	100
Rongcheng County Xinrong City Development Co., Ltd.	PRC/PRC	Urban greening	15,000	80	-	80
Fuping Fuyuan Concrete Co., Ltd.	PRC/PRC	Concrete production and sale	10,000	100	-	100
Hebei Xingxi Corporate Management Co., Ltd.	PRC/PRC	Advisory service	10,000	100	-	100
Inner Mongolia Xinglifeng Construction Management Co., Ltd.	PRC/PRC	Infrastructure construction	10,000	-	83	83
Anping County Xinjian Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	10,000	-	80	80
Shunping County Huanzhou Greening Co., Ltd.	PRC/PRC	Garden engineering	6,600	-	80	80
Zuhai Zhongwei Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	6,000	100	-	100
HCG Jilin Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	6,000	100	-	100
Hebei Zhongru Software Technology Co., Ltd.	PRC/PRC	Construction software development and sale	5,500	70	-	70

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Information about subsidiaries (Continued)

	Principal place of business/ place of registration	Nature of business	Registered capital RMB'000	Shareholding (%)		Proportion of votes (%)
				Direct	Indirect	
Rongcheng County Rongyu City Garden Engineering Co., Ltd.	PRC/PRC	Garden engineering	5,000	-	80	80
Hebei Zhuocheng Engineering Inspection Co., Ltd.	PRC/PRC	Construction project quality inspection	3,000	100	-	100
Hebei Construction Group Wuhu Baojian Construction Co., Ltd.	PRC/PRC	Infrastructure construction	1,000	100	-	100
Dingzhou Tiande Environmental Science and Technology Co., Ltd.	PRC/PRC	Waste water treatment	1,000	-	100	100

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Subsidiaries with significant non-controlling interests

The subsidiaries with significant non-controlling interests are as follows:

2020

	Shareholding proportion of non-controlling interests (%)	Profit or loss attributable to minority interests	Cumulative non-controlling interests as at the end of the year
Baoding Zhongze Water Supply Co., Ltd.	25	(1,965)	28,333
Inner Mongolia Xinglifeng Construction Management Co., Ltd.	17	(14)	17,025
Zhongrun Lvgu Ecological Development Co., Ltd.	49	(65)	14,663
Bozhou Qihang Transportation Construction Co., Ltd.	10	(371)	13,391
Rongcheng County Rongyu City Garden Engineering Co., Ltd.	20	(42)	3,427

2019

	Shareholding proportion of non-controlling interests (%)	Profit or loss attributable to minority interests	Cumulative non-controlling interests as at the end of the year
Baoding Zhongze Water Supply Co., Ltd.	25	1,263	30,298
Rongcheng County Rongyu City Garden Engineering Co., Ltd.	20	3,940	3,469

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Subsidiaries with significant non-controlling interests (Continued)

The following table illustrates the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Inner Mongolia Xinglifeng Construction Management Co., Ltd.	Zhongrun Lvgu Ecological Development Co., Ltd.	Bozhou Qihang Transportation Construction Co., Ltd.	Rongcheng County Rongyu City Garden Engineering Co., Ltd.
2020				
Current assets	229,640	11,257	37,937	26,811
Non-current assets	558,015	11,102	1,315	21
Total assets	<u>787,655</u>	<u>22,359</u>	<u>39,252</u>	<u>26,832</u>
Current liabilities	162,673	208	9,927	9,694
Non-current liabilities	410,000	-	-	-
Total liabilities	<u>572,673</u>	<u>208</u>	<u>9,927</u>	<u>9,694</u>
Operating revenue	212	-	3,054	-
Net loss	(7,861)	(83)	(133)	(209)
Total comprehensive income	<u>(7,861)</u>	<u>(83)</u>	<u>(133)</u>	<u>(209)</u>
Net cash flows (used in)/ generated from operating activities	<u>(19,472)</u>	<u>(260)</u>	<u>4,565</u>	<u>(82)</u>

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Subsidiaries with significant non-controlling interests (Continued)

The following table illustrates the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations (continued):

	Baoding Zhongze Water Supply Co., Ltd.	Rongcheng County Rongyu City Garden Engineering Co., Ltd.
2019		
Current assets	421,697	25,904
Non-current assets	324,066	147
Total assets	745,763	26,051
Current liabilities	152,920	8,705
Non-current liabilities	370,000	—
Total liabilities	522,920	8,705
Operating revenue	92	—
Net profit	5,051	19,698
Total comprehensive income	5,051	19,698
Net cash flows used in operating activities	(523,669)	(488)

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Currency funds

	2020	2019
Cash on hand	9,540	19,265
Bank deposits	6,984,518	6,008,387
Other currency funds	1,459,213	1,017,618
	8,453,271	7,045,270

As at 31 December 2020, the Group's currency funds with restricted ownership amounted to RMB452,706,000 (31 December 2019: RMB369,844,000). Please refer to Note VI-19.

2. Financial assets held for trading

	2020	2019
Financial assets at fair value through profit or loss		
Equity instrument investment	743	4,931

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable

The accounts receivable of the Group are mainly receivables for construction contracting business. The credit period of accounts receivable is usually one to three months. All accounts receivable are non-interest-bearing.

The ageing analysis of accounts receivable is as follows:

	2020	2019
Within 1 year	4,061,800	4,718,478
1 to 2 years	1,039,175	707,684
2 to 3 years	303,467	483,087
Over 3 years	686,242	574,528
	6,090,684	6,483,777
Less: Bad debt allowance on accounts receivable	663,649	735,091
	5,427,035	5,748,686

Except for project quality deposits receivable, the ageing of accounts receivable was calculated since the invoice date. The ageing of the project quality deposits receivable is calculated from the later of the invoice date and the expiry of the warranty period.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

Movements in bad debt allowance on accounts receivable are as follows:

	Opening balance	Accrual during the year	Recovery or reversal during the year	Closing balance
2020	735,091	366,798	(438,240)	663,649
2019	739,815	516,489	(521,213)	735,091

Accounts receivable and bad debt provisions are disclosed by category as follows:

	2020			
	Book balance Amount	Proportion (%)	Bad debt provisions Amount	Ratio (%)
Individual provision for bad debts	641,643	11	457,781	71
Provision for bad debts according to credit risk portfolio	5,449,041	89	205,868	4
	6,090,684	100	663,649	

	2019			
	Book balance Amount	Proportion (%)	Bad debt provisions Amount	Ratio (%)
Individual provision for bad debts	1,116,667	17	291,151	26
Provision for bad debts according to credit risk portfolio	5,367,110	83	443,940	8
	6,483,777	100	735,091	

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

The Group's accounts receivable with bad debt provision using the ageing analysis method are as follows:

	2020			2019		
	Closing balance of estimated default	Expected credit loss rate (%)	Lifetime expected credit loss	Closing balance of estimated default	Expected credit loss rate (%)	Lifetime expected credit loss
Within 1 year	4,050,630	0.59	23,880	4,389,706	0.00	38
1 to 2 years	1,021,420	3.18	32,473	538,653	0.96	5,151
2 to 3 years	171,240	15.53	26,592	194,189	100	194,189
3 to 4 years	95,202	39.68	37,777	125,697	100	125,697
4 to 5 years	57,244	55.62	31,841	58,928	100	58,928
Over 5 years	53,305	100	53,305	59,937	100	59,937
	5,449,041		205,868	5,367,110		443,940

As at 31 December 2020, the Group's accounts receivable with restricted ownership amounted to RMB282,960,000 (31 December 2019: RMB16,451,000). Please refer to Note VI-19.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable financing

	2020	2019
Bank acceptance bill	228,877	294,509
Commercial acceptance bill	1,470,554	963,251
	1,699,431	1,257,760

As at 31 December 2020, the Group's accounts receivable financing with restricted ownership amounted to RMB116,805,000 (31 December 2019: Nil). Please refer to Note VI-19 for details.

5. Prepayments

The ageing analysis of prepayments is as follows:

	2020		2019	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	662,741	80	1,146,057	89
1 to 2 years	152,481	19	127,577	10
2 to 3 years	2,202	0	8,713	1
Over 3 years	4,788	1	2,821	0
	822,212	100	1,285,168	100

The breakdown of prepayments by nature is as follows:

	2020	2019
Prepayments for subcontracting works	618,599	1,169,894
Prepayments for materials	203,613	115,274
	822,212	1,285,168

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables

The overdue ageing analysis of other receivables is as follows:

	2020	2019
Not overdue and overdue for no more than 1 year	2,443,946	2,491,364
Overdue for 1 to 2 years	36,362	26,515
Overdue for 2 to 3 years	20,916	41,640
Overdue for over 3 years	64,040	30,000
	2,565,264	2,589,519
Less: Bad debt allowance on other receivables	127,839	120,520
	2,437,425	2,468,999

The breakdown of other receivables by nature is as follows:

	2020	2019
Project advances	873,521	728,720
Performance bond	618,881	607,145
Construction deposit	204,289	412,683
Tender deposit	263,528	329,395
Security deposit	354,568	277,247
Other deposit	174,364	182,384
Others	76,113	51,945
	2,565,264	2,589,519

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

The movements of bad debt allowance on other receivables based on 12-month expected credit loss and the lifetime expected credit loss, respectively, are as follows:

2020

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Credit impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	1,478	26,761	92,281	120,520
Opening balance of the year	1,478	26,761	92,281	120,520
- Transfer to stage 2	(180)	180	-	-
- Transfer to stage 3	-	(26,336)	26,336	-
Provision during the year	12,113	7,355	200	19,668
Reversal during the year	(315)	(438)	(11,596)	(12,349)
Closing balance	<u>13,096</u>	<u>7,522</u>	<u>107,221</u>	<u>127,839</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

2019

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Credit impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	113,928	62,258	54,040	230,226
Opening balance of the year	113,928	62,258	54,040	230,226
- Transfer to stage 2	(26,537)	26,537	-	-
- Reverse to stage 1	82,034	(62,034)	(20,000)	-
Provision during the year	1,478	-	58,241	59,719
Reversal during the year	(106,359)	-	-	(106,359)
Effect of disposal of subsidiaries	(63,066)	-	-	(63,066)
Closing balance	1,478	26,761	92,281	120,520

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

Changes in the book balance of other receivables that affected the change in loss allowance are as follows:

2020

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Credit impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	2,464,501	32,737	92,281	2,589,519
Opening balance of the year	2,464,501	32,737	92,281	2,589,519
- Transfer to stage 2	(299,498)	299,498	-	-
- Transfer to stage 3	-	(26,536)	26,536	-
Changes during the year	56,425	(69,084)	(11,596)	(24,255)
Closing balance	2,221,428	236,615	107,221	2,565,264

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

2019

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Credit impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	4,205,240	62,258	54,040	4,321,538
Opening balance of the year	4,205,240	62,258	54,040	4,321,538
- Transfer to stage 2	(32,513)	32,513	-	-
- Reverse to stage 1	82,034	(62,034)	(20,000)	-
Changes during the year	(34,376)	-	58,241	23,865
Effect of disposal of subsidiaries	<u>(1,755,884)</u>	<u>-</u>	<u>-</u>	<u>(1,755,884)</u>
Closing balance	<u>2,464,501</u>	<u>32,737</u>	<u>92,281</u>	<u>2,589,519</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

In 2020, the Group made a provision for bad debts of RMB19,668,000 (2019: RMB59,719,000) for other receivables, and recovered or reversed a bad debt provision of RMB12,349,000 (2019: RMB106,359,000).

7. Inventories

	2020	2019
Raw materials	<u>337,772</u>	<u>241,145</u>

As at 31 December 2020, the management of the Group believes that there is no need to make provision for the inventory impairment.

8. Contract assets

Contract assets are mainly generated by the construction project contracting business of the Group. The Group provides construction services in accordance with the construction contract entered into with customers and recognises revenue based on performance progress over the contract period. According to the contract term, customers of the Group make progress billings with the Group based on the performance progress and make payment for the progress billings within the credit term. Revenue recognised based on performance progress in excess of progress billings is presented as contract asset while progress billings in excess of revenue recognised based on performance progress is presented as contract liabilities.

	2020			2019		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Completed but unsettled	<u>41,008,817</u>	<u>(485,227)</u>	<u>40,523,590</u>	<u>40,678,932</u>	<u>(160,030)</u>	<u>40,518,902</u>
Including: Non-current assets	<u>2,131,282</u>	<u>(110,867)</u>	<u>2,020,415</u>	<u>1,332,759</u>	<u>(45,333)</u>	<u>1,287,426</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Contract assets (Continued)

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

	Opening balance	Charge for the year	Written back during the year	Closing balance
2020	160,030	405,726	(80,529)	485,227
2019	148,871	150,423	(139,264)	160,030

	2020			
	Book balance	Proportion	Impairment provision	Ratio
	Amount	(%)	Amount	(%)
Individual impairment provision	967,263	2	249,936	26
Provision for impairment according to credit risk portfolio	40,041,554	98	235,291	0.59
	41,008,817	100	485,227	

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Contract assets (Continued)

	2020		2019	
	Book balance	Proportion	Impairment provision	Ratio
	Amount	(%)	Amount	(%)
Individual impairment provision	1,696,931	4	145,541	9
Provision for impairment according to credit risk portfolio	38,982,001	96	14,489	0.04
	<u>40,678,932</u>	<u>100</u>	<u>160,030</u>	

As at 31 December 2020, there was an increase in the Group's progress in the performance of relevant construction contracts, some of which had not yet constituted an unconditional right to receive payment, resulting in an increase in the carrying value of the contract assets.

As at 31 December 2020, the Group's contract assets with restricted ownership amounted to RMB2,472,966,000 (31 December 2019: RMB1,295,121,000). For details, please refer to Note VI-19.

9. Other current assets

	2020	2019
Prepaid EIT	57,251	33,735
Prepaid VAT and deductible input tax	48,233	16,470
Prepaid surcharges	45,792	41,158
Prepaid land use tax	10,623	3,333
Prepaid stamp duty	8,695	9,197
Prepaid personal income tax	1,010	9,223
Others	8,957	4,620
	<u>180,561</u>	<u>117,736</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-term receivables

The Group's long-term receivables are mainly for the provision of build-operate-transfer water supply services. The amounts due to the Group from customers under the construction services for comprehensive renovation projects will be settled in installments during a period from 1 to 25 years.

	2020	2019
Receivables under concession projects	120,894	119,901
Less: Long-term receivables due within one year	35,102	26,061
	85,792	93,840

The ageing of long-term receivables shall be calculated since the date when the budget needed for the completion of concession project is settled. The management of the Group considers that long-term receivables have no bad debt provision for lifetime expected credit losses as of 31 December 2020 (31 December 2019: nil).

As at 31 December 2020, the Group's long-term receivables with restricted ownership amounted to RMB120,894,000 (31 December 2019: Nil). Please refer to Note VI-19 for details.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Long-term equity investments

	2020	2019
Joint ventures		
Qinhuangdao Yuanyi Road Construction Management Co., Ltd	407,617	405,919
Financial guarantee for Qinhuangdao Yuanyi Road Construction Management Co., Ltd	15,742	15,742
Bazhou Hengzhiheng Gardening and Greenery Engineering Co., Ltd.	6,288	-
Beijing Rungucheng Investment Management Co., Ltd.	1,247	1,442
Associates		
Yizongliangheng	56,788	56,755
Rongcheng County Hengda Construction Investment Co., Ltd.	29,141	29,141
Bozhou Xiangju	18,538	15,576
Zhongyuan Environmental	5,440	5,440
	540,801	530,015

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Long-term equity investments (Continued)

Key information of joint ventures and associates:

2020

	Principal place of business/ place of registration	Nature of business	Registered capital	Shareholding (%)	Accounting treatment
Joint ventures					
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	PRC/PRC	Road management	200,000	49.5	Equity method
Bazhou Hengzhiheng Gardening and Greenery Engineering Co., Ltd.	PRC/PRC	Gardening and greenery	50,000	33	Equity method
Beijing Rungucheng Investment Management Co., Ltd.	PRC/PRC	Investment management	10,000	30	Equity method
Associates					
Zhongyuan Environmental	PRC/PRC	Construction management	167,380	5	Equity method
Bozhou Xiangju	PRC/PRC	Construction management	150,000	11	Equity method
Yizongliangheng	PRC/PRC	Road management	100,000	15	Equity method
Rongcheng County Hengda Construction Investment Co., Ltd.	PRC/PRC	Construction investment	100,000	29	Equity method

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VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Long-term equity investments (Continued)

2019

	Principal place of business/ place of registration	Nature of business	Registered capital	Shareholding (%)	Accounting treatment
Joint ventures					
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	PRC/PRC	Road management	200,000	49.5	Equity method
Beijing Rungucheng Investment Management Co., Ltd.	PRC/PRC	Investment management	10,000	30	Equity method
Associates					
Zhongyuan Environmental	PRC/PRC	Construction management	167,380	5	Equity method
Bozhou Xiangju	PRC/PRC	Construction management	150,000	11	Equity method
Yizongliangheng	PRC/PRC	Road management	100,000	15	Equity method
Rongcheng County Hengda Construction Investment Co., Ltd.	PRC/PRC	Construction investment	100,000	29	Equity method

The following table sets forth the financial information of joint ventures and associates that are immaterial to the Group:

	2020	2019
Total carrying values of investments	540,801	530,015
Total amounts calculated as per shareholding as follows		
Net profit	3,225	8,572
Total comprehensive income	3,225	8,572

As at 31 December 2020, the management of the Group considers that no impairment provision is required for long-term equity investments.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Other equity instrument investments

2020

	Accumulated fair value changes through other comprehensive income	Fair value	Equity instruments held by dividend income for the year	Reason of measuring at fair value through other comprehensive income
Baoding Commercial Bank Co., Ltd.	142,500	588,000	59,400	Strategic investment
Taihang Heyi Environmental Technology Co., Ltd.	77,000	117,000	25,000	Strategic investment
Qinhuangdao Smooth Road Construction and Management Co., Ltd.	6,000	9,000	-	Strategic investment
China Risun Group Co., Ltd.	(2,476)	54,952	-	Strategic investment
Xihua County Jijiantongda Construction Co., Ltd.	-	156	-	Strategic investment
	223,024	769,108	84,400	

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Other equity instrument investments (Continued)

2019

	Accumulated fair value changes through other comprehensive income	Fair value	Equity instruments held by dividend income for the year	Reason of measuring at fair value through other comprehensive income
Baoding Commercial Bank Co., Ltd.	103,500	549,000	59,400	Strategic investment
Taihang Heyi Environmental Technology Co., Ltd.	73,000	113,000	18,500	Strategic investment
Qinhuangdao Smooth Road Construction and Management Co., Ltd.	7,000	10,000	-	Strategic investment
China Risun Group Co., Ltd.	(4,833)	107,054	7,241	Strategic investment
	<u>178,667</u>	<u>779,054</u>	<u>85,141</u>	

As at 31 December 2020, the Group's other equity instrument investment with restricted ownership amounted to RMB43,962,000 (31 December 2019: RMB53,527,000). Please refer to Note VI-19.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Investment property

Subsequently measured by adopting the fair value model:

2020

	Houses and buildings
Cost	
Opening balance	134,750
Adjustment on the fair value	1,950
	<hr/>
Closing balance	136,700

2019

	Houses and buildings
Cost	
Opening balance	137,402
Adjustment on the fair value	(2,652)
	<hr/>
Closing balance	134,750

Such investment property is leased to a third party under an operating lease.

As at 31 December 2020, the Group has no investment properties with restricted ownership (31 December 2019: RMB134,750,000). Please refer to Note VI-19.

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VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Fixed assets

2020

	Buildings	Machinery equipment	Vehicles	Office equipment and others	Total
Cost					
Opening balance	295,424	178,735	79,967	96,990	651,116
Acquisitions	40,306	19,241	8,556	3,088	71,191
Disposal or retirement	-	(26,993)	(13,936)	(12)	(40,941)
Closing balance	<u>335,730</u>	<u>170,983</u>	<u>74,587</u>	<u>100,066</u>	<u>681,366</u>
Accumulated depreciation					
Opening balance	(35,336)	(102,672)	(55,684)	(79,307)	(272,999)
Provision	(32,526)	(27,874)	(13,557)	(11,317)	(85,274)
Disposal or retirement	-	25,757	13,239	12	39,008
Closing balance	<u>(67,862)</u>	<u>(104,789)</u>	<u>(56,002)</u>	<u>(90,612)</u>	<u>(319,265)</u>
Carrying amount					
At the end of the year	<u>267,868</u>	<u>66,194</u>	<u>18,585</u>	<u>9,454</u>	<u>362,101</u>
At the beginning of the year	<u>260,088</u>	<u>76,063</u>	<u>24,283</u>	<u>17,683</u>	<u>378,117</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Fixed assets (Continued)

2019

	Buildings	Machinery equipment	Vehicles	Office equipment and others	Total
Cost					
Opening balance	290,650	159,302	85,866	97,457	633,275
Acquisitions	20,603	21,060	14,831	5,594	62,088
Transfer from construction in progress	5,262	-	-	-	5,262
Disposal or retirement	(10,691)	(1,366)	(11,638)	(756)	(24,451)
Disposal of subsidiaries	(10,400)	(261)	(9,092)	(5,305)	(25,058)
Closing balance	<u>295,424</u>	<u>178,735</u>	<u>79,967</u>	<u>96,990</u>	<u>651,116</u>
Accumulated depreciation					
Opening balance	(25,709)	(89,436)	(67,263)	(75,128)	(257,536)
Provision	(14,736)	(14,454)	(6,915)	(8,687)	(44,792)
Disposal or retirement	1,833	1,154	10,923	418	14,328
Disposal of subsidiaries	3,276	64	7,571	4,090	15,001
Closing balance	<u>(35,336)</u>	<u>(102,672)</u>	<u>(55,684)</u>	<u>(79,307)</u>	<u>(272,999)</u>
Carrying amount					
At the end of the year	<u>260,088</u>	<u>76,063</u>	<u>24,283</u>	<u>17,683</u>	<u>378,117</u>
At the beginning of the year	<u>264,941</u>	<u>69,866</u>	<u>18,603</u>	<u>22,329</u>	<u>375,739</u>

As at 31 December 2020, the management of the Group considers that no impairment provision is required for fixed assets.

As at 31 December 2020, the Group's fixed assets with restricted ownership amounted to RMB189,787,000 (31 December 2019: RMB159,514,000). Please refer to Note VI-19.

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VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Construction in progress

2020

	Opening balance	Change during the year		Closing balance
		Acquisition and construction		
New base in Langfang	13,595	21,764		35,359
Project of transformation and construction of office building of the Group	2,150	-		2,150
Qingyuan Green Industrial Park	19	1,477		1,496
Hebei Construction Commercial Center	-	500,023		500,023
Tianjin office building	-	34,708		34,708
Others	-	1,291		1,291
	15,764	559,263		575,027

2019

	Opening balance	Change during the year			Closing balance
		Acquisition and construction	Transfer to fixed assets	Disposal of subsidiaries	
Shuishiyuan Hotel developed by Zhongcheng Real Estate	219,123	-	-	(219,123)	-
New base in Langfang	12,800	3,635	(2,840)	-	13,595
Project of transformation and construction of office building of the Group	2,150	-	-	-	2,150
Upgrade and transformation project of greening construction in Shunping County	1,315	-	(1,315)	-	-
Upgrade and transformation project of safe rural water supply in Dahe Town, Rongcheng County	740	-	(740)	-	-
Qingyuan Green Industrial Park	386	-	(367)	-	19
	236,514	3,635	(5,262)	(219,123)	15,764

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Right-of-use assets

2020

	Buildings	Machinery equipment	Total
Cost			
Opening balance	23,572	33,380	56,952
Addition	868	810	1,678
Reduction	(5,120)	-	(5,120)
Closing balance	19,320	34,190	53,510
Accumulated depreciation			
Opening balance	(8,858)	(1,550)	(10,408)
Addition	(3,977)	(12,472)	(16,449)
Reduction	5,120	-	5,120
Closing balance	(7,715)	(14,022)	(21,737)
Carrying amount			
At the end of the year	11,605	20,168	31,773
At the beginning of the year	14,714	31,830	46,544

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Right-of-use assets (Continued)

2019

	Buildings	Machinery equipment	Total
Cost			
Opening balance	22,645	-	22,645
Addition	927	33,380	34,307
Closing balance	23,572	33,380	56,952
Accumulated depreciation			
Opening balance	(4,922)	-	(4,922)
Addition	(3,936)	(1,550)	(5,486)
Closing balance	(8,858)	(1,550)	(10,408)
Carrying amount			
At the end of the year	14,714	31,830	46,544
At the beginning of the year	17,723	-	17,723

As at 31 December 2020, the management of the Group considers that no impairment provision is required for right-of-use assets.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Intangible assets

2020

	Land use rights
Cost	
Opening balance	47,080
Addition in the year	66,982
Closing balance	114,062
Accumulated amortisation	
Opening balance	(11,447)
Provision	(1,869)
Closing balance	(13,316)
Carrying amount	
At the end of the year	100,746
At the beginning of the year	35,633

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Intangible assets (Continued)

2019

	Land use rights
Cost	
Opening balance	42,862
Addition in the year	4,218
Closing balance	<u>47,080</u>
Accumulated amortisation	
Opening balance	(6,367)
Provision	(5,080)
Closing balance	<u>(11,447)</u>
Carrying amount	
At the end of the year	<u>35,633</u>
At the beginning of the year	<u>36,495</u>

As at 31 December 2020, the management of the Group considers that no impairment provision is required for intangible assets.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Deferred income tax assets

Certain deferred tax assets and liabilities recognised have been offset and the Group presents such net amount after offsetting in the balance sheet. As at 31 December 2020, the offset amount was RMB88,048,000 (31 December 2019: RMB74,614,000).

Deferred income tax assets recognised:

	2020	2019
Asset impairment provision	287,048	229,319
Withholding expenses	40,672	35,505
Deductible losses	4,194	256
Unrealised profit from internal transactions	22,496	2,366
Adjustment to change in fair value of accounts receivable financing	8,330	4,684
Profit or loss from changes in fair value	-	680
	362,740	272,810

The Group recognises deferred income tax assets related to deductible losses that will generate sufficient taxable income before the deductible losses expire.

As at 31 December 2020, the unrecognised deductible temporary differences for deferred income tax assets of the Group amounted to RMB153,922,000 (31 December 2019: RMB143,275,000) and the deductible loss amounted to RMB380,842,000 (31 December 2019: RMB479,792,000), falling due in 2021 to 2025 (31 December 2019: 2020 to 2024).

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Deferred income tax assets (Continued)

Deferred income tax liabilities recognised:

	2020	2019
Fair value adjustment for other equity instrument investments	55,756	44,667
Fair value adjustment for investment property	32,292	29,947
	88,048	74,614

19. Assets with restricted ownership

	2020	2019
Currency funds	452,706	369,844 <i>Note 1</i>
Accounts receivable	282,960	16,451 <i>Note 2</i>
Accounts receivable financing	116,805	- <i>Note 3</i>
Contract assets	2,472,966	1,295,121 <i>Note 2</i>
Long-term receivables (including long-term receivables due within one year)	120,894	- <i>Note 2</i>
Other equity instrument investments	43,962	53,527 <i>Note 4</i>
Investment property	-	134,750 <i>Note 5</i>
Fixed assets	189,787	159,514 <i>Note 6</i>
	3,680,080	2,029,207

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Assets with restricted ownership (Continued)

Note 1: As at 31 December 2020, the Group's currency funds with restricted ownership included bill deposits of RMB199,807,000, legally freezing of RMB234,920,000, letters of guarantee of RMB16,019,000 and time deposit certificate pledge of RMB1,960,000; as at 31 December 2019, the Group's currency funds with restricted ownership included bill deposits of RMB141,118,000, legally freezing of RMB202,733,000, letters of guarantee of RMB15,993,000, and time deposit certificate pledge of RMB10,000,000.

Note 2: As at 31 December 2020, the Group obtained a short-term borrowing of RMB393,687,000 jointly secured by accounts receivable with the carrying amount of RMB282,960,000 and contract assets with the carrying amount of RMB766,985,000. The Group obtained a long-term borrowing of RMB1,168,319,000 jointly secured by contract assets with the carrying amount of RMB1,705,981,000 and long-term receivables with the carrying amount of RMB120,894,000. As at 31 December 2019, the Group obtained a short-term borrowing of RMB212,000,000 jointly secured by accounts receivable with the carrying amount of RMB16,451,000 and contract assets with the carrying amount of RMB637,503,000; as at 31 December 2019, the Group obtained a long-term bank borrowing of RMB578,280,000 secured by contract assets with the carrying amount of RMB657,618,000.

Note 3: As at 31 December 2020, the Group obtained a short-term borrowing of RMB117,554,000 secured by accounts receivable financing with the carrying amount of RMB116,805,000 (2019: Nil).

Note 4: As at 31 December 2020, the Group obtained a long-term borrowing of RMB10,990,000 secured by other equity instrument investments with the carrying amount of RMB43,962,000; as at 31 December 2019, the Group obtained a bank borrowings of two years of RMB55,617,000 secured by other equity instrument investment with the carrying amount of RMB53,527,000.

Note 5: As at 31 December 2020, the Group did not obtain any borrowings secured by investment property; as at 31 December 2019, the Group obtained a short-term bank borrowings of RMB100,000,000 secured by investment property with the carrying amount of RMB134,750,000.

Note 6: As at 31 December 2020, the Group obtained a long-term borrowing of RMB53,790,000 secured by fixed assets of RMB166,276,000, and obtained a short-term borrowing of RMB17,500,000 secured by fix assets of RMB23,511,000. As at 31 December 2019, the Group obtained a long-term borrowing of RMB111,680,000 secured by fixed assets of RMB159,514,000.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Short-term borrowings

	2020	2019
Guaranteed loans	984,000	810,000
Unsecured loans	756,800	1,128,713
Loans secured by pledges	511,241	212,000
Loans secured by mortgages	17,500	100,000
	2,269,541	2,250,713

As at 31 December 2020, interest rates of the above borrowings ranged from 3.35% to 10.0% per annum (31 December 2019: 4.4% to 10.0%).

21. Accounts payable

Accounts payable are non-interest bearing and are generally settled within an agreed period.

The ageing analysis of accounts payable is as follows:

	2020	2019
Within 1 year	20,476,009	26,760,003
1 to 2 years	11,596,292	7,669,895
2 to 3 years	2,248,033	1,296,826
Over 3 years	705,554	219,528
	35,025,888	35,946,252

The ageing of accounts payable was calculated since the date the procurement was recognised.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Contract liabilities

	2020	2019
Payable to customers for contract works	6,015,490	4,489,727

As at 31 December 2020, the increase in contract liabilities was mainly due to receipt in advance for newly secured construction projects.

23. Employee benefits payable

	Payable in 2020	Unpaid amount at the end of 2020	Payable in 2019	Unpaid amount at the end of 2019
Wages, bonuses, allowances and subsidies	714,465	94,542	726,172	89,739
Contribution to the social insurance	34,801	22,498	34,430	20,986
Including: Medical insurance	26,128	16,698	26,065	15,380
Work-related injuries insurance	3,771	2,564	3,524	2,426
Maternity insurance	4,902	3,236	4,841	3,180
Housing provident fund	46,828	35,730	45,755	31,261
	796,094	152,770	806,357	141,986
Defined contribution plans	67,930	49,809	66,847	43,968
Including: Basic pension insurance	65,032	47,864	64,093	42,207
Unemployment insurance	2,898	1,945	2,754	1,761
	864,024	202,579	873,204	185,954

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Taxes payable

	2020	2019
Enterprise income tax	670,351	601,766
Value-added tax	17,725	30,986
Personal income tax	2,996	1,231
City maintenance and construction tax	1,958	1,883
Others	1,745	318
	694,775	636,184

25. Other current liabilities

	2020	2019
VAT amounts to be transferred to output	3,300,265	3,000,829
Financial guarantee contracts	23,311	15,742
	3,323,576	3,016,571

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Long-term borrowings

	2020	2019
Guaranteed loans	1,683,847	2,022,347
Loans secured by pledges	527,990	175,617
Guaranteed loans and loans secured by pledges	651,319	458,280
Loans secured by mortgages	53,790	111,680
Unsecured loans	-	10,000
	2,916,946	2,777,924
Less: Long-term borrowings due within one year	957,347	913,500
	1,959,599	1,864,424

As at 31 December 2020, interest rates of the above borrowings are 3.5% to 12.0% per annum (31 December 2019: 4.6% to 12.0%).

The term analysis of long-term borrowings is as follows:

	2020	2019
Long-term borrowings		
Within 1 year	957,347	917,500
1 to 2 years	516,280	1,184,714
2 to 5 years	336,000	181,430
Over 5 years	1,107,319	494,280
	2,916,946	2,777,924

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VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Lease liabilities

	2020	2019
Lease liabilities for machinery equipment	16,343	22,032
Lease liabilities for buildings	13,135	16,693
	29,478	38,725
Less: Lease liabilities due within one year	7,366	8,900
	22,112	29,825

28. Share capital

	2020		2019	
	RMB	Proportion (%)	RMB	Proportion (%)
Zhongru Investment Co., Ltd.	1,202,500	68	1,202,500	68
H Shares on the Main Board of Hong Kong	461,384	26	461,384	26
Qianbao Investment Co., Ltd.	97,500	6	97,500	6
	1,761,384	100	1,761,384	100

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Capital reserve

2020

	Total
Opening and closing balance	1,661,232

2019

	Share premium	Other capital reserve	Total
Opening balance	1,462,156	-	1,462,156
Business combination under common control	-	124,776	124,776
Effect of business combination under common control as at the date of combination and disposal of discontinued operations	-	8,300	8,300
Debt waiver for enterprises under control by the same controlling person	-	66,000	66,000
Closing balance	<u>1,462,156</u>	<u>199,076</u>	<u>1,661,232</u>

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VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Other comprehensive income

Cumulative balance of other comprehensive income attributable to the owners of the parent company in the consolidated balance sheet:

2020

	1 January 2020	Attributable to the parent company after tax	Other comprehensive income transferred to retained earnings	31 December 2020
Other comprehensive income that cannot be reclassified to profit or loss				
Changes in fair value of other equity instrument investments	134,000	23,715	9,553	167,268
Other comprehensive income that will be reclassified to profit or loss				
Changes in fair value of accounts receivable financing	(14,443)	(11,643)	-	(26,086)
	<u>119,557</u>	<u>12,072</u>	<u>9,553</u>	<u>141,182</u>

2019

	1 January 2019	Attributable to the parent company after tax	Other comprehensive income transferred to retained earnings	31 December 2019
Other comprehensive income that cannot be reclassified to profit or loss				
Changes in fair value of other equity instrument investments	60,900	73,100	-	134,000
Other comprehensive income that will be reclassified to profit or loss				
Changes in fair value of accounts receivable financing	-	(14,443)	-	(14,443)
	<u>60,900</u>	<u>58,657</u>	<u>-</u>	<u>119,557</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Other comprehensive income (Continued)

Other comprehensive income incurred:

2020

	Amount before tax	Less: income tax	Attributable to shareholders of the parent
Other comprehensive income that cannot be reclassified to profit or loss			
Changes in fair value of other equity instrument investments	31,620	7,905	23,715
Other comprehensive income that will be reclassified to profit or loss			
Changes in fair value of accounts receivable financing	(15,289)	(3,646)	(11,643)
	<u>16,331</u>	<u>4,259</u>	<u>12,072</u>

2019

	Amount before tax	Less: income tax	Attributable to shareholders of the parent
Other comprehensive income that cannot be reclassified to profit or loss			
Changes in fair value of other equity instrument investments	97,467	24,367	73,100
Other comprehensive income that will be reclassified to profit or loss			
Changes in fair value of accounts receivable financing	(19,127)	(4,684)	(14,443)
	<u>78,340</u>	<u>19,683</u>	<u>58,657</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Special reserve

Safety production costs

	2020	2019
Opening balance	-	-
Appropriation for the year	802,999	721,653
Use in the year	(802,999)	(721,653)
Closing balance	-	-

32. Surplus reserve

2020

	Opening balance	Addition during the year	Decrease during the year	Closing balance
Statutory surplus reserve	417,681	83,231	-	500,912

2019

	Opening balance	Addition during the year	Decrease during the year	Closing balance
Statutory surplus reserve	295,246	122,435	-	417,681

According to the company law and the Articles of Association, the Company shall make an appropriation to the statutory surplus reserve based on 10% of the net profit. Appropriation to the statutory surplus reserve may cease to apply if the balance of the statutory surplus reserve has reached 50% or more of the registered capital of the Company.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Surplus reserve (Continued)

After the appropriation to the statutory surplus reserve, the Company may make an appropriation to any surplus reserve. Upon approval, the surplus reserve may be used to make up for the losses from the previous years or increase the share capital.

33. Retained earnings

	2020	2019
Retained earnings at the end of last year	1,760,756	1,625,641
Business combinations under common control	-	76,388
Effects of the initial adoption of the new leases standard	-	(838)
Opening balance at the beginning of the year	1,760,756	1,701,191
Net profit attributable to shareholders of the parent	759,856	770,415
Less: Appropriation to statutory surplus reserve	83,231	122,435
Cash dividends paid (Note)	246,595	588,415
Other comprehensive income transferred to retained earnings	9,553	-
Retained earnings at the end of the year	2,181,233	1,760,756

Note: Pursuant to the resolution at the AGM on 23 June 2020, the Group declared a cash dividend of RMB0.14 (tax included) for each share, which amounted to RMB246,595,000 (tax included) based on the total share capital of the Company as at 31 December 2019. On 10 August 2020, such cash dividend was fully paid.

Pursuant to the resolution of the Board on 20 April 2021, the Board proposed a cash dividend of RMB0.14 per share to all Shareholders of the Company, calculated on the basis of 1,761,383,500 shares in issue, representing proposed cash dividend of RMB243,584,000 in total. The above proposal is subject to approval at the shareholders' general meeting. Until being approved at the shareholders' general meeting, such dividend will not constitute a liability of the Company and is therefore not reflected in the financial statements for the current period.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Operating revenue

The operating revenue is as follows:

	2020	2019
Revenue from major business	39,504,481	40,196,157
Revenue from other business	645,444	880,872
	40,149,925	41,077,029

The operating revenue is as follows:

	2020	2019
Revenue from contracts with customers	40,118,580	41,055,621
Rental income	31,345	21,408
	40,149,925	41,077,029

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Operating revenue (Continued)

The breakdown of operating revenue generated by contracts with customers is set out as follows:

2020

Reporting segment	Construction	Others	Total
Major operating regions			
China (excluding Hong Kong, Macau and Taiwan)	38,690,419	1,276,690	39,967,109
Other countries and regions	151,471	-	151,471
	<u>38,841,890</u>	<u>1,276,690</u>	<u>40,118,580</u>
Major products			
Building construction	25,992,215	-	25,992,215
Infrastructure construction	7,854,453	1,120,772	8,975,225
Specialised and other construction	4,537,041	-	4,537,041
Sewage and reclaimed water treatment	-	33,755	33,755
Sales of goods and others	458,181	122,163	580,344
	<u>38,841,890</u>	<u>1,276,690</u>	<u>40,118,580</u>
Timing of revenue recognition			
At a point of time			
Sales of goods and others	458,181	122,163	580,344
Within a period of time			
Building construction	25,992,215	-	25,992,215
Infrastructure construction	7,854,453	1,120,772	8,975,225
Specialised and other construction	4,537,041	-	4,537,041
Sewage and reclaimed water treatment	-	33,755	33,755
	<u>38,841,890</u>	<u>1,276,690</u>	<u>40,118,580</u>

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2020

Unit: RMB'000

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Operating revenue (Continued)

2019

Reporting segment	Construction	Others	Total
Major operating regions			
China (excluding Hong Kong, Macau and Taiwan)	39,286,375	1,769,246	41,055,621
Major products			
Building construction	28,699,298	-	28,699,298
Infrastructure construction	6,687,868	1,401,956	8,089,824
Specialised and other construction	3,407,035	-	3,407,035
Sales of commercial housing	-	149,194	149,194
Sales of goods and others	492,174	218,096	710,270
	39,286,375	1,769,246	41,055,621
Timing of revenue recognition			
At a point of time			
Sales of commercial housing	-	149,194	149,194
Sales of goods and others	492,174	185,099	677,273
Within a period of time			
Building construction	28,699,298	-	28,699,298
Infrastructure construction	6,687,868	1,401,956	8,089,824
Specialised and other construction	3,407,035	-	3,407,035
Sewage and reclaimed water treatment	-	32,997	32,997
	39,286,375	1,769,246	41,055,621

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Operating revenue (Continued)

The revenue recognised in this year included in the carrying amounts of the contract liabilities at the beginning of the year is as follows:

	2020	2019
Building construction	1,883,995	1,894,411
Infrastructure construction	894,187	971,658
Specialised and other construction	561,094	436,489
Sales of commercial housing	-	103,975
	3,339,276	3,406,533

The information related to performance obligations of the Group is as follows:

Construction services

The performance obligation is fulfilled within the time when the service is provided, and the contract price is usually settled within 90 days after the project payment is invoiced. Generally, the customer retains a certain percentage as the warranty money. The warranty money is usually settled after the warranty period expires, because according to the contract, the Group's right to receive the final payment depends on the customer's satisfaction with the service quality over a period of time.

Sale of goods

The performance obligation is fulfilled when the goods are delivered to the customer. For old customers, the contract price is usually settled within 90 days of delivery; for new customers, advance payment is usually required.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Operating revenue (Continued)

Real estate sales

For the real estate sales, after the real estate is completed and accepted, meeting the delivery conditions stipulated in the sales contract, when the customer obtains actual control or legal ownership of the relevant goods, the performance obligation is fulfilled.

Sewage and reclaimed water treatment

The performance obligation is fulfilled within the period of provision of relevant services. The contract period for sewage and reclaimed water treatment is 25 years. The contract sum is normally paid within 90 days after settlement.

35. Finance expenses

	2020	2019
Interest expenses	304,527	434,395
Less: capitalised interest expenses	-	68,174
Less: Interest income	39,167	158,720
Exchange (gains)/losses	(2,153)	5,377
	263,207	212,878

There were no capitalised borrowing costs during the period (2019: RMB68,174,000, of which RMB4,046,000 was included in construction in progress and RMB64,128,000 was included in inventories).

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Other income

	2020	2019	Related to assets/income
Reward and subsidy for Cao River Greenery Project	4,123		- Related to income
Reward and subsidy for the qualification of enterprise technology center	3,500		- Related to income
Central government subsidy for forestry loan interest	863		- Related to income
Subsidy for the Project of Wetland Buffer Zone Technology for Ecological Purification of Water Inflow of Baiyang Lake	500		- Related to income
Subsidy for the Forestry Project of Comprehensive Treatment of Groundwater Over-exploitation	491		- Related to income
Subsidy for the Project of "Research, Development and Application of Ultra Low Energy Consumption Key Technology for Prefabricated Steel Structure Residential Buildings"	400		- Related to income
Others	882	310	Related to income
	10,759	310	

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Investment income

	2020	2019
Dividend income from other equity instrument investments held	84,400	85,141
Gains on long-term equity investments accounted for under the equity method	3,225	8,572
Gains on disposal of subsidiaries	-	7,968
Losses on derecognition of financial assets at amortised cost	(59,197)	(50,764)
Others	(674)	75
	27,754	50,992

38. Gains/(losses) from changes in fair values

	2020	2019
Financial assets at fair value through profit or loss	-	(69)
Investment property measured at fair value	1,950	(2,652)
	1,950	(2,721)

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Credit impairment losses

	2020	2019
Bad debt losses on accounts receivable	(71,442)	(4,724)
Bad debt losses on other receivables	7,319	(46,640)
Impairment losses on financial guarantee contracts	8,731	-
	(55,392)	(51,364)

40. Asset impairment losses

	2020	2019
Impairment loss for contract assets	325,197	11,159

41. Expenses by nature

The supplemental information of the Group's operating costs, selling expenses, administrative expenses and research and development costs by nature is as follows:

	2020	2019
Construction costs	38,010,238	38,310,356
Property development costs	-	91,851
Employee benefits for the management and sales staff	298,917	314,096
Research and development expenses	94,476	92,895
Depreciation and amortisation	10,870	11,383
Audit fees	5,000	3,200
Others	187,530	808,523
	38,607,031	39,632,304

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42. Income tax expenses

	2020	2019
Current income tax expenses	267,843	406,131
Deferred income tax expenses	(83,940)	39,495
	183,903	445,626

The relationship between income tax expenses and the total profit is as follows:

	2020	2019
Total profit	936,134	1,208,749
Income tax expenses at the statutory tax rate (Note)	234,033	302,187
Share of profits or losses of joint ventures and associates	(806)	(2,250)
Income not subject to tax	(23,790)	(21,304)
Non-deductible expenses	1,557	2,880
Deductible losses utilised from previous years	(32,147)	(1,799)
Unrecognised deductible temporary differences and deductible losses	14,021	157,738
Adjustment of difference in approved profit rate of subsidiaries	-	(2,728)
Effects on the income tax arising from the waiver of debts from the related parties	-	16,500
Adjustments on the income tax of previous periods	(8,965)	(5,598)
Income tax expense at the Group's effective rate	183,903	445,626

Note: Provision for income tax of the Group has been made at 25% on the estimated taxable profit generated in the PRC.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43. Earnings per share

	2020 RMB per share	2019 RMB per share
Basic earnings per share		
Continuing operations	0.43	0.42
Discontinued operations	-	0.01
	0.43	0.43

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue. The number of newly issued ordinary shares is determined according to the specific terms of the issue contract and calculated from the date of consideration receivable (normally the stock issue date).

The calculation of basic earnings per share and diluted earnings per share is as follows:

	2020	2019
Earnings		
Net profit for the period attributable to ordinary shareholders of the Company		
Continuing operations	759,856	744,916
Discontinued operations	-	25,499
	759,856	770,415
Shares		
Weighted average number of ordinary shares in issue of the Company	1,761,383,500	1,761,383,500

The Company had no dilutive potential ordinary shares, therefore diluted earnings per share equals to basic earnings per share.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Cash flows from operating activities

Reconciliation of net profit to cash flows generated from operating activities:

	2020	2019
Net profit	752,231	763,123
Add: Credit impairment losses	(55,392)	(51,364)
Asset impairment losses	325,197	11,159
(Gains)/losses on changes in fair value	(1,950)	2,721
Depreciation of right-of-use assets	16,449	5,486
Depreciation of fixed assets	85,274	44,792
Amortisation of intangible assets	1,869	5,080
Gains on the disposal of fixed assets, intangible assets and other long-term assets	(214)	(304)
Finance expenses	272,921	279,690
Investment gains	(27,754)	(101,756)
(Increase)/decrease in deferred income tax assets	(83,940)	39,971
Increase in inventories	(96,627)	(395,378)
Increase in operating receivables	(63,909)	(2,778,292)
Increase in operating payables	847,777	2,510,695
Net cash flows generated from operating activities	1,971,932	335,623

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Cash and cash equivalents

	2020	2019
Cash	8,453,271	7,045,270
Including: Cash on hand	9,540	19,265
Bank deposits	6,984,518	6,008,387
Other currency funds	1,459,213	1,017,618
Less: Restricted cash and cash equivalents of the Company or subsidiaries of the Group	452,706	369,844
Closing balance of cash and cash equivalents	8,000,565	6,675,426

	2020	2019
Closing balance of cash for the year	8,000,565	6,675,426
Less: Opening balance of cash for the year	6,675,426	6,011,066
Net increase in cash and cash equivalents	1,325,139	664,360

46. Significant investing and financing activities that do not involve cash receipts and payments

Significant investing and financing activities that do not involve receipt and payment of cash or cash equivalents but have a direct impact on current financial position or future cash flows:

	2020	2019
Conversion of debt into capital	-	66,000

VII. SEGMENT REPORT

1. Operating segments

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

- (1) The construction contracting segment mainly engages in the construction general contracting and subcontracting business;
- (2) The “others” segment mainly includes property development, service concession arrangements and other services of the Group.

The management monitors the results of the business units separately for the purpose of decision making regarding resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit. The indicator is measured consistently with the Group’s total profit from continuing operations.

2020

	Construction contracting	Others	Adjustment and offset	Total
Sales to external customers	38,841,890	1,308,035	-	40,149,925
Intersegment sales	267,401	51,474	(318,875)	-
Gains on investments in joint ventures and associates	4,631	(1,406)	-	3,225
Credit impairment losses	(50,333)	(5,059)	-	(55,392)
Asset impairment losses	325,197	54,759	(54,759)	325,197
Depreciation and amortisation	72,130	31,462	-	103,592
Total profit	1,034,997	(75,400)	(23,463)	936,134
Total assets	60,070,301	5,671,036	(2,947,455)	62,793,882
Total liabilities	53,873,652	4,044,230	(1,564,079)	56,353,803
Other disclosures				
Long-term equity investments in associates and joint ventures	539,554	1,247	-	540,801
Increase in non-current assets other than long-term equity investments	612,326	85,110	-	697,436

VII. SEGMENT REPORT (Continued)**1. Operating segments** (Continued)

2019

	Construction contracting	Others	Adjustment and offset	Total
Sales to external customers	39,286,375	1,790,654	-	41,077,029
Intersegment sales	145,759	55,772	(201,531)	-
Gains on investments in joint ventures and associates	8,629	(57)	-	8,572
Credit impairment losses	34,345	(85,709)	-	(51,364)
Asset impairment losses	11,159	45,333	(45,333)	11,159
Depreciation and amortisation	25,637	29,721	-	55,358
Total profit	836,623	149,029	223,097	1,208,749
Total assets	77,211,545	1,877,996	(18,162,970)	60,926,571
Total liabilities	69,815,894	1,575,404	(16,368,299)	55,022,999
Other disclosures				
Long-term equity investments in associates and joint ventures	528,573	1,442	-	530,015
Increase in non-current assets other than long-term equity investments	35,126	34,815	-	69,941

2. Other information***Geographical information****Revenue from external transactions*

As the majority of the Group's revenue is derived from customers in Mainland China, no further information of geographical segments is required. Revenue from external transactions is analysed by geographic locations where the customers are located.

Total non-current assets

All non-current assets held by the Group are located in Mainland China. Non-current assets are analysed by geographic locations where the assets are located, excluding financial assets and deferred tax assets.

VII. SEGMENT REPORT (Continued)

2. Other information (Continued)

Information about major customers

No operating revenue from a single customer accounted for more than 10% of the Group's revenue.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS

1. Classification of financial instruments

The carrying amounts of financial instruments at the balance sheet date are as follows:

2020

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income		Total
	Required by the standards		Required by standards	Designated	
Currency funds	-	8,453,271	-	-	8,453,271
Financial assets held for trading	743	-	-	-	743
Accounts receivable	-	5,427,035	-	-	5,427,035
Accounts receivable financing	-	-	1,699,431	-	1,699,431
Other receivables	-	2,437,425	-	-	2,437,425
Non-current assets due within one year	-	35,102	-	-	35,102
Long-term receivables	-	85,792	-	-	85,792
Other equity instrument investments	-	-	-	769,108	769,108
	743	16,438,625	1,699,431	769,108	18,907,907

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**1. Classification of financial instruments** (Continued)

Financial liabilities

	Financial liabilities at amortised cost
Short-term borrowings	2,269,541
Bills payable	571,443
Accounts payable	35,025,888
Other payables	5,304,087
Non-current liabilities due within one year	964,713
Long-term borrowings	1,959,599
Lease liabilities	22,112
	46,117,383

The carrying amounts of financial instruments at the balance sheet date are as follows:

2019

Financial assets

	Financial assets		Financial assets at fair value through		Total
	at fair value through profit or loss	assets at amortised cost	other comprehensive income		
	Required by the standards		Required by standards	Designated	
Currency funds	-	7,045,270	-	-	7,045,270
Financial assets held for trading	4,931	-	-	-	4,931
Accounts receivable	-	5,748,686	-	-	5,748,686
Accounts receivable financing	-	-	1,257,760	-	1,257,760
Other receivables	-	2,468,999	-	-	2,468,999
Non-current assets due within one year	-	26,061	-	-	26,061
Long-term receivables	-	93,840	-	-	93,840
Other equity instrument investments	-	-	-	779,054	779,054
	4,931	15,382,856	1,257,760	779,054	17,424,601

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**1. Classification of financial instruments** (Continued)

Financial liabilities

	Financial liabilities at amortised cost
Short-term borrowings	2,250,713
Bills payable	380,677
Accounts payable	35,946,252
Other payables	5,300,272
Non-current liabilities due within one year	922,400
Long-term borrowings	1,864,424
Lease liabilities	29,825
	<u>46,694,563</u>

2. Transfer of financial assets***Financial assets being transferred but not derecognised as a whole***

As at 31 December 2020, the carrying amount of bills endorsed to suppliers for settlement of accounts payable amounted to RMB413,153,000 (31 December 2019: RMB428,700,000). The Group considers that it has retained substantially all the risks and rewards, including default risks relating to such bills. Accordingly, the bills and relevant settled amounts payable are fully recognised. Subsequent to the endorsement, the Group did not retain any rights on the use of the endorsed bills, including the right of sale, transfer or pledge of the bills to any other third parties. As at 31 December 2020, the carrying amount for settlement of accounts payable of the Group amounted to RMB413,153,000 (31 December 2019: RMB428,700,000).

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

2. Transfer of financial assets (Continued)

Financial assets being transferred but not derecognised as a whole (Continued)

As part of the daily business, the Group and some financial institutions have reached factoring arrangements for accounts receivable and transferred certain accounts receivable to the financial institutions. Pursuant to such arrangements, if the debtor of the accounts receivable delays payment, the Group is required to repay the amount. For the financial assets which the Group retains almost all of their risks and rewards of ownership, such financial assets will not be derecognised. After the transfer, the Group no longer reserves the right to use it, including the right to sell, transfer or pledge it to other third parties. As at 31 December 2020, the original carrying amount of accounts receivable transferred under such arrangements but not yet settled was RMB353,086,000 (31 December 2019: RMB301,956,000), and the related liabilities amounted to RMB353,086,000 (31 December 2019: RMB301,956,000), which were included in accounts receivable and short-term borrowings, respectively.

Transferred financial assets that are derecognised as a whole with continuing involvement

As at 31 December 2020, the carrying amount of bank acceptance bills endorsed to suppliers for settlement of accounts payable amounted to RMB1,258,725,000 (31 December 2019: RMB814,360,000). As at 31 December 2020, the bills have a maturity of 1 to 12 months. In accordance with the Negotiable Instruments Law, holders of the bills have a right of recourse against the Group if the acceptance bank refused the payment (the "Continuing Involvement"). In the opinion of the Group, the Group has transferred substantially all risks and rewards. Accordingly, the carrying amount of accounts payable settled by the bills was derecognised. The maximum loss and undiscounted cash flow of the Continuing Involvement and repurchase approximate to their carrying amounts. In the opinion of the Group, the fair value of the Group's Continuing Involvement is not significant.

During the year ended 31 December 2020, the Group has not recognised any gain or loss on the date of transfer of the 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.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

3. Financial instruments risks

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and market risk. In this regard, the Group's risk management policies are outlined below.

Credit risk

According to the policies of the Group, credit risk assessment will be conducted when accepting new customers and a credit risk exposure limit for individual customers will be set. There are no significant concentrations of credit risk within the Group.

The maximum credit risk exposure of the Group's financial assets equals to their carrying amounts. The Group is also exposed to credit risk for providing financial guarantees, details of which are disclosed in Note XI.

Criteria for determining significant increase in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. When determining whether the credit risk has significantly increased since initial recognition, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers that credit risk of financial instrument has significantly increased when there is a material adverse change in the operating or financial condition of the principal debtor.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

3. Financial instruments risks (Continued)

Credit risk (Continued)

Definition of credit-impaired assets

The criteria adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative indicators. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or the debtor;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single identifiable event.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

3. Financial instruments risks (Continued)

Credit risk (Continued)

Parameters of measurement of expected credit losses

Based on whether there is a significant increase in credit risk and whether the financial assets are credit-impaired, the Group recognises impairment allowance for different assets using either 12-month expected credit losses or lifetime expected credit losses. The measurement of expected credit loss model is a function of the probability of default, the loss given default and the exposure at default as key parameters. The Group establishes the model of the probability of default, the loss given default and the exposure at default by considering the quantitative analysis of historical statistics and forward-looking information.

Definitions are as follows:

- (1) The probability of default is the probability that the debtor will not be able to meet its repayment obligations within the following 12 months or throughout the remaining duration. To reflect the macro-economic expected credit loss environment conditions, the Group's assessment of the probability of default is based on the calculation of expected credit loss model adjusted by forward-looking information;
- (2) The loss given default refers to the Group's expectation of the extent of the loss of default risk exposure. The loss given default varies depending on the type of counterparty, the way and priority of recourse, and the type of collateral. The loss given default is the percentage of the risk exposure loss at the time of default, calculated on the basis of the next 12 months or the entire duration;
- (3) The exposure at default refers to the amount that the Group should be repaid in the event of default in the next 12 months or throughout the remaining period.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

3. Financial instruments risks (Continued)

Credit risk (Continued)

The assessment of a significant increase in credit risk and calculation of expected credit losses involve forward-looking information. The Group identifies key economic ratios that affect credit risk and expected credit losses of different businesses by historical data analysis.

As at 31 December 2020, no provision was provided for impairment losses of other receivables which were overdue over one year based on 12-month expected credit losses (31 December 2019: Nil).

For information on exposure at default of accounts receivable, other receivables, long-term receivables and contract assets, please refer to Notes VI-3, 6, 10 and 8. The Group is also exposed to credit risk for providing financial guarantees, details of which are disclosed in Note XI.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**3. Financial instruments risks** (Continued)**Liquidity risk**

The Group's objective is to meet the liquidity requirements by maintaining sufficient capital and credit lines. The Group funds its operations by revenue from its operating activities and borrowings.

The maturity analysis of the financial liabilities based on the contractual undiscounted cash flow, is as follows:

2020

	Within 1 year	1 to 5 years	Over 5 years	Total
Short-term borrowings	2,330,842	-	-	2,330,842
Bills payable	571,443	-	-	571,443
Accounts payable	35,025,888	-	-	35,025,888
Other payables	5,304,087	-	-	5,304,087
Non-current liabilities due within one year	1,130,663	-	-	1,130,663
Long-term borrowings	-	1,165,575	1,562,804	2,728,379
Lease liabilities	-	27,364	-	27,364
Financial guarantee contract	16,728	108,187	28,379	153,294
	44,379,651	1,301,126	1,591,183	47,271,960

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**3. Financial instruments risks** (Continued)**Liquidity risk** (Continued)

2019

	Within 1 year	1 to 5 years	Over 5 years	Total
Short-term borrowings	2,309,510	-	-	2,309,510
Bills payable	380,677	-	-	380,677
Accounts payable	35,946,252	-	-	35,946,252
Other payables	5,300,272	-	-	5,300,272
Non-current liabilities due within one year	1,101,280	-	-	1,101,280
Long-term borrowings	-	1,546,499	710,375	2,256,874
Lease liabilities	-	34,272	-	34,272
Financial guarantee contract	6,844	92,221	61,073	160,138
	<u>45,044,835</u>	<u>1,672,992</u>	<u>771,448</u>	<u>47,489,275</u>

Market risk*Interest rate risk*

The Group's exposure to the risk of changes in market interest rates primarily relates to the Group's long-term borrowings with floating interest rates. The Group manages interest rate risk by closely monitoring changes in interest rates and reviewing its borrowings on a regular basis.

As at 31 December 2020, under the assumption that other variables were held constant, if the interest rate of borrowings increased/decreased by 100 basis points, the net profit/loss of the Group would decrease/increase by RMB14,692,000 (31 December 2019: RMB11,673,000) due to the changes in interest expenses of borrowings with floating interest rates.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

3. Financial instruments risks (Continued)

Market risk (Continued)

Price risk of equity instrument investments

The Group's exposure to the price risk of equity instrument investments primarily relates to the shares of listed companies held by the Group.

As at 31 December 2020, under the assumption that other variables were held constant, if the fair value of the corresponding equity instrument investments increased/decreased by 100 base points, the other comprehensive income (net of tax) of the Group would increase/decrease by RMB412,000 (31 December 2019: RMB1,144,270) due to the change in the fair value of other equity instrument investments.

4. Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, to provide returns for the shareholders and to optimise its capital structure in order to minimise the costs of capital.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or dispose of assets to reduce liabilities. No changes were made in the objectives, policies or processes for capital management for the years of 2020 and 2019.

The Group monitors capital using the gearing ratio, which is the sum of short-term borrowings, non-current borrowings due within one year and long-term borrowings divided by total equity. The Group's gearing ratio as at the balance sheet date was as follows:

	2020	2019
Gearing ratio	81%	85%

IX. FAIR VALUE

1. Fair value of financial instruments

The management has assessed that the fair values of currency funds, accounts receivable, other receivables, short-term borrowings, bills and accounts payables, and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The following are the carrying amount and fair value of financial instruments except for lease liabilities and the financial instruments for which the difference between the carrying amount and fair value is immaterial:

	Carrying amount		Fair value	
	2020	2019	2020	2019
Long-term borrowings	765,990	935,464	809,416	927,407

At each balance sheet date, the finance department analyses the movements in the fair value of the financial instruments and determines the major input applicable to the valuation.

The fair values of financial assets and financial liabilities are determined based on the amount for which an asset could be exchanged or a liability is settled, between knowledgeable, willing parties in an arm's length transaction, other than in a forced or liquidation sale. The following methods and assumptions were used in the assessment of fair value.

The fair value of long-term receivables and long-term borrowings is calculated by discounting the future cash flows using market yield currently available for other financial instruments with similar contract terms, credit risk and residual term as the discount rate. As at 31 December 2020 and 31 December 2019, the Group's exposure to non-performance risk associated with the long-term borrowings is assessed to be insignificant. As of 31 December 2020 and 2019, the fair value of long-term receivables approximates their carrying amount.

IX. FAIR VALUE (Continued)**1. Fair value of financial instruments** (Continued)

The fair values of listed equity instrument investments are determined by the market value. The fair values of investments in unlisted equity instruments use assumptions that are not supported by observable market prices or interest rates. The valuation requires the Group to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price to earnings (“P/E”) multiple and price to net assets (“P/B”) multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by earnings and net assets measures. The trading multiple is then discounted for liquidity based on company-specific facts and circumstances, taking into account factors such as liquidity and size differences between comparable companies. The Group believes that the fair value estimated using valuation techniques is reasonable and the most appropriate value as of the balance sheet date.

For the fair value of the non-listed equity instrument investment, the Group estimated and quantified the potential impact of adopting other reasonable and possible assumptions as input value in the valuation model: with the use of less favorable assumption, the fair value decreased by approximately RMB7,040,000; with the use of more favorable assumption, the fair value increased by approximately RMB7,570,000.

2. Fair value of investment properties using the fair value model

	Valuation technique	Significant unobservable inputs	Range or weighted average	
			2020	2019
RT-Mart	Yield approach	Yield rate Annual market rental (per square meter)	8.2% 123-143	8.7% 123-150

IX. FAIR VALUE (Continued)**3. Fair value hierarchy**

Assets measured at fair value:

2020

	Inputs used in fair value measurement			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Ongoing fair value measurement				
Financial assets held for trading	743	-	-	743
Accounts receivable financing	-	1,699,431	-	1,699,431
Other equity instrument investments	54,952	-	714,156	769,108
Investment properties	-	-	136,700	136,700
	55,695	1,699,431	850,856	2,605,982

2019

	Inputs used in fair value measurement			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Ongoing fair value measurement				
Financial assets held for trading	4,931	-	-	4,931
Accounts receivable financing	-	1,257,760	-	1,257,760
Other equity instrument investments	107,054	-	672,000	779,054
Investment properties	-	-	134,750	134,750
	111,985	1,257,760	806,750	2,176,495

The fair value of accounts receivable financing is calculated by discounting the expected future cash flows using market rates of return currently available for other financial instruments with similar credit risk and remaining maturities.

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IX. FAIR VALUE (Continued)

3. Fair value hierarchy (Continued)

The following is an overview of the significant unobservable inputs in the fair value measurement categorised within level 3:

	Fair value at the end of the year	Valuation technique	Unobservable inputs	Scope (Weighted average)
Non-listed equity investments				
Baoding Commercial Bank Co., Ltd.	2020: 588,000 2019: 549,000	Listed companies comparison method	P/B multiple Median of peers Discount for liquidity	2020: 0.8-1.1 2019: 0.9-1.1 2020: 30% 2019: 30%
Taihang Heyi Environmental Technology Co., Ltd.	2020: 117,000 2019: 113,000	Listed companies comparison method	P/E multiple Median of peers Discount for liquidity	2020: 6.5-10.1 2019: 5.3-11.3 2020: 30% 2019: 30%
Qinhuangdao Smooth Road Construction Co., Ltd.	2020: 9,000 2019: 10,000	Listed companies comparison method	P/B multiple Median of peers Discount for liquidity	2020: 0.9-1.2 2019: 0.8-2.0 2020: 30% 2019: 30%
Leased properties RT-Mart	2020: 136,700 2019: 134,750	Discounted cash flow method	Yield rate Annual market rental (per square metre)	2020: 8.2% 2019: 8.7% 2020: 123-143 2019: 123-150

IX. FAIR VALUE (Continued)**3. Fair value hierarchy** (Continued)

There were no transfers of fair value measurements of the Group's financial assets and financial liabilities between Level 1 and Level 2 and no transfers into or out from Level 3.

Liabilities disclosed at fair value:

2020

	Inputs used in fair value measurement			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Long-term borrowings	-	809,416	-	809,416

2019

	Inputs used in fair value measurement			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Long-term borrowings	-	927,407	-	927,407

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Definition of related parties

If a party controls, jointly controls or exerts significant influence over another party, or if two or more parties are under the control or common control, related party relationship is constituted.

Related parties of the Company are as follows:

- (1) Parent companies of the Company;
- (2) Subsidiaries of the Company;
- (3) Other enterprises under common control by the parent company;
- (4) The investor with common control over the Company;
- (5) The investor with significant influence over the Company;
- (6) Joint ventures of the Group;
- (7) Associates of the Group;
- (8) Major individual investors of the Company and their close family members;
- (9) Key management personnel of the Company or the parent companies and their close family members;

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

1. Definition of related parties (Continued)

- (10) Other enterprises under the control or common control of the Company's major individual investors, key management personnel or their close family members;
- (11) Joint ventures or associates of other members (including parent company and subsidiaries) within the same group as the Company.
- (12) Joint ventures or associates of enterprises that exercise common control over the Company.
- (13) Joint ventures of enterprises with significant influence over the Company.

The joint ventures mentioned above include the joint ventures and their subsidiaries, and the associates include the associates and their subsidiaries.

2. Parent companies and subsidiaries

Name of the parent company	Place of registration	Nature of business	Proportion of shareholding in the Company (%)	Proportion of votes in the Company (%)	Registered capital
Zhongru Investment Co., Ltd.	Beijing	Investment management	69.4	69.4	RMB1,202,500,000
Qianbao Investment Co., Ltd.	Baoding, Hebei	Investment	5.6	5.6	RMB97,500,000

The ultimate controlling party of the Company and the Group is Qianbao Investment Co., Ltd.

Details of the Company's major subsidiaries are set out in Note V-1.

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

3. Other related parties

Name of related party	Related party relationships
Zhongru Investment Co., Ltd.	Parent company
Qianbao Investment Co., Ltd.	Parent company
Yizongliangheng	Associate
Bozhou Xiangju	Associate
Rongcheng County Hengda Construction Investment Co., Ltd.	Associate
Zhongyuan Environmental	Associate
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	Joint venture
Bazhou Hengzhiheng Gardening and Greenery Engineering Co., Ltd.	Joint venture
Beijing Rungucheng Investment Management Co., Ltd.	Joint venture
Zhongming Zhiye Co., Ltd.	Other enterprises under common control by the parent company
Baoding Tianli Labor Service Co., Ltd.	Other enterprises under common control by the parent company
Hebei Tianbo Construction Technology Co., Ltd.	Other enterprises under common control by the parent company
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	Other enterprises under common control by the parent company
Sanhe Baolan Heat Co., Ltd.	Other enterprises under common control by the parent company
Zhongcheng Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company
Xi'an Zhongyuan Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company
Baoding Taiji Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company
Luanping Zhongcheng Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company
Huailai Zhongcheng Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company
Hebei Construction Group Qianqiu Management Co., Ltd.	Other enterprises under common control by the parent company
Hebei Qianyuan Agricultural Technology Development Co., Ltd.	Other enterprises under common control by the parent company

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

3. Other related parties (Continued)

Name of related party	Related party relationships
Huilai Jingsheng Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company
Hebei Guangsha Property Management Co., Ltd.	Other enterprises under common control by the parent company
Laiyuan Zhongcheng Construction Development Co., Ltd.	Other enterprises under common control by the parent company
Guangan Zhongcheng Real Estate Development Co., Ltd.	Associate of other enterprises under common control by the parent company
Hebei Zitan Real Estate Development Co., Ltd.	Associate of other enterprises under common control by the parent company
Baoding Zhucheng	Associate of other enterprises under common control by the parent company
Chengdu New Era Tiancheng Properties Co., Ltd.	Associate of other enterprises under common control by the parent company
Datang Baoding Heat Supply Co., Ltd.	Associate of other enterprises under common control by the parent company
Hebei Baocang Expressway Co., Ltd.	Associate of other enterprises under common control by the parent company
Hebei Baoyu Surveying Service Co., Ltd.	Subsidiary of other enterprises under common control by the parent company
Sanhe Jinshibang Real Estate Development Co., Ltd.	Subsidiary of other enterprises under common control by the parent company
Key management personnel	Key management personnel of the Group

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties

(1) Sales or purchases of goods and rendering or receipt of services

Rendering of services to related parties

	Notes	2020 Amount	2019 Amount
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	(1)a	355,599	103,218
Xi'an Zhongyuan Real Estate Development Co., Ltd.	(1)b	123,764	105,500
Zhongyuan Environmental Huailai Jingsheng Real Estate Development Co., Ltd.	(1)c	102,166	51,299
Baoding Zhucheng	(1)d	100,224	100,683
Hebei Zitan Real Estate Development Co., Ltd.	(1)e	83,443	155,158
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	(1)f	70,835	19,398
Sanhe Jinshibang Real Estate Development Co., Ltd.	(1)g	62,456	111,595
Huailai Zhongcheng Real Estate Development Co., Ltd.	(1)h	57,294	-
Baoding Taiji Real Estate Development Co., Ltd.	(1)i	17,357	3,780
Datang Baoding Heat Supply Co., Ltd.	(1)j	14,771	-
Zhongcheng Real Estate Development Co., Ltd.	(1)k	11,838	6,011
Luanping Zhongcheng Real Estate Development Co., Ltd.	(1)l	11,531	14,629
Bozhou Xiangju	(1)m	10,476	-
Hebei Qianyuan Agricultural Technology Development Co., Ltd.	(1)n	8,125	60,068
Yizongliangheng	(1)o	7,563	5,685
Laiyuan Zhongcheng Construction Development Co., Ltd.	(1)p	4,368	1,773
Hebei Baocang Expressway Co., Ltd.	(1)q	4,203	513
Sanhe Baolan Heat Co., Ltd.	(1)r	2,127	1,028
Qianbao Investment Co., Ltd.	(1)s	893	6,166
Guangan Zhongcheng Real Estate Development Co., Ltd.	(1)t	306	-
Hebei Guangsha Property Management Co., Ltd.	(1)u	-	22,787
Chengdu New Era Tiancheng Properties Co., Ltd.	(1)v	-	2
	(1)w	-	1
		1,049,339	769,294

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)**(1) Sales or purchases of goods and rendering or receipt of services** (Continued)*Receipt of services from related parties*

	Notes	2020 Amount	2019 Amount
Baoding Tianli Labor Service Co., Ltd.	(1)x	3,455,330	3,239,327
Hebei Tianbo Construction Technology Co., Ltd.	(1)y	1,466	3,317
		3,456,796	3,242,644

(2) Related party leases

As lessee

	Notes	Type of leased asset	2020 Leasing fees	2019 Leasing fees
Zhongming Zhiye Co., Ltd.	(2)a	Office building	2,796	2,821

Note: The transaction price of property lease between the Group and its related party was determined by both parties through negotiation with reference to market prices and other factors.

(3) Guarantees to/from related parties*Providing guarantees to related parties***2020**

Guaranteed party	Note	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed	The actual guaranteed amount
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	(3)a	600,000	2019/8/29	2036/12/20	No	127,500

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

(3) Guarantees to/from related parties (Continued)

Receiving guarantees from related parties

2020

Guarantor	Notes	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed	The actual guaranteed amount
Zhongming Zhiye Co., Ltd.	(3)b	108,000	2018/10/26	2022/10/25	No	-
Chengdu New Era Tiancheng Properties Co., Ltd.	(3)c	399,847	2019/3/26	2021/4/1	No	239,847
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	(3)c	399,847	2019/3/26	2021/4/1	No	239,847
Baoding Taiji Real Estate Development Co., Ltd.	(3)c	399,847	2019/3/26	2021/4/1	No	239,847
Zhongcheng Real Estate Development Co., Ltd.	(3)c	399,847	2019/3/26	2021/4/1	No	239,847
Zhongcheng Real Estate Development Co., Ltd.	(3)c	399,847	2019/5/8	2021/4/1	No	239,847
Zhongming Zhiye Co., Ltd.	(3)c	399,847	2019/4/1	2024/4/1	No	239,847
Zhongcheng Real Estate Development Co., Ltd.	(3)d	400,000	2018/7/19	2020/7/18	Yes	-
Huilai Jingsheng Real Estate Development Co., Ltd.	(3)d	400,000	2018/7/19	2020/7/18	Yes	-
Zhongcheng Real Estate Development Co., Ltd.	(3)d	400,000	2019/5/8	2020/7/18	Yes	-
Zhongming Zhiye Co., Ltd.	(3)d	400,000	2019/5/8	2020/7/18	Yes	-
Zhongming Zhiye Co., Ltd.	(3)e	100,000	2019/11/25	2020/11/24	Yes	-
Zhongming Zhiye Co., Ltd.	(3)f	150,000	2019/11/25	2020/11/24	Yes	-
Zhongming Zhiye Co., Ltd.	(3)g	200,000	2019/12/30	2023/12/29	No	-
Zhongcheng Real Estate Development Co., Ltd.	(3)h	150,000	2020/6/15	2022/6/8	No	140,000
Zhongru Investment Co., Ltd.	(3)i	70,000	2020/8/18	2024/2/10	No	70,000
Zhongming Zhiye Co., Ltd.	(3)j	160,000	2020/11/17	2025/11/16	No	160,000
Zhongming Zhiye Co., Ltd.	(3)k	100,000	2020/11/25	2021/11/24	No	98,000
Zhongming Zhiye Co., Ltd.	(3)l	25,000	2020/12/22	2023/12/21	No	25,000
Zhongming Zhiye Co., Ltd.	(3)m	140,000	2020/12/28	2025/12/27	No	140,000
Zhongming Zhiye Co., Ltd.	(3)n	200,000	2020/12/31	2024/12/30	No	200,000

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)**(3) Guarantees to/from related parties** (Continued)*Providing guarantees to related parties*

2019

Guaranteed party	Note	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed	The actual guaranteed amount
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	(3)a	600,000	2019/8/29	2036/12/20	No	127,500

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

(3) Guarantees to/from related parties (Continued)

Receiving guarantees from related parties

2019

Guarantor	Notes	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed	The actual guaranteed amount
Zhongming Zhiye Co., Ltd.	(3)b	108,000	2018/10/26	2022/10/25	No	108,000
Chengdu New Era Tiancheng Properties Co., Ltd.	(3)c	399,847	2019/3/26	2021/4/1	No	394,847
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	(3)c	399,847	2019/3/26	2021/4/1	No	394,847
Baoding Taiji Real Estate Development Co., Ltd.	(3)c	399,847	2019/3/26	2021/4/1	No	394,847
Xi'an Zhongyuan Real Estate Development Co., Ltd.	(3)c	399,847	2019/3/26	2019/8/1	Yes	-
Zhongcheng Real Estate Development Co., Ltd.	(3)c	399,847	2019/3/26	2021/4/1	No	394,847
Zhongcheng Real Estate Development Co., Ltd.	(3)c	399,847	2019/5/8	2021/4/1	No	394,847
Zhongming Zhiye Co., Ltd.	(3)c	399,847	2019/4/1	2024/4/1	No	394,847
Zhongcheng Real Estate Development Co., Ltd.	(3)d	400,000	2018/7/19	2020/7/18	No	280,000
Huailai Jingsheng Real Estate Development Co., Ltd.	(3)d	400,000	2018/7/19	2020/7/18	No	280,000
Zhongcheng Real Estate Development Co., Ltd.	(3)d	400,000	2019/5/8	2020/7/18	No	280,000
Zhongming Zhiye Co., Ltd.	(3)d	400,000	2019/5/8	2020/7/18	No	280,000
Zhongming Zhiye Co., Ltd.	(3)e	100,000	2019/11/25	2020/11/24	No	100,000
Zhongming Zhiye Co., Ltd.	(3)f	150,000	2019/11/25	2020/11/24	No	25,000
Zhongming Zhiye Co., Ltd.	(3)g	200,000	2019/12/30	2023/12/29	No	200,000

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)**(4) Transfer of assets with a related party**

	Note	2020 Amount	2019 Amount
Baoding Zhucheng	(4)a	350,000	-

(5) Other related party transactions

	Notes	2020 Amount	2019 Amount
Emolument of key management personnel	(5)a	11,027	9,079
Waiver of interest on debts	(5)b	-	66,000
Commitment to acquisition of office building	(5)c	-	350,000
		11,027	425,079

Notes:

(1) SALES OR PURCHASES OF GOODS AND RENDERING OR RECEIPT OF SERVICES

- (a) In 2020, the Group provided construction services to Qinhuangdao Yuanyi Road Construction Management Co., Ltd. at the market price of RMB355,599,000 (2019: RMB103,218,000).
- (b) In 2020, the Group provided construction services to Xi'an Zhongyuan Real Estate Development Co., Ltd. at the market price of RMB123,764,000 (2019: RMB105,500,000).
- (c) In 2020, the Group provided construction services to Zhongyuan Environmental at the market price of RMB102,166,000 (2019: RMB51,299,000).
- (d) In 2020, the Group provided construction services to Huailai Jingsheng Real Estate Development Co., Ltd. at the market price of RMB100,224,000 (2019: RMB100,683,000).
- (e) In 2020, the Group provided construction services to Baoding Zhucheng at the market price of RMB83,443,000 (2019: RMB155,158,000).

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

Notes: (Continued)

(1) SALES OR PURCHASES OF GOODS AND RENDERING OR RECEIPT OF SERVICES
(Continued)

- (f) In 2020, the Group provided construction services to Hebei Zitan Real Estate Development Co., Ltd. at the market price of RMB70,835,000 (2019: RMB19,398,000).
- (g) In 2020, the Group provided construction services to Chengde Summer Resort Cultural Industrial Park Co., Ltd. at the market price of RMB62,456,000 (2019: RMB111,595,000).
- (h) In 2020, the Group provided construction services to Sanhe Jinshibang Real Estate Development Co., Ltd. at the market price of RMB57,294,000 (2019: Nil).
- (i) In 2020, the Group provided construction services to Huailai Zhongcheng Real Estate Development Co., Ltd. at the market price of RMB17,357,000 (2019: RMB3,780,000).
- (j) In 2020, the Group provided construction services to Baoding Taiji Real Estate Development Co., Ltd. at the market price of RMB14,771,000 (2019: Nil).
- (k) In 2020, the Group provided construction services to Datang Baoding Heat Supply Co., Ltd. at the market price of RMB11,838,000 (2019: RMB6,011,000).
- (l) In 2020, the Group provided construction services to Zhongcheng Real Estate Development Co., Ltd. at the market price of RMB11,531,000 (2019: RMB14,629,000).
- (m) In 2020, the Group provided construction services to Luanping Zhongcheng Real Estate Development Co., Ltd. at the market price of RMB10,476,000 (2019: Nil).
- (n) In 2020, the Group provided construction services to Bozhou Xiangju at the market price of RMB8,125,000 (2019: RMB60,068,000).
- (o) In 2020, the Group provided construction services to Hebei Qianyuan Agricultural Technology Development Co., Ltd. at the market price of RMB7,563,000 (2019: RMB5,685,000).

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

Notes: (Continued)

(1) SALES OR PURCHASES OF GOODS AND RENDERING OR RECEIPT OF SERVICES
(Continued)

- (p) In 2020, the Group provided construction services to Yizongliangheng at the market price of RMB4,368,000 (2019: RMB1,773,000).
- (q) In 2020, the Group provided construction services to Laiyuan Zhongcheng Construction Development Co., Ltd. at the market price of RMB4,203,000 (2019: RMB513,000).
- (r) In 2020, the Group provided construction services to Hebei Baocang Expressway Co., Ltd. at the market price of RMB2,127,000 (2019: RMB1,028,000).
- (s) In 2020, the Group provided construction services to Sanhe Baolan Heat Co., Ltd. at the market price of RMB893,000 (2019: RMB6,166,000).
- (t) In 2020, the Group provided decoration services to Qianbao Investment Co., Ltd. at the market price of RMB306,000 (2019: Nil).
- (u) In 2020, the Group did not provide construction services to Guangan Zhongcheng Real Estate Development Co., Ltd. (2019: RMB22,787,000).
- (v) In 2020, the Group did not provide any construction services to Hebei Guangsha Property Management Co., Ltd. (2019: RMB2,000).
- (w) In 2020, the Group did not provide any construction services to Chengdu New Era Tiancheng Properties Co., Ltd. (2019: RMB1,000).
- (x) In 2020, the Group received labour services from Baoding Tianli Labor Service Co., Ltd. at the market price of RMB3,455,330,000 (2019: RMB3,239,327,000).
- (y) In 2020, the Group received labour services from Hebei Tianbo Construction Technology Co., Ltd. at the market price of RMB1,466,000 (2019: RMB3,317,000).

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

Notes: (Continued)

(2) RELATED PARTY LEASES

- (a) In 2020, the Group leased an office building from Zhongming Zhiye Co., Ltd. and incurred leasing fees of RMB2,796,000 (2019: RMB2,821,000) under the lease contract.

(3) GUARANTEES TO/FROM RELATED PARTIES

- (a) The Group provided a guarantee with an amount of RMB600,000,000 for Qinhuangdao Yuanyi Road Construction Management Co., Ltd. at nil consideration from 29 August 2019 to 20 December 2036, and the actual guaranteed amount for the year was RMB127,500,000 (2019: amount of guarantee: RMB600,000,000, actual guaranteed amount: RMB127,500,000).
- (b) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB108,000,000 for the Group at nil consideration from 26 October 2018 to 25 October 2022, the Group has repaid the borrowings during the year but the guarantee has not been fully performed (2019: amount of guarantee: RMB108,000,000, actual guaranteed amount: RMB108,000,000).
- (c) From 26 March 2019 to 1 April 2021, Chengdu New Era Tiancheng Properties Co., Ltd., Chengde Summer Resort Cultural Industrial Park Co., Ltd., Baoding Taiji Real Estate Development Co., Ltd. and Zhongcheng Real Estate Development Co., Ltd. provided the inventory, land use right and construction in progress held by them as collateral for mortgage guarantee of the Group; from 8 May 2019 to 1 April 2021, Zhongcheng Real Estate Development Co., Ltd. provided the 51% equity interests in Huailai Jingsheng Real Estate Development Co., Ltd. and its derived equity as collateral for pledge guarantee; from 1 April 2019 to 1 April 2024, Zhongming Zhiye Co., Ltd. provided a credit guarantee. Together, the above companies provided guarantees for the debt of RMB399,847,000 of the Group. The actual guaranteed amount for 2020 was RMB239,847,000.

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)*Notes: (Continued)*

(3) GUARANTEES TO/FROM RELATED PARTIES (Continued)

(c) (Continued)

From 26 March 2019 to 1 April 2021, Chengdu New Era Tiancheng Properties Co., Ltd., Chengde Summer Resort Cultural Industrial Park Co., Ltd., Baoding Taiji Real Estate Development Co., Ltd., Xi'an Zhongyuan Real Estate Development Co., Ltd. and Zhongcheng Real Estate Development Co., Ltd. provided the inventory, land use right and construction in progress held by them as collateral for mortgage guarantees of the Group; from 8 May 2019 to 1 April 2021, Zhongcheng Real Estate Development Co., Ltd. provided the 51% equity interests in Huailai Jingsheng Real Estate Development Co., Ltd. and its derived equity as collateral for pledge guarantee; from 1 April 2019 to 1 April 2024, Zhongming Zhiye provided a credit guarantees. Together, the above companies provided guarantees for the debt of RMB399,847,000 of the Group. The actual guaranteed amount for 2019 was RMB394,847,000.

- (d) The mortgage guarantee provided by Zhongcheng Real Estate Development Co., Ltd. and Huailai Jingsheng Real Estate Development Co., Ltd. for the Group from 19 July 2018 to 18 July 2020 has been performed. (2019: From 19 July 2018 to 18 July 2020, Zhongcheng Real Estate Development Co., Ltd. and Huailai Jingsheng Real Estate Development Co., Ltd. provided the following items with their respective present values at the valuation date: the construction in progress of RMB335,333,000 and an inventory of RMB343,308,000 as collateral for mortgage guarantees for the debt of RMB400,000,000 of the Group, and the actual guaranteed amount for 2019 was RMB280,000,000).

The mortgage guarantee provided by Zhongcheng Real Estate Development Co., Ltd. and Zhongming Zhiye Co., Ltd. for the Group from 8 May 2019 to 18 July 2020 has been performed. (2019: Zhongcheng Real Estate Development Co., Ltd. provided the 64% equity interests in Huailai Jingsheng Real Estate Development Co., Ltd. and its derived equity as collateral for pledge guarantees; and Zhongming Zhiye Co., Ltd. provided a credit guarantee. Together, the above companies provided guarantees for the debt of RMB400,000,000 of the Group, and the actual guaranteed amount for 2019 was RMB280,000,000).

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

Notes: (Continued)

(3) GUARANTEES TO/FROM RELATED PARTIES (Continued)

- (e) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB100,000,000 for the Group at nil consideration from 25 November 2019 to 24 November 2020, and such guarantee has been performed during the year (2019: amount of guarantee: RMB100,000,000, actual guaranteed amount: RMB100,000,000).
- (f) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB150,000,000 for the Group at nil consideration from 25 November 2019 to 24 November 2020, and such guarantee has been performed during the year (2019: amount of guarantee: RMB150,000,000, actual guaranteed amount: RMB25,000,000).
- (g) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB200,000,000 for the Group at nil consideration from 30 December 2019 to 29 December 2023, the Group has repaid the borrowings during the year but the guarantee has not been fully performed (2019: amount of guarantee: RMB200,000,000, actual guaranteed amount: RMB200,000,000).
- (h) Zhongcheng Real Estate Development Co., Ltd. provided a guarantee with an amount of RMB150,000,000 for the Group at nil consideration from 15 June 2020 to 8 June 2022, and the actual guaranteed amount for the year was RMB140,000,000 (2019: Nil).
- (i) Zhongru Investment Co., Ltd. provided a guarantee with an amount of RMB70,000,000 for the Group at nil consideration from 18 August 2020 to 10 February 2024, and the actual guaranteed amount for the year was RMB70,000,000 (2019: Nil).
- (j) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB160,000,000 for the Group at nil consideration from 17 November 2020 to 16 November 2025, and the actual guaranteed amount for the year was RMB160,000,000 (2019: Nil).
- (k) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB100,000,000 for the Group at nil consideration from 25 November 2020 to 24 November 2021, and the actual guaranteed amount for the year was RMB98,000,000 (2019: Nil).

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

Notes: (Continued)

(3) GUARANTEES TO/FROM RELATED PARTIES (Continued)

- (l) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB25,000,000 for the Group at nil consideration from 22 December 2020 to 21 December 2023, and the actual guaranteed amount for the year was RMB25,000,000 (2019: Nil).
- (m) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB140,000,000 for the Group at nil consideration from 28 December 2020 to 27 December 2025, and the actual guaranteed amount for the year was RMB140,000,000 (2019: Nil).
- (n) Zhongming Zhiye Co., Ltd. provided a guarantee with an amount of RMB200,000,000 for the Group at nil consideration from 31 December 2020 to 30 December 2024, and the actual guaranteed amount for the year was RMB200,000,000 (2019: Nil).

(4) TRANSFER OF ASSETS WITH A RELATED PARTY

- (a) In 2020, the Group acquired an office building from Baoding Zhucheng at the price of RMB350,000,000 (2019: nil).

(5) OTHER RELATED PARTY TRANSACTIONS

- (a) In 2020, the total emolument of key management personnel incurred by the Group amounted to RMB11,027,000 (2019: RMB9,079,000).
- (b) In 2020, Zhongcheng Real Estate Development Co., Ltd. did not waive the interest payable by the Group (2019: RMB66,000,000).
- (c) In 2020, the Group had no commitment to the acquisition of an office building (2019: RMB350,000,000).

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balances of amounts due from related parties

(1) Accounts receivable

	2020		2019	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Baoding Zhucheng Zhongcheng Real Estate Development Co., Ltd.	54,131	319	6,299	-
Chengdu New Era Tiancheng Properties Co., Ltd.	3,208	1,019	14,370	2,695
Datang Baoding Heat Supply Co., Ltd.	2,518	80	2,518	-
Xi'an Zhongyuan Real Estate Development Co., Ltd.	1,600	9	4,217	554
Sanhe Baolan Heat Co., Ltd.	483	15	-	-
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	369	2	1,913	-
Hebei Baocang Expressway Co., Ltd.	200	1	-	-
Huailai Jingsheng Real Estate Development Co., Ltd.	148	-	-	-
Hebei Qianyuan Agricultural Technology Development Co., Ltd.	66	-	-	-
Baoding Taiji Real Estate Development Co., Ltd.	50	-	-	-
Hebei Zitan Real Estate Development Co., Ltd.	3	-	3	-
	-	-	31	-
	62,776	1,445	29,351	3,249

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balances of amounts due from related parties (Continued)**(2) Contract assets**

	2020		2019	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Yizongliangheng	161,139	950	156,298	-
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	134,870	811	93,169	-
Guangan Zhongcheng Real Estate Development Co., Ltd.	122,505	722	143,891	-
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	122,038	972	42,152	-
Xi'an Zhongyuan Real Estate Development Co., Ltd.	106,275	627	63,867	-
Huilai Jingsheng Real Estate Development Co., Ltd.	84,980	501	42,809	-
Zhongcheng Real Estate Development Co., Ltd.	42,089	288	106,012	-
Baoding Zhucheng	33,204	196	122,572	-
Zhongyuan Environmental	26,366	155	10,481	-
Bozhou Xiangju	21,906	129	47,050	-
Sanhe Jinshibang Real Estate Development Co., Ltd.	19,287	114	-	-
Huilai Zhongcheng Real Estate Development Co., Ltd.	18,535	109	9	-
Hebei Qianyuan Agricultural Technology Development Co., Ltd.	8,740	52	3,997	-
Chengdu New Era Tiancheng Properties Co., Ltd.	7,039	41	7,039	-

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balances of amounts due from related parties (Continued)

(2) Contract assets (Continued)

	2020		2019	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Baoding Taiji Real Estate Development Co., Ltd.	5,924	35	-	-
Datang Baoding Heat Supply Co., Ltd.	4,576	20	3,836	-
Laiyuan Zhongcheng Construction Development Co., Ltd.	4,179	25	1,350	-
Sanhe Baolan Heat Co., Ltd.	2,261	13	3,983	-
Hebei Baocang Expressway Co., Ltd.	434	3	1,858	-
Hebei Zitan Real Estate Development Co., Ltd.	246	1	291	-
Hebei Guangsha Property Management Co., Ltd.	-	-	200	-
	926,593	5,764	850,864	-

(3) Prepayments

	2020		2019	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Yizongliangheng	-	-	79	-

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balances of amounts due from related parties (Continued)**(4) Other receivables**

	2020		2019	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Hebei Zitan Real Estate Development Co., Ltd.	50,000	295	-	-
Huilai Zhongcheng Real Estate Development Co., Ltd.	7,493	51	-	-
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	3,271	19	3,528	-
Baoding Zhucheng Zhongcheng Real Estate Development Co., Ltd.	2,793	16	-	-
Xi'an Zhongyuan Real Estate Development Co., Ltd.	2,091	11	20	-
Huilai Jingsheng Real Estate Development Co., Ltd.	1,573	9	-	-
Guangan Zhongcheng Real Estate Development Co., Ltd.	34	-	-	-
Qianbao Investment Co., Ltd.	-	-	460	-
Zhongming Zhiye Co., Ltd.	-	-	5	-
	-	-	24	-
	67,255	401	4,037	-

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balances of amounts due from related parties (Continued)**(5) Accounts payable**

	2020	2019
Baoding Tianli Labor Service Co., Ltd.	1,108,736	902,220
Hebei Tianbo Construction Technology Co., Ltd.	1,772	1,099
Hebei Construction Group Qianqiu Management Co., Ltd.	480	569
Hebei Baoyu Surveying Service Co., Ltd.	84	87
Baoding Zhucheng	-	137
Xi'an Zhongyuan Real Estate Development Co., Ltd.	-	122
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	-	17
	1,111,072	904,251

(6) Other payables

	2020	2019
Baoding Zhucheng	221,238	-
Key management personnel	24,580	26,046
Hebei Qianyuan Agricultural Technology Development Co., Ltd.	10,000	-
Qianbao Investment Co., Ltd.	8,600	-
Zhongming Zhiye Co., Ltd.	2,714	2,806
Hebei Construction Group Qianqiu Management Co., Ltd.	1,863	3,694
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	-	52,001
Baoding Taiji Real Estate Development Co., Ltd.	-	4,171
Zhongcheng Real Estate Development Co., Ltd.	-	3,233
Hebei Zitan Real Estate Development Co., Ltd.	-	1,647
	268,995	93,598

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balances of amounts due from related parties (Continued)**(7) Contract liabilities**

	2020	2019
Hebei Zitan Real Estate Development Co., Ltd.	30,235	13,006
Baoding Zhucheng	22,960	16,243
Zhongcheng Real Estate Development Co., Ltd.	20,768	20,884
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	17,140	300
Datang Baoding Heat Supply Co., Ltd.	1,955	63
Huailai Zhongcheng Real Estate Development Co., Ltd.	-	32,842
Luanping Zhongcheng Real Estate Development Co., Ltd.	-	10,790
Xi'an Zhongyuan Real Estate Development Co., Ltd.	-	1,645
Sanhe Baolan Heat Co., Ltd.	-	40
Hebei Tianbo Construction Technology Co., Ltd.	-	15
	93,058	95,828

Accounts receivable from and payable to related parties are non-interest bearing, unsecured and do not have a fixed term of repayment.

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XI. CONTINGENCIES

	2020	2019	Notes
Contingent liabilities arising from providing external guarantees	153,294	160,138	Note 1
Contingent liabilities arising from unresolved litigation or arbitration	4,060	-	Note 2
	157,354	160,138	

Note 1: As at 31 December 2020, the principal and interest of the banking facilities granted to third parties subject to guarantees given to the banks by the Group amounted to RMB153,294,000 (31 December 2019: RMB160,138,000), and other current liabilities related to financial guarantee contracts amounted to RMB23,311,000 (31 December 2019: RMB15,742,000). The Group assessed overdue status of relevant borrowings, financial position of relevant debtors, and economic condition in the debtor's industry as at each balance sheet date, and was of view that the relevant credit risk of such part of financial guarantee contracts has not increased significantly since initial recognition. Therefore, the loss allowance for the Group's financial guarantee contracts is not determined based on the amount of lifetime expected credit losses, but measured at the amount of the future 12-month expected credit losses of the above financial guarantee contracts. In 2020, there was no change in the Group's assessment method and major assumptions. Based on the assessment of the management of the Group, there was no significant expected impairment provision made for the relevant financial guarantees.

Note 2: The Group is involved in disputes, litigations or claims with customers, subcontractors, suppliers and other parties in the course of its operations. After consultation with the relevant legal advisers and after management's careful estimation of the outcome of such outstanding disputes, litigations or claims, the Group has no disputes, litigations or claims that are likely to result in losses. No provision will be made for the abovementioned outstanding disputes, litigations and claims for which the ultimate outcome cannot be reasonably estimated or for which, in the opinion of management, it is not probable that such disputes, litigations or claims will have a material adverse effect on the Group's results of operations or financial position.

XII. LEASES

1. As lessor

The Group leases out certain buildings for a term of 20 years which constitutes operating leases. Pursuant to the lease contracts, rents are adjusted annually based on prevailing market rates. In 2020, the Group's income derived from leases of buildings was RMB2,680,000 (2019: RMB2,552,000). Leased buildings are presented as investment properties, please refer to Note VI-13 for details.

The Group also leases out certain idle machinery equipment for a term within 1 year, which constitutes an operating lease. In 2020, the Group's income derived from the lease of machinery equipment was RMB28,665,000 (2019: RMB18,856,000).

XII. LEASES (Continued)

1. As lessor (Continued)

Operating leases

Profit or loss related to operating leases are as follows:

	2020	2019
Lease income	31,345	21,408

Pursuant to the lease contracts entered into with the lessees, the minimum lease payments of non-cancellable leases are as follows:

	2020	2019
Within 1 year (including 1 year)	4,914	3,663
1 to 2 years (including 2 years)	1,563	4,200
	6,477	7,863

As at 31 December 2020, the carrying amount of investment properties under operating leases was RMB136,700,000 (31 December 2019: RMB134,750,000).

2. As lessee

	2020	2019
Interest expense on lease liabilities	2,656	2,332
Short-term lease expense under the simplified approach through profit or loss	16,315	14,347
Revenue from subleasing the right-of-use assets	19,717	13,872
Total cash outflow in relation to leases	28,362	30,400

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XII. LEASES (Continued)

2. As lessee (Continued)

Assets leased by the Group include buildings and machinery equipment for operation which generally have a lease term of 1 year to 10 years.

Other lease information

For details of right-of-use assets, please refer to Note VI-16; for the simplified approach regarding short-term leases and leases of low-value asset, please refer to Note III-24; and for details of lease liabilities, please refer to Note VI-27.

XIII. COMMITMENTS

	2020	2019
Contracted but not provided for Capital commitment	1,297	83,200
Commitment to the acquisition of an office building	-	350,000
	<u>1,297</u>	<u>433,200</u>

XIV. POST BALANCE SHEET DATE EVENTS

On 20 April 2021, the Board of the Company held a meeting which considered and approved the 2020 profit distribution proposal to distribute cash dividends of RMB0.14 per share.

XV. OTHER IMPORTANT EVENTS

1. Discontinued operations

The management of the Group decided to dispose of all equity in the real estate subsidiaries of the Company in June 2019.

The profits or losses from the discontinued operations are as follows:

	2019
Revenue	149,194
Costs and expenses	<u>110,014</u>
Total profit	39,180
Income tax expenses	<u>1,289</u>
Net profit	37,891
Net profit from discontinued operations	<u>37,891</u>
Including: Net profit from discontinued operations attributable to shareholders of the parent	25,499

Cash flows of the discontinued operations are as follows:

	2019
Net cash flow used in operating activities	(115,968)
Net cash flow used in investing activities	(13,424)
Net cash flow from financing activities	7,428

XV. OTHER IMPORTANT EVENTS (Continued)**2. Other financial information**

Directors' and supervisors' remuneration is disclosed as follows:

	2020	2019
Fees	936	870
Others emoluments:		
Salaries, allowances and benefits in kind	1,606	1,620
Performance-related bonuses	4,904	5,122
Pension scheme contributions	320	438
	7,766	8,050

(1) Independent non-executive directors

	Note	2020	2019
Xiao Xuwen	(1)	102	237
Shen Lifeng		278	211
Chen Xin		278	211
Chan Ngai Sang Kenny		278	211
		936	870

Note:

- (1) Mr. Xiao Xuwen has ceased to serve as an independent non-executive director of the Company since 23 June 2020.

As at 31 December 2020, there was no other remuneration payable to the independent non-executive directors during the year (31 December 2019: Nil).

XV. OTHER IMPORTANT EVENTS (Continued)**2. Other financial information** (Continued)**(2) Executive directors, non-executive directors and supervisors**

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
2020					
<i>Executive directors:</i>					
Li Baozhong	-	199	806	32	1,037
Shang Jinfeng	-	169	631	32	832
Zhao Wensheng	-	145	451	32	628
Liu Yongjian	-	151	451	32	634
<i>Non-executive directors:</i>					
Li Baoyuan	-	170	806	-	976
Cao Qingshe	-	169	631	32	832
<i>Supervisors:</i>					
Yu Xuefeng	-	145	451	32	628
Liu Jingqiao	-	111	182	32	325
Feng Xiujian	-	116	171	32	319
Yue Jianming	-	113	167	32	312
Wang Feng	-	118	157	32	307
	-	1,606	4,904	320	6,830

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XV. OTHER IMPORTANT EVENTS (Continued)

2. Other financial information (Continued)

(2) Executive directors, non-executive directors and supervisors (Continued)

	Notes	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
2019						
<i>Executive directors:</i>						
		-	187	743	41	971
		-	157	594	41	792
	(1)	-	139	422	41	602
		-	139	429	41	609
	(2)	-	129	412	31	572
<i>Non-executive directors:</i>						
		-	162	737	-	899
		-	157	594	41	792
<i>Supervisors:</i>						
		-	139	401	41	581
		-	103	197	40	340
		-	103	205	40	348
		-	102	188	40	330
		-	103	200	41	344
		-	1,620	5,122	438	7,180

Note 1: Mr. Zhao Wensheng has been appointed as the director of the first session of the Board of Directors of the Company since 25 February 2019.

Note 2: Ms. Liu Shuzhen resigned as the director of the first session of the Board of Directors of the Company on 8 January 2019, and she still serves the Company after ceasing to be a director.

XV. OTHER IMPORTANT EVENTS (Continued)**2. Other financial information** (Continued)**(2) Executive directors, non-executive directors and supervisors**
(Continued)

During the year, there was no agreement under which a director or chief executive officer waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included five directors (2019: five directors), details of whose remuneration are set out in Note XV-2.

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY**1. Currency funds**

	2020	2019
Cash on hand	8,968	18,562
Bank deposits	5,558,174	4,820,866
Other currency funds	1,097,755	726,907
	6,664,897	5,566,335

As at 31 December 2020, the Group's currency funds with restricted ownership amounted to RMB264,904,000 (31 December 2019: RMB204,874,000).

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

2. Accounts receivable

The accounts receivable of the Company are mainly receivables for construction contracting business. The credit period of accounts receivable is usually one to three months. All accounts receivable are non-interest-bearing.

The ageing analysis of accounts receivable is as follows:

	2020	2019
Within 1 year	3,476,258	3,595,362
1 to 2 years	752,955	412,625
2 to 3 years	138,039	176,585
Over 3 years	368,822	428,644
	4,736,074	4,613,216
Less: Bad debt allowance on accounts receivable	380,349	479,801
	4,355,725	4,133,415

Movements in bad debt allowance on accounts receivable are as follows:

	Opening balance	Accrual during the year	Reversal during the year	Closing balance
2020	479,801	178,257	(277,709)	380,349
2019	517,910	314,937	(353,046)	479,801

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

2. Accounts receivable (Continued)

Accounts receivable and bad debt allowance are disclosed by types as follows:

	2020			
	Book balance		Impairment provision	
	Amount	Percentage (%)	Amount	Proportion (%)
Receivables for which impairment is provided individually	444,392	9	257,254	58
Receivables for which impairment is provided by portfolio of credit risk characteristics	4,291,682	91	123,095	3
	4,736,074	100	380,349	

	2019			
	Book balance		Impairment provision	
	Amount	Percentage (%)	Amount	Proportion (%)
Receivables for which impairment is provided individually	583,759	13	221,379	38
Receivables for which impairment is provided by portfolio of credit risk characteristics	4,029,457	87	258,422	6
	4,613,216	100	479,801	

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

2. Accounts receivable (Continued)

The expected credit losses on accounts receivable of the Company by ageing are as follows:

	2020			2019		
	Closing balance of estimated default	Expected credit loss rate (%)	Lifetime expected credit loss	Closing balance of estimated default	Expected credit loss rate (%)	Lifetime expected credit loss
Within 1 year	3,351,296	0.59	19,836	3,437,812	0.00	38
1 to 2 years	745,645	3.18	23,705	334,917	0.49	1,656
2 to 3 years	88,206	15.53	13,697	91,169	100	91,169
3 to 4 years	50,264	39.68	19,946	89,340	100	89,340
4 to 5 years	23,345	55.62	12,985	42,112	100	42,112
Over 5 years	32,926	100	32,926	34,107	100	34,107
	4,291,682		123,095	4,029,457		258,422

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

3. Contract assets

	2020			2019		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Completed but unsettled	31,597,131	(394,783)	31,202,348	32,612,358	(156,520)	32,455,838

Contract assets are mainly generated by the construction project contracting business of the Company. The Company provides construction services in accordance with the construction contract entered into with customers and recognises revenue based on performance progress over the contract period. According to the contract term, customers of the Company make progress billings with the Company based on the performance progress and make payment for the progress billings within the credit term. Revenue recognised based on performance progress in excess of progress billings is presented as contract asset while progress billings in excess of revenue recognized based on performance progress is presented as contract liabilities.

Changes in impairment provision for contract assets are as follows:

	Opening balance	Accrual during the year	Reversal during the year	Closing balance
2020	156,520	315,290	(77,027)	394,783
2019	141,739	146,914	(132,133)	156,520

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

3. Contract assets (Continued)

	Book balance		2020 Impairment provision	
	Amount	Percentage (%)	Amount	Proportion (%)
Contract assets for which impairment is provided individually	805,408	3	214,799	27
Contract assets for which impairment is provided by portfolio of credit risk characteristics	30,791,723	97	179,984	0.58
	31,597,131	100	394,783	

	Book balance		2019 Impairment provision	
	Amount	Percentage (%)	Amount	Proportion (%)
Contract assets for which impairment is provided individually	1,478,847	5	145,542	10
Contract assets for which impairment is provided by portfolio of credit risk characteristics	31,133,511	95	10,978	0.04
	32,612,358	100	156,520	

As at December 31, 2020, some of the Company's rights to receive contractual consideration constitute unconditional rights, resulting in a decrease in the carrying amount of contract assets.

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

4. Long-term equity investments

	2020	2019
Joint venture		
Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	407,617	405,918
Financial guarantee for joint venture		
Financial guarantee for Qinhuangdao Yuanyi Road Construction Management Co., Ltd.	15,742	15,742
Associates		
Yizongliangheng	56,788	56,754
Rongcheng County Hengda Construction Investment Co., Ltd.	29,141	29,141
Bozhou Xiangju	18,538	15,576
	527,826	523,131
Investment in subsidiaries		
HCG Tianchen Construction Engineering Co., Ltd.	347,832	347,832
Haiyang Longhai Automobile Innovation Park Development Co., Ltd.	270,000	270,000
Hebei Construction Group Garden Engineering Co., Ltd.	205,041	205,041
HCG Zhuocheng Road and Bridge Engineering Co., Ltd.	205,000	100,000
Tibet Jiming Construction Co., Ltd.	200,000	200,000
Bozhou Qihang Transportation Construction Co., Ltd.	155,000	50,000
Baoding Zhongze Water Supply Co., Ltd.	139,152	139,152
HCG Installment Engineering Co., Ltd.	110,000	110,000
Hebei Construction Group Decoration Engineering Co., Ltd.	101,000	101,000
Dangshan Soaring General Aviation Industry Development Co., Ltd.	80,000	80,000
Baoding Zhongcheng Investment Management Co., Ltd.	69,000	69,000
Hebei Green Construction Investment Co., Ltd.	58,171	58,171
Hebei Tongchuang Liantai Hospital Management Co., Ltd.	54,000	31,000
Hengshui Jizhou District Jiuchen Construction Development Co., Ltd.	50,000	50,000

FINANCIAL STATEMENTS AND NOTES

2020

Unit: RMB'000

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

4. Long-term equity investments (Continued)

	2020	2019
Investment in subsidiaries (continued)		
Shandong Juhe Agricultural Service Development Co., Ltd.	29,370	29,370
Rongcheng County Xinrong City Development Co., Ltd.	24,240	24,240
Hebei Shenning Construction Engineering Co., Ltd.	20,000	20,000
Hebei Zhiping Construction Equipment Leasing Co., Ltd.	16,060	16,060
Huainan Fengrui Infrastructure Construction Co., Ltd.	10,000	-
Hebei Construction Group Steel Structure Engineering Co., Ltd.	9,000	9,000
Yunca Network Technology Co., Ltd.	8,000	8,000
Hebei Zhongru Software Technology Co., Ltd.	3,328	3,328
Hebei Construction Group Wuhu Baojian Construction Co., Ltd.	1,000	1,000
Hebei Zhongbao New Building Material Manufacturing Co., Ltd.	1,000	1,000
Hebei Zhuocheng Engineering Inspection Co., Ltd.	333	333
Sichuan Tianchuan Construction Engineering Co., Ltd.	20	20
Financial guarantee for subsidiaries		
Financial guarantee for Baoding Zhongze Water Supply Co., Ltd.	60,849	60,849
Financial guarantee for HCG Installment Engineering Co., Ltd.	24,918	23,983
Financial guarantee for HCG Zhuocheng Road and Bridge Engineering Co., Ltd.	10,880	3,440
Financial guarantee for Hebei Tongchuang Liantai Hospital Management Co., Ltd.	9,255	9,255
Financial guarantee for HCG Tianchen Construction Engineering Co., Ltd.	7,121	5,132
Financial guarantee for Hebei Construction Group Decoration Engineering Co., Ltd.	3,516	3,256
Financial guarantee for Hebei Lvjian Investment Company	1,648	1,648
Financial guarantee for Dingzhou Tiande Environmental Science and Technology Co., Ltd.	1,066	-
Financial guarantee for Hebei Construction Group Garden Engineering Co., Ltd.	1,030	-
	2,814,656	2,554,241

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

5. Operating income

Operating income is presented as follows:

	2020	2019
Income from principal operation	32,698,929	32,409,338
Income from other operations	406,831	540,565
	<u>33,105,760</u>	<u>32,949,903</u>

Note: The principal operating income of the Company is engineering construction income, and the Company considers that it is a performance obligation to be performed within a certain period of time and recognises revenue according to the performance progress.

XVII. COMPARATIVE FIGURES

Certain data of previous years in the financial statements have been adjusted and comparative data have been reclassified and restated to conform to the presentation and accounting treatment requirements of current year.

XVIII. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by resolution of the Company's board of directors on 20 April 2021.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

	Year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
RESULTS					
Operating income	40,149,925	41,077,029	47,858,714	42,139,150	41,354,974
Less: operating cost	38,010,238	39,023,724	45,108,878	39,733,951	38,961,371
Taxes and surcharges	113,346	109,276	111,721	183,131	680,562
Sales expenses	1,193	10,237	28,370	39,300	66,299
Management expenses	501,124	505,448	411,462	400,756	336,038
Research and development expenses	94,476	92,895	34,805	29,600	28,123
Finance costs	263,207	212,878	161,612	9,774	63,135
Of which: Interest expenses	304,527	366,221	290,628	185,593	230,343
Interest income	39,167	158,720	158,022	178,140	171,155
Add: other income	10,759	310	12,889	3,003	360
Investment gains/(losses)	27,754	50,992	(136,782)	191,823	79,352
Of which: Investment gains/(losses) in associates and joint ventures	3,225	8,572	(164,626)	(3,559)	58,264
Losses on derecognition of financial assets at amortised cost	(59,197)	(50,764)	-	-	-
Gains/(losses) of fair value changes	1,950	(2,721)	1,963	2,069	(161)
Credit impairment losses	55,392	51,364	(253,371)	-	-
Assets impairment loss	(325,197)	(11,159)	-	372,090	128,658
Asset disposal gains	214	304	2,377	39,980	6,558
Operating profits	937,213	1,211,661	1,628,942	1,607,423	1,176,897
Add: Non-operating income	2,444	1,490	14,369	9,725	4,894
Less: Non-operating expenses	3,523	4,402	7,989	29,677	94,736
Total profits	936,134	1,208,749	1,635,322	1,587,471	1,087,055
Less: Income tax expenses	183,903	445,626	465,901	457,492	273,452
Net profit	752,231	763,123	1,169,421	1,129,979	813,603

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Classified by continuity of operations					
Net profit from continuing operations	752,231	725,232	1,335,806	1,103,257	1,050,731
Net profit/(loss) from discontinued operations	-	37,891	(166,385)	26,722	(237,128)
Classified by attribution of ownership					
Net profit attributable to the shareholders of the parent company	759,856	770,415	1,154,039	1,089,086	768,178
Gains/losses of minority interests	(7,625)	(7,292)	15,382	40,893	45,425
Other comprehensive income (net of tax)	12,072	58,657	60,900	-	-
Total comprehensive income	764,303	821,780	1,230,321	1,129,979	813,603
Of which:					
Total comprehensive income attributable to the owners of the parent company	771,928	829,072	1,214,939	1,089,086	768,178
Total comprehensive income attributable to minority interests	(7,625)	(7,292)	15,382	40,893	45,425

Assets, liabilities and minority interests:

	As at 31 December				
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Total assets	62,793,882	60,926,571	62,440,389	51,792,886	61,406,992
Total liabilities	(56,353,803)	(55,022,999)	(56,508,044)	(47,273,992)	(58,317,314)
Minority interests	(194,136)	(182,962)	(525,854)	(429,022)	(255,443)
Equity attributable to the owners of the parent company	6,245,943	5,720,610	5,406,491	4,089,872	2,834,235

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the following meanings:

“A Share(s)”	ordinary shares proposed to be issued by the Company under the A Share Offering and subscribed for in Renminbi, which will be listed on the main board of the SSE and traded in Renminbi
“A Share Offering” or “A Share Offering and Listing”	the proposed initial public offering of no more than 587,127,833 A Shares by the Company, which will be listed on the main board of the SSE
“Articles of Association” or “Articles”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the Audit Committee of the Board
“Baoding Tian’e Real Estate”	Baoding Tian’e Real Estate Development Co., Ltd. (保定天鵝房地產開發有限公司), a limited liability company incorporated in the PRC on 14 December 2016 and is a subsidiary of the Company held as to 66% by Zhongming Zhiye as of the Latest Practicable Date. Unless the context otherwise requires, its subsidiary(ies) is included
“Baoding Tianli”	Baoding Tianli Labor Service Co., Ltd. (保定天力勞務有限公司), a limited liability company incorporated in the PRC on 27 November 2001, which is a company indirectly owned as to 100% by a Controlling Shareholder of the Company as of the Latest Practicable Date, thus a connected person of the Company
“Baoding Zhongcheng”	Baoding Zhongcheng Investment Management Co., Ltd. (保定中誠投資管理有限公司), a limited liability company incorporated in the PRC on 20 September 2007, which is a subsidiary wholly owned by the Company as of the Latest Practicable Date
“Beijing-Tianjin-Hebei Region”	an economic region in China comprising Beijing, Tianjin, and Hebei Province
“Board” or “Board of Directors”	the board of Directors of the Company

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Board Committee(s)”	collectively, the Remuneration and Appraisal Committee, the Audit Committee, the Nomination Committee and the Strategic Committee
“Board of Supervisors”	the board of Supervisors of the Company
“CASBE”	Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this report, Hong Kong, Macau and Taiwan
“Company”	Hebei Construction Group Corporation Limited, a joint stock company incorporated in the PRC with limited liability on 7 April 2017, whose H Shares were listed on the Main Board of the Hong Kong Stock Exchange on 15 December 2017 (Stock Code: 1727). Unless the context otherwise requires, it shall include its predecessor, Hebei Construction Group Co., Ltd. (河北建設集團有限公司) (a limited liability company established under the laws of the PRC on 29 September 1997)
“Company Law”	Company Law of the People’s Republic of China (《中華人民共和國公司法》), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on 28 December 2013 and became effective on 1 March 2014, and lastly amended on 26 October 2018 and became effective on the same day
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules, unless the context requires otherwise
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules and as of the Latest Practicable Date, refers to Mr. Li Baoyuan, Qianbao Investment and Zhongru Investment
“CSRC”	China Securities Regulatory Commission

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Corporate Governance Code”	the corporate governance code set out in Appendix 14 Corporate Governance Code and Corporate Governance Report of the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary Share(s) of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange
“EIT”	PRC Enterprise Income Tax
“Engineering Construction Service Framework Agreement”	the Engineering Construction Service Framework Agreement entered into between the Company and Zhongming Zhiye on 17 May 2019
“Global Offering”	Hong Kong Public Offering and International Offering and listing on the Main Board of the Stock Exchange of H shares of the Company, details of which are set out in the Prospectus
“Group”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or (as the context may require) in respect of the period before the Company becomes the holding company of its present subsidiaries, such subsidiaries as if they were the Company’s subsidiaries at that time
“H Share(s)”	overseas listed foreign Shares in the ordinary Shares of the Company with a nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
“H Share Registrar”	Tricor Investor Services Limited
“HCG Garden Engineering”	Hebei Construction Group Garden Engineering Co., Ltd. (河北建設集團園林工程有限公司), a limited liability company incorporated in the PRC on 26 December 2006, which is a wholly-owned subsidiary of the Company as of the Latest Practicable Date

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“HCG Installment Engineering”	Hebei Construction Group Installment Engineering Co., Ltd. (河北建設集團安裝工程有限公司), a limited liability company incorporated in the PRC on 10 August 2004, which was owned as to 61.11% and 38.89% by the Company and Baoding Zhongcheng, a subsidiary of the Company, respectively, as of the Latest Practicable Date
“HCG Zhuocheng Road and Bridge Engineering”	Hebei Construction Group Zhuocheng Road and Bridge Engineering Co., Ltd. (河北建設集團卓誠路橋工程有限公司), a limited liability company incorporated in the PRC on 6 January 1998, and owned as to 95.24% and 4.76% by the Company and Baoding Zhongcheng, a subsidiary of the Company, respectively, as of the Latest Practicable Date
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
“Independent Third Party(ies)”	party(ies) not connected with the Company within the meaning of the Hong Kong Listing Rules as far as the Directors are aware after having made all reasonable enquiries
“Initial Public Offering” or “IPO”	the initial public offering of the Company, the details of which are stated in the Prospectus
“Latest Practicable Date”	22 April 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	15 December 2017, the date on which the Company’s overseas listed foreign Shares (H Shares) were listed on the Main Board of the Stock Exchange

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Lu Ban Award”	the Lu Ban Award for Construction Engineering in China (中國建設工程魯班獎), the highest and most prestigious award given by the MOHURD for construction quality excellence
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the GEM
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOHURD”	the Ministry of Housing and Urban-rural Development of the PRC (中華人民共和國住房和城鄉建設部), formerly known as the Ministry of Construction
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the Nomination Committee of the Board
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Prospectus”	the prospectus of the Company dated 5 December 2017
“province”	a province in PRC or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
“Qianbao Investment”	Qianbao Investment Co., Ltd. (乾寶投資有限責任公司) (previously known as Baoyuan Investment Co., Ltd. (寶元投資有限責任公司)), a company incorporated in the PRC on 19 April 2010 with limited liability. As of the date of this report, Qianbao Investment directly and indirectly through Zhongru Investment held approximately 73.8% equity interest of the Company in aggregate and is a Controlling Shareholder of the Company

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the Board
“Reporting Period” or “2020” or “the Year”	the year beginning from 1 January 2020 and ending on 31 December 2020
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“senior management”	senior management of the Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each
“Shareholders(s)”	holder(s) of the Share(s) of the Company
“State”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“State Council”	State Council of the People’s Republic of China (中華人民共和國國務院)
“Strategic Committee”	the Strategic Committee of the Board
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules, unless the context requires otherwise

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“substantial Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules, unless the context requires otherwise
“Supervisor(s)”	supervisors of the Company
“SSE”	the Shanghai Stock Exchange
“Xiong'an New Area”	established in Hebei Province in April 2017, as part of PRC government's measures to advance the coordinated development of the Beijing-Tianjin-Hebei Region. This new area currently spans the three counties of Xiongqian, Rongcheng and Anxin
“Zhongcheng Real Estate”	Zhongcheng Real Estate Development Co., Ltd. (中誠房地產開發股份有限公司), a joint stock company incorporated in the PRC with limited liability on 4 August 1992, and a wholly-owned subsidiary held as to 100% by Zhongming Zhiye as of the Latest Practicable Date. Unless the context otherwise requires, its subsidiary(ies) is included
“Zhongming Zhiye”	Zhongming Zhiye Co., Ltd. (中明置業有限公司), a company incorporated in the PRC on 1 December 2016 with limited liability. As of the Latest Practicable Date, Zhongming Zhiye was owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the Controlling Shareholders of the Company, respectively. Hence, Zhongming Zhiye is a connected person of the Company
“Zhongru Investment”	Zhongru Investment Co., Ltd. (中儒投資股份有限公司) (previously known as Baoding Zhongyang Investment Co., Ltd. (保定中陽投資股份有限公司)), a joint stock company incorporated in the PRC on 2 August 2010. As of the Latest Practicable Date, Zhongru Investment directly held 68.3% equity interest of the Company and is a Controlling Shareholder of the Company
“%”	per cent.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this report in connection with the Group and its business. These terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“BOT”	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the service supplied to cover its costs of investment, operation and maintenance and obtain reasonable returns, while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
“contract value”	final negotiated or proposed price of a contract before tax
“curtain wall”	an outer covering of a building in which the outer walls are non-structural, designed to handle all loads imposed on it as well as keep air and water from penetrating the building envelope
“electrical and mechanical installation”	generally cover the supply, installation and maintenance of equipment for power plants, pipelines for heating and natural gas, as well as air-conditioning, mechanical ventilation and exhaust air systems
“EPC”	engineering, procurement and construction, a common form of contracting model whereby the contractor is commissioned by the project owner to carry out such project work as survey, design, procurement, construction testing and commissioning of an engineering project, or any combination of the above, either through the contractor’s own labor or by subcontracting part or all of the project work, and be responsible for the quality, safety, timely delivery and cost of the project
“m ² ” or “sq.m.”	square meters
“PPP”	public-private partnership, a partner relationship based on a framework agreement and formed between the government and private organizations for co-construction of infrastructure projects or providing certain public goods and services

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“prefabricated construction”	constructions assembled with prefabricated parts at sites, including, among others, prefabricated concrete component, prefabricated steel structure construction and prefabricated wooden structure construction
“steel structure”	structural supporting elements comprising steel columns, girders and beams of a construction project
“VAT”	value-added tax





河北建設集團股份有限公司
HEBEI CONSTRUCTION GROUP CORPORATION LIMITED