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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)

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

The board of directors (the “**Board**”) of Hebei Construction Group Corporation Limited (河北建設集團股份有限公司) (the “**Company**”) hereby announces the audited annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019. This announcement contains the full text of the annual report of the Company for 2019 and is in compliance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany the preliminary announcement of annual results.

AUDITOR AGREES TO 2019 ANNUAL RESULTS

As stated in the Company’s announcement dated 30 March 2020 in relation to the Group’s unaudited annual results for the year ended 31 December 2019 (the “**2019 Preliminary Results Announcement**”), the annual results for the year ended 31 December 2019 (the “**2019 Annual Results**”) set forth therein had not been agreed with the auditor in accordance with the requirements under Rule 13.49(2) of the Listing Rules.

As traffic restrictions in some areas of China were lifted in mid-March 2020, the relevant audit work has been resumed and the audit procedures have also made progress. The Board is pleased to announce that the auditor of the Company, Ernst & Young Hua Ming LLP, has completed the closing of audit of the Group’s consolidated financial statements for the year ended 31 December 2019 in accordance with the Chinese Certified Public Accountant Auditing Standards (the “**Chinese Auditing Standards**”) on 12 May 2020.

Save as the adjustments disclosed below, Ernst & Young Hua Ming LLP has compared the figures in the Group’s consolidated balance sheet and consolidated income statement for the year ended 31 December 2019 and relevant notes as shown in the 2019 Preliminary Results Announcement with the figures contained in the Group’s audited consolidated financial statements for the year, and such figures are consistent. The work performed by Ernst & Young Hua Ming LLP in this regard does not constitute a certified engagement in accordance with the Chinese Auditing Standards issued by the Ministry of Finance of the People’s Republic of China. Therefore, no certification was issued for the 2019 Preliminary Results Announcement by Ernst & Young Hua Ming LLP.

The 2019 annual results set forth in the 2019 Preliminary Results Announcement remain unchanged in major respects, except for the following amendments:

Items	Disclosed in the unaudited financial information announcement (RMB '000)	Disclosed in the audited annual results announcement (RMB '000)	Difference (RMB '000)	Notes
Operating profit	1,191,373	1,211,661	20,288	1, 2
Total profit	1,188,461	1,208,749	20,288	1, 2
Net profit	745,540	763,123	17,583	1, 2
Other comprehensive income (net of tax)	73,100	58,657	(14,443)	2
Total comprehensive income	818,640	821,780	3,140	1, 2
Current assets	57,777,590	57,427,232	(350,358)	1, 3
Non-current assets	3,991,282	3,499,339	(491,943)	1, 3
Total assets	61,768,872	60,926,571	(842,301)	1
Current liabilities	53,352,860	53,128,750	(224,110)	1
Non-current liabilities	2,149,249	1,894,249	(255,000)	1
Total liabilities	55,502,109	55,022,999	(479,110)	1
Other comprehensive income	134,000	119,557	(14,443)	2
Surplus reserve	416,398	417,681	1,283	1, 2
Retained profit	1,745,144	1,760,756	15,612	1, 2
Total equity attributable to shareholders of the parent	5,718,158	5,720,610	2,452	1, 2
Minority interests	548,605	182,962	(365,643)	1, 2
Total equity	6,266,763	5,903,572	(363,191)	1, 2

1. Mainly due to the revision of the Group's investment in the Company from subsidiaries to joint venture investment accounting in accordance with the articles of association of Qinhuangdao Yuanyi Road Construction Management Co., Ltd.;
2. Mainly because bills receivable are accounted for as account receivables financing, the changes in fair value are recognized in other comprehensive income;
3. Mainly due to the adjustment of the contract assets and receivables impairment provision based on the expected credit loss model.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement has been published on the HKEXnews website of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) at www.hkexnews.hk and the website of the Company at www.hebjs.com.cn.

The annual report of the Company for 2019 will be published and dispatched to the Company’s H shareholders on or before 15 May 2020 and will be published on the aforesaid website of the HKEXnews of the Hong Kong Stock Exchange as well as the website of the Company.

By order of the Board
Hebei Construction Group Corporation Limited
LI Baozhong
Chairman and Executive Director

Hebei, China
12 May 2020

As at the date of this announcement, the Board comprises four executive directors, namely Mr. LI Baozhong, Mr. SHANG Jinfeng, Mr. ZHAO Wensheng and Mr. LIU Yongjian; two non-executive directors, namely Mr. LI Baoyuan and Mr. CAO Qingshe; and four independent non-executive directors, namely Mr. XIAO Xuwen, Ms. SHEN Lifeng, Ms. CHEN Xin and Mr. CHAN Ngai Sang Kenny.

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CHAIRMAN'S STATEMENT

Dear Shareholders,

First of all, on behalf of the Board of Directors of Hebei Construction Group Corporation Limited, 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!

In 2019, facing the ever-increasing international and domestic competition in the external environment, we upheld the general keynote of “Improving Quality and Efficiency, and Achieving Stability for Sustainable Development”, stuck to the overarching goal to be “an enterprise with awareness, a legal person with character” and in “character” we mean integrity and ethical conduct, which has widely recognized by property owners and customers with new results achieved.

We cherished the opportunity to work hard on a high-quality financial platform such as H shares, which enabled the Company to continuously increase its influence in the domestic and international markets, improved its internal control system and business processes, and accelerated the accumulation of internal and external resources. In 2019, the Company's stock has officially included in the MSCI China All Shares Small Cap Index.

We were bold to strive ahead and committed to the development strategy of “leading by the market” in amidst of the increasingly fierce market competition, which have led us to another success in market competition. In 2019, the accumulated new contract value of the Group was RMB72,084 million, representing an increase of 2.81% year-on-year. Under the influence of the government's major activity requirements and the downward pressure of macro-economy, some customers adjusted their work arrangements, which led to the slowdown of the construction in progress of the Company. In 2019, the Group achieved operating revenue of RMB41,077 million, representing a decrease of 14.17% year-on-year, and a net profit of RMB743 million, representing a decrease of 34.74% year-on-year.

We exerted our best efforts to obtain new achievements in quality and safety science and technology. The project of Inner Mongolia Natural History Museum undertaken by the Group was awarded the 2019 Lu Ban Award. We also garnered two “China Steel Structure Gold Awards (中國鋼結構金獎)”, two “China Construction Project Decoration Awards (中國建築工程裝飾獎)”, one “Highway Traffic Quality Engineering Awards (公路交通優質工程獎)”, one “Silver 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銀獎)”, 77 provincial-level quality projects, with two projects shortlisted for the Lu Ban Award and two 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 34 “Scientific and Technological Progress Awards for Construction Systems in Hebei Province (河北省建設系統科技進步獎)”, 25 provincial process methodologies and 112 patents.

We pay close attention to the future and continuously strengthen personnel training. In 2019, over 1,600 fresh graduates and mature social talents were newly recruited, and 216 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 1,807. A total of 36 employees won the title of “Outstanding Project Manager in Hebei Province (河北省優秀項目經理)”.

In 2020, we will continue to uphold the keynote of “Improving Quality and Efficiency, and Achieving Stability for Sustainable Development”, steadily promote the listing of A shares; constantly enrich and spread the wings of finance and technology to help boosting our main business; earnestly focus on organizational construction; continuously enhance our market dominance; promote the implementation of on-site standardized management. We will forge ahead to the established goals with determination, striving to realize the Group's vision of being “a happy enterprise that accomplishes the purposes of its own and others, a century-old company with an ever-lasting business”, and we will serve the society, reward the shareholders and benefit our employees with outstanding performance!

Li Baozhong

Chairman

12 May 2020

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 Directors¹

Mr. Li Baozhong (*Chairman of the Board*)
Mr. Shang Jinfeng (*President*)
Mr. Liu Yongjian
Mr. Zhao Wensheng²

Non-executive Directors

Mr. Li Baoyuan (*Honorary Chairman*)
Mr. Cao Qingshe (*Vice Chairman*)

Independent Non-executive Directors

Mr. Xiao Xuwen
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 (*ACIS, ACS*)

AUTHORIZED REPRESENTATIVES

Ms. Shen Lifeng
Ms. Wong Wai Ling (*ACIS, 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*)³
Mr. Li Baozhong⁴
Mr. Shang Jinfeng
Ms. Shen Lifeng
Mr. Chan Ngai Sang Kenny

- 1 During the Reporting Period, Ms. Liu Shuzhen resigned as an executive Director, a Vice President and the Chief Economic Officer of the Company on 8 January 2019, due to reaching her retirement age.
- 2 Mr. Zhao Wensheng took office as an executive Director of the Company on 25 February 2019.
- 3 Ms. Chen Xin took office as the chairman of the Nomination Committee of the Board on 19 July 2019.
- 4 In order to further improve the Company's governance structure and meet the requirements of A-share listed companies, Mr. Li Baozhong resigned as the chairman of the Nomination Committee of the Board on 19 July 2019.

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

329 Wusi West Road
Jingxiu District
Baoding, Hebei Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

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LEGAL ADVISORS

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As to PRC law

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Beijing, PRC

AUDITOR⁵

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

5 The Company no longer re-appoints Ernst & Young as its overseas audit institution for the year of 2019 since 20 June 2019.

FINANCIAL HIGHLIGHTS

SUMMARY OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000 (Restated)	2017 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000
RESULTS					
Operating income	41,077,029	47,858,714	42,139,150	41,354,974	29,143,330
Less: operating cost	39,023,724	45,108,878	39,733,951	38,961,371	27,176,997
Taxes and surcharges	109,276	111,721	183,131	680,562	1,075,269
Sales expenses	10,237	28,370	39,300	66,299	13,913
Management expenses	505,448	411,462	400,756	336,038	266,119
Research and development expenses	92,895	34,805	29,600	28,123	-
Finance costs	263,642	161,612	9,774	63,135	58,901
Of which: Interest expenses	416,985	290,628	185,593	230,343	306,944
Interest income	158,720	158,022	178,140	171,155	129,635
Add: other income	310	12,889	3,003	360	1,401
Investment gains/(losses)	101,756	(136,782)	191,823	79,352	40,449
Of which: Investment gains/(losses) in associates and joint ventures	8,572	(164,626)	(3,559)	58,264	19,242
(Losses)/gains of fair value changes	(2,721)	1,963	2,069	(161)	2,241
Credit impairment gains/(losses)	40,205	(253,371)	-	-	-
Assets impairment loss	-	-	372,090	128,658	54,934
Asset disposal gains	304	2,377	39,980	6,558	33,353
Operating profits	1,211,661	1,628,942	1,607,423	1,176,897	574,641
Add: Non-operating income	1,490	14,369	9,725	4,894	492
Less: Non-operating expenses	4,402	7,989	29,677	94,736	7,856
Total profits	1,208,749	1,635,322	1,587,471	1,087,055	567,277
Less: Income tax expenses	445,626	465,901	457,492	273,452	157,044
Net profit	763,123	1,169,421	1,129,979	813,603	410,233

FINANCIAL HIGHLIGHTS

	Year ended 31 December				
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i> (Restated)	2017 <i>RMB'000</i> (Restated)	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Classified by continuity of operations					
Net profit from continuing operations	725,232	1,335,806	1,103,257	1,050,731	543,049
Net profit/(loss) from discontinued operations	37,891	(166,385)	26,722	(237,128)	(132,816)
Classified by attribution of ownership					
Net profit attributable to the shareholders of the parent company	770,415	1,154,039	1,089,086	768,178	406,277
Gains/losses of minority interests	(7,292)	15,382	40,893	45,425	3,956
Other comprehensive income (net of tax)	58,657	60,900	-	-	-
Total comprehensive income	821,780	1,230,321	1,129,979	813,603	410,233
Of which:					
Total comprehensive income attributable to the owners of the parent company	829,072	1,214,939	1,089,086	768,178	406,277
Total comprehensive (loss)/income attributable to minority interests	(7,292)	15,382	40,893	45,425	3,956

FINANCIAL HIGHLIGHTS

ASSETS, LIABILITIES AND MINORITY INTERESTS:

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000 (Restated)	2017 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000
Total assets	60,926,571	62,440,389	51,792,886	61,406,992	52,142,699
Total liabilities	(55,022,999)	(56,508,044)	(47,273,992)	(58,317,314)	(49,970,930)
Minority interests	(182,692)	(525,854)	(429,022)	(255,443)	(90,862)
	5,720,610	5,406,491	4,089,872	2,834,235	2,080,907

SUMMARY OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000 (Restated)	2017 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000
Total non-current assets	3,499,339	3,518,514	2,168,732	1,524,130	2,446,183
Total current assets	57,427,232	58,921,875	49,624,154	59,882,862	49,696,516
Total assets	60,926,571	62,440,389	51,792,886	61,406,992	52,142,699
Total equity attributable to the shareholders of the parent company	5,720,610	5,406,491	4,089,872	2,834,235	2,080,907
Minority interests	182,962	525,854	429,022	255,443	90,862
Total equity	5,903,572	5,932,345	4,518,894	3,089,678	2,171,769
Non-current liabilities	1,894,249	1,473,450	1,766,780	540,280	1,489,457
Current liabilities	53,128,750	55,034,594	45,507,212	57,777,034	48,481,473
Total liabilities	55,022,999	56,508,044	47,273,992	58,317,314	49,970,930
Total equity and liabilities	60,926,571	62,440,389	51,792,886	61,406,992	52,142,699

PART I: BUSINESS OVERVIEW

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 and other businesses.

A substantial majority of our revenue was generated from the construction contracting business, which mainly comprised of building construction business, infrastructure construction business and specialized and other construction contracting business. In 2019, our new contract value was RMB72,084 million, representing an increase of 2.81% as compared with RMB70,117 million for the corresponding period of last year; and ongoing contract backlog was RMB98,157 million, representing an increase of 16.25% as compared with RMB84,434 million for the corresponding period of last year. The difference between the new contract value and ongoing contract backlog in 2018 in this report and the amount disclosed in the Company's 2018 annual report is due to the Company's acquisition of the controlling rights of Hebei Construction Group Garden Engineering Co., Ltd. in 2019, and the Group has therefore restated the new contract value in 2018 on a consolidated basis. For details of the acquisition, please refer to the 2018 Annual General Meeting circular of the Company dated 31 May 2019.

New contract value (by region):

Year	2019		2018	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	720.84	100%	701.17	100%
Beijing-Tianjin-Hebei	387.52	53.76%	407.25	58.08%
Other	333.32	46.24%	293.92	41.92%

BUSINESS OVERVIEW

New contract value (by segment):

Year	2019		2018	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	720.84	100%	701.17	100%
Building construction	490.64	68.07%	423.13	60.35%
Infrastructure construction	181.59	25.19%	201.41	28.73%
Specialized and other construction	48.61	6.74%	76.63	10.92%

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 2019, the new contract value from the building construction business was RMB49,064 million, compared with RMB42,313 million for the corresponding period of last year.

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

Year	2019		2018	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	490.64	100%	423.13	100%
Residential construction	303.93	61.94%	272.56	64.42%
Public building construction	125.98	25.68%	103.28	24.41%
Industrial building construction	48.65	9.92%	38.15	9.02%
Commercial building construction	12.08	2.46%	9.14	2.15%

Representative projects of the building construction business are as follows:

Representative projects of new contracts

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
1	Second Bid Section of Plot A, Phase II of Fancheng District Relocation Housing Project (Xiangtou Xinyue City) (樊城區棚改安置房城鎮老舊小區改造項目(襄投欣悅城)二期A地塊二標段)	4.06	Residential building	Hubei
2	Cangzhou Evergrande Yangsheng Valley Phase I (First Bid Section) Residential Plot Main Body and Supporting Construction Project (滄州恒大養生谷首一期(1標段)住宅地塊主體及配套建設工程)	6.88	Residential building	Hebei
3	First Bid Section of Phase II of Poverty Alleviation Relocation Project in Fudong New District (阜東新區易地扶貧搬遷工程二期一標段)	12.20	Residential building	Hebei
4	General Contracting of Construction for Plot C-1, Plot C-2, Plot E-1, Plot F-1, Plot M-2 of Tangshan Fengrun Project (唐山豐潤項目C-1地塊、C-2地塊、E-1地塊、F-1地塊、M-2地塊施工總承包工程)	5.64	Residential building	Hebei
5	General Contracting of Construction for Shijingshan Xihuangcun Project (石景山西黃村項目施工總承包工程)	8.04	Residential building	Beijing
6	EPC Project of Shengtang South Road Community and Assembled Commercial Housing in Tongcheng (桐城市盛唐南路小區及配建商品房EPC項目)	7.00	Residential building	Anhui

BUSINESS OVERVIEW

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
7	General Contracting of Construction for Plot 2018-WG-38, Phase II of Residential Building of Sudi (Phase II of ancillary apartments, underground garage) (蘇地2018-WG-38號地塊住宅二期(附房、地下車庫二期)施工總承包)	4.51	Residential building	Jiangsu
8	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	Public building	Hebei
9	Beijing New Airport Education and Scientific Research Station Project (北京新機場教育科研基地項目)	7.17	Public building	Beijing
10	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	Public building	Hebei
11	Gu'an Laikang County Recreation and Tourism Complex Project (固安來康郡康樂旅遊綜合體工程)	4.00	Public building	Hebei
12	EPC General Contracting of the Non-Registered VIP Reception Center Project of the Winter Olympics Games (冬奧會非註冊VIP接待中心項目EPC總承包)	4.30	Public building	Hebei
13	Construction of Area A of Diangu Financial Center (電谷金融中心A區施工)	6.82	Public building	Hebei
14	General Contracting of Design and Construction of Songshan Lake (Ecological Park) Robot Intelligent Equipment Manufacturing Industry Accelerator (松山湖(生態園)機器人智慧裝備製造產業加速器設計施工總承包)	9.17	Industrial building	Guangdong

Representative projects of construction in progress

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
1	9 items including 24-3# residential building (Shunyi District Renhe Town Linhe Village Shanty Town Renovation Land Development B Area Project (Integration of Dongcheng Resettlement Housing)) (24-3#住宅等9項 (順義區仁和鎮臨河村棚戶區改造土地開發B片區項目 (對接東城安置房)))	5.57	Residential building	Beijing
2	Phase II of Project in Changsheng Home Western District (長城家園西區二期工程)	3.99	Residential building	Hebei
3	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	Residential building	Hubei
4	Zipeng Resettlement Project of Shangpai Town (上派鎮紫蓬安置點工程)	3.60	Residential building	Anhui
5	Beijing New Airport Education and Scientific Research Station Project (北京新機場教育科研基地項目)	7.17	Public building	Beijing
6	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	Public building	Zhejiang

BUSINESS OVERVIEW

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
7	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	Public building	Anhui
8	EPC General Contracting of the Non-Registered VIP Reception Center Project of the Winter Olympics Games (冬奧會非註冊VIP接待中心項目EPC總承包)	4.30	Public building	Hebei
9	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	Public building	Hebei
10	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	Public building	Hebei
11	Second Bidding of General Contracting of Construction for Yutian County Hospital Overall Relocation Project (玉田縣醫院整體遷建工程施工總承包招標（二次）)	6.73	Public building	Hebei
12	Buildings 1 to 7 and Underground Garage Project Construction for Low-voltage Distribution Switch Control Appliance Manufacturing and Development Project (低壓配電開關控制電器設備製造及研發項目1號-7號樓及地下車庫工程施工)	5.78	Commercial building	Hebei

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
13	First Bid Section of Hebei BSR Rail Transit Rolling Stock Equipment Co., Ltd. Hebei BSR Rolling Stock Manufacturing Base (河北京車軌道交通車輛裝備有限公司河北京車造車基地項目第一標段)	7.38	Industrial building	Hebei
14	General Contracting of Design and Construction of Songshan Lake (Ecological Park) Robot Intelligent Equipment Manufacturing Industry Accelerator (松山湖(生態園) 機器人智慧裝備製造產業加速器設計施工總承包)	9.17	Industrial building	Guangdong
15	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	Industrial building	Zhejiang
16	EPC General Contracting of Mechanical Critical Components Manufacturing Industrial Park of Feng County Economic Development Zone High-Tech Industrial Park Innovation and Startup Incubator Standardised Plants Construction Project (豐縣經濟開發區高新技術產業園區雙創孵化標準廠房建設項目機械製造關鍵零部件產業園設計採購施工工程總承包)	3.57	Industrial building	Jiangsu

BUSINESS OVERVIEW

Representative projects of completed projects

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
1	First Bid Section, Phase I of Yongqing Tanglin Yufu (永清湯林禦府一期一標段)	2.70	Residential building	Hebei
2	Gu'an Wanlifeng Project (固安萬利豐項目)	2.28	Residential building	Hebei
3	Building Construction Project of Affordable Housing Project (Phase I) of Xiyuan Lijing Community in Xinxiang (新鄉市西苑麗景小區保障性住房項目(一期)房建工程項目)	2.34	Residential building	Henan
4	7 items including 2# residential building (resettlement housing) (R2 Class II residential land plots SY00-0005-6007 and 6005 project in Renhe Town Shunyi District (supplemented with "Limited Price Commercial Housing" project)) (2#住宅樓(回遷安置房)等7項(順義區仁和鎮SY00-0005-6007、6005地塊R2二類居住用地(配建“限價商品住房”)項目))	1.69	Residential building	Beijing
5	First Bid Section of Xushui Economic Development Zone Fuyang Gardens Zone C Project (徐水經濟開發區釜陽花園C區工程一標段)	2.16	Residential building	Hebei
6	3 items including teaching and experiment building (Biomedical Management of Tsinghua University) (教學實驗樓等3項(清華大學生物醫學館))	2.61	Public building	Beijing

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
7	Third Bid Section of Building Construction Project of Beijing New Airport Working Area Project (北京新機場工作區工程房建項目施工三標段)	2.14	Public building	Beijing
8	CAAC Northern China Aviation Management Production and Operation Centre Project (民航華北空管生產運行中心工程)	2.27	Public building	Beijing
9	Relocation and Construction Project of No. 1 High School of Langfang (廊坊一中遷建工程)	3.21	Public building	Hebei
10	Domestic Freight Station Project of Beijing New Airport China Southern Airlines Base Sixth Bid Section Freight Facilities Project (北京新機場南航基地第六標段貨運設施項目國內貨運站工程)	2.92	Public building	Hebei
11	Second Batch, Phrase I of New Campus Project of Hebei University of Engineering - Bid Section A of Public Facilities and Teaching Group Construction (河北工程大學新校區項目一期工程第二批項目 - 公共設施及教學組團施工A標段)	3.91	Public building	Hebei
12	Underground Space Development and Construction Project at Wharf International Financial Center (九龍倉國金中心地下空間開發建設工程)	2.00	Commercial building	Hunan
13	Beijing Haige Communications Industrial Park Project (北京海格通信產業園工程)	4.39	Industrial building	Beijing

Infrastructure Construction Business

In addition to our core building construction business, we are also providing increasing 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 2019, the new contract value from the infrastructure construction business was RMB18,159 million, compared with RMB20,141 million for the corresponding period of last year.

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

Year	2019		2018	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	181.59	100%	201.41	100%
Municipal infrastructure construction	103.29	56.88%	112.01	55.61%
Transportation infrastructure construction	78.30	43.12%	89.40	44.39%

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	EPC+F Contracting of Western China (Guangyuan) Green Home Industry Startup Zone Xinsheng Group Project (中國西部(廣元)綠色家居產業城啟動區-新勝組團項目勘察設計施工融資一體化承包(EPC+F))	16.13	Municipal infrastructure construction	Sichuan
2	Construction of Water Transmission and Distribution Pipeline Project of Taiji New Water Plant in Beipiao (北票市台吉新水廠輸配水管路工程項目施工)	2.90	Municipal infrastructure construction	Liaoning
3	Quinta, Ethiopia - Garsner Road Project Contract: Quinta - Kurba Segment (Km 31+500-110+740) (埃塞俄比亞昆塔-加斯納道路工程合同: 昆塔-庫爾巴段 (Km 31+500-110+740))	4.59	Transportation infrastructure construction	Ethiopia
4	General Contracting of Mozambique Saskatchewan Airport Project (Bid Section for Airfield) (援莫桑比克賽賽機場項目(飛行段標區)工程總承包任務)	2.27	Transportation infrastructure construction	Mozambique
5	Second Bid Section of Yunfu City Duyang to Yun'an Highway Connection Segment Project (RK1+545-K4+041.145, LK1+546.5-K4+041.145) (雲浮市都楊至雲安公路新建工程連接線項目第二標段(RK1+545-K4+041.145,LK1+546.5-K4+041.145))	2.31	Transportation infrastructure construction	Guangdong

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No.	Name of project	Contract value (RMB100 million)	Business segment	Region
6	Upgrade Project of Rural Roads and Bridges in Guanyun County in 2019-2020 (灌雲縣2019-2020年度農村公路及橋樑提檔升級工程)	2.44	Transportation infrastructure construction	Jiangsu
7	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)	11.91	Transportation infrastructure construction	Hebei
8	Renovation (Construction) Project of 7 Rural Highways in Chongli District, such as Dachao line and Bachang line (崇禮區大朝線、壩場線等7條農村公路改建(造)工程施工)	4.40	Transportation infrastructure construction	Hebei
9	Main Body Construction Project of Building Materials Transportation Channel of Rongcheng-Yixian Highway (S106) in Xiong'an New Area (雄安新區建材運輸通道容城至易縣公路(S106)建設工程主體施工)	2.74	Transportation infrastructure construction	Xiong'an New District

Representative projects of construction in progress

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
1	Quinta, Ethiopia - Garsner Road Project Contract: Quinta - Kurba Segment (埃塞俄比亞昆塔-加斯納道路工程合同：昆塔-庫爾巴段)	4.59	Transportation infrastructure construction	Ethiopia
2	General Contracting of Mozambique Saskatchewan Airport Project (Bid Section for Airfield) (援莫桑比克賽賽機場項目(飛行段標區)工程總承包任務)	2.27	Transportation infrastructure construction	Mozambique
3	National Highway G102 Qinhuangdao City Segment Alteration Works (國道G102綫秦皇島市區段改建工程)	10.32	Transportation infrastructure construction	Hebei

Representative projects of completed projects

No.	Name of project	Contract value (RMB100 million)	Business segment	Region
1	Bid Section GZQ-DQJGW-SG-008 of Beijing New Airport Working Area Project (Municipal Transport) - Bridge and Pipe Network Project (北京新機場工作區工程(市政交通)一道橋及管網工程GZQ-DQJGW-SG-008標段)	4.38	Transportation infrastructure construction	Beijing
2	Bid Section FXQ-CD-011 of Beijing New Airport Airfield Road Project (北京新機場飛行區場道工程FXQ-CD-011標段)	5.12	Transportation infrastructure construction	Beijing

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, construction of steel structures and decoration. 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. Decoration usually refers to the decoration and fixture handling after the completion of the major construction of the building. In 2019, the new contract value from the specialized and other construction contracting business was RMB4,861 million, compared with RMB7,663 million for the corresponding period of last year.

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

Year	2019		2018	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	48.61	100%	76.63	100%
Mechanical and electrical installation	10.70	22.01%	8.10	10.57%
Steel structures	9.36	19.25%	14.35	18.73%
Decoration	17.32	35.63%	18.76	24.49%
Other construction business	11.23	23.11%	35.42	46.21%

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

Representative projects of new contracts

No.	Name of project	Contract value <i>(RMB100 million)</i>	Business segment	Region
1	EPC General Contracting of 100 MW Photovoltaic Base Project in Yingneng Photovoltaic Power Development Co., Ltd. of Tumert Right Banner (土默特右旗英能光伏電力開發有限公司100兆瓦光伏基地項目EPC總承包)	5.20	Mechanical and electrical installation	Inner Mongolia Autonomous Region
2	EPC General Contracting of Mechanical Critical Components Manufacturing Industrial Park of Feng County Economic Development Zone High-Tech Industrial Park Innovation and Startup Incubator Standardised Plants Construction Project (豐縣經濟開發區高新技術產業園區雙創孵化標準廠房建設項目機械製造關鍵零部件產業園設計採購施工工程總承包)	3.57	Steel structures	Jiangsu
3	EPC General Contracting of Lushui Late-maturing Mango Industry Poverty Alleviation Project (瀘水市晚熟芒果產業扶貧項目勘察設計施工總承包)	3.44	Other construction business	Yunnan

PART II: RESEARCH AND DEVELOPMENT ACHIEVEMENTS AND AWARDS

The Company has expanded its market to 31 provinces, municipalities and autonomous regions, as well as nearly 10 overseas countries. As of present, it has launched 23 projects and participated in 14 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 600 “Provincial Quality Construction (省優工程)” and more than 300 provincial or above “Safety Civilization Construction Sites (安全文明工地)”, 32 of which are at national level.

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)”.

1. In 2019, led or participated in the formulation of 10 sets of regulations, standards and rules, and was in the process of preparing 40 sets of regulations, standards and rules.
2. In 2019, the Company was accredited for 25 provincial-level key process technology, 9 of which are key to our business and among the top in China.
3. In 2019, the Company submitted 180 patent applications in China, including 32 applications for invention patents, and was granted 112 patents (including 3 invention patents).
4. In 2019, the Company was approved as the “Hebei Prefabricated Construction Technology Innovation Center (Preparatory)”, which consolidated the science and technology platform and enhanced the Group’s scientific and technological innovation capabilities.

PART III: OUTLOOK

The year 2020 is the last year of the “13th Five-Year Plan”.

In the new year, we will continue to maintain an uplifting and enterprising spirit, and 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, it will pursue various goals with high-caliber talents by adopting information technology and innovation measures, while the Project Department will be guided by the operation manual to provide strong support.

I. **Spreading “Two Wings” to Promote the Transformation and Upgrading of Corporates**

The optimization of industrial structure and the transformation and upgrading of corporates are arduous tasks for us, which is also one of the main reasons that constraint the development of the industry. We will continuously enrich and spread the “two wings” of finance and technology, so as to provide corporates with the wings to take off.

(I) Corporate Development Driven by the Wing of Finance

Financial capital plays a more and more important role in the corporate development. Having financial capital represents the possession of the competitive strength and development ability. We will leverage the market by using the financial capital, so that financial capital can better serve the market expansion.

(II) Corporate Development Supported by the Wing of Science and Technology

In today’s world, the cycles of new discoveries, new technologies, new products, and new materials are becoming shorter and shorter, and the achievements of engineering scientific and technological innovations come up incessantly. We will not wait and see, nor follow the same pace and path as others in grasping scientific and technological work. We will have the momentum to strive for the best in every day. We will focus on scientific and technological work with priority, letting corporates to comprehensively enhance their independent innovation capabilities, strive to master the core and key technologies, enhance the ability of scientific and technological achievements transformation, and improve the overall technical level of the industry, thereby elevating the comprehensive competitiveness of corporates and enhancing its development momentum.

II. Continuing on Focusing Forging “Two Suppliers”

First is a leading integrated construction service provider. Its business scopes cover building construction, municipal and public works, road construction, bridge construction, railway construction, water conservancy and hydropower, port and terminal construction, and other large-scale infrastructure construction, as well as the provision of professional integrated solutions in respect of construction for clients.

Second is a leading municipal service provider. We cater to customers’ diverse needs with a full suite of products and professional solutions in gas, water supply and drainage, heating, civil defense, urban roads, underground pipeline networks and community sectors.

III. Drawing on Leading Position to Continuously Improve Market Capacity

(I) Striving to Improve Project Performance

In terms of market composition, our shortcoming is that we have relatively few numbers of high-profile, large-scale, supreme, leading and special construction projects. It causes trouble in maintaining the qualification grades and add items and upgrades of qualification. We will target and keep a close eye on these projects, in particular, work hard on the high-end and large-span projects, so as to give full play to the Group’s platform advantages. We dare to compete with strong players and have successful bidding awarded, thereby achieving excellent performance and building up our corporate brands.

(II) Capturing Opportunities and Making Good Use of Professional Business Cards

Under the background that the PRC’s economy has changed from a stage of rapid growth to a stage of high-quality development, efforts to stabilize growth, expanding effective investment, and accelerating the construction of a series of essential transportation infrastructure regarding the overall development have become an important task throughout the country, of which the airport construction is even the highlighted part.

The Company has a high-quality platform, well-established brand name and remarkable performance in airport lanes construction. We will make good use of this professional business cards to expand the Group's market share in airport lanes construction nationwide and expand economic growth points.

(III) Striving to Achieve Breakthroughs in Market of Xiong'an New Area

The market threshold barriers of Xiong'an New Area to local construction enterprises, especially to private construction enterprises, have objectively adversely affected us. However, in terms of market competition, good things like "pies fall from the sky" would never happen. We will adopt various strategies to achieve breakthroughs on the premise of compliance with laws and regulations. In view of the current situation, it is necessary to explore a way to cooperate with state-owned enterprises in order to achieve a win-win situation in market of Xiong'an New Area. The command department of Xiong'an New Area will play a practical role in collecting and submitting relevant information in time to provide basis for leaders' decision-making.

IV. Improving Quality and Efficiency to Achieve High-quality Development

We strive to improve the profitability of the projects, spare no effort in recovering accounts receivables and revitalizing the funds, and guarantee the safety of the capital chain. We perform risk prevention to ensure the safe operation of the Group.

In 2020, let us be united and harmonized, forge ahead to the established goals with determination, with an aim to evolve the Group into "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

Operating Income, Operating Cost and Gross Profit

Revenue of the Group decreased by 14.2%, or approximately RMB6,782 million from approximately RMB47,859 million in 2018 to RMB41,077 million in 2019, which was mainly due to a decrease of RMB5,681 million in construction contracting business, a decrease of RMB1,308 million in property development business and an increase of RMB207 million in other business.

In particular:

(1) Segment Operating Results of Construction Contracting Business

	As at 31 December 2019				As at 31 December 2018 (Restated)			
	Revenue RMB100 million	Cost RMB100 million	Gross profit %	Percentage %	Revenue RMB100 million	Cost RMB100 million	Gross profit %	Percentage %
Building construction business	286.99	273.64	4.7%	71.4%	297.83	285.73	4.1%	64.9%
Infrastructure construction business	66.88	64.42	3.7%	16.6%	114.66	105.94	7.6%	25.0%
Specialized and other construction business	48.09	45.05	6.3%	12.0%	46.28	44.97	2.8%	10.1%
Total	401.96	383.11	4.7%		458.77	436.64	4.8%	

The construction engineering contracting business in 2019 decreased by RMB5,681 million, mainly because the Group's construction business was mainly concentrated in Beijing, Tianjin and Hebei and their surrounding areas. According to the requirements of the Action Plan for Comprehensive Treatment of Air Pollution in Beijing-Tianjin-Hebei and Their Surrounding Areas during Autumn and Winter of 2019-2020, the Group's downtime has increased in 2019 while ensuring that pollution prevention facilities and dust control measures are in place, and has actively changed the working arrangements and postponed the progress of ongoing projects. In addition, being affected by the macroeconomic downturn, the contract amount newly undertaken and with construction started in 2019 decreased. The drop in income is more apparent for infrastructure construction business, with a decrease in RMB4,778 million. The contract amount newly undertaken in 2018 was higher, with more infrastructure construction contracts and a saturated market. From the perspective of demand and supply of buildings, it is also difficult for the market of building construction to achieve large growth. Such market gradually changed from rapid growth to slow growth, then gradually shrunk and decreased. Thus, the building construction business of the Group also decreased by RMB1,084 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The overall gross profit margin of the building construction subcontractor business of the Group decreased by 0.1% as compared with last year, mainly due to:

- (1) For building construction and specialized and other construction contracting business, compared to 2018, during which we focused on the number of projects, in 2019 the Group focused more on the high-quality projects with higher gross profit. The Group is more committed to the control of cost budgets, so the overall gross profit in 2019 has increased;

For infrastructure construction business, upon entering 2019, the infrastructure construction cooled down, the overall return on infrastructure industry decreased, and the market competition intensified. Most of the infrastructure construction of the Company was focused in Beijing-Tianjin-Hebei Region and the bargaining power was weak. As such, the gross profit of infrastructure construction business decreased.

- (2) The Group has divested its real estate business during this year, so the related revenue has decreased significantly.
- (3) The other types income of the Group mainly include concrete sales, rental income and other business, which increased by RMB207 million in 2019 compared with 2018.

Selling Expenses

Selling expenses of the Group were approximately RMB10 million in 2019, representing a decrease of RMB18 million as compared with that of 2018, which was mainly due to the divestment of the real estate business of the Group in June 2019.

Administrative Expenses

Administrative expenses increased by approximately RMB94 million to approximately RMB505 million in 2019 as compared to that of 2018, which was mainly due to the increase in the number of employees of the Group and the significant increase in the employee salaries, benefits and social insurance contributions due to the increase in salary levels in 2019. Besides, as the Group has encouraged scientific and technological research and development since 2018, the funding for scientific and technological activities has increased significantly in 2019.

Research and Development Costs

Research and development costs of the Group increased by RMB58 million in 2019 as compared with that of 2018, mainly because the Group encouraged its member companies to engage in the special research and development projects during the second half of the year. A total of 173 research and development projects were commenced by the Group in 2019, which are still at the investigation and research stage. Therefore, the research and development costs incurred for this year increased significantly as compared with that of 2018.

Credit Impairment Gains/(Losses)

Credit impairment gains were RMB40 million in 2019, representing a decrease of RMB294 million as compared to the credit impairment losses in 2018, mainly because the Group strengthened the management of receivables in 2019 and took proactive measures against long-aged receivables. We has improved the recovery of receivables during this year, so we reverse the recovered receivables against the credit impairment losses from the previous years.

Investment Income

The investment income in 2019 was RMB102 million, representing an increase of RMB239 million compared with that of 2018, which was mainly due to the increase in the dividend income from other equity instruments under the strategic investment of the Group and the increase in the share of investment income of associates and joint ventures.

Income Tax Expenses

Income tax expenses of the Group were RMB446 million in 2019, representing a decrease of RMB20 million as compared with that of 2018, which was mainly due to the decrease in pre-tax profit and the decrease in income tax expenses.

Net Profit

Based on the above factors, net profit of the Group for 2019 was RMB763 million, representing a decrease of approximately RMB406 million as compared with that of 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 2019 and 31 December 2018, the Group had currency funds of approximately RMB6,675 million and approximately RMB6,011 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 2019, currency funds of the Group were RMB7,045 million, representing an increase of RMB357 million as compared to that at the end of 2018, mainly due to the greater amount of net cash inflows from financing activities. We received more cash from the borrowings, acquired the currency investment from the minority shareholders, while we recovered the security deposit from the offshore guarantees for onshore loans business.

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 2019, accounts receivable financing of the Group were RMB1,258 million, representing an increase of RMB533 million compared with the end of 2018, 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 2019, the long-term equity investment was RMB530 million, representing a decrease of RMB343 million compared with that at the end of 2018, mainly due to the investment in companies (such as Qinhuangdao Yuanji Road Construction Management Co., Ltd.) by the Group in the year and the divestment of an associate invested by a real estate subsidiary of Zhongcheng Real Estate.

Accounts Receivable

As of 31 December 2019, the net value of accounts receivable was RMB5,749 million, representing a decrease of approximately RMB216 million compared with that at the end of 2018, which amounts to a relatively small overall change.

Other Receivables

On 31 December 2019, balance of other receivables of the Group was RMB2,469 million, representing a decrease of approximately RMB1,622 million, as compared with that at the end of last year. Such change was mainly due to the regulatory requirements which mandate the Group to settle all non-transactional fund lending activities directly with third-party units and individuals during the year. As of the end of the year, all fund borrowings have been settled, resulting in a significant decline in the balance of the other receivables.

Contract Assets and Construction Services Contract Liabilities

The net value of contract assets as of 31 December 2019 was RMB40,519 million, representing an increase of approximately RMB1,753 million as compared with that at the end of 2018, mainly due to part of the fulfilled construction of the Group during the forth quarter yet to be settled. Contract liabilities as of 31 December 2019 were RMB4,490 million, representing a decrease of approximately RMB576 million as compared to that at the end of 2018. The balance of prepayments for housing has decreased compared with that at the end of the previous year, which was mainly due to the real estate sector being divested on 30 June 2019.

Long-term Receivables

The concessionary project of the Group will be put into operation upon the approval of the budget needed for the completion of concessionary project during the year. During the construction period, the contract assets were converted into long-term receivables due to obtaining the unconditional right to considerations.

Other Equity Instrument Investment

The carrying value of other equity instrument investment on 31 December 2019 was RMB779 million, representing an increase of approximately RMB209 million compared to the other equity instrument investment at the end of 2018, mainly due to the Group's investment in China Risun Group Limited through the Hong Kong Stock Exchange in March 2019. The Group has invested a total of 45,965,000 shares, with a share price of HKD2.85 per share on the day of purchase. The remaining changes were due to the changes in fair value of other equity investments during the year.

Borrowings

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

As at 31 December 2019, the Group's interest-bearing borrowings were approximately RMB5,029 million (31 December 2018: approximately RMB3,635 million), bearing an effective annual interest rate ranging from 4.4% to 12.0% per annum (31 December 2018: annual interest rate ranging from 4.7% to 12.0%).

For details of the mortgage borrowings of the Company, please refer to Note VI-19 to the financial statements.

Bills and Accounts Payable

The balance of accounts payable on 31 December 2019 was RMB35,946 million, representing a decrease of RMB3,010 million compared with that at the end of 2018, which was mainly due to fewer new construction projects undertaken in 2019 and the suspension due to macro factors, and the corresponding reduction in purchases leading to the decrease in the balance of accounts payable at the end of the year. The balance of bills payable increased by RMB163 million compared with that at the end of the previous year, mainly due to the increase in the proportion of bill payment by the Group.

Capital Expenditures

Capital expenditures in 2019 were approximately RMB82 million, representing a decrease of RMB164 million compared to RMB246 million in 2018, mainly due to the reduction of projects under construction and construction of office space.

Capital Commitment

As at 31 December 2019, the Group has capital commitment of RMB433 million, mainly because the Group signed an office building purchase agreement with Baoding Zhucheng in 2019 to purchase office buildings for commercial office space at a consideration of RMB350 million.

Financial Ratios

	31 December 2019	31 December 2018
Current ratio (times) ⁽¹⁾	1.1	1.1
Quick ratio (times) ⁽²⁾	1.1	1.0
Gearing ratio ⁽³⁾	85.2%	61.3%
Return on assets ⁽⁴⁾	1.2%	2.1%
Return on equity ⁽⁵⁾	12.6%	22.4%

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%.

Contingent Liabilities

As at 31 December 2019, the banking facilities granted to third parties subject to guarantees given to the banks by the Group were utilised to the extent of approximately RMB128 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.

Significant Sales or Disposal

Except as disclosed in Notes V-3 and 4 of the Notes to Financial Statements of this report, during the Reporting Period, the Group increased the investment in the associated company, Jianwei one-longitudinal-two-horizontal Project Management Co. Ltd, by RMB57 million, increased the investment in the joint venture, Qinhuangdao Yuanji Road Construction Management Co., Ltd., by RMB406 million.

Acquisitions and Disposals of Subsidiaries

On 17 May 2019, the Company, Baoding Zhongcheng, Zhongming Zhiye and Qianqiu Management entered into the Equity Swap and Transfer Agreement, pursuant to which, the Company swapped the 90% shares, 66% equity interests and 55% equity interests held by the Company in Zhongcheng Real Estate, Baoding Tian'e Real Estate and Jinshibang Real Estate, respectively (“**Disposal Subject**”) with the 100% equity interests in HCG Garden Engineering (“**Acquisition Subject**”) held by Zhongming Zhiye. Meanwhile, Baoding Zhongcheng transferred the 10% shares in Zhongcheng Real Estate (“**Equity Transfer Subject**”) held by it to Qianqiu Management. The consideration shortfall between the Disposal Subject and the Equity Transfer Subject as well as the Acquisition Subject was made up by the Company in cash to Zhongming Zhiye, totalling RMB9.9 million. For details, please refer to the announcement dated 17 May 2019 and the circular dated 31 May 2019 of the Company.

Employee and Remuneration Policies

As of 31 December 2019, the Group has had a total of 8,062 full-time employees (31 December 2018: 7,092). 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.

The details of employee incentives and employee training of the Group are set out in “Directors, Supervisors, Senior Management and Employees” on pages 163 to 182 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 2019, which have been prepared in accordance with the Chinese Accounting Standards for Business Enterprises, 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 68 years, we are well-positioned to benefit from the coordinated development of the Beijing-Tianjin-Hebei Region, a national strategy of China.

We are 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 9 to page 27, “Management Discussion and Analysis” on page 28 to page 35, this “Report of the Board of Directors” and “Significant Events” on page 68 to page 69 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 97 to page 162.

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.

REPORT OF THE BOARD OF DIRECTORS

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, 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, Contract 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, General Rules of the Civil 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, Law of the People's Republic of China on Certified Public Accountants, 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, Administrative Measures for the Takeover of Listed Companies, Company Law of the People's Republic of China, Trademark Law of the People's Republic of China and Labor Union Law 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 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 on 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 2019		Remaining net proceeds as of 31 December 2019	
	<i>Approximate amount</i>	<i>Approximate percentage</i>	<i>Approximate amount</i>	<i>Approximate percentage</i>
	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>
Proceeds used to undertake the construction of certain construction contracting projects remain to be completed	642.73	39.97	0.52	0.03
To fund the Group's existing and future equity investment commitments	482.44	30.00	0	0
To repay the principal of and interest on the Group's loans on or before their respective maturity dates	160.81	10.00	0	0
General corporate purposes	315.29	19.61	6.34	0.39
Total*	1,601.27	99.58	6.86	0.42

* The inconsistency between the sum of the numbers in this table and the figures shown in the Appraisal Report on the Use of Previously Raised Proceeds is due to rounding.

* In preparing the above table, the exchange rate applied is RMB0.81538 = HK\$1.000, and the amount of RMB is calculated according to such exchange rate. As a result, the difference between the net value of the remaining funds in the above table and the actual amount of funds in the retained account is due to the difference between the controlling exchange rate and the actual exchange rate.

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 2019, the total amount of recycling funds was HK\$1,380.50 million, the total amount of recycling funds was RMB416.40 million and the proceeds from the settlement of exchange of Hong Kong 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 2019, the accumulative amounts of the raised funds paid for various purpose by the Company was RMB1,601.27 million. Among them, approximately RMB642.73 million was used to undertake the construction of certain construction contracting projects; approximately RMB482.44 million was used to fund the Group's existing and future equity investment; approximately RMB160.81 million was used to repay the principal of and interest on bank loans on or before the due date; and approximately RMB315.29 million was used for general corporate purposes. Save as used above, as of 31 December 2019, the remaining funds of the Company's proceeds were approximately HK\$5.73 million, RMB23.37 million (including an interest income of approximately RMB20.95 million) and USD0.28 million had not been used, which was deposited in a special account opened by the Company in the bank. The Company will continue to apply the aforementioned net proceeds in accordance with the development strategy, market conditions and the net proceeds after the Change. The Company expects that the remaining unused proceeds will be fully utilized according to the proportion and the use after the Change on or before 31 December 2020.

RESULTS AND DISTRIBUTIONS

The results of the Group for the year ended 31 December 2019 are set out in the audited Consolidated Income Statement on page 193 to page 194 of this report. The financial condition of the Group as of 31 December 2019 is set out in the audited Consolidated Balance Sheet on page 191 to page 192 of this report.

According to the Profit Distribution Proposal of the Company for 2018 considered and approved by the Shareholders of the Company on the 2018 annual general meeting on 20 June 2019 and the announcement of the change of date of payment of final dividends dated 10 July 2019, on Thursday, 1 August 2019, the Company distributed 2018 final dividend of RMB0.30 per share (tax inclusive) in cash to its domestic Shareholders and H Shareholders whose names appear on the register of members on Thursday, 4 July 2019. The 2018 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 = RMB0.879883) as announced by the PBOC three business days before the date of the 2018 annual general meeting (inclusive of the date of the 2018 annual general meeting), i.e. HK\$0.340954 per H Share (tax inclusive) in cash. For details, please refer to the announcements dated 20 June 2019 and 10 July 2019 issued by the Company on the website of the Hong Kong Stock Exchange, respectively.

PROPOSAL AND POLICY FOR THE DISTRIBUTION OF THE FINAL DIVIDEND

Final Dividend

Based on the 2019 financial report of the Company, the distributable profit of the parent company as of 31 December 2019 was RMB1,957,869,000. Given the actual condition of the Company and Shareholders' return, the Company proposed to distribute cash dividends out of the approximately 32% of the net profit attributable to the listed company's shareholders for the year ended 31 December 2019 to Shareholders, totalling RMB246,593,690. The Board proposes to distribute 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 on Wednesday, 8 July 2020 based on total share capital of the Company as of 31 December 2019 of 1,761,383,500 shares. The 2019 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 Monday, 10 August 2020. The above profit distribution proposal is subject to approval at the 2019 annual general meeting of the Company.

REPORT OF THE BOARD OF DIRECTORS

Details on closure of register of members due to dividend distribution are set out in “Significant Events” on page 68.

For the year ended 31 December 2019, 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 Directors 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;
- 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 Thursday, 9 July 2020. 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

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 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 2019, 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 2019 are set out in Note VI-14 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, total sales to the five largest customers of the Company accounted for approximately 8.66% of the total revenue for the year, while the total sales to the largest customer accounted for approximately 3.63% of the total revenue for the year.

REPORT OF THE BOARD OF DIRECTORS

For the year ended 31 December 2019, the total purchase from the five largest suppliers of the Company accounted for approximately 13.91% of the cost of sales for the year, while the total purchase from the largest supplier accounted for approximately 8.30% of the cost of sales for the year.

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 181 to page 182.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group as at 31 December 2019 are set out in Notes VI-20 and VI-26 to the financial statements.

EXTERNAL DONATION

In 2019, the Company donated a total of RMB29.5 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 2019 and as of the Latest Practicable Date:

Name	Position in the Company	Date of Appointment
Directors, Supervisors and senior management currently in office		
Directors		
<i>Executive Directors</i>		
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

REPORT OF THE BOARD OF DIRECTORS

Name	Position in the Company	Date of Appointment
<i>Non-executive Directors</i>		
Mr. Li Baoyuan	Honorary chairman and non-executive Director	26 October 1997
Mr. Cao Qingshe	Vice chairman and non-executive Director	25 October 2010
<i>Independent Non-executive Directors</i>		
Mr. Xiao Xuwen	Independent non-executive Director	15 December 2017
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
<i>Supervisors</i>		
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
<i>Senior Management</i>		
Mr. Shang Jinfeng	Executive Director and president	31 March 2017
Mr. Liu Yongjian	Executive Director and vice president	17 January 2008
Mr. Gao Qiuli	Vice president and chief engineer	22 July 2001
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

Name	Position in the Company	Tenure
Resigned Directors, Supervisors and senior management		
Ms. Liu Shuzhen	Former executive Director, vice president and chief economic officer	20 December 2013 to 8 January 2019

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, Ms. Liu Shuzhen resigned as an executive Director of the first session of the Board, a vice president and the chief economic officer of the Company due to reaching her retirement age, with effect from 8 January 2019. Mr. Zhao Wensheng was elected as the executive Director of the first session of the Board of the Company at the 2019 first extraordinary general meeting held on 25 February 2019. The term of office of Mr. Zhao Wensheng commenced on 25 February 2019 and will end on the expiration of this session of Board. For details, see the circular dated 14 January 2019 and the announcement dated 25 February 2019 of the Company.

During the Reporting Period, Mr. Zhang Wenzhong was elected as the chief economic officer of the Company at the 35th meeting of the first session of the Board held on 8 January 2019.

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 167 to page 180 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 Group 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 “Biographies of the Directors, Supervisors and Senior Management” in this report is disclosed in the corporate governance report herein.

As of the Latest Practicable Date, the Company was not aware of any shareholders 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 “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 2019, 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 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 2019, 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 2019.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2019.

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 to page 76.

PRE-EMPTIVE RIGHT AND SHARE OPTION ARRANGEMENTS

During the year ended 31 December 2019, 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 and senior management. The permitted indemnity provisions are set out in such liability insurance. As of 31 December 2019, 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 2019, 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.

CONNECTED TRANSACTIONS

1. Non-Exempt One-Off Connected Transactions

Equity Swap and Transfer Agreement

Parties

The Company, Baoding Zhongcheng, Zhongming Zhiye and Qianqiu Management

Principal Terms

(1) Date

17 May 2019

(2) Equity Swap and Transfer (“**Equity Swap and Transfer**”)

The Company swapped the 90% shares, 66% equity interests and 55% equity interests held by the Company in Zhongcheng Real Estate, Baoding Tian’e Real Estate and Jinshibang Real Estate, respectively (“**Disposal Subject**”) with the 100% equity interests in HCG Garden Engineering held by Zhongming Zhiye (“**Acquisition Subject**”). Meanwhile, Baoding Zhongcheng transferred the 10% shares in Zhongcheng Real Estate held by it (“**Equity Transfer Subject**”) to Qianqiu Management.

(3) Payment of consideration

The parties agree that the consideration of the Equity Transfer Subject will be paid by Zhongming Zhiye on behalf of Qianqiu Management and received by the Company on behalf of Baoding Zhongcheng; the consideration shortfall between the Disposal Subject, the Equity Transfer Subject and the Acquisition Subject will be made up by the Company in cash to Zhongming Zhiye, totalling RMB9.9 million, of which: (i) 50%, being RMB4.95 million will be paid on the Closing Date; and (ii) the remaining 50%, being RMB4.95 million, will be paid within five days from the date of completion of the industrial and commercial registration or filing procedures for the Equity Swap and Transfer.

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, and Qianqiu Management is a subsidiary of Zhongming Zhiye, therefore, both Zhongming Zhiye and Qianqiu Management are connected persons of the Group. Thus, according to the Listing Rules, the transactions under the Equity Swap and Transfer Agreement constitute connected transactions of the Company. As one or more of the applicable percentage ratios (as defined under the Listing Rules) of it are higher than 5% but all of such ratios are less than 25%, thus, it shall comply with the notice, announcement, circular and independent Shareholders' approval requirements under chapter 14A of the Listing Rules.

Reasons for the transaction

(i) Consolidating the leading position in the industry and seizing the opportunities in the industry; (ii) focusing on developing construction business and cultivating core competitiveness; (iii) enriching the construction business system and serving customers in all aspects; (iv) resource integration and sharing to enhance business capability; (v) properly managing risks brought about by the state's control and engaging in industries with broad development prospects; and (vi) integrating integral auxiliary business and alleviating financial pressure.

For details of the transactions above, please refer to the announcement dated 17 May 2019 and the circular dated 31 May 2019 of the Company.

Office Building Acquisition Agreement

Parties

The Company (as the purchaser) and Baoding Zhucheng (as the vendor)

Principal Terms

(1) Date

31 December 2019

REPORT OF THE BOARD OF DIRECTORS

(2) The Target Property (the “**Target Property**”)

Certain floors of the commercial office building of the Hebei Construction Business Center Project constructed by Baoding Zhucheng, which is located in Lugang Road, Baoding City, Hebei Province, the PRC and boasts of 21 above-ground floors with an area of 41,017.39 m², 3 under-ground floors and a total of 400 under-ground car parking spaces.

(3) Consideration and Payment

The acquisition consideration of the Target Property is RMB350 million which is settled in cash in the amounts specified below: (1) RMB30 million shall be settled within five business days from the entering into of the Office Building Acquisition Agreement; (2) RMB170 million shall be settled by 30 May 2020; (3) RMB150 million shall be settled by 30 May 2021.

(4) Completion

Baoding Zhucheng shall deliver the Target Property to the Company before 5 January 2020.

Listing Rules Implications

As Zhongming Zhiye is owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the controlling Shareholders of the Company, respectively and Baoding Zhucheng is a subsidiary of Zhongming Zhiye, Baoding Zhucheng is a connected person of the Group. Hence, the Property Acquisition under the Office Building Acquisition Agreement constitutes a connected transaction of the Company under the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) thereof is higher than 0.1% but less than 5%, the Property Acquisition shall comply with the notification and announcement requirements but is exempted from the circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reasons for the transaction

(i) The office building currently used by the Group is aging, which cannot fully meet the Group's demands in terms of space and staff accommodation capacity and requires upgrading with respect to office hardware; and (ii) in Baoding, there are relatively few office buildings that satisfy the office demands of the Group's headquarters, and it is difficult to seek other alternatives to replace the Target Property. Therefore, it is relatively necessary to use the Target Property as the office building of Group's headquarters.

For details of the transaction above, please refer to the announcement dated 31 December 2019 of the Company.

2. 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 sub-contractor)

Principal Terms

The Company entered into a labor subcontract framework agreement with Baoding Tianli on 23 November 2017 (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 is valid from the Listing Date (i.e. 15 December 2017) to 31 December 2019 and can be renewed for another three years upon its expiry as agreed by relevant parties to the agreement.

REPORT OF THE BOARD OF DIRECTORS

On 31 December 2019, the Company entered into a new Labor Subcontract Framework Agreement (“**New Labor Subcontract Framework Agreement**”) with Baoding Tianli to renew the continuing connected transactions under the Labor Subcontract Framework Agreement. The agreement is valid for a term of three years which will be effective from 1 January 2020 after being approved at the 2020 first extraordinary general meeting of the Company, and expires on 31 December 2022. For details, please refer to the announcement dated 31 December 2019 and the circular dated 22 January 2020 of the Company.

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 of the Company, 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.

Application has been made by the Company to the Stock Exchange for the waiver from compliance with the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in relation to the continuing connected transaction under the Labor Subcontract Framework Agreement, with the condition that the total transaction amount of the non-exempt continuing connected transaction for each of 2017, 2018 and 2019 shall not exceed the annual caps set out in the Prospectus; the Stock Exchange has granted the above waiver.

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 waiver approved by the Stock Exchange for the total subcontract fees of the connected transaction was capped at RMB7,000 million for 2019. The actual total transaction amount under the above agreement between the Group and Baoding Tianli was RMB3,239 million for 2019.

Please refer to the Prospectus for details of the transaction above.

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.

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 RMB1,100 million for 2019. The actual total transaction amount under the above agreement between the Group and Zhongming Zhiye was RMB534 million for 2019.

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;

REPORT OF THE BOARD OF DIRECTORS

- (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-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 2019 annual financial report of the Company and issued a standard unqualified audit report, indicating that the 2019 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 2019 and the audited consolidated financial statements for the year ended 31 December 2019 prepared under the Chinese Accounting Standards for Business Enterprises.

CHANGE OF ACCOUNTING STANDARDS

According to the “Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》)” published by the Hong Kong Stock Exchange in December 2010 and the “Experimental Working Scheme for Accounting Firms Involved in Auditing Services to H Share Companies (《會計師事務所從事H股企業審計業務試點工作方案》)” issued by the Ministry of Finance of the People’s Republic of China (the “**MOF of PRC**”) and the China Securities Regulatory Commission (the “**CSRC**”), since 15 December 2010, companies listed in Hong Kong and incorporated in the PRC have been approved to adopt the Chinese Accounting Standards to prepare their financial statements. Domestic accounting firms in the PRC recognized by the MOF of PRC and the CSRC are permitted to provide audit-related services to these companies by adopting the Chinese Accounting Standards for Business Enterprises.

In order to simplify work process, improve work efficiency, reduce disclosure costs and audit fees, on 25 March 2019, the Board proposed that, since the accounting year from 1 January 2019, the Company will change to only adopt the Chinese Accounting Standards for Business Enterprises to prepare financial statements. The Shareholders of the Company has approved the amendments to the Articles of Association by voting at the 2018 annual general meeting held on 20 June 2019. For details, please refer to the announcements dated 25 March 2019 and 20 June 2019 of the Company published on the website of the Hong Kong Stock Exchange.

AUDITOR

In January 2017, the Board decided to appoint Ernst & Young as the reporting accountant for the Listing of the Company.

In November 2017, the Board decided to appoint Ernst & Young as the auditor of the Company for 2017 under the IFRSs and Ernst & Young Hua Ming LLP as the auditor of the Company for the audit of the annual financial report for 2017 under the CASBE. The proposed appointments were approved at the ninth extraordinary general meeting for 2017 of the Company and became effective.

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.

REPORT OF THE BOARD OF DIRECTORS

In March 2019, in view of the proposed adoption of the Chinese Accounting Standards for Business Enterprises 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 March 2020, 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 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. 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 2019 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 2019, 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 25 March 2019, the sixth 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 2018 Annual Report and Results Announcement of Hebei Construction Group Corporation Limited
- Proposal on the 2018 Financial Report of Hebei Construction Group Corporation Limited
- Proposal on the 2018 Working Report of the Board of Supervisors of Hebei Construction Group Corporation Limited
- Proposal on the 2018 Profit Distribution Plan of Hebei Construction Group Corporation Limited
- Proposal on the salary of Supervisors of Hebei Construction Group Corporation Limited in 2018
- Proposal on preparing financial statements using only Chinese Accounting Standards for Business Enterprises

REPORT OF BOARD OF SUPERVISORS

On 19 July 2019, the seventh 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 investment to be funded by proceeds raised from the Issue of A Shares
- Proposal on the Use Report and Appraisal Report on the Use of Previously Raised Proceeds
- Proposal on the formulating the applicable Rules of Procedure of the Board of Supervisors upon the listing of A Shares of the Company
- Proposal on formulating the dividend return plan for the next three years upon the listing of A Shares of the Company

On 29 August 2019, the eighth 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 2019 Interim Results Announcement and Interim Report of Hebei Construction Group Corporation Limited

2. ATTENDANCE OF IMPORTANT MEETINGS

In 2019, the Supervisors attended 3 general meetings as required and were present at 17 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 2019, 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 2019. Ernst & Young Hua Ming LLP has audited the 2019 annual financial report of the Group and issued a standard unqualified audit report. It was of the view that the 2019 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 as well as the commitments made in the Prospectus. The use of proceeds from the Global Offering after change which was effective upon approval at the 2019 first extraordinary general meeting held on 25 February 2019 is in the best interests of the Company and all of its Shareholders. The Board of Supervisors will continue to oversee and inspect the utilization of the proceeds.
- (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 2019, 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 2019 ANNUAL GENERAL MEETING

The 2019 annual general meeting of the Company will be convened at 9:00 a.m. on Tuesday, 23 June 2020 at Meeting Room, 3/F, No. 329, Wusi West Road, Jingxiu District, Baoding City, Hebei Province, the PRC. The notice and circular of convening the 2019 annual general meeting will be despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The 2019 annual general meeting

In order to ascertain the entitlements of the Shareholders to attend the 2019 annual general meeting, the register of members of the Company will be closed from Thursday, 18 June 2020 to Tuesday, 23 June 2020 (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, 23 June 2020 will be eligible to attend the 2019 annual general meeting. To be eligible to attend and vote at the 2019 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, 17 June 2020.

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 Monday, 6 July 2020 to Wednesday, 8 July 2020 (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, 3 July 2020.

Further details on the distribution of final dividend are set out in "Report of the Board of Directors" on page 36 to page 63.

MAJOR LITIGATION, ARBITRATION AND ISSUES GENERALLY QUESTIONED BY THE MEDIA

Some media published news reports regarding the Company on 25 November and 26 November 2019. These reports have not been rigorously investigated and proven and they are inconsistent with the actual situation. The Company has thereupon provided clarification. For details, please refer to the clarification announcement issued by the Company on 26 November 2019.

Save as disclosed above, 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

Since the outbreak of COVID-19 in early 2020, a series of prevention and control measures have been implemented in China and around the world. Such isolation and quarantine measures have caused a short-term impact on the operations the Group since the beginning of 2020. The degree of impact depends on the progress and duration of the epidemic prevention and control and the implementation of the local prevention and control policies. The current overall operations of the Group are stable. The Group will continue to closely monitor the progress of the outbreak of COVID-19 and the suspension of some engineering projects caused by the outbreak of COVID-19, and evaluate its impact on the financial position, cash flow and operating performance of the Group in a timely manner.

Save as the impact of the aforementioned outbreak of COVID-19, from 1 January 2020 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 2019, 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.

PROPOSED PLAN FOR THE A SHARE OFFERING

As disclosed in the announcements of the Company dated 19 July 2019 and 16 September 2019 and the circular of 2019 second extraordinary general meeting and 2019 first H shareholders class meeting of the Company dated 27 August 2019, the Board resolved to approve, among other things, the resolutions in relation to the proposed plan for the A Share Offering and related resolutions on 19 July 2019. Such resolutions have been approved by the shareholders at the 2019 second extraordinary general meeting of the Company, the 2019 first domestic shareholders class meeting of the Company and the 2019 first H shareholders class meeting of the Company. Such resolutions are subject to the market conditions and the necessary approval or decisions of the relevant regulatory authorities.

Due to the needs of the A Share Offering and Listing, according to the relevant laws, regulations and rules including the Company Law, the Securities Law of the PRC and the Administrative Measures on Initial Public Offering and Listing (《首次公開發行股票並上市管理辦法》), and upon negotiation with the sponsor institution(s), the proposed plan for the A Share Offering and Listing is further detailed as follows:

- (1) Type of Shares to be issued and par value: Renminbi ordinary shares (A Share), with a par value of RMB1.00 each.
- (2) Number of A Shares to be issued: It is proposed that the size of the A Shares to be issued shall not exceed 25% of the total share capital of the Company upon completion of the offering, being 587,127,833 Shares. The specific number of the offering will be negotiated by the Board as authorized by the shareholders with the sponsor institution(s) in accordance with the market price consultation results and the capital needs of the investment projects to be funded by proceeds from the offering. The ultimate number of the offering shall be subject to the approval of the CSRC.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

- (3) Target subscribers: Inquiry targets who meet the requirements under the national laws and regulations and the provisions of the CSRC and other regulatory authorities, and domestic natural persons, legal persons and other investors who have maintained accounts at the SSE (other than those prohibited by the national laws and regulations). The Company shall take appropriate steps to ascertain the eligibility of the A Share subscribers and to ensure that no A Shares will be allotted and issued to its connected persons and/or their associates.
- (4) Methods of offering: A combination of offline placement to inquiry targets and offering by way of online subscription, or any other methods as specified by the CSRC.
- (5) Offer price of the Shares: The price range will be determined first by the Board and the sponsor institution(s) through promotion and preliminary price consultation as authorized by the shareholders, and the offer price will then be determined in accordance with laws and regulations and the relevant requirements of the CSRC.

In accordance with the Measures for the Administration of the Offering and Underwriting of Securities (《證券發行與承銷管理辦法》) issued by the CSRC, the issue price of A shares in the initial public offering can be determined either by way of price enquiry to offline investors, or by other legitimate and feasible methods such as direct pricing based on negotiation between the issuer and the lead underwriter(s).

In accordance with the Measures for the Administration of the Offering and Underwriting of Securities (《證券發行與承銷管理辦法》), if an initial public offering of shares is to be conducted by means of direct pricing, all the shares shall be issued to online investors without carrying out offline price enquiries or placement; if an initial public offering of shares is to be conducted by means of price enquiry, then once the offline investors have submitted bids, the issue price shall be determined by the issuer and the lead underwriter(s) based on the remaining bids and number of subscription applications, after excluding the portion of offer shares with the highest bids. It is also required that the excluded portion shall not be less than 10% of the total number of shares to be subscribed for by all the offline investors.

According to the Company Law, shares may be issued at a price equal to or in excess of par value, but not below par value. As the par value of the A Shares proposed to be issued by the Company is RMB1.00, the issue price of the A Shares will not be lower than RMB1.00 per Share. Save as the aforesaid regulatory provision, no minimum issue price is set for the A Shares proposed to be issued.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

When determining the actual issue price of the A Shares, the Company will take into consideration the following factors: (i) the Company's financial results, (ii) the average Price-to-Earnings ratio (P/E ratio) of other A share listed issuers which operate in the same industry as the Company; (iii) market conditions; (iv) the trading price of the H Shares; (v) requirements under the relevant laws and regulations; and (vi) rules and policies of the relevant regulatory authorities.

- (6) Place of listing of the shares: SSE.
- (7) Use of proceeds from the A Share Offering: The Company proposes to use the proceeds from the A Share Offering (after deduction of offering expenses) to invest in several PPP projects (amounting to approximately RMB550 million in aggregate), BOT projects (amounting to approximately RMB130 million in aggregate) and other investment projects (amounting to approximately RMB3,275 million in aggregate). It is estimated that approximately RMB3,955 million in aggregate out of the proceeds will be used in such projects.

In the event that the actual proceeds from the A Share Offering, after deduction of the corresponding offering expenses, are insufficient to meet the investment needs for all such projects, the Company will prioritize its investment in certain of the above projects by taking into account the urgency and materiality of each project and the shortfall shall be eased by the self-raised funds of the Company. If initial investment is required for the aforesaid investment projects to be funded by proceeds before the proceeds from the offering are available due to factors such as operational needs or market competition, the Company will initially fund the projects by way of its self-owned funds, bank loans or financing leases, etc. Once the proceeds from the offering are available, the Company will replace its initial investment of self-owned funds in relevant investment projects and/or repay bank loans and/or financing leases with the proceeds from the offering. In the event that the actual proceeds, after deduction of the corresponding offering expenses, are more than those required for the aforesaid investment projects to be funded by proceeds, the surplus will be applied to replenish the working capital of the Company through legal procedures in accordance with the national laws, regulations and the relevant requirements of the CSRC.

- (8) Undertaking of offering expenses: All the Shares to be offered in the public offering are new Shares and all the offering expenses incurred thereof shall be borne by the Company.
- (9) Underwriting method: Standby commitment.
- (10) Conversion into a joint stock limited liability company with Shares issued and listed domestically and overseas: After the approval of the A Share Offering and Listing by the CSRC, the Company will apply for the conversion into a joint stock limited liability company with Shares issued and listed domestically and overseas.

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

- (11) Valid period of the resolutions: The relevant resolutions of the A Share Offering and Listing shall be valid for 12 months from the date of the approval at the 2019 second extraordinary general meeting of the Company and the 2019 first domestic shareholders class meeting of the Company and the 2019 first H shareholders class meeting of the Company (i.e. 16 September 2019).

For further details of the proposed A Share Offering, please see the announcement of the Company dated 19 July 2019, the circular of the 2019 second extraordinary general meeting and the 2019 first H shareholders class meeting of the Company dated 27 August 2019 and the poll results announcement of the Company dated 16 September 2019.

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 2019, 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:

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 2019	Approximate percentage of shareholding in the total issued share capital of the Company as at 31 December 2019
Mr. Li Baoyuan ¹	Interest in controlled corporation	1,300,000,000	Domestic Shares	Long position	100%	73.8%

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

Note:

- As at 31 December 2019, 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 2019, 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 5.54% 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.

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 of ordinary shares interested in the associated corporation		Nature of interest	Approximate percentage of issued share capital of associated corporation as at 31 December 2019
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%
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 2019, 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 2019, the total share capital of Qianbao Investment is 50,000,000 shares.
3. As at 31 December 2019, 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 2019, 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 2019, 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 2019, 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 interested	Class of Shares	Nature of interest	Approximate	Approximate
					percentage of shareholding in the relevant class of Shares as at 31 December 2019	percentage of shareholding in total issued share capital of the Company as at 31 December 2019
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%
Hwabao Trust Co., Ltd	Trustee	83,970,500	H Shares	Long position	18.20%	4.77%

Notes:

- As at 31 December 2019, 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 2019.

For the year ended 31 December 2019, 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 2019, 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 are 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 (collectively referred to as the "**Board 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 Wensheng²

Non-executive Directors

Mr. Li Baoyuan³
 Mr. Cao Qingshe

Independent Non-executive Directors

Mr. Xiao Xuwen
 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. Ms. Liu Shuzhen has resigned as a Director of the first session of the Board, a vice President and the Chief Economic Officer of the Company since 8 January 2019, and Mr. Zhao Wensheng was appointed as a Director of the first session of the Board of the Company since 25 February 2019.
3. Mr. Li Baoyuan is the brother of Mr. Li Baozhong and the father of Mr. Li Wutie.

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 Relevant Period, 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 2019, 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		
Mr. Xiao Xuwen	✓	✓
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 2019, the Audit Committee convened 3 meetings to review the annual result announcement and annual report for the year ended 31 December 2018, the Financial Report for Year 2018 and the Investment Budget for Year 2019, to approve and review the internal control and risk management system of the Group and to oversee the audit process, and to approve the proposals in respect of adoption of the Chinese Accounting Standards for Business Enterprises to prepare financial statements only, non-reappointment of overseas auditor, appointment of domestic auditor and determination of its remunerations, as well as to review the interim results announcement and interim report for the six months ended 30 June 2019.

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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Nomination Committee convened 2 meetings, to nominate Mr. Zhao Wensheng as the candidate of the First Session of the Board, to formulate the “Nomination Policy of Hebei Construction Group Corporation Limited” (《河北建設集團股份有限公司提名政策》) 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 ten 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 to consider; and
- (7) Carrying out other follow-up work according to the Board's decisions and feedback.

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;

CORPORATE GOVERNANCE REPORT

- 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 2019, 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 2018.

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 Directors. 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 2019, the Strategic Committee did not convene any meeting.

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; 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 2019, 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 2019, the Board convened 17 meetings.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, 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 meeting is set out below:

Name of Directors	Number of attendance/meeting(s)					
	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration and Appraisal Committee meeting	Strategic Committee meeting ³	General meeting
Executive Directors						
Mr. Li Baozhong	17/17	-	2/2	1/1	N/A	3/3
Mr. Shang Jinfeng	17/17	-	2/2	1/1	N/A	3/3
Ms. Liu Shuzhen ¹	N/A	-	-	-	-	N/A
Mr. Liu Yongjian	17/17	-	-	-	-	3/3
Mr. Zhao Wensheng ²	15/15	-	-	-	-	3/3
Non-executive Directors						
Mr. Li Baoyuan	17/17	3/3	-	-	-	3/3
Mr. Cao Qingshe	17/17	3/3	-	-	N/A	3/3
Independent non-executive Directors						
Mr. Xiao Xuwen	17/17	-	-	-	-	0/3
Ms. Shen Lifeng	17/17	3/3	2/2	1/1	-	3/3
Ms. Chen Xin	17/17	3/3	2/2	1/1	-	3/3
Mr. Chan Ngai Sang Kenny	17/17	3/3	2/2	1/1	-	3/3

Notes:

- Ms. Liu Shuzhen has resigned as a Director of the first session of the Board of the Company, a vice President and the Chief Economic Officer since 8 January 2019;
- Mr. Zhao Wensheng has been appointed as a Director of the first session of the Board of the Company since 25 February 2019.
- The Company established the Strategic Committee on 19 July 2019.

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 2019. 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 2019.

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 3 senior management (excluding the Directors) by bands for the year ended 31 December 2019 are set out below:

Remuneration band	Number of individuals
RMB200,001 to RMB500,000	1
RMB500,001 to RMB1,000,000	2

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 2019.

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 2019, 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.

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 marketing system, human resources system and financial management system, as well as the wholly-owned subsidiaries, controlled subsidiaries, other subsidiaries 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 2019, 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 2019 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.

CORPORATE GOVERNANCE REPORT

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 2019, 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 2019 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 2019. 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 189 to page 190.

AUDITORS

In March 2019, in order to simplify work process, improve work efficiency, reduce disclosure costs and audit fees, the Board proposed that, only adopt the Chinese Accounting Standards for Business Enterprises to prepare financial statements, cease to re-appoint Ernst & Young as the overseas auditor of the Company for the year of 2019, and to re-appoint Ernst & Young Hua Ming LLP as the Company's domestic auditor for the year of 2019. Ernst & Young Hua Ming LLP will perform audits on the financial statements prepared by the Company in accordance with the Chinese Accounting Standards for Business Enterprises and undertake the duties of the overseas auditor in accordance with the Listing Rules for a term of office until the end of the 2019 annual general meeting of the Company.

Ernst & Young Hua Ming LLP shall retire at the 2019 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 2019 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 2019 was RMB6.6 million. Ernst & Young Hua Ming LLP did not provide any non-audit services to the Company for the year ended 31 December 2019.

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. 329 Wusixi 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 that it call 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 call such meeting within 10 days after receipt of the request.

If the Board agrees to call an extraordinary general meeting, it shall issue a notice calling 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 call 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 in order to call the extraordinary general meeting.

If the Board of Supervisors agrees to call 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 2019 and up to the Latest Practicable Date:

1. At the 2018 annual general meeting held on 20 June 2019, the revised Articles of Association were passed and adopted by the Company and came into effect on 20 June 2019.
2. At the 2019 second extraordinary general meeting held on 16 September 2019, the Company approved the revised Articles of Association, which adopted in preparation for the A Share Offering and Listing, and it will be implemented after the completion of A Share Offering and Listing.
3. At the 2020 first extraordinary general meeting held on 30 March 2020, the Company approved the revised Articles of Association, in respect of the amendments to the notice period of general meetings of the Company and the arrangements to cope with the future potential “full circulation” of H Shares of the Company, and which came into effect on 30 March 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

OVERVIEW

This is the third 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 the work for the financial year from 1 January 2019 to 31 December 2019 (the “**Reporting Period**”).

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. In June 2019, the acquisition of Hebei Construction Group Garden Engineering Co., Ltd. by the Group through equity swap and cash consideration constitute a business combination under the common control. We have provided explanations where data changes were involved.

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 12 May 2020.

1 RESPONSIBLE OPERATION

The Group has always adhered to the core values of “pursue excellence, devote sincerity, unbounded organization, create value together”. It has continuously promoted the transformation and upgrading of the construction industry, worked hard to create the best quality products of the times, and strived to meet the people’s new needs for a better life. While continuously creating stable income, we abide by social commitments, go ahead with our remarkable and high-quality development, and make unremitting efforts to create a beautiful home.

1.1 ESG MANAGEMENT

We are committed to integrating the concept of corporate sustainable development into our strategic development, establishing and continuously improving 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

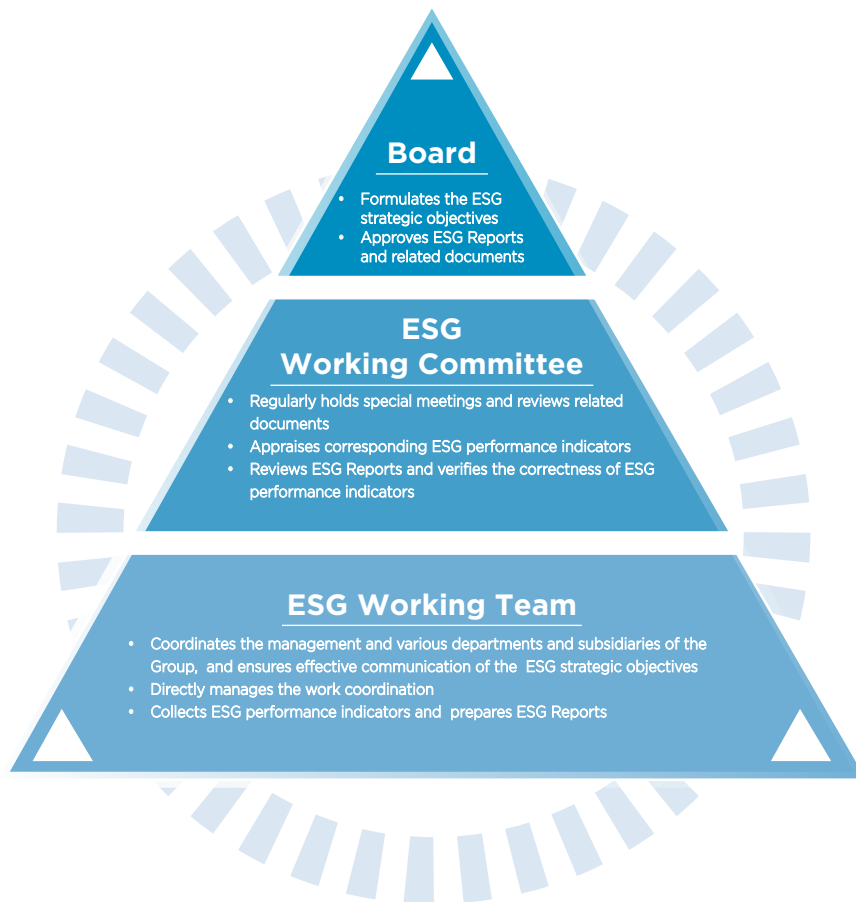
Since the establishment of the Group, we have been always committed to “create space with love” and actively undertaken our corporate social responsibilities. In the course of business operations, we adhere to the basis of continuous maintenance of ecological health, and actively play a cohesive role to 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, and constantly improve the ESG management system. We have established a three-level ESG governance structure with the leadership of the Board, the driving force of the ESG Working Committee and the main force of the ESG Working Team. Under such structure, we clarify the work responsibilities and tasks at all levels, and fully implement and enhance the work of ESG.

ESG Governance Structure



1.2 INTEGRITY COMPLIANCE

Integrity compliance is 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, insists on the "integrity-based and ethics-oriented" operations, 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.

FAIR COMPETITION

The Group advocates a fair and just competition environment, and expects to boost the orderly development of the industry by regulating its own business practices so as to stimulate the vitality of the industry. We 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. In addition, through organization training and publicity activities, we constantly strengthen the awareness of fair competition among employees.

ANTI-CORRUPTION

The Group actively creates a fair and clean business environment and working atmosphere. We have issued the *Code of Business Ethics and Code of Conduct*, which clearly requires all employees to perform their duties and rights granted by the Company in an objective and effective way, and prohibits the conclusion of private business contracts, providing convenience to their relatives and friends or any profit-seeking activities benefitting from their work and positions, in order to continuously improve our compliance construction and management in terms of the bidding, procurement, project settlement and other aspects. In addition, we have incorporated the integrity risk assessment into the annual corporate risk assessment, strengthened the anti-corruption advocacy system, and normalized the supervision and inspection.

During the Reporting Period, in conjunction with the internal control management system within the Company, we produced a set of training material of "anti-commercial bribery and anti-fraud", which was promoted and implemented through the online education platform and played a good role in popularizing laws and warnings. In addition, we launched and operated an APP called "Harmony of Knowledge and Action", with which the corporate culture and system documents were passed through to employees in various positions through information technology, prompting all staff to review and learn the materials in real time and dynamically. What is more, we continue to improve our multi-channel reporting channels, 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.

1.3 MATERIALITY ANALYSIS

STAKEHOLDER COMMUNICATION

The Group attaches great importance to the opinions and expectations of various stakeholders and hopes 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.



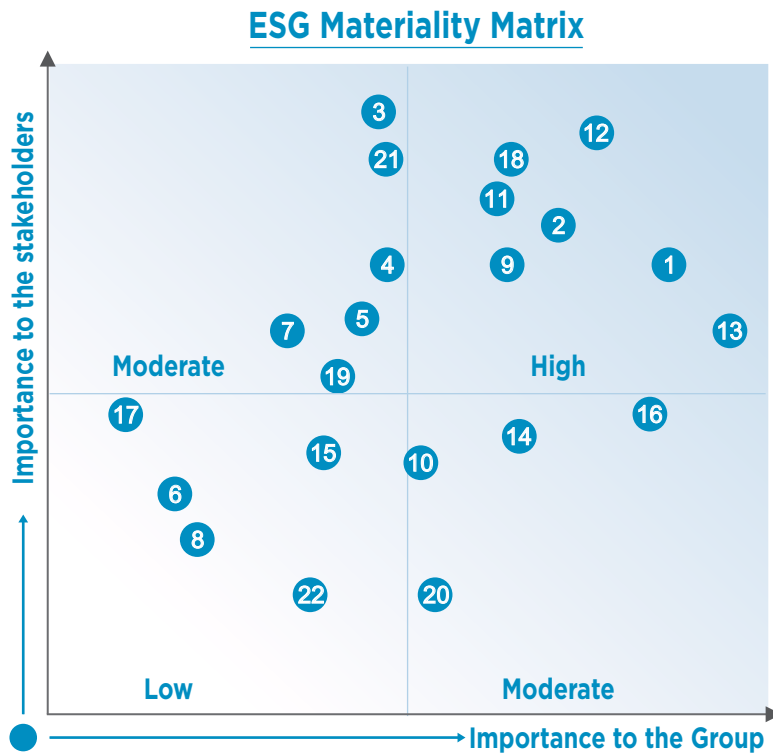
The Group pursues the maximization of the common value with all stakeholders and strives to establish long-term stable and trustworthy friendly relations with them. We actively improve our communication channels for stakeholders, fully understand the issues they care about, and regularly review the effectiveness of related works. The following table lists the issues that different stakeholder categories are particularly concerned about during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 The 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 2018, we adjusted the importance of issues such as the application of clean technologies and energy, public welfare and charity, and the promotion of industry and local economic and social development, taking into account the operating characteristics of the Group and the concerns of stakeholders. 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	Labor and community	Environmental impact of construction work	20	Business operations	Protection of the commercial information of the Company and customers
10		Green office	21		Quality management of the supply chain
11		Remuneration and benefits	22		Requirements of suppliers on ESG

During the Reporting Period, the Group identified 7 ESG issues of high importance, 10 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 INGENIOUS SERVICE

In order to fully implement the development strategy of improving the Company with quality, the Group continuously enhances the quality of our projects, adheres to the quality operation mechanism based on user satisfaction and ingenuity to create more high-quality projects, and works with partners to share information technology to create shared integrity and value.

2.1 QUALITY ASSURANCE

The Group strictly complies with the laws and regulations relating to the project quality where our operations are located, such as *the Construction Law of the People's Republic of China* and *the Regulations on the Quality Management of Construction Projects*. We have obtained the ISO 9001 Quality Management System Certificate, covering 19 subsidiaries specializing in areas including construction, municipal engineering, electrical & mechanical engineering, foundation, airport runway, structural steel, ready-mixed concrete, and construction industrial design. Based on the requirements of the ISO 9001 Quality Management System, we formulated *the Manual for Engineering Project Management Standardization, the Quality Supervision and Inspection System and the Prevention and Control System for Common Quality Problems*, to ensure the management and control capabilities and technical level of contracted projects and to regulate the quality management. In order to continuously strengthen quality management through refined management, we divided *the Quality Management System* into *the Quality Control System, the Process Control and Acceptance System, the QC Team Activity Management System, the Quality Management Effectiveness Evaluation and Reward System and the Double Close Loop (雙歸零) Management System for the Quality Incidents*, to further improve the quality level of our projects. During the Reporting Period, we obtained two professional qualification certificates: Level Two of Professional Contracts for the Fire Service Installation Engineering and Level Two of Professional Contracts for the Building Curtain Wall Engineering.



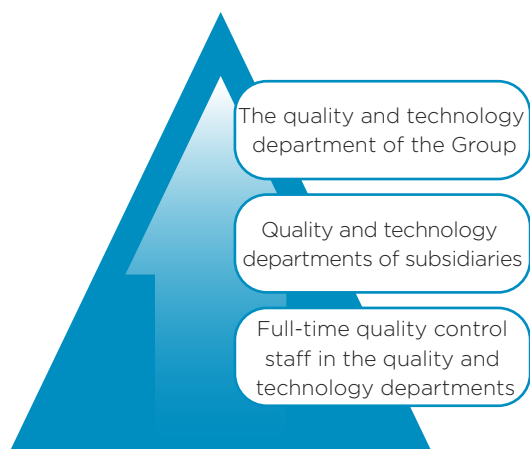
ISO 9001 Quality Management System Certificate



Professional Qualification Certificate

QUALITY CONTROL

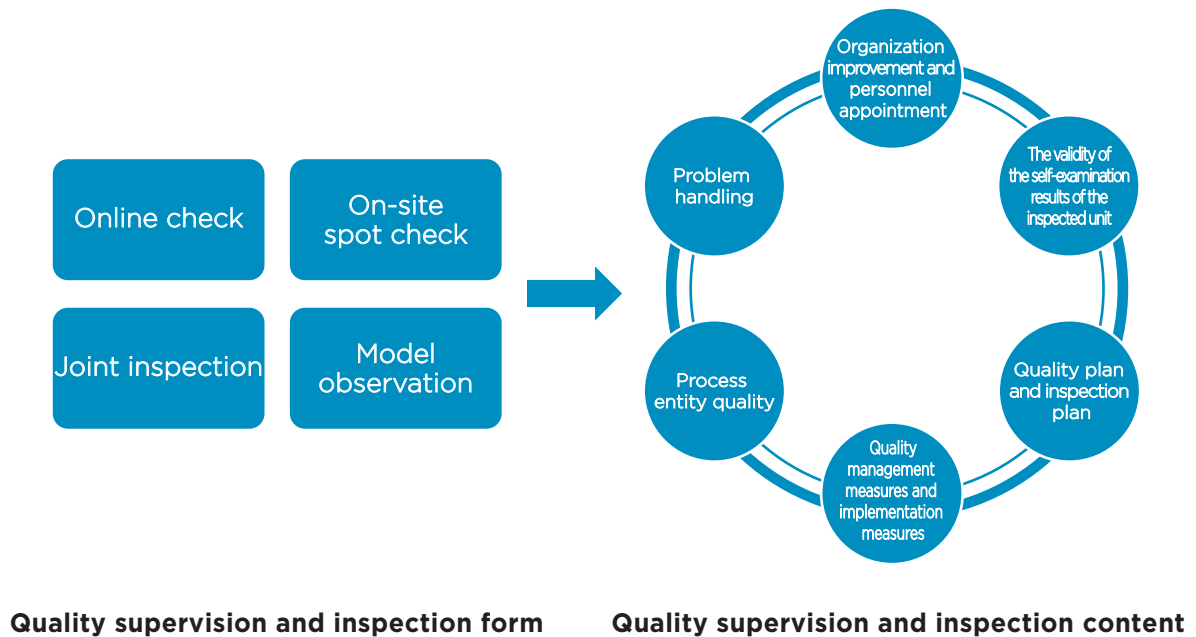
The Group has established a three-level quality management and control structure. Through the quality work planning and the preventive quality goal control, we organize and formulate scientific, targeted, and operable preventive quality control measures. Meanwhile, based on the fact that the Group has a large number of diverse project sites, a wide range of management and contracting models, we have implemented a monthly reporting system of quality information and a regular project meeting system to further supervise, control and guide the quality management of each subsidiary.



Three-level quality management and control structure

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In order to comprehensively improve the quality of the enterprise engineering and achieve the goals of quality consistency across multiple management models, on the basis of the original joint quality inspection, we have formulated a normalized quality supervision and inspection process. Based on the three-level quality management and control structure and under the leadership of the quality and technology department of the Group, we have appointed a full-time employee at each level who shall be responsible for the quality supervision and inspection, dynamically grasp the quality status of all projects under his area in charge, and take corresponding corrective or promoting measures in a timely manner.



QUALITY TRAINING

We believe that quality training activities and regular experience sharing help to improve the quality and technical level and enhance the quality management awareness of all employees. During the Reporting Period, we organized or participated in a number of internal and external quality training and exchange activities.



Participated in the exchange meeting for the activities result of the outstanding quality management team organized by Hebei Quality Association



Organized quality technicians to observe and study at the new Beijing Airport



Organized training for thousands of quality technicians



Participated in the publicity meeting for the Hebei House Construction and Municipal Basic Engineering Standard Management Measures

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Participated in the 2019 exchange meeting for the activities result of the project construction quality management group



Organized training on mandatory standards for engineering construction



Participate in the standard publicity training class organized by China Construction Industry Association



Participated in the exchange meeting for the engineering quality improvement of construction industry in Hebei Province

QUALITY RECOGNITION

Through our strict quality management process, the project acceptance rate of the Group in 2019 reached 100% and we won multiple quality awards. As of 31 December 2019, the Group had undertaken 23 Lu Ban Award projects and had participated in 14 projects, which was a strong proof that we have achieved remarkable development.

The Inner Mongolia Autonomous Region Natural History Museum project undertaken by the Group won the 2019 Lu Ban Award

The Natural History Museum Project of Inner Mongolia Autonomous Region is located in Hohhot, Inner Mongolia. It is a gift project for the 70th anniversary of the establishment of the Inner Mongolia Autonomous Region, which has an outstanding social influence. The total construction area of the project is 48,544 square meters and the building height is 64.8m. For its elegant and unique shape with the local ethnic and regional colors of Inner Mongolia, the project has won many awards such as the “Grassland Cup” in Inner Mongolia Autonomous Region and the “Anji Cup” in Hebei Province. It is the fifth Lu Ban Award project constructed by the Group in Inner Mongolia.



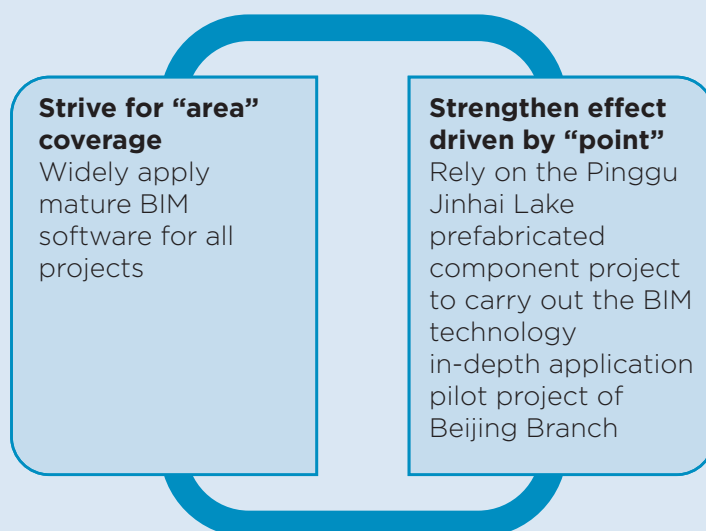
2.2 Leading Innovation

The Group formulated and strictly followed *the Science and Technology Innovation Management System* and *the Workflow of Science and Technology R&D Project Management*, and revised *the Measures for Quality, Safety and Science and Technology Incentive Funds* during the Reporting Period 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.

The Group continuously strengthens excellence created in scientific and technological achievements and requires 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. Meanwhile, we strengthen excellence created in the new regions and projects from new customers in the construction we undertake, so as to seek for long-term cooperation opportunities. We also strived for launching quality construction to win national level prizes such as Lu Ban Award and National Quality Project Award.

Apply Building Information Modeling (BIM) technology

The Group insists on promoting the in-depth integration of Internet information technology and the industry, focusing on accelerating the integration and application of BIM technology to achieve project full-life data sharing and information management.



Through BIM technology, we have realized many functions such as construction site layout, fully professional modeling, steel structure modeling, reserved pre-embedment, comprehensive optimization of electromechanical pipelines, construction process simulation and 3D technical disclosure, to ensure the construction progress of the project, enhance the construction quality, assist safety management, and save construction costs. During the Reporting Period, the Group has covered 9.5% of its project with BIM technology.

Promote prefabricated component construction experience

The Group relies on the Pinggu Jinhai Lake prefabricated component project to promote prefabricated component construction experience. Primary experience includes: develop component hoisting solution for multi-story building group prefabricated component project and select reasonable support system suitable for multi-story building group prefabricated component project.

In 2019, we conducted an annual R&D project initialization review and issued the annual scientific and technological work plan of the Group. There are 226 research projects and 70 demonstration projects during the year, among which 19 scientific and technological projects with high technological content and great promotion value are recommended for the application for the Hebei Province Construction Industry Science and Technology Plan Project. Meanwhile, we have cooperated with Tongji University, Tianjin University, Hebei University and many other universities and colleges to jointly apply for the 2020 Science and Technology Progress Award of Hebei Provincial Department of Science and Technology.

R&D and application of “Sponge City”

Starting from ecosystem services, the Group actively participates in the R&D and innovation of “Sponge City”, combines various types of specific technologies to build aquatic ecological infrastructure and helps the construction of sponge cities.

1. New road project of the eighth stage of Beijing New Airport

Rain and flood utilization infiltration module

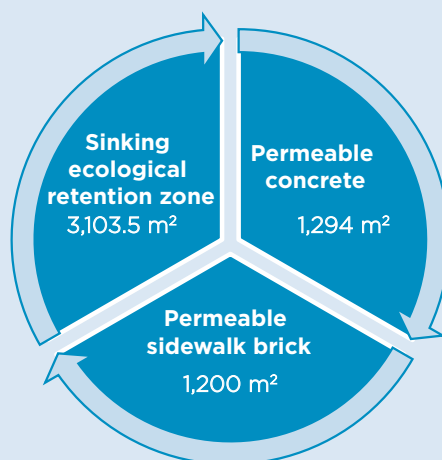
The infiltration module comprehensively considers environmental protection storage facilities required by the rainwater runoff pollution control, urban flood control and ecological environment improvement. It regulates, infiltrates, stores, and reuses rainwater, and it is completely buried underground, so as to not occupy the effective space, and it can be reused, which helps to maintain the water quality.

Permeable walkway brick

In order to strengthen the infiltration of the rainwater at the early stage, the walkway is built with permeable pavement materials

2. Construction Project of Jinhu North Street, East Lake Cultural Center of Baoding

We adopted three methods for the rainwater collection and utilization of this project: sinking ecological retention zone, permeable concrete and permeable sidewalk brick.



The project has greatly reduced the road drainage pressure, and it is easy to operate with high efficiency and fast speed, reducing the workload of managing staff, saving a lot of manpower and material resources, improving the level of project management, and achieving significant economic benefits and social benefit.

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. While intensifying efforts on R&D and innovation, we timely convert the results into patents to legally protect our intellectual property rights from infringement. We also respect the R&D results of others by avoiding the occurrence of intellectual property infringement. During the Reporting Period, the Group has 108 new patents, including 5 invention patents. As of 31 December 2019, we have obtained 308 patents in total, including 21 invention patents.

2.3 Win-Win under the Same Goal

The stable development of the Group is inseparable from listening to customer demands and the support from the upstream and downstream partners in the industry. While realizing our own development, we insist on sharing technological achievements with industry partners to promote the common progress across the industry and achieve shared value.

Supply Chain Management

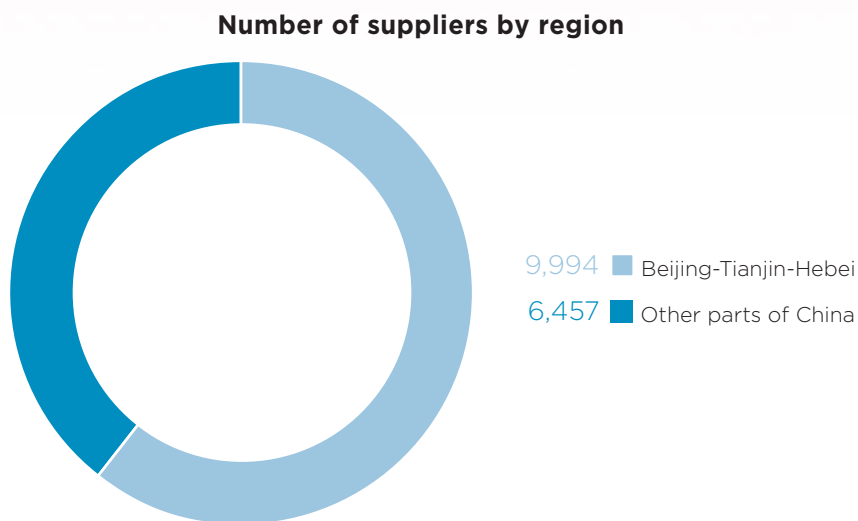
The Group has formulated *the Supplies Management System, the Subcontractor Management System, the Machinery and Equipment Management System* and other policies to standardize the supply chain management. We have adhered to the principle of equality and mutual benefit to cooperate with the suppliers in the qualified suppliers list.

When selecting partners, in addition to the evaluation of conventional factors such as qualification level, product quality, service price and service quality, we also incorporate environmental protection and safety conditions into the assessment, and take the assessment results as a material consideration for partner selection. For material suppliers, we require them to have qualifications in environmental protection and occupational health and safety (including but not limited to OHSAS 18001 Occupational Health and Safety System Certification and ISO 14001 Environmental Management System Certification). Meanwhile, we will also give priority to green building materials that meet national environmental standards for procurement. For professional subcontractors, we require that the performance and condition of the construction equipment and equipment they provide must meet the requirements of construction production, safety management, environmental protection and other requirements.

During the cooperation, the Group conducts performance assessments on existing suppliers on a regular basis, and conducts on-going, post and annual routine evaluations on their quality management, schedule management, production safety, contract performance and work coordination to ensure their normal performance. For partners not passing the assessment, we will remove them from the list and cancel their qualification for cooperation.

As China continues to increase its control over the industries that cause pollution, some sand, stone, and cement plants are subject to strict control or even suspension of production, resulting in a shortage of concrete raw materials with soaring price, as well as the flowing of unqualified materials into the market. In order to avoid the occurrence of unsatisfactory concrete strength in the projects of the Group, we supplemented and formulated special control measures for concrete quality during the Reporting Period to ensure the stable supply of concrete raw materials and the quality of engineering structures.

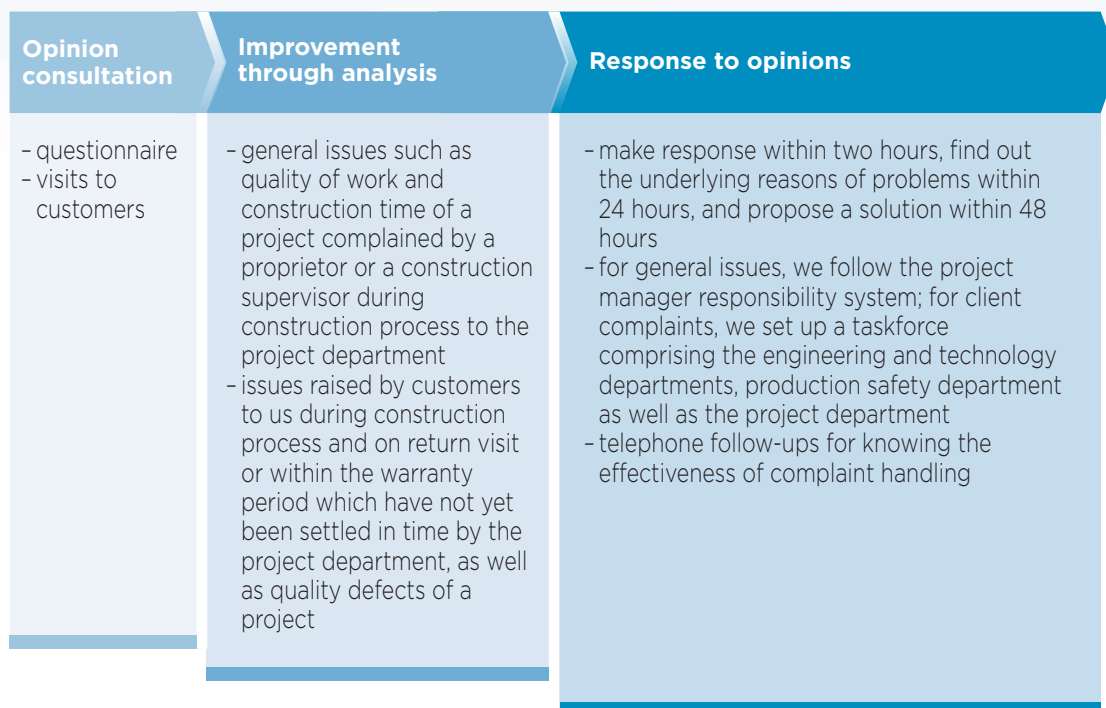
During the Report Period, our main partners include engineering suppliers, material suppliers and service providers, with a total of 16,451.



Customer Service

The Group has formulated *the Implementation Regulations on Management of Major Customers* and other customer service management systems. We have established a three-level management organizational mechanism of the operation system, namely the Group Market Operation Department, subsidiaries' operation division, business managers of the project department and budget planners, so as to efficiently manage customer service work.

We pay attention to listening to customer needs, set up 400 special telephone lines, and regularly carry out customer satisfaction surveys. We are committed to continuously improving our services through customer communication and customer demand analysis. For the project during the construction period, a customer satisfaction survey is organized every two months, and the final customer satisfaction survey is conducted when the project is completed and delivered. For the projects within the warranty period, the branches and subsidiaries shall visit the customer one by one under the requirements of the return visit plan and collect the opinions of the proprietors. Upon the expiration of the warranty period, the person in charge of warranty is responsible for collecting satisfactory information from the customer on the project warranty process. After the handling of customer complaints, we conduct a complaint satisfaction survey on customers. The coverage rate of the customer satisfaction survey of the Group reaches 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 satisfaction report every year.



Satisfaction survey process

We pay attention to the protection of customer privacy. In *the Code of Business Ethics and Code of Conduct of Hebei Construction Group Corporation Limited*, the Group clarifies the responsibilities for customer information management and the authority and procedures for the use of customer information by personnel at each position to fully protect customer information security.

Industry Cooperation

The Group hopes to leverage its own advantages, participate in industry associations, regulate industry standards and strengthen the external cooperation and communication, so as to achieve shared development. As of 31 December 2019, the Group has joined two industry associations:

Industry Association	Position
China Tendering and Bidding Association	Vice President Unit
Hebei Construction Engineering Tendering and Bidding Association	Vice President Unit

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During the Reporting Period, we participated in the compilation of eight local standards:

Standard	No.	Implementation date	Remarks
Technical specification for the application of mass concrete sequence method	DB13(J)/T292-2019	2019/5/1	Lead
Acceptance standard for construction quality of energy-saving projects for civil building	DB13(J)/T8311-2019	2019/8/1	Lead
Standards for construction application of building information model	DB13(J)/T285-2018	2019/2/1	Lead
Judgment criteria for hidden dangers of major safety accidents in construction	DB13(J)/T8320-2019	2019/10/1	Lead
Technical regulations for comprehensive renovation of existing residential buildings	DB13(J)/T295-2019	2019/6/1	Participant
Silico-alumina polymer application technical regulations	DB13(J)/T305-2019	2019/4/23	Participant
Evaluation standard for the passive ultra-low energy consumption building	DB13(J)/T8323-2019	2019/9/9	Participant
Technical standards for smart construction sites	DB13(J)/T8312-2019	2019/8/1	Participant

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Participated in the 2019 member exchange seminar of China Tendering and Bidding Association



Undertook 2019 China Sponge City International Exchange Conference



Participated in the meeting of Hebei Construction Engineering Tendering and Bidding Association

Industry exchange activities organized or participated by the Group in 2019

3 CARING FOR THE ENVIRONMENT

In every project we build with ingenuity, we have incorporated the concept of green environmental protection therein, and we are committed to minimizing the impact of construction projects on the environment, caring for the surrounding ecological environment of each project, and achieving the harmonious development of human and nature.

3.1 Environmental Management

The Group strictly abides 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 environmental laws, regulations and industry standards in the country and the place where our operation is located. We have obtained ISO 14001 Environmental Management System Certificate, covering 19 subsidiaries specializing in areas including construction, municipal engineering, electrical & mechanical engineering, foundation, airport runway, structural steel, ready-mixed concrete, and construction industrial design. Based on the requirements of ISO 14001 Environmental Management System, we have formulated *the Environmental Protection Management Policy and the Green Construction Implementation Rules* to actively respond to the national policies and regulations relating to the green construction and strengthen the operation of environmental management systems. We fully implement the green construction with bold exploration and practice. We strive to create resource-saving and environmentally-friendly construction sites, paying special attention to the quality of the process, in order to fulfill our social responsibilities.



ISO 14001 Environmental Management System Accreditation Certificate

In accordance with the requirements of *the Green Construction Implementation Rules*, the Group formulates special plans for green construction, establishes a green construction assurance system which sets up the “four savings and one environmental protection” (i.e. savings of energy, land, water, materials) goals and the measures to achieve them. We ensure that equal weight is given to preliminary planning and process control throughout the entire life cycle of the product planning and design, process implementation and delivery, so as to strengthen the management and control of various indicators of the “four savings and one environmental protection”. During the Reporting Period, the domestic freight station project of the sixth-stage freight facility project at China Southern Airlines Base of the New Beijing Airport contracted by the Group won the honorary title of “Hebei Province Green Construction Demonstration Site”.



Hebei Green Construction Demonstration Site Certificate

3.2 Emission Reduction

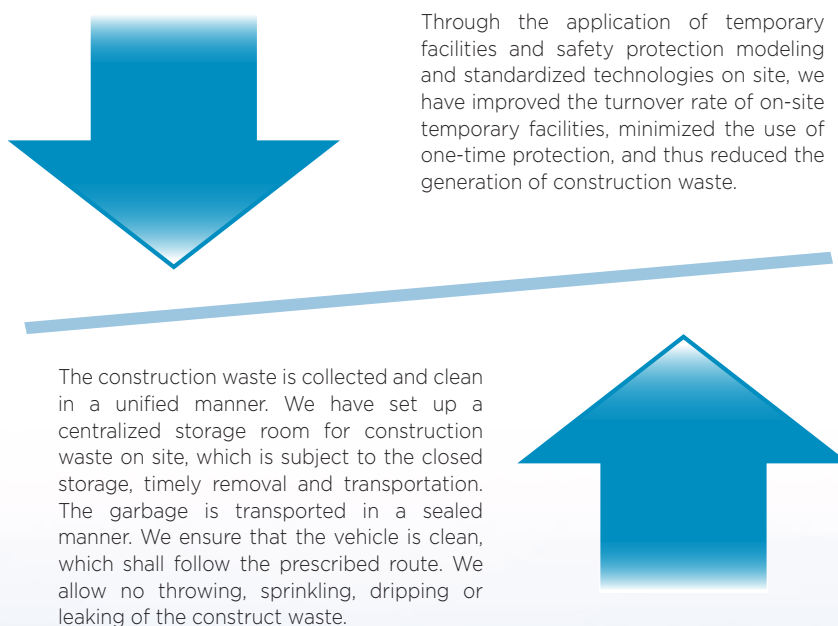
The Group pays attention to the management of pollutant emissions during the project construction and strengthened the management of major environmental factors during the Reporting Period. There was no major public disturbance and nuisance complaints surrounding the construction area. We insist on reducing the impact of pollutant emissions on the environment by formulating standardized management requirements and adopting advanced environmental protection technologies and equipment.

Waste Management

In order to control all types of waste generated in all activities, products and services of the Group, we have established a detailed waste management system that clarifies the requirements for classification, collection, storage, transfer and disposal of waste:

- Formulate a construction waste reduction plan and develop measures to enhance the control of waste source;
- Recycle the construction waste and improve the reuse rate of rubble and earth-rock construction waste by means of foundation landfill and paving;
- Closed garbage containers are set in the living area of construction sites, and the domestic garbage is bagged and timely cleared;
- Strictly prohibit the burning of garbage on site or backfill toxic and hazardous waste on site;
- The toxic materials and articles such as oil and chemicals stored at construction sites should be stored in special warehouse, and the ground of the warehouse shall be treated with seepage prevention. Discarded oil and chemical solvents should be treated in a centralized manner and should not be dumped randomly.

During the Reporting Period, we took the following measures to focus on the construction waste management:



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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 257,529 tonnes, accounting for 34.4% of the total construction waste generated. The Group's waste discharge data is as follows:

Type		Unit	2017	2018	2019
Non-hazardous waste	Total volume	Tonne	2,097,299	1,719,061	786,777
	Intensity	Tonne/ RMB10,000 total revenue	0.51	0.37	0.19

* During the Reporting Period, the Group's projects were mainly at the stage of engineering construction and decoration, and the amount of non-hazardous waste was low during the decoration phase, so the overall amount of non-hazardous waste decreased compared with previous years.

Type		Unit	2019
Hazardous waste	Total volume	Tonne	71
	Intensity	Tonne/RMB10,000 total revenue	0.02

Waste Water Management

The Group strictly abides by *the Water Pollution Prevention Law of the People's Republic of China*, and is committed to reducing waste water generation and discharge through source control. We continuously strengthen the management of wastewater discharge and have formulated the following management requirement:

- Set up treatment facilities for various sewage at the construction site. The waste water is recycled or used for watering and dust reduction after secondary precipitation.

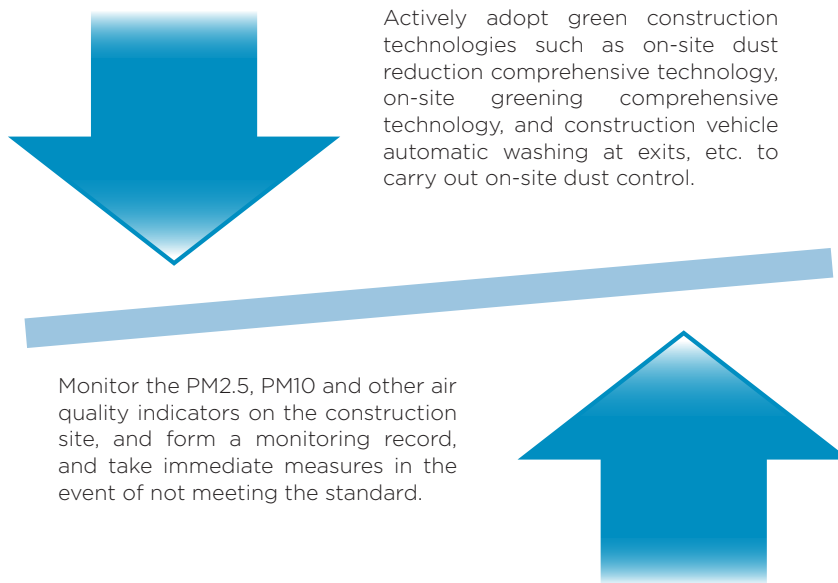
Our wastewater discharge mainly comes from the office activities of the Group's headquarters and subsidiaries, which is directly discharged into the municipal pipe network after being generated.

Dust and Waste Gas Control

The Group strictly abides by *the Air Pollution Prevention Law of the People's Republic of China*, regards dust pollution as a key environmental control project, and promotes the normalization of dust control at construction sites. In accordance with the requirements of the local competent authorities, we urge all units and the project department to carry out dust control compliance inspection and acceptance, and for this purpose have formulated strict management requirements to gradually improve the air quality:

- Tight enclosure measures (such as covering cloth, container, bag, etc.) must be taken to transport earthwork, garbage, equipment and building materials, and the exits of the construction site should be equipped with vehicle-washing facilities and the washing water should be recycled; and
- Dust reduction measures should be taken during building demolition, such as cleaning up dust, watering for demolished body, setting up partitions, etc.

During the Reporting Period, we applied scientific and technological means to control dust, and carried out real-time monitoring and rectification to effectively control the dust pollution.



Environmental protection equipment transformation carried out by Hebei Construction Group Steel Structure Engineering Co., Ltd.

Hebei Construction Group Steel Structure Engineering Co., Ltd. has invested a total of RMB3.56 million, including six sets of mobile welding smoke room, three sets of digitally controlled cutting machine dust cover and one set of paint spraying catalytic combustion treatment equipment. At present, the environmental protection equipment has been put into use with obvious effects, and the emission value is lower than the national emission standard, which has been praised and recognized by environmental protection departments at all levels.



Mobile welding smoke room



Gas collecting cover



Paint spraying room

Noise Control

We implement noise reduction measures at the construction site according to the requirements of the *Emission Standard of Environment Noise for Boundary of Construction Site*, and 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. The Group's noise management initiatives are as follows:

- Use equipment with low noise and low vibration, and take sound and vibration isolation measures to avoid or reduce construction noise and vibration; and
- Strong noise equipment at the construction site should be located away from the hospital, school and residential area. Related operations should be enclosed or semi-enclosed, and the time of operation should be controlled.

During the Reporting Period, we actively adopted advanced noise reduction technology and equipment:

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.

3.3 Conservation of Resources

The Group not only focuses on reducing pollution emissions from construction projects, but also strives to contribute to the environmental protection through the conservation of water resources, energy, materials and land.

Water Management

The Group has established a strict water resources management system to improve water use efficiency through water-saving management methods and the exploitation of non-traditional water sources.

Water saving management and water environmental protection

- On-site construction water and domestic water shall be provided with meters to regularly record the water consumption in each stage and area, for the purpose of statistical analysis. If statistical data is found to be abnormal, effective measures shall be taken immediately to prevent excessive water consumption;
- Water-saving appliances are used in the office area and living area of the construction site, and the allocation rate of water-saving materials reaches 100%;
- The automatic rocker sprinkler is used for irrigation in the greening area. The irrigation area is large and uniform, and the water saving effect is obvious. The grassland greening is sprayed. Combining with the on-site rainwater collection system, part of the rainwater after precipitation treatment is used for watering. For the washing of pump tube after the concrete is poured on site, the air compressor suction ball cleaning method is adopted, which does not consume water resources;
- During the decoration process, spray maintenance is adopted, abandoning the traditional method of water pouring, and reducing water consumption;
- Post water conservation signs in office areas, living areas and on-site water points. Repair damaged appliances in time to prevent wasteful phenomena such as dripping, leaking and long running water; and
- 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.

Water resources utilization

- According to the actual situation on site, we establish a rainwater collection system on the construction site, and use the collected rainwater for dust reduction and greening irrigation; we set up a sedimentation tank in the car wash pool system, and recycle the water after sedimentation; and
- The on-site automatic car washing device for construction vehicles is used at exits to ensure the construction vehicle is clean and tidy, and a sedimentation tank is set in the car washing tank, and the water after sedimentation is recycled repeatedly.

The Group’s water use data is as follows:

Type		Unit	2017	2018	2019
Water consumption	Water consumption volume	Tonne	13,071,196	13,905,600	9,617,325
	Water consumption intensity	Tonne/ RMB10,000 total revenue	3.17	2.98	2.34

* During the Reporting Period, the Group’s projects were at the construction and renovation phases. During the renovation phase, the use of water resources was low, so the overall use of water resources decreased compared with previous years.

Energy Management

The Group has achieved energy conservation and consumption reduction through effective energy conservation management methods and the promotion and application of energy conservation technical equipment.

Energy-saving Management

- Formulate reasonable construction energy consumption indicators, improve construction energy utilization by prioritizing the use of energy-saving, efficient and environmentally-friendly construction equipment and tools recommended by the government and the industry;
- Set the respective electricity consumption control indicators for production, living, office and construction equipment at the construction site, and regularly conducts measurement, check, comparative analysis, and has preventive and corrective measures in place based on the analysis;
- During the organization of construction, the construction sequence and working surface are reasonably arranged to reduce the number of tools in the working area, and the shared machine resources are fully used by the adjacent working areas and improve the utilization rate and full load rate of various machinery, reducing the unit energy consumption of equipment;
- When arranging the construction process, priority should be given to the construction process that consumes less electricity or other kinds of energy;
- Make full use of renewable energy such as solar energy and geothermal energy according to local climate and natural resource conditions; and
- Temporary facilities should be made of energy-saving materials, walls and roofs should be made of materials with good thermal insulation properties, and the heating, air-conditioning and fans should be reasonably configured and used in different sections and periods.

We continue to use green construction and energy-saving application technologies, including temporary electricity consumption, temporary facilities and other energy-saving equipment, and make full use of renewable energy comprehensive utilization technology and electricity consumption comprehensive control technology for the construction site and the living area to effectively control energy consumption.

Temporary area

- Solar lights are used for on-site lighting in the project department, solar water heaters are used in office areas and living areas;
- Energy-saving lighting fixtures such as LED energy-saving lamps, solar road lamps, sound control and light control lights are adopted for temporary electricity consumption. The configuration rate of on-site energy-saving equipment reaches 100%, and the "Saving Electricity" sign is posted; and
- The project department adopts comprehensive control technologies in the staff quarters and living areas, including low-voltage lighting system, area-specific time-limited and power-limited measures, USB socket low-voltage plug-in board and unified charging cabinet, which are safe and energy-saving.

Office area and living area

- The temporarily built colored steel plate house and temporary road in the project's office and living area adopt prefabricated structure, which is convenient for demolition and can be reused for many times, thereby achieving energy saving; and
- The office and living areas adopt warm insulated color steel plate houses, fully enclosed exterior corridors and suspended ceilings within all the plate houses to reduce loss of energy.

Construction equipment

- Establish construction machinery and equipment management system, conduct repair and maintenance timely, keep machinery and equipment in a condition with low energy consumption and high efficiency, carry out electricity and oil consumption metering and improve documentation of equipment; and
- Select construction machinery and equipment with matching power and load to avoid long-term low load operation of high-power construction machinery and equipment.

Concrete mixer using clean energy

In 2019, the Group began to use natural gas concrete mixers and planned to gradually replace diesel vehicles to reduce energy consumption and pollutant emissions and improve the urban environment.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Type		Unit	2017	2018	2019
Direct energy consumption	Petroleum	Litre	5,104,844	4,404,372	5,485,589
	Diesel	Litre	26,725,579	30,493,885	19,713,916
	LPG	Tonne	73,440	50,715	12,890
	Kerosene	Tonne	4,904	249	61
	Natural gas	m ³	/	/	30,666
Indirect energy consumption	Purchased electricity	kWh	123,329,759	102,255,567	138,330,265
	Purchased thermal power	million Joule	6,767,000	7,025,000	10,140,480
Total energy consumption		Tonne standard coal	189,033	142,135	69,556
Energy intensity		Tonne standard coal/ RMB10,000 total revenue	0.05	0.03	0.02
Scope 1 ^{*3} GHG emissions		tCO ₂ -eq	319,375	240,864	102,516
Scope 2 ^{*4} GHG emissions		tCO ₂ -eq	105,853	80,612	108,413
Total GHG emissions		tCO ₂ -eq	425,228	321,476	210,929
Scope 1, 2 GHG emissions intensity		tCO ₂ -eq/ RMB10,000 total revenue	0.10	0.07	0.05

3. Scope 1 - GHG comes from the combustion of petroleum, diesel, kerosene and LPG;
4. Scope 2 - GHG comes from the use of purchased electricity and purchased thermal power.

Conservation Of Material

The Group uses a wide range of building materials during the construction process, mainly including concrete, mortar and steel. In order to save resources and improve resource utilization, we have adopted the following management methods for saving materials:

Materials Saving Management

- Optimize the construction plan, use green materials, and actively facilitate reasonable application of new materials and new processes;
- When reviewing the drawings, the relevant content of material saving and material resource utilization should be reviewed to ensure that material consumption rate is 30% lower than the fixed consumption rate;
- Arrange reasonable procurement and arrival time as well as batch of materials to reduce inventory according to the construction progress, turnover time of materials, inventory, etc.; and
- Stack the materials on site in an orderly way and in suitable environment, adopt appropriate loading and unloading method to avoid and reduce secondary handling; keep the turnover materials in a good condition and take technical and management measures to improve the turnovers frequency of the formwork and scaffolding.

During the Reporting Period, we adopted the group logistics e-commerce platform for material bidding, which played a protective role in reducing costs and increasing efficiency of the project. Meanwhile, we actively adopt green construction promotion and application technology in terms of material saving:

Materials saving technology

Rebar

1. The high-strength rebar application technology is applied on site to reduce on-site rebar usage;
2. Guanglianda software is used to optimize the rebar batching and steel parts unloading plan and to avoid the waste of materials. Before the production of rebar and steel parts, the unloading list and samples shall be reviewed. Only after the confirmation, can the cutting be carried out in batches; and
3. We set up two centralized processing areas, and adopt the automatic length straightening machine for the straightening of the rebar.

Steel structure

The steel structure Tekla modeling software carries out the material plan verification through the in-depth design of the design drawing structure and the nodes, and then carries out the material purchase after the review, to ensure that the steel material consumption is more accurate and reduce the loss of raw materials. Meanwhile, the steel structure Tekla modeling software exports the machining parts drawing, and optimizes the production process of steel parts unloading, cutting, drilling, etc. in combination with the steel structure processing production plan, adopts the computer for the precise unloading, improves efficiency, and reduces material processing production losses.

Conservation Of Land

Reasonable use of site and effective layout are the key principles of the land saving of the Group. We insist on implementing dynamic management of site layout at different stages to increase the utilization rate of floor space and reduce dead ends as much as possible. Meanwhile, we have taken measures to reduce land reclamation and pollution on the construction site and living and office land, achieving the target of saving land.

4 SUPPORT FOR THE EMPLOYEES

Employees are an important contribution force to our sustainable development. The Group respects and protects the basic rights and interests of every employee, implements a diversified talent development strategy, pays attention to their physical and mental health, strives to create an inclusive, equal, mutual trust, and collaborative working environment, and realizes the unity of corporate value and employee value.

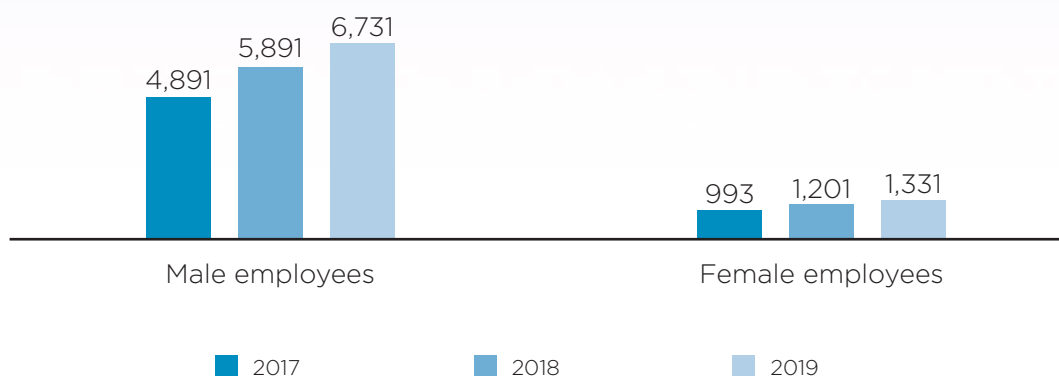
4.1 Overview of the Employee

Interests Protection

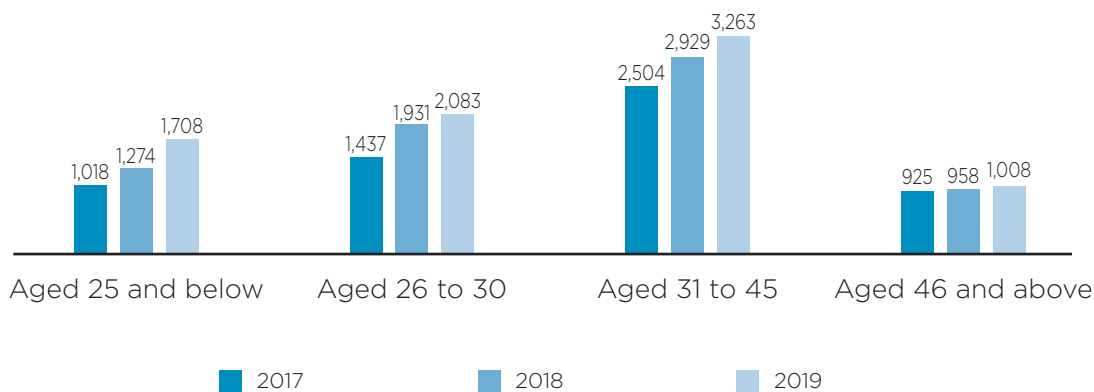
The Group has always complied with the *Labour Law of the People's Republic of China*, the *Employment Promotion Law of the People's Republic of China* and *Social Insurance Law of the People's Republic of China* and other laws and regulations. Based on the requirements of the abovementioned laws and regulations, we have formulated and implemented the *Recruitment Management System*, the *Remuneration Management Measures* and the *Employee Education and Training System*, to fully protect the legitimate rights and interests of employees in terms of recruitment, promotion, resignation, working hours, salary and benefits.

In addition, we are committed to creating a diverse working environment, clearly prohibiting the use of child labor and forced labor, actively safeguarding women's rights, respecting employees' differences in gender, age, race, religious belief, etc., and opposing any form of discrimination and unequal competition. As of 31 December 2019, the Group had a total 8,062 employees, with increase of 13.68% over 2018.

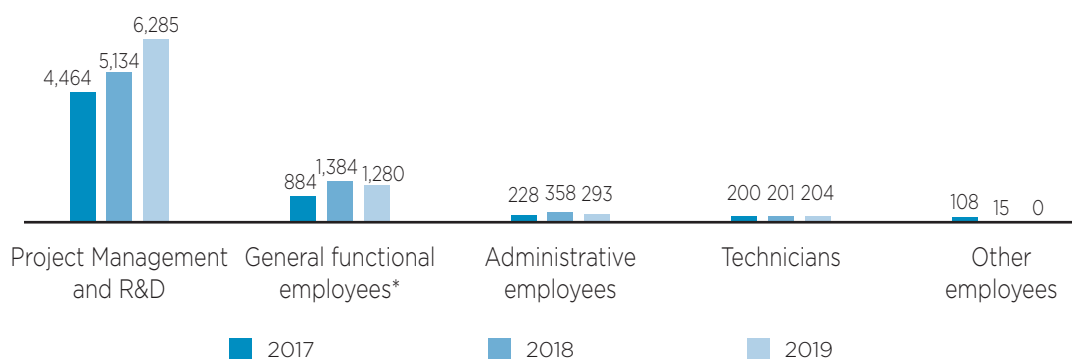
Number of employees by gender



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

Note: During the Reporting Period, we retrospectively adjusted the employee-related data for 2018 based on changes in the consolidation scope of the financial statements.

Recruitment Management

The Group has always adhered to the ability-based recruitment principle, formulated and strictly followed the *Recruitment Management System*, and established a scientific, systematic and standardized recruitment system to ensure the openness, justice and fairness of the recruitment process. We continue to optimize the Unified Employment Workflow, actively build a talent reserve mechanism for key positions, expand and maintain relationships with local universities, establish multi-level campus recruitment programs, and continue to provide vibrant and creative talent reserves for the long-term development of the Group.

Recruitment activities in various forms

We actively carry out various recruitment fairs of different forms, calling on more aspiring young people to join us and continue to accumulate strength to attract and retain remarkable talents.

- In March 2019, we cooperated with Baoding Human Exchange Service Center to successfully hold the Large Recruitment Fair of Hebei Construction Group in Spring;
- From March to May 2019, spring campus recruitment fairs were held at key universities in Hebei Province (Hebei Institute of Civil Engineering and Architecture, Hebei Engineering University, North China University of Technology, Hebei Agricultural University, Hebei Institute of Water Conservancy and Electric Power, etc.);
- In September to November 2019, we held autumn campus recruitment fairs in key universities in Hebei Province and other provinces, held 11 special recruitment fairs, and organized more than 20 campus double-channel choosing meetings (such as the 2020 Supply and Demand meeting for the Graduates of the Top Five Universities in the Northeast in autumn); and
- In December 2019, we participated in the 10th China Hebei High-level Talents Fair, Employment Activities for the Fuping County Poverty Alleviation and Relocation Community, etc.



Salary and Benefits

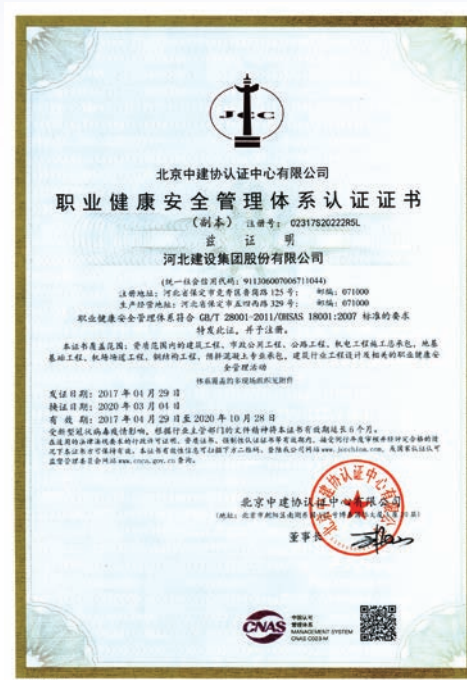
The Group is committed to providing employees with a competitive salary package and perfect welfare guarantees. We always pay employees in full and on time in accordance with relevant national laws and regulations, and provide them with maternity insurance, work injury insurance and unemployment insurance, certificate allowance, communication allowance, transportation allowance and other working benefits.

4.2 Health and Safety

The Group is committed to building a safe and happy enterprise. Centering on the performance excellence model and with information technology, the Group focuses on the risk prevention and pursuing excellence in production safety and continuously implements various tasks to ensure the health and safety of employees, so as to ensure the continuous stable and good development for the Group.

Protecting Occupational Health

The Group attaches great importance to the health and safety of employees in the workplace. We strictly comply with the requirements of laws and regulations such as 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* of where we operate, and has 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 currently obtained OHSAS 18001 Occupational Health and Safety Management System Certificate, covering 19 subsidiaries specializing in areas including construction, municipal engineering, electrical & mechanical engineering, foundation, airport runway, structural steel, ready-mixed concrete, and construction industrial design. We are under conversion process from OHSAS 18001 to ISO 45001. 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%.



OHSAS 18001 Occupational Health and Safety Management System Accreditation Certificate

In addition, during the continuous fight against the COVID-19, we always put the safety and health of our employees in the first place. In order to help the Group and its subsidiaries to resume work in an orderly manner, and to protect the health and safety of the employees, masks, disinfectants, goggles, gloves, and other epidemic prevention materials were purchased for and distributed to the employees to ensure the orderly and stable work resuming of the Group.

Safety Production Management

Safety production is the eternal theme of the healthy development of the enterprise. We strictly abide by the *Production Safety Law of the People's Republic of China*, always adhere to the safety production policy of “safety first, prevention prioritized, and overall governance”, and continue to carry out various works of “preliminary planning, process control and performance assessment”. We have compiled and issued the *Safety Guide Manual for Construction Personnel of Construction Project* to provide detailed safety guidelines for employees on the production line. During the Reporting Period, we formulated the *2019 Safety and Environmental Protection Management Goals and Measures*, guided the normal development of safety work throughout the year according to the safety management goals, and supervised the implementation at each level; meanwhile, we have formulated comprehensive safety production safeguard measures for all levels, which were filed and implemented at each level.



The main safety production measures of the Group

During the Reporting Period, we continued to organize and supervise each subsidiary to carry out dual pre-control of risk identification and hidden danger investigation, and implement hierarchical management and control of hazardous sources (in 4 levels of A, B, C and D). The Group screens, evaluate and analyzes the major hazards identified by the project department, each branch/subsidiary then supplements and improves their understanding on the major hazards according to the major hazards pre-controlled by the Group, identifying the major hazards which shall be pre-controlled at the group level, and issues relevant information on the information system every month, so as to realize the dynamic management and hierarchical prevention and control of the hazard sources jointly supervised by all group members. In addition, we always pay attention to the safety management of subcontractors, strictly review their safety qualifications, continuously optimize the subcontracting team, strengthen control in advance, and continue to reduce the risk of the construction process by strengthening on-site management.

During the Reporting Period, the Group had no work-related fatality case.

Safety Training and Publicity

While strengthening the performance of safety responsibilities, we continue to strengthen the construction of a safety culture and continuously improve the safety awareness and capabilities of our employees. We have formulated the *Production Safety Education System* to continuously improve and implement the training system of three-level safety education at the factory, workshop and team level. During the Reporting Period, we conducted demand-oriented, multi-level, diversified and targeted special safety trainings. The trainings covered safety hazards and protection, occupational health and hazards, and on-site first aid, which provided a strong guarantee for safe production.



Special safety training for the first branch of the Group



Special safety training for the fourth Branch of the Group



Special safety training for HCG Installment Engineering Corporation Limited



Special safety training for Tianjin Branch of the Group

In addition, we carry out safety production month activities within the Group, and continuously strengthen the safety awareness and skills of frontline workers by posting safety production publicity slogans and posting accident case warning pictorials in all construction sites, production workshops and workplaces, creating a strong atmosphere for safety production. In addition, with safety production month activities, the subsidiaries of the Group carefully organized and carried out a number of safety activities including safety pledges for all employees, live broadcast warning education, on-site observations, emergency drills, etc. based on their actual production conditions.



Promotion observation of dual control mechanism construction for safety production



Integrated safety experience zone



Launching ceremony for the safety production month activity of the Hengshui Jinxu Qiancheng project



Launching ceremony for the safety production month activity of the Country Garden Qingyuan New City project



Fire and Flood Emergency Response Drills at the Baiyu Pharmaceutical Innovation and R & D Base project



Fire drills at the new office building project of the Group

4.3 Training and Development

The Group has always adhered to the development strategy of strengthening the Company with talents, constantly innovating to build a talent growth environment, improving the training base and training network, paying attention to the development needs of employees at different stages, and working hard to improve the promotion mechanism of employees to continuously stimulate the innovation enthusiasm of talents.

Employee Training

We formulate and strictly implement the *Training Management System*, and continued to improve the “Three tiers, Four levels and Five links” employee training management system, by building a multi-channel, multi-level, multi-mode talent training model, in order to achieve the benign growth cycle for the employees and the Company.

During the Reporting Period, we continued to explore and apply diversified training methods, combined with training content and student characteristics, and designed a matching training program. We launched an online education and training platform to achieve a new online and offline training model. In addition, in order to improve the overall quality and labor skills of production and operation personnel, we established the Employee Education and Training Center of the Group and successfully obtained the qualification of Vocational Training and Evaluation Organization for Construction Workers.

The launch of the online education platform

In order to address the limitations of the face-to-face training in the employee training process, we have cooperated with third-party technology companies to introduce the "Internet + training" model to create an online education and training platform by category, level, and steps. The online Education and Training Center of the Group was officially launched on 1 May 2019, and it is open to all employees. The platform conducts online training in ways of uploading courseware, organizing training, self-study and exams. It adopts the model of promoting study with exams, in order to meet the diverse, autonomous and convenient learning needs of employees.



Closed Training before Constructor Examination

During the Reporting Period, we continued to carry out closed training for the Constructor exam participants. This closed training was divided into two phases: intensive and sprint lectures, with nearly 400 participants.

In 2019, the closed training for the Constructor has achieved remarkable results. A total of 283 people have passed the exam, including 228 first-time participants and 55 people in additional categories. The pass rate exceeds 35%, much higher than the national average.



Business Manager Training Course

We attach great importance to the construction of business talent team, and strive to cultivate and reserve a capable and efficient business management team with reasonable structure. During the Reporting Period, we carried out Business Manager Training Courses to comprehensively improve the overall quality and business capabilities of employees through several concentrated training methods.



Obtained the qualification of vocational skill assessment organization

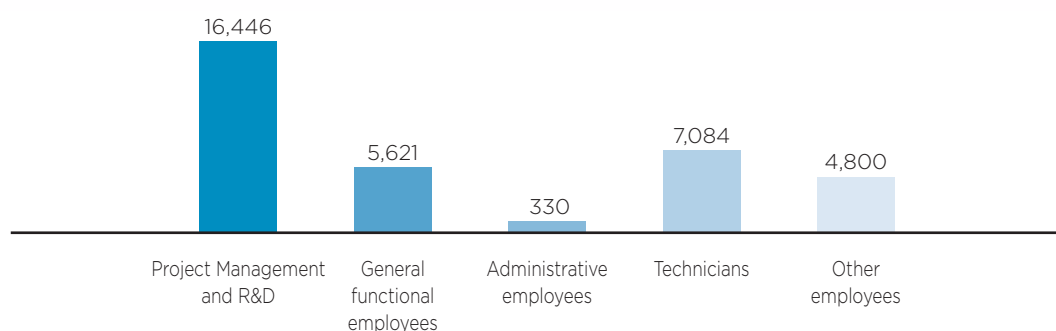
During the Reporting Period, the Employee Education and Training Center of the Group was approved by the Hebei Provincial Department of Housing and Urban-Rural Development and we have obtained the qualification of Vocational Training and Evaluation Organization for Construction Workers. This center is mainly responsible for the front-line operators' training, vocational skills assessment and evidence collection.

Our vocational training and assessment organization is equipped with international standard internship examination models, molds, teaching aids and information facilities, which can accommodate more than 400 people for training examinations at the same time. The trainers have extensive on-site practical experience in the construction process of construction sites at home and abroad, as well as the application of different tools and the use of materials. At present, 18 skill training courses have been opened, and the annual training number exceeds 5,000 persons.



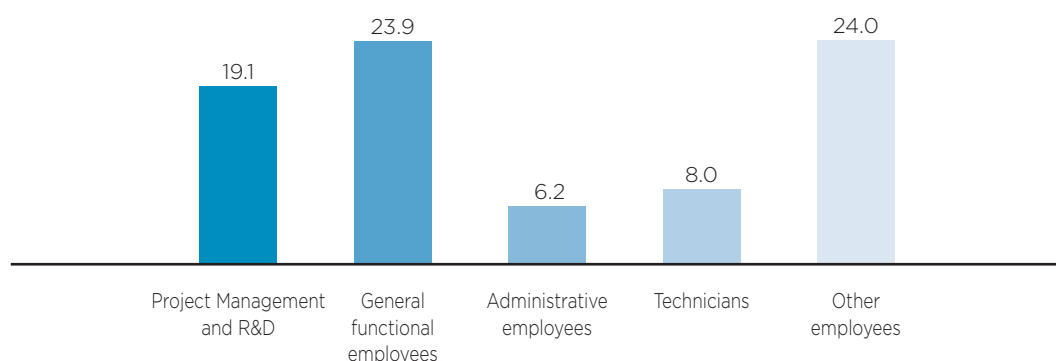
During the Reporting Period, the Group invested a total of RMB3.1181 million for employee training with a total of 34,281 trained people, an accumulated training time of up to 77,721 hours and average training hours per employee of 18.10.

Number of trained employees by type



Unit: number of people

Average training hours per employee by type



Unit: hours

Promotion and Development

We adhere to a democratic and fair talent selection mechanism where we pick from the best and strive to create a good environment and atmosphere in which all kinds of talents stand out and utilize the most of their talents. In the promotion and evaluation process of employees, we strictly follow the *Human Resources Management System* and other related systems, continue to implement the special review meeting mechanism, and carry out a comprehensive assessment on the employee in terms of working years, academic level, personal qualification certificate, academic papers (process technology) and individual performance by filling out the Promotion Appraisal Form. In addition, for management personnel in key positions, we will also conduct an encrypted assessment of their working quality and efficiency.

Similarly, we provide comprehensive support for young talents. During the Reporting Period, we continued to carry out the selection of “Top Ten Outstanding Youths” and the selection of “Outstanding Newcomers”, and optimized the selection and training of young backup cadres, and strived to create a team of ideal, talented and promising young backups cadres.

Optimization of selection of backups cadres

During the Reporting Period, we have improved and optimized the selection of 100 backup cadres. The selection process is divided into four stages: selection of candidates from the branches and subsidiaries, evaluation of personal quality, display of personal style, and evaluation of personal capabilities. We carry out the assessment of quality, communication, adaptability and personal potential on the candidates. The selected backup cadres will be sent to Tsinghua Business School for targeted training and learning.

The optimization of this work will further broaden the talent selection channels of the Group, realize the fairness and scientific of talent selection, and provide strong support for the long-term development of the Group.



Selection of “Top Ten Outstanding Youths”

The selection of “Top Ten Outstanding Youths” is a brand project where we could discover and select outstanding young talents, which has been held for ten consecutive years. Most of the ten young talents have now become the backbone for the development of the Company. Among them, 8 of them have taken the management positions of the Group, and more than 50 people have taken the management positions of subsidiaries.



Group photo of representatives of Top Ten Outstanding Youths over the years

Selection of “Outstanding Newcomers”

The selection of outstanding newcomers is also an important measure for us to discover and reserve young talents. The Group recruits more than 500 fresh graduates each year, and selects ten outstanding representatives from the more than 1,000 young employees who have joined in the past three years. These outstanding newcomers have gradually grown into an indispensable backbone for the Company.



“Outstanding Newcomers” Selection activity

In addition, we strive to realize the self-worth for employees and expand the space for their career development. We have established the Youth Entrepreneurship Foundation and issued the Implementation Regulations on the Administration of Youth Entrepreneurship Program to encourage innovation and entrepreneurship practice by young people with excellent abilities and willingness, and provided support and guidance through the Youth Entrepreneurship Fund to promote the success and grow-up of the Company’s young employees, thus driving the Group’s sustainable, healthy and steady development. As of 31 December 2019, the Group had accumulatively contributed more than RMB70.40 million, helping 66 organizations under the Youth Entrepreneurship Program in 19 subsidiaries, achieving a new contract value of RMB12 billion.

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 actively improve the communication mechanism of employees at all levels, listen to and care about the demands and expectations of each employee; we promote a series of employee caring activities, and encourage them to find a sense of accomplishment and happiness in the balance between work and life.

Communication with Employees

The Group continuously strives to establish unimpeded communication channels. Through various regular work meetings (including operation and management meetings with the President, special meetings and departmental work meetings, etc.), annual staff meeting and staff symposium, we carry out multi-level communication and exchanges with employees and encourage them to participate in the production management of the Company.

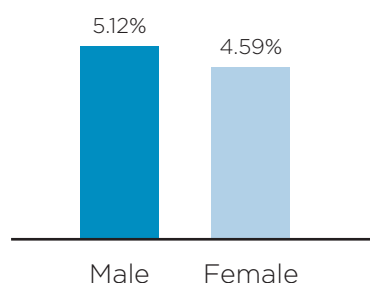
In order to encourage all employees to innovate and make it convenient for employees to put forward reasonable (innovation) suggestions, during the Reporting Period, we set up a “reasonable suggestion” column under the “Personal Office” column in the information system to collect reasonable suggestions on the technology and management. We will select reasonable recommendation awards from such suggestions each year to recognize and reward the employees.

In order to promote the continuous optimization of human resources management, we carry out survey on all employees including key positions and general management positions in six aspects of corporate culture, job compensation, working background, working group, corporate management and business operation. In 2019, the overall annual satisfaction rate is 85.75%, which is basically in line with that in 2018.

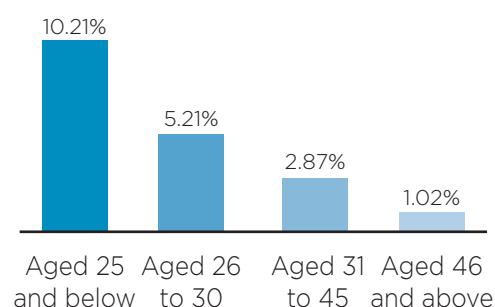
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition to regularly conducting employee satisfaction surveys, we have also continuously improved sense of belonging for the employees by establishing measures such as salary adjustment mechanisms and optimizing talent promotion channels. During the Reporting Period, the employee turnover rate of the Group was 5.05%. The employee turnover rate by gender and age is as follows:

Employee turnover rate by gender



Employee turnover rate by age



Employee Activity

The Group advocates a “Family • People” culture and constantly builds a happy enterprise. We care about the physical and mental health of employees from the aspects of material, spirit and culture, actively pass the “positive energy” on the work and life, and continue to enhance the sense of belonging, identity and happiness for the employees to the Group.

Funding sick employees	Caring for employees in need	Caring for retired employees
<p>During the Reporting Period, we set up a “Home Fund • Raising Fund for Love” and set up a special fund account to provide targeted donations to employees suffering from illness.</p> <p>In addition, we organized 6,794 employees to participate in a “one-day donation” campaign to help 22 sick employees and applied for relief funds of over RMB120,000, relieving the economic pressure of sick employees.</p>	<p>During the Reporting Period, we provided hardship allowance for eight employees with financial difficulties, and provided heating fee allowance for 27 families with difficulties to ensure that the employees in need are warm through the winter.</p> <p>In addition, we provided late relatives allowance for 41 families of employees in 2019.</p>	<p>We are always concerned about the health status of retired employees. During the Reporting Period, we regularly organized condolences and free medical examinations for 270 retired employees, and invited relevant medical personnel to explain the results of the medical examinations in detail to help retired employees understand their own health status.</p>

Networking event for the 100th anniversary of May Fourth

On April 19, 2019, we cooperated with the Municipal Committee of the Communist Youth League of Baoding City to carry out the seventh networking event for the 100th anniversary of May Fourth. More than 300 young people from the Group, the financial system of Baoding City and other units participated in this event and started a networking journey.

Taking this event as an opportunity, we continue to enrich the amateur cultural life of young people, broaden their communication channels, provide them with opportunities and a stage for learning, exchange, and talent display, and effectively enhance their sense of achievement and happiness.



70th National Day events

For the celebration of the 70th National Day, in order to show the spirit of forging ahead and hard work of the vast workers, we launched a variety of cultural and recreational activities.



Badminton match



Swimming match



Basketball game



Painting, calligraphy and photos exhibition



Theme speech contest



"My People, My Country" flashes activity

5 GIVING BACK TO THE SOCIETY

The Group has always regarded the social responsibility as an important part of its corporate development strategy. While providing high-quality buildings, it promotes the harmonious development of the society, the natural environment and the enterprise. We actively fulfill our social civic obligations and give back to society in various ways through extensive public welfare investments.

5.1 Precise Poverty Alleviation

Poverty alleviation is an important area of our corporate social responsibility. We have actively responded to the national policy guidelines on poverty alleviation and poverty reduction, combined with the business of the Group and the actual situation in the supporting areas, to carry out a series of precise poverty alleviation work to help the country overcome poverty.

Carry out condolences visits and performances

In order to promote the virtue of filial piety and loving families, and guide villagers to establish a good family style, in May 2019, we launched a precise poverty alleviation condolences performance in the small square of Bailin City Village, Laishui, and brought a spiritual and cultural feast to the local villagers. During the period, the representatives of the Group also visited the poor households and donated them with consolation money.



Caring for farmers and helping to purchase slow-selling walnuts

In November 2019, our caring acquisition car came to Bailin City Village, Laishui, a designated poverty alleviation village. We purchased more than 1,000 kilograms of walnuts from the villagers, which solved the problem of unsaleable walnuts and shared these organic and affordable walnuts with our employees.



Helping poor college students to complete their studies

In August 2019, the Installation Branch of the Group came to the home of poor and disabled students in Xiaolin Village, Quyang County with the Baoding City Caring Association for the Elderly, and donated them with the living expenses for the first semester of the university, and we will provide them with fund for the completion of four years of university studies.



Book donation of “Intellectual Poverty Alleviation, Cultural Assistance to Xinjiang”

During the Reporting Period, Hebei Construction Group Garden Engineering Co., Ltd. launched a book donation activity of “Intelligent Poverty Alleviation and Cultural Assistance to Xinjiang”. With the strong support of employees, we collected more than 2,000 books.



We are deeply aware that the construction of poverty alleviation relocation is an important part of the poverty alleviation work. We make full use of the advantages of our own construction industry to provide poverty alleviation housing for the poor mass, carry out poverty alleviation relocation in different places, and renovate old houses to promote comprehensive improvement for the basic conditions of production and life in the poverty alleviation areas. During the Reporting Period, we built a total of 9 public welfare housing projects with a construction area of 859,000 m².

Building new homes for more than 5,000 folks

At the end of July 2019, the poverty alleviation relocation project in the first district of Fudong New District, which was constructed by the Group, was successfully completed. The project occupies a total area of 210,000 m² and the total cost of the project is about RMB560 million. More than 5,000 folks officially moved to their new residence. In the past three years, the Group has undertaken dozens of key poverty alleviation projects including Fuping Industrial Park, Fuping Vocational Education Center, and beautiful village construction in Fuping, with infrastructure and housing construction contracts exceeding RMB 10 billion.



Support students in Tibet with love

During the Reporting Period, the employees of the Group's Chengdu Branch went to the Chaluo Township Central School in Batang County, Ganzi Prefecture, and brought protective jackets for 162 students. Batang County is located at the western part of Ganzi Prefecture, with an altitude of over 3,300 meters, which is a key poverty alleviation county of Shuangliu District. This event was highly recognized and supported by the district government, and also brought care and warmth to the poor children in Tibet.



5.2 Charity Activities

We are committed to supporting community building, and actively promote the inclusive development of enterprises and communities by actively participating in donations and funding the school, conducting volunteer activities, and investing in disaster relief. In addition, we hope to gather more broad social forces by ourselves, to do small deeds and promote the greater love.

The Inner Mongolia Branch of Hebei Construction Group Corporation Limited participated in the charity fundraising activity for left-behind children

During the Reporting Period, the Inner Mongolia Branch of the Group, as a caring enterprise representative, participated in the charity donation activity for school uniform held by the Hope Project of “Love for the Left-behind and Warmth for the Children” under the Youth Development Foundation of the Inner Mongolia Autonomous Region and donated 165 gift bags of school uniform



The First Branch of Hebei Construction Group Corporation Limited participated in the public welfare activities for the nursing home

During the Reporting Period, the First Branch of the Group went to Albert Yeung Sau Shing Charity Foundation (Xiongzhou) Elderly Care Centre and Xiong County Pozhou Nursing Home to visit the elderly and widows, and to provide them with rice, noodles, eggs, edible oil, and other daily supplies, bringing warmth to the elderly during the time of autumn and winter.



The Third Branch of Hebei Construction Group Corporation Limited participated in the charity campaign to offer aid for students

During the Reporting Period, the Third Branch of the Group went to Baima Middle School in Baima Township, Yi County, Hebei Province to participate in a charity campaign of "Spreading the Sunshine of Love and Helping the Young Eagles to Spread Their Wings", bringing books, stationery, sports goods and other items for teachers and students of Baima Middle School. Through this charity campaign, we demonstrated that we repay and serve the society with practical warm-hearted actions.



Helping the epidemic prevention and control and warming each other

The quiet spread of the COVID-19 has affected hundreds of millions of people across the country. In the epidemic relief work, we bravely shouldered our social responsibilities and assisted the anti-epidemic work in various places with practical actions.

We established a management group for epidemic prevention and control in the first time, and organized various branches and subsidiaries to prepare and raise funds for disinfectant, alcohol, masks and other materials. As of 04 March 2020, the Group has donated more than RMB 3 million in cash and materials. In addition, we launched an emergency plan for the prevention and control of epidemic situations, and communicated closely with relevant government functional departments to form a joint defense mechanism. We launched an anti-epidemic knowledge promotion through multiple channels and advocated a scientific, civilized, and healthy lifestyle.



APPENDIX I: LIST OF LEGAL REGULATIONS AND INTERNAL POLICIES

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》)

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

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

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》)

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

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》)

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 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》)

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》)

Labor Dispute Mediation and Arbitration Law of the People's Republic of China (《中華人民共和國勞動爭議調解仲裁法》)

APPENDIX II: CONTENT INDEX OF STOCK EXCHANGE ESG REPORTING GUIDE

Major Scope, Aspect, General Disclosures and KPIs		2019 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
KPI A1.1	The types of emissions and respective emissions data.	The Group basically does not involve organized emissions of fixed sources
KPI A1.2	GHG emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.3 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).	3.2 Emission reduction
KPI A1.4	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.2 Emission reduction
KPI A1.5	Description of measures to mitigate emissions and results achieved.	3.2 Emission reduction
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	3.2 Emission reduction

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Scope, Aspect, General Disclosures and KPIs		2019 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>	3.3 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).	3.3 Conservation of resources
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	3.3 Conservation of resources
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	3.3 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.	3.3 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.	3.2 Emission reduction 3.3 Conservation of resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.3 Conservation of resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Scope, Aspect, General Disclosures and KPIs		2019 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 the Employee 4.3 Training and Development 4.4 Care and Support
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	4.1 Overview of the Employee
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 have delicacy management in the future

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Scope, Aspect, General Disclosures and KPIs		2019 ESG Report
KPI B2.3	Description of occupational health and safety measures adopted and how they are implemented and monitored.	4.2 Health and Safety
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 Training and Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	4.3 Training and Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	4.3 Training and Development
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 the Employee
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	4.1 Overview of the Employee
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	4.1 Overview of the Employee

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Scope, Aspect, General Disclosures and KPIs		2019 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		2019 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 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 Compliance
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	1.2 Integrity 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 Giving Back to the Society
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	5.1 Precise Poverty Alleviation 5.2 Charity activities
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	5.1 Precise Poverty Alleviation 5.2 Charity activities

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The table below sets forth certain information on the Directors of the Company:

Name	Age	Position	Major duties
Executive Directors			
Mr. Li Baozhong	50	Chairman of the Board and executive Director	Responsible for convening and chairing general meetings and Board meetings; Responsible for overall management of the Group and deciding major strategies and the development and investment plan of the Group
Mr. Shang Jinfeng	43	Executive Director and President	Participating in formulation of business plans, strategic and major decisions of the Group as a member of the Board; Deciding and guiding external affairs, major planning and auditing events and major business activities of the Company
Mr. Zhao Wensheng	50	Executive Director, Chief Accountant and Director of Finance	Participating in formulation of business plans, strategic and major decisions of the Group as a member of the Board; Responsible for overall financial and capital management of the Group
Mr. Liu Yongjian	56	Executive Director and vice President	Participating in formulation of business plans, strategic and major decisions of the Group as a member of the Board; Responsible for, among others, production safety and risk control of the Group

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Major duties
Non-executive Directors			
Mr. Li Baoyuan	69	Honorary Chairman of the Board and non-executive Director	Responsible for convening and chairing general meetings and Board meetings; Participating in the formulation of business plans, strategic and major decisions of the Group as a member of the Board
Mr. Cao Qingshe	55	Vice Chairman of the Board and non-executive Director	Participating in formulation of business plans, strategic and major decisions of the Group as a member of the Board
Independent Non-executive Directors			
Mr. Xiao Xuwen	67	Independent non-executive Director	Supervising and offering independent judgment to the Board and/or serving as chairman and/or member of certain committees of the Board
Ms. Shen Lifeng	54	Independent non-executive Director	Same as above
Ms. Chen Xin	37	Independent non-executive Director	Same as above
Mr. Chan Ngai Sang Kenny	55	Independent non-executive Director	Same as above

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table below sets forth certain information on the Supervisors of the Company, the scope of which is in compliance with the Articles of Association of the Company:

Name	Age	Position	Major duties
Mr. Yu Xuefeng	57	Chairman of the Board of Supervisors and Shareholder Supervisor	Presiding over the Board of Supervisors and monitoring the operation risks and financial activities of the Company as well as the performance of the Directors and senior management
Mr. Liu Jingqiao	58	Employee Supervisor	Monitoring the operation and financial activities of the Company as well as the performance of the Directors and senior management
Ms. Feng Xiujian	42	Shareholder Supervisor	Same as above
Mr. Yue Jianming	47	Employee Supervisor	Same as above
Mr. Wang Feng	40	Shareholder Supervisor	Same as above

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table below sets forth certain information on the senior management of the Company, the scope of which is in compliance with the Articles of Association of the Company:

Name	Age	Position	Major duties
Mr. Shang Jinfeng, please refer to the above.			
Mr. Zhao Whensheng, please refer to the above.			
Mr. Liu Yongjian, please refer to the above.			
Mr. Gao Qiuli	62	Vice President and Chief Engineer	Responsible for, among others, technology quality and scientific research of the Group
Mr. Zhang Wenzhong	44	Vice President and Chief economic officer	Responsible for the Group's market operation and economic management
Mr. Li Wutie	33	Board Secretary and Assistant to the President	Assisting the President to deal with various affairs; Acting as the contact person of the Company with the Hong Kong Stock Exchange; Responsible for information disclosures and investor management as well as corporate governance affairs of the Company

DIRECTORS

Executive Directors

Mr. Li Baozhong (李寶忠), aged 50, 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. Mr. Li also serves as the chairman of Zhongming Zhiye, Baoding Langzhuo Guan-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, Baoding Tiane Real Estate Development Co., Ltd. (保定天鵝房地產開發有限公司), Baoding Mancheng Zhongbao Investment Co., Ltd. (保定市滿城區中寶投資有限公司), 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 27 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, 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 the title of "Hebei Provincial Government Special Allowance Expert" by the Hebei Provincial People's Government 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 43, 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) and Zhongcheng Real Estate Development Co., Ltd. (中誠房地產開發股份有限公司), and the general manager of Baoding Mancheng District Zhongbao Investment Co., Ltd. (保定市滿城區中寶投資有限公司). Mr. Shang has over 22 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 50, 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) and Hebei Construction Group Infrastructure Construction Co., Ltd. (河北建設集團基礎設施建設有限公司). Mr. Zhao Wensheng also serves as the general manager of Baoding Jucheng Investment Co., Ltd., the chairman of the board of supervisors of HCG Zhuocheng Road and Bridge Engineering (河北建設集團卓誠路橋工程), HCG Installment Engineering (河北建設集團安裝工程), HCG Decoration Engineering (河北建設集團裝飾工程) 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 (河北建設集團天辰建築工程), Zhongcheng Real Estate Development Co., Ltd. (中誠房地產開發股份有限公司), Baoding Mancheng Zhongbao Investment Co., Ltd. (保定市滿城區中寶投資有限公司), Hebei Lvjian Investment Company (河北綠建投資股份公司), 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 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 2009.

Mr. Liu Yongjian (劉永建), aged 56, is an executive Director of the Company since 20 December 2013 and a vice President of the Company since 17 January 2008. Mr. Liu also serves as a director of HCG Decoration Engineering and Hebei Zhiping Construction Equipment Leasing Co., Ltd. (河北治平建築設備租賃有限公司), respectively. 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 35 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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 69, 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 Baoding Taihang Heyi Cement Co., Ltd. (保定太行和益水泥有限公司) and Zhongming Zhiye. Mr. Li is a vice president of China Construction Industry Association. Mr. Li has over 49 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 since October 1997. 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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.

Mr. Cao Qingshe (曹清社), aged 55, 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 of Zhongru Investment, and a director of Zhongcheng Real Estate and Shenxian Mountain Tourism Development Co., Ltd. (神仙山旅遊發展有限公司) respectively. Mr. Cao has over 33 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

Mr. Xiao Xuwen (肖緒文), aged 67, is an independent non-executive Director of the Company since 15 December 2017. Mr. Xiao also serves as consulting chief engineer of the technology center of China State Construction Engineering Corporation Ltd (中國建築股份有限公司) (a listed Company on the Shanghai Stock Exchange, stock code: 601668) and a professor of School of Civil Engineering of Tongji University. Mr. Xiao is a vice president of China Construction Industry Association, a standing vice president of China Construction Industry Association Branch of Green Building and Construction (中國建築業協會綠色建造與施工分會) and a standing vice head of the Construction Engineering Technology Expert Committee of China Construction Industry Association (中國建築業協會建築工程技術專家委員會). Mr. Xiao has more than 42 years of experience in the construction engineering industry (especially specializing in research and development of construction engineering technologies) and corporate management. His previous primary work experience includes: consecutively serving in various positions of China Construction Eighth Division (中國建築第八工程局) from May 1983 to January 2008, including as a technician, a designer, the head of the Design Institute, a vice chief engineer (at division level) and the chief engineer, and serving as the general manager of the Technology Department of China State Construction Engineering Corporation Ltd from January 2008 to June 2012.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Xiao graduated from Tsinghua University in Beijing, the PRC in January 1977, majoring in industry and civil construction. Mr. Xiao obtained the qualification of senior engineer (professor level) from China State Construction Engineering Corporation (中國建築工程總公司) in December 2000. Mr. Xiao obtained the Second Prizes of the National Science and Technology Progress Award (國家科學技術進步獎二等獎) from the State Council for Research on Construction Technology of Modern Stadiums (現代化體育場施工技術研究), Research and Application of Construction Technology on Prestressing Force of Long-span Space Steel Structure (大跨空間鋼結構預應力施工技術研究與應用) and Key Technology and Application of Super High and Complicated High-rise Architecture Structures (超高及複雜高層建築結構關鍵技術與應用) in February 2007, November 2010 and December 2013, respectively.

Ms. Shen Lifeng (申麗鳳), aged 54, 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 30 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. She served as the chief executive officer of Porda Havas International Finance Communications Group (博達浩華國際財經傳訊集團) from February 2019 to April 2019; and serves as the executive director and the vice president of China Tianbao Group Development Company Limited (中國天保集團發展有限公司) (stock code: 01427) from April 2019 until now.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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.

Ms. Chen Xin (陳欣), aged 37, 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 12 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 55, is an independent non-executive Director of the Company since 15 December 2017. Mr. Chan is also a member of the Audit Committee and 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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 57, 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 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), and Jiuzhou Zongheng Railway Investment Co., Ltd. (九州縱橫城際鐵路投資有限公司), Baoding Taihang Heyi Cement Co., Ltd. (保定太行和益水泥有限公司), 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 committee 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.

Mr. Liu Jingqiao (劉景喬), aged 58, 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), Shenzhou 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 an executive director of Fuping County Hongyi Labor Service Co., Ltd. (阜平縣紅阜勞務服務有限公司) a director of Hebei Qianyuan Agricultural Technology Development Co., Ltd. (河北乾元農業科技開發有限公司) and a director of Baoding Huawo Engineering Technology Consulting Co., Ltd. (保定華沃工程技術諮詢有限公司). 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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 42, is a Shareholder Supervisor of the Company since 23 January 2013. Ms. Feng also serves as a vice Chief Accountant and the head 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) 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 Cement Co., Ltd. (保定太行和益水泥有限公司), 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 (at division level) 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 2008.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Yue Jianming (岳建明), aged 47, is an employee Supervisor of the Company since 31 March 2017. Mr. Yue also serves as the head of the Legal Affairs 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) 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 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) and a researcher of Arbitrator of Harbin Arbitration Commission and 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 40, is a Shareholder Supervisor of the Company since 31 March 2017. Mr. Wang also serves as the head of the Inspection and Auditing Department of the Company, and a supervisor of HCG Tianchen Construction Engineering, HCG Decoration Engineering, HCG Zhuocheng Land and Road 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Gao Qiuli (高秋利), aged 62, is a vice President and the Chief Engineer of the Company since 22 July 2001. Mr. Gao also serves as the chairman of the board of directors of Hebei Lvjian Investment Company (河北綠建投資股份公司), the legal representative and executive director of Hebei Zhongbao New Building Materials Manufacturing Co., Ltd. (河北中寶新型建材製造有限公司), and a director of HCG Installment Engineering and Hebei Zhongru Software Technology Co., Ltd (河北中儒軟件科技股份有限公司) respectively. Mr. Gao has over 39 years of experience in the construction engineering industry and technical and quality management. His previous primary work experience includes: serving as a technician and the person in charge of technology of No. 1 Construction Engineering Company of Hebei Province from July 1981 to December 1988; the head in charge of technology and the head of No. 1 Construction Engineering Company of Hebei Province from January 1988 to November 1994; a deputy head and the head (at division level) of the quality and technology division of No. 1 Construction Engineering Company of Hebei Province from December 1994 to November 1997; a vice chief engineer and a vice general manager of No. 1 Construction Engineering Company of Hebei Province from December 1997 to December 1998; and the chief engineer and a vice general manager of No. 1 Construction Engineering Company of Hebei Province from January 1999 to June 2001.

Mr. Gao obtained an academic diploma of undergraduate course in architecture engineering (through correspondence course) from Harbin University of Civil Engineering and Architecture (currently known as Harbin Institute of Technology) in Harbin, the PRC in July 1997, a master's degree in architecture and civil engineering from Tianjin University in Tianjin, the PRC in March 2002, and a doctor's degree of engineering in architecture technology and management from Tianjin University in Tianjin, the PRC in June 2011. Mr. Gao obtained the qualification of senior engineer 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 2002 and the qualification of national certified constructor from the Ministry of Construction of the PRC in January 2008, respectively. Mr. Gao was awarded the National Advanced Construction Technology Individual for the "Tenth Five-year Period" by the Ministry of Construction of the PRC in June 2006 and received the Second-class Award for Technology Improvement from the People's Government of Hebei Province in December 2007 and December 2014 respectively. He obtained the National Quality Award for Individuals from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC in September 2011 and the Second-class Award for National Technology Improvement Award from the State Council of the PRC in December 2011.

Mr. Zhang Wenzhong (張文忠), aged 44, is a Vice President of the Company since March 2018 and has been the chief economic officer of the Company since January 2019. He is a Chinese Communist Party member, senior engineer, national first-class constructor and obtained a Master degree in Construction Engineering from Tianjin University. He is currently studying for a Master degree in Business Administration from Tsinghua University and serving as a Vice President and the chief economic officer of the Company.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Zhang served as a technician and project manager of Hebei Construction Group Tianli Labor Company (河北建設集團天力勞務公司) from July 1998 to December 2005; a project manager of Hebei Construction Group Tianchen Construction Engineering Company Limited (河北建設集團天辰建築工程有限公司) from January 2006 to February 2012; a manager of the Third Branch of Hebei Construction Group Corporation Limited (河北建設集團股份有限公司第三分公司) from March 2012 to 18 December 2018; a non-permanent Vice President of the Company from January 2016 to January 2017.

Mr. Zhang received the Second Prize of the National Construction Engineering Outstanding Quality Management Group in 2013; the Third Prize of the National Construction Engineering Outstanding Quality Management Group in 2013; the Hebei Quality Results of Technology Awards in 2013; the Hebei Construction Engineering Anji Cup Awards (Outstanding Quality Construction) in 2013; the Second Prize of the Hebei Technological Improvement in 2014; and the Five-four Medal of the Baoding Youth in 2015.

Mr. Li Wutie (李武鐵), aged 33, 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 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 15 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 2019, the Group had 8,062 full-time employees. Set out below is a breakdown of the number of staff by function:

Employees of	Number of employees
The Company	6,103
The subsidiaries of the Company	1,959
Total	8,062

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 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 2019, the Group has provided training for a total of 34,281 employees in 77,721 days and 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 69 employees of the Company retired in 2019. 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 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 97 to page 162.

INDEPENDENT AUDITOR'S REPORT

Ernst & Young (2020) Shen Zi No. 61319209_J01

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 Sheet as of 31 December 2019, the Consolidated and Company Income Statement, the Consolidated and Company Statement of Changes in Shareholders' Equity and the Consolidated and Company Cash Flows Statement for the year then ended, and Notes to the Financial Statements.

In our opinion, the Financial Statements of the Company attached have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material respects, the consolidated and Company financial positions as at 31 December 2019 and the consolidated and Company results of operations and cash flows of the Company for the year ended 31 December 2019.

II. BASIS OF FORMING THE OPINION

We conducted our audit in accordance with the Chinese Certified Public Accountant Auditing Standards. The section "Auditors' Responsibility for the Financial Statements" in the audit report further describes our responsibilities in accordance with these standards. According to the Code of Ethics for Chinese Certified Public Accountants, we are independent of the Company and fulfilled other responsibilities of code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDITING MATTERS

Key audit items are the items which we believe, based on our professional judgment, to be significant in the audit of financial statements for the current period. Audit response to these items has been designed and implemented in the context of auditing the financial statements as a whole for the purpose of expressing an audit opinion on the financial statements; and we do not express an opinion on each of these items individually. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

III. KEY AUDITING MATTERS (Continued)

Key auditing matters	How our audit addressed the key audit matter
<i>Income recognition on construction contracts</i>	
<p>In 2019, the Company recognized a revenue of RMB41,077,029,000 for year 2019. Recognizing income in accordance with the progress of the performance involves significant judgments and estimates of contract revenue and total contract costs, including the management's continuous evaluation and corresponding adjustment on the contract revenue and contract costs based on factors such as the scope of contract delivery and unfinished costs during contract execution. In addition, due to changes in circumstances, the estimated contract income and total contract costs may vary from the original estimates (sometimes it may be significant).</p> <p>For the accounting policies and related disclosure information for the recognition of construction contract income, please refer to Notes III-20 and VI-34 of the financial statements.</p>	<p>The procedures relating to the revenue recognition of construction contracts which we have implemented mainly included:</p> <ol style="list-style-type: none"> <li data-bbox="868 724 1433 1116">(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 revenue and estimated contract cost preparation and calculation of revenue in accordance with the progress of the performance; <li data-bbox="868 1166 1433 1317">(2) We selected major construction contracts and reviewed the key contract terms including the contract price; <li data-bbox="868 1366 1433 1563">(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 AUDITING MATTERS (Continued)

Key auditing 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 compare actual contract costs incurred with budgeted contract cost;</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 AUDITING MATTERS (Continued)

Key auditing matters	How our audit addressed the key audit matter
<i>Provision for expected credit losses of accounts receivable, other receivables and contract assets</i>	
<p>As at 31 December 2019, the Company had the accounts receivable, other receivables and contract assets amounting to RMB49,752,228,000. Management uses the simplified approach to calculate the expected credit losses for accounts receivable and contract assets and the general approach to calculate the expected credit losses for deposits and other receivables.</p> <p>Management's assessment of the expected credit losses involves significant judgements and estimates and is based on historical observed default rates, ageing of balances, existence of disputes and forward-looking information. At the end of the Reporting Period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed by management. The amount of expected credit losses is sensitive to changes in circumstances and forecast economic conditions. Management also assesses whether the credit risk on the deposits and other receivables has increased significantly under the general approach.</p>	<p>The procedures relating to the accounts receivable, other receivables and contract assets which we have implemented mainly included:</p> <ol style="list-style-type: none"> (1) We evaluated and tested the internal control relating to the accounting process of provision for expected credit losses of accounts receivable, and other receivables and contract assets; (2) We evaluated the expected credit losses of accounts receivable, and other receivables and contract assets by selecting samples to check the debtors' latest correspondence and historical payment records; (3) We tested the accuracy of aging of balances of accounts receivable, and other receivables and contract assets by tracing details in the supporting documents of the selected samples, such as invoices, bank slips 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 AUDITING MATTERS (Continued)

Key auditing matters	How our audit addressed the key audit matter
<p>The accounting policies and related disclosures for the accounts receivable, other receivables and contract assets are included in Note III-18 and VI-3, 6, 8 to the financial statements.</p>	<p>(5) We valued the credit risk assessment on the accounts receivable, other receivables and contract assets conducted by the management;</p> <p>(6) We assessed the historical observed default rates and forward-looking information and reviewed the calculation of the expected credit losses of the management.</p>

IV. OTHER INFORMATION

The management of the Company is responsible for the other information. The other information comprises all the information included in the 2019 annual report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the 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 MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management of the Company is responsible for preparing and presenting the financial statements in accordance with Enterprise Accounting Standards of China and for the purpose of fair presentation and designing, implementing and maintaining internal control necessary to the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

During the preparation of the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern; disclosing, where applicable, matters in relation to the continuing operations; and applying the continuing operations assumption, unless the management plans to liquidate the Company, terminates operation of the Company or has no other practical alternative choice.

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

VI. AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Our objective is to obtain reasonable assurance as to whether the financial statements are free from material misstatement, whether due to frauds or errors, and issue an audit report with audit opinion. Reasonable assurance is a high level assurance, but there is no guarantee that a material misstatement will always be found in the audit performed in accordance with the auditing standards. Misstatements may be caused by fraud or error. Misstatements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users based on the financial statements.

During the performance of our audit in accordance with the auditing standards, we use professional judgment and maintain professional skepticism. We also perform the following procedures:

- (1) Identify and assess the risks of material misstatement of the financial statements due to fraud and error, design and implement audit procedures to address these risks, and obtain sufficient and appropriate audit evidence as a basis for forming the audit opinion. As fraud may involve collusion, forgery, willful omission, misrepresentation or override of internal control, the risk of not discovering a material misstatement due to fraud is higher than the risk of failing to detect a material misstatement resulting from a mistake.
- (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 the internal control.
- (3) Evaluate the appropriateness of accounting policies adopted by the management and the reasonableness of accounting estimates and relevant disclosures made by management.

VI. AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS (Continued)

During the performance of our audit in accordance with the auditing standards, we use professional judgment and maintain professional skepticism. We also perform the following procedures (Continued):

- (4) Reach a conclusion on the appropriateness of management's assumption of the continuing operations. Meanwhile, based on the audit evidence obtained, conclude whether there is material uncertainty about the Company's ability to continue as a going-concern. If we conclude that there is material uncertainty, the auditing standards require us to draw attention of the users of the financial statements to the relevant disclosures in the financial statements. If the disclosure is inadequate, we shall express a qualified opinion. Our conclusion is based on information available as of the date of the audit report. However, future events or circumstances may cause the Company not being able to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of financial statements (including disclosure), and evaluate whether the financial statements present fairly the relevant transactions and events.
- (6) Obtain sufficient and appropriate audit evidence regarding to the Company's financial information of the entities or business activities in order to express opinion on the financial statements. We are responsible for the guidance, supervision and execution of the group audit. We take full responsibility for the audit opinion.

We communicate with those charged with governance on the scope and time schedule of the audit, and significant audit findings, etc., including deficiency of internal control that we identified during the audit which warrants attention.

Ernst & Young Hua Ming LLP

Chinese Certified Public Accountants:
Yang Lin

Beijing, China

Chinese Certified Public Accountants:
Chen Zhiwang

12 May 2020

CONSOLIDATED BALANCE SHEET

31 December 2019

Unit: RMB'000

Assets	Note VI	31 December 2019	31 December 2018 (Restated)
Current assets			
Currency funds	1	7,045,270	6,688,178
Financial assets held for trading	2	4,931	4,500
Accounts receivable	3	5,748,686	5,964,567
Accounts receivable financing	4	1,257,760	725,086
Prepayments	5	1,285,168	1,364,650
Other receivables	6	2,468,999	4,091,312
Inventories	7	241,145	2,172,183
Contract assets	8	39,231,476	37,796,062
Non-current assets due within one year		26,061	-
Other current assets	9	117,736	115,337
Total current assets		57,427,232	58,921,875
Non-current assets			
Long-term receivables	10	93,840	-
Long-term equity investments	11	530,015	873,166
Contract assets	8	1,287,426	969,590
Other equity investments	12	779,054	569,700
Investment property	13	134,750	137,402
Fixed assets	14	378,117	375,739
Construction in progress		15,764	236,514
Right-of-use assets	15	46,544	-
Intangible assets	16	35,633	36,495
Deferred tax assets	17	198,196	319,908
Total non-current assets		3,499,339	3,518,514
Total assets		60,926,571	62,440,389

The notes form an integral part of these financial statements

CONSOLIDATED BALANCE SHEET

31 December 2019

Unit: RMB'000

Liabilities and shareholders' equity	<i>Note VI</i>	31 December 2019	31 December 2018 (Restated)
Current liabilities			
Short-term borrowings	20	2,250,713	1,635,770
Bills payable		380,677	217,213
Accounts payable	21	35,946,252	38,956,411
Contract liabilities	22	4,489,727	5,065,956
Employee benefits payable	23	185,954	154,178
Taxes payable	24	636,184	795,917
Other payables		5,300,272	4,949,029
Non-current liabilities due within one year		922,400	526,000
Other current liabilities	25	3,016,571	2,734,120
Total current liabilities		53,128,750	55,034,594
Non-current liabilities			
Long-term borrowings	26	1,864,424	1,473,450
Lease liabilities	27	29,825	-
Total non-current liabilities		1,894,249	1,473,450
Total liabilities		55,022,999	56,508,044
Shareholder's equity			
Share capital	28	1,761,384	1,761,384
Capital reserve	29	1,661,232	1,586,932
Other comprehensive income	30	119,557	60,900
Surplus reserve	32	417,681	295,246
Retained profit	33	1,760,756	1,702,029
Total equity attributable to shareholders of the parent		5,720,610	5,406,491
Minority interests		182,962	525,854
Total shareholders' equity		5,903,572	5,932,345
Total liabilities and shareholders' equity		60,926,571	62,440,389

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

2019
Unit: RMB'000

	Note VI	2019	2018 (Restated)
Operating revenue	34	41,077,029	47,858,714
Less: Operating costs		109,276	45,108,878
Taxes and surcharges		10,237	111,721
Selling costs		505,448	28,370
Administrative expenses		92,895	411,462
Research and development costs		263,642	34,805
Finance expenses	35	416,985	161,612
Including: Interest expenses		415,926	290,628
Interest income		158,720	158,022
Add: Other income	36	310	12,889
Investment income/(losses)	37	101,756	(136,782)
Including: Gains/(losses) on investments in joint ventures and associates		8,572	(164,626)
(Losses)/gains from changes in fair values	38	(2,721)	1,963
Credit impairment gains/(losses)	39	40,205	(253,371)
Gains from disposal of assets		304	2,377
Operating profit		1,211,661	1,628,942
Add: Non-operating income		1,490	14,369
Less: Non-operating expenses		4,402	7,989
Total profit		1,208,749	1,635,322
Less: Income tax expenses	41	445,626	465,901
Net profit		763,123	1,169,421
Including: Net profit of party being acquired prior to business combination under common control		37,906	36,367
Classified by business continuity			
Net profit from continuing operations		725,232	1,335,806
Net profit/(loss) from discontinued operations		37,891	(166,385)

The notes form an integral part of these financial statements

CONSOLIDATED INCOME STATEMENT

2019

Unit: RMB'000

	Note VI	2019	2018 (Restated)
Classified by shareholdership			
Net profit attributable to shareholders of the parent		770,415	1,154,039
Minority interests		(7,292)	15,382
Other comprehensive income, net of tax		58,657	60,900
Other comprehensive income attributable to shareholder of the parent, net of tax		58,657	60,900
Other comprehensive income that cannot be reclassified to profit and loss changes in fair value of other equity investments		58,657	60,900
Total comprehensive income		821,780	1,230,321
Including:			
Total comprehensive income attributable to shareholders of the parent		829,072	1,214,939
Total comprehensive (losses)/income attributable to minority shareholders		(7,292)	15,382
Earnings per share (RMB/share)			
Basic and diluted earnings per share		0.43	0.66

The notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2019
Unit: RMB'000

2019

	Attributable to shareholders of the parent							Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained profit	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 (Note V-4)	-	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 period									
(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 (Note V-4)	-	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)	-	-	-
2. Use in the year	-	-	-	(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 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2019

Unit: RMB'000

2018 (Restated)

	Attributable to shareholders of the parent							Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained profit	Subtotal		
I. Closing balance of the previous year	1,733,334	1,388,526	-	-	174,557	606,270	3,902,687	408,622	4,311,309
Add: Business combinations under common control (Note V-4)	-	124,776	-	-	21,662	40,747	187,185	20,400	207,585
II. Opening balance of the year	1,733,334	1,513,302	-	-	196,219	647,017	4,089,872	429,022	4,518,894
III. Changes for the year									
(I) Total comprehensive income	-	-	60,900	-	-	1,154,039	1,214,939	15,382	1,230,321
(II) Capital contribution and reduction by shareholders									
1. Issuances of H shares in over-allotment	28,050	73,630	-	-	-	-	101,680	-	101,680
2. Capital injection by minority shareholders	-	-	-	-	-	-	-	81,450	81,450
(III) Profit distribution									
1. Appropriation to surplus reserve	-	-	-	-	99,027	(99,027)	-	-	-
(IV) Special reserve									
1. Appropriation for the year	-	-	-	905,396	-	(905,396)	-	-	-
2. Use in the year	-	-	-	(905,396)	-	905,396	-	-	-
IV. Closing balance of the year	1,761,384	1,586,932	60,900	-	295,246	1,702,029	5,406,491	525,854	5,932,345

The notes form an integral part of these financial statements

CASH FLOW STATEMENT

2019
Unit: RMB'000

Note VI	2019	2018 (Restated)
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods or rendering of services	42,236,101	38,295,593
Other cash receipts related to operating activities	6,121,533	2,251,664
Subtotal of cash inflows from operating activities	48,357,634	40,547,257
Cash paid for goods and services	40,447,645	35,987,056
Cash paid to and for employees	823,157	665,607
Taxes paid	1,332,080	1,234,677
Other cash payments related to operating activities	5,419,129	1,728,459
Subtotal of cash outflows from operating activities	48,022,011	39,615,799
Net cash flows (used in)/from operating activities 43	(335,623)	931,458
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from return of investment	4,500	-
Cash received from investment income	227,888	187,713
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	10,427	22,722
Net cash received from disposal of subsidiaries and other business units	16	344,604
Subtotal of cash inflows from investing activities	242,831	555,039
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	81,828	245,910
Cash paid to acquire investments	587,174	39,009
Net cash paid for the acquisition of subsidiaries and other business units	282,671	-
Subtotal of cash outflows from investing activities	951,673	284,919
Net cash flows (used in)/from investing activities	(708,842)	270,120

The notes form an integral part of these financial statements

CASH FLOW STATEMENT

2019

Unit: RMB'000

	Note VI	2019	2018 (Restated)
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from capital contributions		17,886	174,065
Including: Cash received from minority shareholders' capital contributions to subsidiaries		17,886	81,450
Cash received from borrowings		4,423,788	2,420,770
Other cash receipts related to financing activities		462,835	-
Subtotal of cash inflows from financing activities		<u>4,904,509</u>	<u>2,594,835</u>
Cash paid for repayments of debts		2,727,010	1,517,692
Cash paid for distribution of dividends, profits or interest repayment		935,931	290,628
Other cash payments related to financing activities		198,612	1,354,835
Subtotal of cash outflows from financing activities		<u>3,861,553</u>	<u>3,163,155</u>
Net cash flows from/(used in) financing activities		<u>1,042,956</u>	<u>(568,320)</u>
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		<u>(5,377)</u>	<u>(29,006)</u>
V. NET INCREASE IN CASH AND CASH EQUIVALENTS			
		664,360	604,252
Add: Opening balance of cash and cash equivalents		<u>6,011,066</u>	<u>5,406,814</u>
VI. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS			
	44	<u>6,675,426</u>	<u>6,011,066</u>

The notes form an integral part of these financial statements

BALANCE SHEET

31 December 2019

Unit: RMB'000

Assets	Note XVI	31 December 2019	31 December 2018
Current assets			
Currency funds	1	5,566,335	5,140,692
Accounts receivable	2	4,133,415	3,874,218
Accounts receivable financing		902,718	543,448
Prepayments		1,009,335	830,842
Other receivables		1,803,262	4,000,946
Inventories		181,974	32,059
Contract assets	3	32,455,838	25,061,676
Other current assets		53,548	15,800
		46,106,425	39,499,681
Total current assets			
Non-current assets			
Long-term equity investments	4	2,554,241	1,724,139
Other equity instrument investments		779,054	569,700
Investment property		134,750	137,402
Fixed assets		135,070	134,650
Construction in progress		14,950	15,690
Right-of-use assets		19,287	-
Intangible assets		610	674
Deferred tax assets		133,558	154,616
		3,771,520	2,736,871
Total non-current assets			
		49,877,945	42,236,552
Total assets			

The notes form an integral part of these financial statements

BALANCE SHEET

31 December 2019

Unit: RMB'000

Liabilities and shareholders' equity	31 December 2019	31 December 2018
Current liabilities		
Short-term borrowings	1,812,213	1,275,770
Bills payable	124,828	25,012
Accounts payable	29,165,296	25,089,615
Contract liabilities	4,121,521	3,303,974
Employee benefits payable	97,881	49,986
Taxes payable	454,840	510,000
Other payables	4,758,205	3,950,309
Non-current liabilities due within one year	518,084	174,000
Other current liabilities	2,508,029	2,254,354
	<hr/>	<hr/>
Total current liabilities	43,560,897	36,633,020
Non-current liabilities		
Long-term borrowings	785,464	570,000
Lease liabilities	13,087	-
	<hr/>	<hr/>
Total non-current liabilities	798,551	570,000
	<hr/>	<hr/>
Total liabilities	44,359,448	37,203,020
	<hr/>	<hr/>
Shareholders' equity		
Share capital	1,761,384	1,761,384
Capital reserve	1,447,379	1,462,156
Other comprehensive income	123,730	60,900
Surplus reserve	228,135	131,414
Retained profit	1,957,869	1,617,678
	<hr/>	<hr/>
Total shareholders' equity	5,518,497	5,033,532
	<hr/>	<hr/>
Total liabilities and shareholders' equity	49,877,945	42,236,552

The notes form an integral part of these financial statements

INCOME STATEMENT

31 December 2019

Unit: RMB'000

	Note XVI	2019	2018
Operating revenue	5	32,949,903	37,179,415
Less: Operating costs		31,161,206	35,616,444
Taxes and surcharges		77,439	72,885
Selling costs		1,736	1,024
Administrative expenses		350,181	278,558
Research and development costs		67,270	26,595
Finance expenses		141,216	(109,366)
Including: Interest expenses		231,477	166,675
Interest income		164,016	305,451
Add: Other income		200	1,295
Investment income		86,238	27,970
Including: (Losses)/gains on investments in joint ventures and associates		(2,124)	126
(Losses)/gains from changes in fair values		(2,652)	1,963
Credit impairment gains/(losses)		27,616	(245,894)
Gains from disposal of assets		304	119
Operating profit		1,262,561	1,078,728
Add: Non-operating income		15,133	133,321
Less: Non-operating expenses		289	6,201
Total profit		1,277,405	1,205,848
Less: Income tax expenses		310,196	274,639
Net profit		967,209	931,209
Other comprehensive income, net of tax		62,830	60,900
Other comprehensive income that cannot be reclassified to profit or loss		73,100	60,900
Changes in fair value of other equity instrument investments		62,830	60,900
Total comprehensive income		1,030,039	992,109

The notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2019

Unit: RMB'000

2019

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained profit	Total shareholders' equity
I. Closing balance of the previous year and opening balance of the 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. Business combination under common control as at the date of combination and the 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>226,924</u>	<u>1,957,869</u>	<u>5,518,497</u>

The notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2019

Unit: RMB'000

2018

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained profit	Total shareholders' equity
I. Closing balance of the previous year and opening balance of the year	1,733,334	1,388,526	-	-	74,533	743,350	3,939,743
II. Changes for the year							
(I) Total comprehensive income	-	-	60,900	-	-	931,209	992,109
(II) Capital contribution and reduction by shareholders							
1. Issuances of H shares in over-allotment for the initial public offering	28,050	73,630	-	-	-	-	101,680
(III) Profit distribution							
1. Appropriation to surplus reserve	-	-	-	-	56,881	(56,881)	-
(IV) Special reserve							
1. Appropriation for the year	-	-	-	745,837	-	(745,837)	-
2. Use in the year	-	-	-	(745,837)	-	745,837	-
III. Closing balance of the year	1,761,384	1,462,156	60,900	-	131,414	1,617,678	5,033,532

The notes form an integral part of these financial statements

CASH FLOW STATEMENT

2019

Unit: RMB'000

	2019	2018 (Restated)
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods or rendering of services	28,040,949	33,481,510
Other cash receipts related to operating activities	<u>6,525,692</u>	<u>1,111,173</u>
Subtotal of cash inflows from operating activities	<u>34,566,632</u>	<u>34,592,683</u>
Cash paid for goods and services	28,397,403	32,606,740
Cash paid to and for employees	681,113	461,466
Taxes paid	1,043,475	324,956
Other cash payments related to operating activities	<u>3,009,975</u>	<u>138,324</u>
Subtotal of cash outflows from operating activities	<u>(33,131,966)</u>	<u>(33,531,486)</u>
Net cash flows used in operating activities	<u>1,434,666</u>	<u>1,061,197</u>
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from return of investment	238,463	620,249
Cash received from investment income	7,355	9,422
Net cash received from disposal of subsidiaries and other business units	3,220	-
Other cash receipts related to investing activities	<u>126,517</u>	<u>-</u>
Subtotal of cash inflows from investing activities	<u>375,555</u>	<u>629,671</u>
Cash paid for the purchase and construction of fixed assets and other long-term assets	38,651	45,660
Cash paid to acquire investments	895,096	401,110
Net cash paid for the acquisition of subsidiaries and other business units	<u>9,903</u>	<u>-</u>
Subtotal of cash outflows from investing activities	<u>(943,648)</u>	<u>(446,770)</u>
Net cash flows (used in)/from investing activities	<u>(568,093)</u>	<u>182,901</u>

The notes form an integral part of these financial statements

CASH FLOW STATEMENT
2019
Unit: RMB'000

	2019	2018 (Restated)
III. CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received from capital contributions	-	92,615
Cash received from borrowings	2,950,543	1,590,770
Other cash receipts related to financing activities	462,835	-
	<u>3,413,378</u>	<u>1,683,385</u>
Subtotal of cash inflows from financing activities		
Cash paid for repayments of debts	2,542,483	1,006,542
Cash paid for distribution of dividends, profits or interest repayment	759,892	453,629
Other cash payments related to financing activities	185,948	1,262,835
	<u>(3,488,323)</u>	<u>(2,723,006)</u>
Subtotal of cash outflows from financing activities		
Net cash flows used in financing activities	<u>(74,945)</u>	<u>(1,039,621)</u>
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(5,377)</u>	<u>(29,006)</u>
V. NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>786,251</u>	175,471
Add: Opening balance of cash and cash equivalents	4,575,210	4,399,739
VI. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	<u>5,361,461</u>	<u>4,575,210</u>

The notes form an integral part of these financial statements

FINANCIAL STATEMENTS AND NOTES

2019

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 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 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, 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 CSRC, the Company completed the initial issue of 433,334,000 overseas-listed foreign-invested shares (H shares) to overseas investors. Over-allotment option was exercised on 5 January 2018 and we 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. After the initial public offering of H shares, the registered capital of the Company increased to RMB1,761,383,500, which was verified by Zhonghingcai Guanghua Certified Public Accountants LLP which in turn issued 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 issue 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.

Zhongru Investment Co., Ltd. (incorporated in the PRC) is the parent company and ultimate parent company of the Group, with its principal place of business in the PRC.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group used to adopt the International Financial Reporting Standards in preparing financial statements for information disclosure at the Hong Kong Stock Exchange. In accordance with the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong, which was published by the Hong Kong Stock Exchange in December 2010, from the financial year beginning on 1 January 2019, the Group decided to prepare the financial statements in accordance with Accounting Standards for Business Enterprises and the relevant regulations issued by the Ministry of Finance of the People’s Republic of China (“PRC Accounting Standards”) for information disclosure at the Hong Kong Stock Exchange. It is also prepared in accordance with the accounting standards, application guides, explanations and other related regulations (collectively referred to as “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.

Unless otherwise stated, the consolidated financial statements are all presented in RMB'000.

Statement of compliance with Accounting Standards for Business Enterprises and Hong Kong Companies Ordinance

The consolidated financial statements of the Group have been prepared in accordance with the Enterprise Accounting Standards for Business Enterprises and the requirements of the Hong Kong Companies Ordinance (Chapter 622), which truly and completely reflect the financial position of the Group as at 31 December 2019, as well as its operating results and cash flow in 2019.

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 2019 have been prepared based on the following significant accounting policies and estimates formulated in accordance with the 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 Company and the subsidiaries, joint ventures and associates under the Group, which is used in the preparation of these financial statements by the Company. 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)

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 the 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 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 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 recognized in profit or loss for the period, except that exchange differences that qualify for capitalization related to a specific-purpose borrowing denominated in foreign currency are capitalized 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 recognized 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 recognizes 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 derecognized 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 derecognized. 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 purchases and sales of financial assets in regular ways are recognized and derecognized on a trade date basis. The purchases and sales of financial assets in regular ways refers 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 amortized 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 receivable notes 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 recognized 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 amortized cost

Financial assets are classified as financial assets measured at amortized 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 recognize interest revenue for such financial assets. The gains or losses arising from derecognition, modification or impairment are recognized 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 set 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 recognized using the effective interest method. The change in fair value of such financial asset shall be recognized in other comprehensive income, except for interest income, impairment losses and exchange differences recognized in profit or loss for the current period. When the financial asset is derecognized, the cumulative gains or losses previously recognized 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 recognizes relevant dividend incomes (excluding dividend incomes taken back clearly as part of investment cost) in profit or loss for the current period, while subsequent changes in fair value is recognized as other comprehensive income without provision for impairment. When the financial assets are derecognized, the cumulative gains or losses previously recognized 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 amortized 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 recognized 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, other financial liabilities and derivatives designated as effective hedging instruments. For financial liabilities measured at fair value through profit or loss, the related transaction expense is directly recognized in profit or loss, while the related transaction expense of other financial liabilities is included in the initial recognition amount. The Group only holds financial liabilities classified as other financial liabilities.

Subsequent measurement of financial liabilities depends on their classification:

Other financial liabilities

Such financial liabilities are measured at amortized 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, contract assets and financial guarantee contracts measured at amortized cost 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 expected credit losses for the entire duration of the life.

For contract assets that contain significant financing components, the Group uses a simplified measurement method to measure loss provision based on the amount of expected credit losses for the entire duration of the life.

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 loss 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 expected credit losses for the entire duration of the life 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 expected credit losses for the entire duration of the life and calculates the interest income based on the amortized cost and effective interest rate.

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. 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. For financial instruments that have lower credit risk on the balance sheet date, the Group assumes that its credit risk has not increased significantly since the initial recognition.

Please refer to Note VIII-3 for disclosures including the Group's assumption of expected credit loss measurement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

8. Financial instruments (Continued)

Impairment of financial instruments (Continued)

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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 recognized amounts, and such lawful right is currently enforceable; it is planned that the financial assets and financial liabilities are to be netted against each other, or that they are to be realized 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 recognized at the balance sheet date and the amount initially recognized less cumulative amortization 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 derecognizes the financial asset; if the Group retains substantially all the risks and rewards of ownership of the financial asset, it does not derecognize 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 derecognizes the financial asset and recognizes any resulting assets or liabilities; if the Group has retained control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

9. Inventories

Inventories are initially measured at cost. Inventories comprises raw material, properties under development and completed properties held for sale, costs of purchase, costs of conversion and other costs. Costs for properties under development and completed properties held for sale include land costs, construction costs, capitalized interests, and other direct and indirect development expenses in relation to property development. For the delivery of inventories, their actual costs are determined using the first-in first-out method. Cost of properties under development is transferred to cost of completed properties held for sale based on actual cost upon completion of development and is allocated on weighted average basis.

On the balance sheet date, the inventories shall be calculated by the lower of cost and net realized value. When the cost is higher than the net realizable value, inventory impairment allowance shall be provided and the inventories shall be included in current profit and loss. In case the factors impacting the previous providing of the inventory impairment allowance are eliminated, making the net realizable 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 and loss.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

9. Inventories (Continued)

The net realizable 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 providing the inventory impairment allowance, raw material and finished products and completed properties held for sale shall be provided by individual inventory item, and the costs of properties under development shall be provided by categories.

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 recognized 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 is less than the share of the fair value of the investee's identifiable net assets when the investment is made, the difference is recognized 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 recognizes 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 recognizing the Group's share in the net profit or loss of the investee, the Group recognizes 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 recognized in full), save for business formed by assets invested or disposed. 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 net loss of the investee is recognized 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 carrying amount and consideration actually received is recognized in profit or loss for the current period. For long-term equity investments under 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 recognized 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 the 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 the profit or loss for the current period in proportion. Shareholders' equity recognized 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 the 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 out, etc.

An investment property is measured initially at cost. Expenditure subsequently incurred for such investment property is recognized 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 recognized in profit or loss for the period of their occurrence.

The Group subsequently measures investment properties by adopting the fair value model without provision for depreciation and adjusts its carrying value based on investment properties' fair value in balance sheet date with the difference between fair value and original carrying value recognized in profit or loss for the period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

12. Fixed assets

A fixed asset is recognized 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 derecognized; otherwise the expenditures are recognized 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. The useful life, 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 (%)
Land and buildings	20-30 years	3%	3.23%-4.85%
Machinery equipment	5-10 years	5%	9.50%-19.00%
Transportation vehicles	4-8 years	5%	11.88%-23.75%
Office equipment and others	3-10 years	1%-5%	9.90%-31.67%

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

13. Construction in progress

Construction in progress is recognized at its actual costs, which include various necessary construction expenditures during the construction period, borrowing costs capitalized 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 Group's borrowing, including borrowing interests, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency lending etc.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized, and other borrowing costs are recognized 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 its 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.

Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Borrowing costs incurred subsequently are recognized 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 interests 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 interests 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 capitalization 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 those acquisition or construction is resumed.

15. Intangible assets

Intangible assets may be recognized and initially measured at cost only when economic benefits relating to them are likely to flow into the Group as well as its 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 recognized 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 amortization 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 are classified as research expenditures and development expenditures. Research expenditure is recognized in profit or loss when occurred.

Development expenditure can only be capitalized if the following conditions are all met, namely: It is technically feasible to complete the intangible asset that can be used or sold; It is intending 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 the 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 recognized in profit or loss when occurred.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

17. Impairment of assets

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

The Group determines whether there is any indication that assets have suffered impairment losses at balance sheet date. If an impairment indication exists, the recoverable amount is estimated and impairment test is carrying out. The intangible assets with the goodwill and indefinite useful life arising from business combination should be performed impairment test at least once at the each year-end 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 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 recognized. 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 is less than its carrying amount, carrying amount is reduced to its recoverable amount, the reduction amount is recognized in profit or loss for the current period and a provision for impairment losses of such assets has been prepared.

Once an impairment loss is recognized for above-mentioned assets, it will not be reversed in 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. Benefits the Group provided to employees' spouse, children, dependent, families of the deceased employees and other beneficiaries also belong to employee benefits.

Post-employment benefits (Defined contribution plans)

Our employee participated in endowment insurance and unemployment insurance managed by local government and corresponding expenses are recognized in costs of related assets or profit or loss for the current period.

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 recognizes revenue when it performs the performance obligations in the contract, namely, 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 provisions 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 recognizes the income according to the progress of the performance, excepting 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 recognized 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 contains the obligation of transferring the commercial housing only. The Group generally recognizes 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 goods ownership, 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)

Sale of goods contracts

The sale of goods contract between the Group and the customer usually contains only the performance obligations for the transfer of concrete products. The Group generally recognizes 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 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 agreement and laws and regulations. The Group performs accounting treatments in accordance with Note III-19 with a view to providing guarantee to the customers that the assets constructed meet the established quality standards. In addition to providing guarantee 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 guarantee 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.

Changes of contract

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

- (1) If the contract change adds 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 that untransferred 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 contract and the contract change part are merged into a new contract for accounting treatment;

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

20. Revenue from contracts with customers (Continued)

Changes of contract (Continued)

- (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 that untransferred 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 recognized revenue is adjusted for current income on the contract change date.

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 of construction contract shall be measured at fair values of consideration received or receivable, and the financial assets shall be recognised at the same time as revenue:

The Group recognises as financial assets while recognising the revenue to the extent that it has an unconditional contractual right to receive specified or determinable amount of cash or another financial asset from the grantor within a certain period after the completion of construction of the relevant infrastructure.

The Group, instead of recognising the revenue for those infrastructure construction being subcontracted to other parties other than providing actual construction service, recognises financial assets or intangible assets, respectively based on the costs incurred and paid during the construction and the contract arrangement of the project.

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

The contract stipulates that the Group shall maintain the relevant infrastructure 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 recognized in accordance with the accounting policies of the construction contract mentioned above. The construction service contract revenue is measured at the fair value of the consideration receivable. Meanwhile, the contract asset is recognized using the effective interest method and measured at amortized cost, which will be written off 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 net amount after they offset 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 loss on contract assets.

Contract liabilities

The contract liabilities represent the the obligations for transfer of goods or service to customers for considerations received or receivable from customers, such as the relevant amounts received by the enterprises before transferring the promised goods or service.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

22. Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or an expense 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 shareholders' equity if it arises from a transaction or event which is recognised directly in shareholders' 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 tax bases of assets and liabilities and their carrying amounts, 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 taxes are provided using the liability method.

A deferred 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

22. Income tax (Continued)

A deferred tax asset is recognised for deductible temporary differences, 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 temporary differences can be utilised in the future.

At the balance sheet date, deferred 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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

22. Income tax (Continued)

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 taxes 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 and 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.

23. 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 leading the use of identified assets during this period of use.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

23. Leases (Continued)

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 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 lease, namely, has the right to choose to renew a lease and reasonably determine that the option will be exercised, the lease term shall also include the period covered by the option to renew lease. Where the Group has the option to terminate lease, namely, has the right to choose to terminate lease of the assets and reasonably determine that the option will not be exercised, the lease term shall include the period covered by the option to terminate 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 lease and call option or not to exercise the option to terminate lease.

As lessee

Right-of-use assets

The Group's right-of-use assets mainly include buildings and machinery equipment.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

23. Leases (Continued)

As lessee (Continued)

On the commencement date of the lease term, the Groups 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 incentives related amount enjoyed where lease incentives exist; the initial direct expenses by lessee; and the cost expected to occur by lessee to dismantle and remove the leased assets, restore the site where leased assets 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 fully depreciated over the shorter of the lease term or its useful life.

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 Groups recognises the present value of the lease payments that have not been paid 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 leased interest rate as the discount rate; if the interest rate of 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)

23. Leases (Continued)

As lessee (Continued)

Lease liabilities (Continued)

After the commencement date of the lease period, in the event of change in the actual fixed payment amount, change in the amounts expected to be payable under a residual value guarantee, change in an index or a rate used to determine lease payments, or 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 low-value asset leases. If the Group subleases or expects to sublease the leased assets, the original leases shall not be recognised as low-value asset lease. The Group does not recognise the right-of-use assets and lease liabilities for short-term leases and low-value asset leases. During different periods in the lease term, short-term leases and low-value asset leases shall be recognised in the related asset cost or current profit and 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. Otherwise, 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)

23. 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 recognized in profit or loss or the cost of underlying assets in the period when it occurs.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, and the advance receipts or lease receipts receivable relating to the original lease prior to the modification shall be deemed as the receipts of the new lease.

24. 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.

25. Profit distribution

Cash dividends of the Company are recognised as a liability when they are approved by the Board.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

26. 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 of expenditure, it is directly charged against the special reserve. If the usage of the safety production expenses forms 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 special reserve and recognised as accumulated depreciation.

27. Fair value measurement

The Group measures its investment properties, other equity instruments 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 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 highest and best use or by selling it to another market participant that would use the asset at its highest and 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 maximizes the use of relevant observable inputs and only uses unobservable inputs under the circumstances when unobservable inputs are not available or impractical to obtain.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

27. Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities 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 categorization at each balance sheet date.

28. 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. 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

28. Significant accounting judgements and estimates (Continued)

Judgements (Continued)

Method for determining the progress of construction contract performance (only apply to a situations when the control is transferred within such period)

The Group determines the performance of the performance of the construction contract in accordance with the input method. Specifically, the Group determines the performance 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 construction contract price 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. The Group determines the performance of the contract based on the cumulative actual construction cost as a percentage of the estimated total cost, and recognizes the revenue accordingly. 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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

28. Significant accounting judgements and estimates (Continued)

Judgements (Continued)

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).

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 one director in each of Yizongliangheng, Zhongyuan Environmental and Bozhou Xiangju according to the requirements of their respective articles of association. As such, the Group may exercise significant influence over Yizongliangheng, Zhongyuan Environmental and Bozhou Xiangju, and the Group’s equity investment in these companies are accounted for as investment in associates.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

28. Significant accounting judgements and estimates (Continued)

Judgements (Continued)

Entity in which the Group holds more than 50% of voting rights but has no significant influence over it

As detailed in Note V-4, in June 2019, the Group's management decided to dispose of the entire interest in its subsidiary engaging in property business. In the above property business, Zhongcheng Real Estate Development Co., Ltd. has 51% equity interests in Baoding Zhucheng Real Estate Development Co., Ltd. ("Baoding Zhucheng"). The Directors of the Group considered that despite the over 50% shareholding in Baoding Zhucheng before the disposal of property business, the Group cannot control the return from the operation of Baoding Zhucheng according to the articles of association of Baoding Zhongcheng. As such, the Group accounts for Baoding Zhucheng as an associate.

Classification of business of infrastructure construction under BOT model

Prior to the initial application of the revised Accounting Standards for Business Enterprises No. 14 – Revenue issued by the Ministry of Finance ("New Revenue Standard") by the Group on 1 January 2018, the concession right asset obtained by the Group through participation in the construction of wastewater treatment plant under the Build-Operate-Transfer ("BOT") model was accounted for as financial asset, and was recognized as financial asset according to the contract provisions in relation to the right to collect payment upon completion of construction of the infrastructure. After the initial application of new standards for revenue by the Group on 1 January 2018, such concession right asset was accounted for as contract asset.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

28. Significant accounting judgements and estimates (Continued)

Judgements (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

The unlisted equity investments held by the Group shall be measured at fair value. 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") or price to earnings ("P/E"), etc. Such multiples are measured and arrived at based on the relevant data 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)

28. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the 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.

Progress of completion of construction contract

The percentage of completion of construction contract is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Based on the progress of completion of the contract, the Group reviews and revises the estimates of contract income, contract costs and variation orders for each construction contract. The estimated construction costs are determined by our management based on the quotation provided by major contractors, suppliers or vendors from time to time and the experience of our management. In order to ensure the accuracy of estimates, management conducts periodic reviews of the management's estimates by comparing the estimated amounts to the actual amounts incurred.

Estimation of total expected costs for construction contract

Total expected costs for construction contract include: (1) direct material costs and direct labour; (2) subcontracting costs; and (3) an appropriation of variable and fixed costs and services overheads. In estimating the total expected costs for construction contracting and service contract, management mainly considers (1) current offers from subcontractors and suppliers; (2) offers agreed with subcontractors and suppliers; and (3) estimation on material costs, labour costs and overheads.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

28. 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 judgment 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 leasee

For leases of which the interest rate 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. 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 the lease liability in order to calculate the applicable incremental borrowing rate.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Change in other accounting policies and estimates

New lease standard

In 2018, the Ministry of Finance promulgated the revised “Accounting Standards for Business Enterprises No. 21 – Leases” (referred to as “new lease standard”). The new lease standard adopts a single model like the current accounting treatment of financial leases, requiring the lessee to recognize right-of-use assets and lease liabilities for all leases other than short-term leases and low-value asset leases, and recognized depreciations and interest expenses, respectively. The Group began to adopt the newly revised lease standard for accounting treatment on 1 January 2019. According to the transitional requirements, the information for the comparable period will not be adjusted and the opening balance of retained earnings of 2019 will be retrospectively adjusted based on the difference between the new lease standard and the current lease standard on the date of initial adoption:

- (1) For operating leases prior to the first day of implementation, the Group measured lease liabilities at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at the first day of implementation, and where the amount of each lease is equivalent to the amount of lease liabilities, necessary adjustments are made based on rental prepayments for the measurement of right-of-use assets.
- (2) The Group conducts impairment test on the right-of-use assets in accordance with the provisions on impairment of assets in the Group’s accounting policies and carries out corresponding accounting treatment.

The Group adopted simplified treatment for low-value operating leases prior to the first day of implementation or operating leases that will be completed within 12 months and did not recognize the right-of-use asset and lease liability. Moreover, the Group adopted the following simplified treatments for operating leases prior to the first day of implementation:

- (1) When measuring leases liabilities, the same discount rates can be used for leases with similar characteristics and the initial direct expenses can be excluded in the measurement of right-of-use assets;

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Change in other accounting policies and estimates (Continued)***New lease standard*** (Continued)

- (2) Where there are options to extend or terminate the lease, the Group determines lease terms according to the exercise of options prior to the first day of implementation and other latest circumstances.

For the minimum lease payments not made for the significant operating leases as disclosed in the 2018 financial statements, the adjustment of the difference between the present value discounted at the incremental borrowing rate as at 1 January 2019 with the Group as lessee and the lease liabilities included in the balance sheet as at 1 January 2019 are as follows:

Minimum lease payments for significant operating leases as at 31 December 2018	25,124
Less: minimum lease payments subject to simplified treatment	797
Including: Lease with remaining lease term of less than 12 months	797
Minimum lease payments under the New Lease Standards as at 1 January 2019	24,327
Weighted average at incremental borrowing rate as at 1 January 2019	7.42%
Lease liabilities as at 1 January 2019	18,561

The effects of implementation of the New Lease Standards on the balance sheets as at 1 January 2019 are as follows:

Consolidated balance sheet

	Financial statement amounts	Under the original standards	Effects
Right-of-use assets	17,723	-	17,723
Non-current liabilities due within one year	(529,170)	(526,000)	(3,170)
Lease liabilities	(15,391)	-	(15,391)
	<u>(526,838)</u>	<u>(526,000)</u>	<u>(838)</u>

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Change in other accounting policies and estimates (Continued)***New lease standard*** (Continued)*Company balance sheet*

	Financial statement amounts	Under the original standards	Effects
Right-of-use assets	27,226	-	27,226
Non-current liabilities due within one year	(182,078)	(174,000)	(8,078)
Lease liabilities	(21,030)	-	(21,030)
	<u>(175,882)</u>	<u>(174,000)</u>	<u>(1,882)</u>

The effects of implementation of the New Lease Standards on the 2019 financial statements are as follows:

Consolidated balance sheet

	Financial statement amounts	Under the original standards	Effects
Right-of-use assets	46,544	-	46,544
Non-current liabilities due within one year	(922,400)	(913,500)	(8,900)
Lease liabilities	(29,825)	-	(29,825)
	<u>(905,681)</u>	<u>(913,500)</u>	<u>7,819</u>

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Change in other accounting policies and estimates (Continued)***New lease standard*** (Continued)

The effects of implementation of the New Lease Standards on the 2019 financial statements are as follows: (Continued)

Consolidated income statement

	Financial statement amounts	Under the original standards	Effects
Management expenses	508,085	508,906	(821)
Finance costs	262,583	260,251	2,332
	<u>770,668</u>	<u>769,157</u>	<u>1,511</u>

Company balance sheet

	Financial statement amounts	Under the original standards	Effects
Right-of-use assets	19,287	-	19,287
Non-current liabilities due within one year	(518,084)	(510,000)	(8,084)
Lease liabilities	(13,087)	-	(13,087)
	<u>(511,884)</u>	<u>(510,000)</u>	<u>(1,884)</u>

Company income statement

	Financial statement amounts	Under the original standards	Effects
Management expenses	350,181	352,033	(1,852)
Finance costs	141,216	139,362	1,854
	<u>491,397</u>	<u>491,395</u>	<u>2</u>

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Change in other accounting policies and estimates (Continued)

New lease standard (Continued)

In addition, since the date of initial adoption, the Group would classify the repayment of the principle and interest of lease liabilities as cash outflows of financing activities in the cash flow statement. The repayment of short-term leases and leases of low value assets, which adopted simplified approach, and variable lease payment which is not accounted as lease liabilities will still be classified as cash outflows of operating activities.

Changes in presentation of financial statements

To meet the requirements of the Notice on Revising and Issuing Format of 2019 Annual Financial Statements for General Business Enterprises (Cai Kuai [2019] No. 6) (《關於修訂印發2019年度一般企業財務報表格式的通知》(財會[2019]6號)), for the balance sheet, “bills and accounts receivable” shall be split into “bills receivable” and “accounts receivable”, “bills and accounts payable” shall be split into “bills payable” and “accounts payable” and a new item of “accounts receivable financing” shall be included, in order to reflect the bills receivable at fair value through other comprehensive income on the balance sheet date. The Group has retrospectively adjusted the comparative amounts correspondingly. The changes in accounting policies have had no impact on the consolidated and the Company's net profit and shareholders' interests.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Change in other accounting policies and estimates (Continued)***Changes in presentation of financial statements*** (Continued)

The major impact of the retrospective adjustments resulting from the abovementioned changes in accounting policies on the financial statements are as follows:

*The Group***2019**

	Before the changes of the accounting policies	The changes of the accounting policies	Upon the changes of the accounting policies
	Balance at the end of 2018	Impact of changes in presentation of other financial statements	Balance at the beginning of 2019
Accounts receivable	-	5,964,567	5,964,567
Accounts receivable financing	-	725,086	725,086
Bills and accounts receivable	6,689,653	(6,689,653)	-
Bills payable	-	217,213	217,213
Accounts payable	-	38,956,411	38,956,411
Bills and accounts payable	39,173,624	(39,173,624)	-

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(Continued)

29. Change in other accounting policies and estimates (Continued)***Changes in presentation of financial statements*** (Continued)*The Company***2019**

	Before the changes of the accounting policies	The changes of the accounting policies Impact of changes in presentation of other financial statements	Upon the changes of the accounting policies
	Balance at the end of 2018		Balance at the beginning of 2019
Accounts receivable	-	3,874,218	3,874,218
Accounts receivable financing	-	543,448	543,448
Bills and accounts receivable	4,417,666	(4,417,666)	-
Bills payable	-	25,012	25,012
Accounts payable	-	25,089,615	25,089,615
Bills and accounts payable	25,114,627	(25,114,627)	-

IV. TAXATION

Major categories of taxes and respective tax rates of the Group during the period are set out below:

- Value-added tax (VAT) - All the Company and the domestic subsidiaries of the Company considered as general taxpayers of VAT, before 1 April 2019, output VAT is calculated by applying 6%, 10% or 16% to the taxable income, from 1 April 2019, output VAT is calculated by applying 6%, 9% or 13% to the taxable income, less deductible input VAT of the current period; other subsidiaries considered as small scale taxpayers of VAT, which is calculated by 3% to 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 of business/place of registration	Nature of business	Registered capital	Shareholding (%)		Proportion of votes (%)
				Direct	Indirect	
HCG Tianchen Construction Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	400,000	87	13	100 ^{Note 1}
HCG Installment Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	180,000	61	39	100
Hebei Construction Group Garden Engineering Co., Ltd.	PRC/PRC	Garden engineering	108,000	100	-	100 ^{Note 2}
HCG Zhuocheng Road and Bridge Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	105,000	95	5	100
Hebei Construction Group Decoration Engineering Co., Ltd.	PRC/PRC	Infrastructure construction	101,000	100	-	100
Baoding Zhongze Water Supply Co., Ltd.	PRC/PRC	Water production and supply	50,000	75	-	75
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	Wastewater treatment	1,000	-	100	100

Note 1: During the year, the registered capital of the above subsidiary changed from RMB230,000,000 to RMB400,000,000.

Note 2: The above subsidiary was acquired through business combination under the same control during the year.

Except for the business combinations, disposal of subsidiaries, and newly established subsidiaries, the scope of consolidated financial statements is consistent with the previous year.

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:

2019

	Shareholding proportion of non-controlling interests (%)	Net profit 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

2018

	Shareholding proportion of non-controlling interests (%)	Net profit attributable to minority interests	Cumulative non-controlling interests as at the end of the year
Huailai Zhongcheng Construction Development Co., Ltd.	36	46,888	100,869
Huailai Jingsheng Real Estate Development Co., Ltd.	49	(19,773)	82,564
Dangshan Aoxiang General Aviation Industry Development Co., Ltd.	20	(205)	34,916

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Subsidiaries with significant non-controlling interests

(Continued)

The following table illustrates the summarized financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	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	<u>745,763</u>	<u>26,051</u>
Current liabilities	152,920	8,705
Non-current liabilities	370,000	-
Total liabilities	<u>522,920</u>	<u>8,705</u>
Operating revenue	92	-
Net profit	5,051	19,698
Total comprehensive income	5,051	19,698
Net cash flow used in operating activities	<u>(523,669)</u>	<u>(488)</u>

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Subsidiaries with significant non-controlling interests

(Continued)

The following table illustrates the summarized financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:
(Continued)

	Huailai Zhongcheng Construction Development Co., Ltd.	Huailai Jingsheng Real Estate Development Co., Ltd.	Dangshan Aoxiang General Aviation Industry Development Co., Ltd.
2018			
Current assets	951,229	444,515	60,032
Non-current assets	<u>10,067</u>	<u>12,062</u>	<u>116,000</u>
Total assets	<u>961,296</u>	<u>456,577</u>	<u>176,032</u>
Current liabilities	634,744	288,080	1,453
Non-current liabilities	<u>46,360</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>681,104</u>	<u>288,080</u>	<u>1,453</u>
Operating revenue	689,091	-	-
Net profit/(loss)	130,244	(40,354)	(1,023)
Total comprehensive income/(loss)	130,244	(40,354)	(1,023)
Net cash flow (used in)/ generated from operating activities	<u>(3,739)</u>	<u>(64,161)</u>	<u>1</u>

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. Disposal of subsidiaries

(1) The information of the significant disposed subsidiaries of the Group is as follows:

	Place of registration	Nature of business	Total equity interests attributable to the Group (%)	Total percentage of voting rights attributable to the Group (%)	Reason for ceasing to be a subsidiary
Zhongcheng Real Estate Development Co., Ltd.	PRC	Real estate development	100	100	<i>Note 1</i>
Baoding Tiane Real Estate Development Co., Ltd.	PRC	Real estate development	66	66	<i>Note 1</i>
Sanhe Jinshibang Real Estate Development Co., Ltd.	PRC	Real estate development	55	55	<i>Note 1</i>

Note 1: The Company and Zhongming Zhiye Co., Ltd. (“Zhongming Zhiye”), which is controlled by the same parent of the Company, entered into an equity transfer agreement on 17 May 2019, pursuant to which, the Company disposed its 100% equity interest in Zhongcheng Real Estate Development Co., Ltd., 66% equity interest in Baoding Tiane Real Estate Development Co., Ltd. and 55% equity interest in Sanhe Jinshibang Real Estate Development Co., Ltd. for a consideration of RMB9,903,000, to exchange for 100% equity interest in Hebei Construction Group Garden Engineering Co., Ltd. (“Garden Engineering”) held by Zhongming Zhiye. Such reorganisation agreement was approved and became effective on the 2018 annual general meeting held on 20 June 2019, and the parties completed the necessary procedures of registration change on 24 June 2019. As such, since 24 June 2019, the Group ceased to incorporate Zhongcheng Real Estate Development Co., Ltd., Baoding Tiane Real Estate Development Co., Ltd. and Sanhe Jinshibang Real Estate Development Co., Ltd into the range of acquisition.

The above three disposed property subsidiaries are the core companies of other segments of the Group, mainly engaged in real estate development business. The Group has decided to ceased from engaging in real estate development business, while focusing on construction project contractor and subcontractor business, therefore, the disposal of the three subsidiaries has caused the discontinued operation.

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. Disposal of subsidiaries (Continued)

(1) The information of the significant disposed subsidiaries of the Group is as follows: (Continued)

Set out below are the summarized financial information of the disposed property subsidiaries of the Group upon disposal:

	Date of disposal Carrying amount	31 December 2018 Carrying amount
Current assets	4,764,564	4,359,563
Non-current assets	1,137,300	1,114,368
Current liabilities	(5,419,140)	(4,381,576)
Non-current liabilities	(96,360)	(746,360)
Shareholders' equity	386,364	345,995
Less: Minority interests	353,486	338,620
Attributable to shareholders of the parent	32,878	7,375
Disposal consideration	195,139	
Including: Net assets in corporations under common control (Note V-4)	222,651	
Minority interests in corporations under common control (Note V-4)	(17,609)	
Cash consideration paid	(9,903)	
Add: Unrealized profits from intra-group transactions between the disposed subsidiaries and parent company	51,081	
	246,220	
Increase in capital reserve from disposal of subsidiaries	213,342	

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. Disposal of subsidiaries (Continued)

(1) *The information of the significant disposed subsidiaries of the Group is as follows: (Continued)*

The operating results of the disposed subsidiaries of the Group since the beginning of the year to the date of disposal are as below:

	From 1 January 2019 to the date of disposal
Operating revenue	149,194
Operating costs	104,100
Net profit	<u>37,891</u>

(2) *Net cash paid for the disposal of the abovementioned subsidiaries*

	2019
The premium paid for the disposal of subsidiaries	9,903
Net cash and cash equivalents lost from disposal of the subsidiaries	<u>272,768</u>
Net cash paid for the disposal of the subsidiaries	<u>282,671</u>

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. Disposal of subsidiaries (Continued)

(3) Other subsidiaries which are no longer included in the scope of consolidation during this year

	Place of registration	Business nature	The Group's holding percentage (%)	The Group's voting right percentage (%)	Reason for ceasing to be a subsidiary
Hebei Construction Group Zhuoyuan Concrete Co., Ltd.	PRC	Concrete production	100	100	Note
Hebei Construction Group Youyuan Concrete Co., Ltd.	PRC	Concrete production	100	100	Note
Hebei Construction Group Qingyuan Concrete Co., Ltd.	PRC	Concrete production	100	100	Note
Hebei Construction Group Deyuan Concrete Co., Ltd.	PRC	Concrete production	100	100	Note
Hebei Construction Group Jingyuan Concrete Co., Ltd.	PRC	Concrete production	100	100	Note
Hebei Construction Group Dayuan Concrete Co., Ltd.	PRC	Concrete production	100	100	Note
Hebei Construction Group Ruiyuan Concrete Co., Ltd.	PRC	Concrete production	100	100	Note
Laiyuan County Fanyuan Concrete Co., Ltd.	PRC	Concrete production	100	100	Note

Note: The Company entered into an asset transfer agreement with Rongcheng County Muhu Concrete Co., Ltd. on 16 August 2019, disposing 100% of the equities in certain concrete companies held by the Group, with a consideration of RMB3,220,000. As at 16 August 2019, the Group no longer controlled the production and operation of the abovementioned concrete companies. Therefore, starting from 16 August 2019, the Group will no longer include the above eight concrete companies in the scope of consolidation.

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Acquisition of corporations under the same control

As mentioned in Note V-3, the acquisition of Garden Engineering by the Group through equity swap and cash consideration constitute a business combination under the common control. The combination date is determined as 24 June 2019.

The operating results for the current period of Hebei Construction Group Garden Engineering Co., Ltd. are as below:

	From the beginning of the year to the date of acquisition
Operating revenue	572,638
Net profit	37,906
Net cash flows	<u>(148,820)</u>

V. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Acquisition of corporations under the same control (Continued)

	The date of acquisition Carrying amounts	31 December 2018 Carrying amounts
Currency funds	44,229	193,049
Financial assets held for trading	197,717	136,247
Accounts receivable	131,766	150,973
Prepayments	29,128	47,124
Other receivables	231,581	269,915
Inventories	41,234	44,340
Contract assets	820,171	884,346
Other current assets	10,320	191
Fixed assets	644	450
Construction in progress	-	1,315
Deferred tax assets	11,206	8,338
Accounts payable	(683,404)	(862,451)
Contract liabilities	(162,463)	(211,450)
Employee benefits payable	(11,812)	(8,976)
Taxes payable	(22,559)	(116,899)
Other payables	(237,984)	(136,767)
Non-current liabilities due within one year	(15,000)	(47,000)
Other current liabilities	(53,123)	-
Long-term borrowings	(109,000)	(108,000)
Total	222,651	244,745
Less: Minority interests	17,609	15,248
Attributable to shareholders of the parent	205,042	229,497
Combined consideration	(8,300)	

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Currency funds

	2019	2018 (Restated)
Cash on hand	19,265	28,893
Bank deposits	6,008,387	5,507,978
Other currency funds	1,017,618	1,151,307
	7,045,270	6,688,178

As at 31 December 2019, the Group's currency funds with title restrictions amounted to RMB369,844,000 (31 December 2018: RMB677,112,000). Please refer to Note VI-19.

2. Financial assets held for trading

	2019	2018 (Restated)
Financial assets at fair value through profit or loss		
Debt instrument investment	-	4,500
Others	4,931	-
	4,931	4,500

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable

The accounts receivable of the Group are mainly for the provision of construction services and build-operate-transfer water supply services. Except for the quality guarantee deposit receivables for engineering projects and the accounts receivable for construction services, the credit period of accounts receivable is usually 1 to 3 months. The credit period of the quality guarantee deposit receivables for engineering projects is usually two to five years subsequent to the completion of construction. The amounts due to the Group by customers under the construction services for comprehensive renovation projects will be settled in installments during a period from one to twenty-five years. Except for the interest of the accounts receivable for the construction services for comprehensive renovation projects, all other receivables are non-interest-bearing.

The ageing analysis of accounts receivable is as follows:

	2019	2018 (Restated)
Within 1 year	4,718,478	3,897,894
1 to 2 years	707,684	2,121,162
2 to 3 years	483,087	429,844
Over 3 years	574,528	255,482
	<u>6,483,777</u>	<u>6,704,382</u>
Less: Bad debt allowance on accounts receivable	735,091	739,815
	<u>5,748,686</u>	<u>5,964,567</u>

Except for project quality deposits, the ageing of accounts receivable was calculated since the invoice date.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

The expected credit loss on accounts receivable is as follows:

	2019			2018 (Restated)		
	Closing balance of estimated default	Expected credit loss rate (%)	Expected credit loss for the entire duration	Closing balance of estimated default	Expected credit loss rate (%)	Expected credit loss for the entire duration
Within 1 year	4,389,706	0.00	38	3,823,353	0.34	12,855
1 to 2 years	538,653	0.96	5,151	2,120,662	1.94	41,238
2 to 3 years	194,189	100	194,189	254,764	100	254,764
3 to 4 years	125,697	100	125,697	60,665	100	60,665
4 to 5 years	58,928	100	58,928	77,111	100	77,111
Over 5 years	59,937	100	59,937	117,706	100	117,706
	5,367,110		443,940	6,454,261		564,339

As at 31 December 2019, the Group made bad debt allowance of RMB516,489,000 (31 December 2018: RMB374,929,000), and reversed bad debt allowance of RMB521,213,000 (31 December 2018: RMB168,125,000).

As at 31 December 2019, the Group's trade receivables with title restrictions amounted to RMB16,451,000 (31 December 2018: Nil). Please refer to Note VI-19.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable financing

	2019	2018 (Restated)
Bank acceptance bill	294,509	595,537
Commercial acceptance bill	963,251	129,549
	1,257,760	725,086

In 2019, no accounts receivable financing was pledged (2018: Nil).

5. Prepayments

The ageing analysis of prepayments is as follows:

	2019	2018 (Restated)
Within 1 year	1,146,057	1,317,526
1 to 2 years	127,577	15,000
2 to 3 years	8,713	32,124
Over 3 years	2,821	-
	1,285,168	1,364,650

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables

The ageing analysis of other receivables is as follows:

	2019	2018 (Restated)
Within 1 year	2,491,364	2,900,944
1 to 2 years	26,515	1,198,199
2 to 3 years	41,640	155,856
Over 3 years	30,000	66,539
	2,589,519	4,321,538
Less: Bad debt allowance on other receivables	120,520	230,226
	2,468,999	4,091,312

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:

2019

	Stage 1 Expected credit losses in the next 12 months	Stage 2 The lifetime expected credit losses	Stage 3 Credit- impaired financial assets (The 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
- Move 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)

2018 (Restated)

	Stage 1	Stage 2	Stage 3 Credit-impaired financial assets (The lifetime expected credit losses)	Total
Opening balance	94,784	-	237,746	332,530
Opening balance of the year	94,784	-	237,746	332,530
- Move to stage 2	(62,258)	62,258	-	-
- Reverse to stage 1	183,706	-	(183,706)	-
Provision during the year	55,852	-	-	55,852
Reversal during the year	(158,156)	-	-	(158,156)
Closing balance	113,928	62,258	54,040	230,226

Significant changes on book balance of other receivables that affected the change in loss allowance during the year was: the carrying amount of other receivables at stage 3 increased by RMB38,241,000 due to the debtor's deteriorating financial conditions. The Group considered that corresponding amounts will not be recovered, details of which are as follows:

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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 The lifetime expected credit losses	Stage 3 Credit-impaired financial assets (The 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
- Move 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	(1,755,884)	-	-	(1,755,884)
Closing balance	<u>2,464,501</u>	<u>32,737</u>	<u>92,281</u>	<u>2,589,519</u>

2018 (Restated)

	Stage 1 Expected credit losses in the next 12 months	Stage 2 The lifetime expected credit losses	Stage 3 Credit-impaired financial assets (The lifetime expected credit losses)	Total
Opening balance	3,882,485	-	237,746	4,120,231
Opening balance of the year	3,882,485	-	237,746	4,120,231
- Move to stage 2	(62,258)	62,258	-	-
- Reverse to stage 1	183,706	-	(183,706)	-
Addition during the year	201,307	-	-	201,307
Closing balance	<u>4,205,240</u>	<u>62,258</u>	<u>54,040</u>	<u>4,321,538</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Inventories

	2019	2018 (Restated)
Raw materials	241,145	89,702
Commercial housing	-	1,140,490
Commercial housing construction expenditure	-	941,991
	241,145	2,172,183

The management of the Group believes that there is no need to make provision for the inventory impairment.

As at 31 December 2019, there was no inventory with restricted ownership (31 December 2018: RMB293,603,000). For details, please refer to Note VI-19.

8. Contract assets

	2019			2018 (Restated)		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Completed but unsettled	40,678,932	(160,030)	40,518,902	38,914,523	(148,871)	38,765,652
Including: Non-current assets	1,332,759	(45,333)	1,287,426	969,590	-	969,590

The changes in the carrying amounts of contract assets include: (1) impairment of contract assets; (2) changes in the timing of the right to contract considerations becoming unconditional (i.e. contract assets are reclassified as accounts receivable).

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Contract assets (Continued)

The Group sells equipment to customers and provides the installation services in respect thereof, both of which constitute a single performance obligation. The Group recognizes the revenue generated from the sales of equipment to form contract assets after the control of equipment is transferred upon delivery and the examination and acceptance by customers. The contract assets form an unconditional right to consideration and carry to accounts receivable after the installation of equipment is completed.

The Group provides construction services to customers and recognizes revenue over a period of time to form contract assets. The contract assets form an unconditional right to consideration and carry to accounts receivable upon the settlement of projects.

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

	Balance at the beginning of the year	Charge for the year	Written back during the year	Balance at the end of the year
2019	148,871	150,423	(139,264)	160,030
2018 (Restated)	-	148,871	-	148,871

	2019		2019	
	Carrying amount Percentage Amount	(%)	Impairment provision Amount	Proportion (%)
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
	40,678,932	100	160,030	

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: (Continued)

	2018 (Restated)			
	Carrying amount		Impairment provision	
	Amount	Percentage (%)	Amount	Proportion (%)
Provision for impairment on an individual basis	1,355,172	3	100,661	7
Provision for impairment according to credit risk portfolio	<u>37,559,351</u>	<u>97</u>	<u>48,210</u>	<u>0.13</u>
Provision for impairment according to credit risk portfolio	<u>38,914,523</u>	<u>100</u>	<u>148,871</u>	

As at 31 December 2019, the contract assets with limited ownership of the Group amounted to RMB1,295,121,000 (31 December 2018: Nil), please refer to Note VI-19.

9. Other current assets

	2019	2018 (Restated)
Prepaid VAT	16,470	33,636
Prepaid EIT	33,735	27,069
Prepaid surcharges	41,158	19,997
Prepaid personal income tax	9,223	7,697
Prepaid stamp duty	9,197	9,923
Prepaid land appreciation tax	-	15,388
Others	7,953	1,627
	<u>117,736</u>	<u>115,337</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-term receivables

The ageing analysis of long-term receivables is as follows:

	2019	2018 (Restated)
Receivables under concession projects	119,901	-
Less: Long-term receivables due within one year	26,061	-
	93,840	-

The ageing of long-term receivables shall be calculated since the date when the budget needed for the completion of concessionary project is settled. The management of the Group considers that there is no need to provide for bad debts for the long-term receivables.

11. Long-term equity investments

	2019	2018 (Restated)
Joint ventures		
Qinhuangdao Yuanji Road Construction Management Co., Ltd.	405,918	-
Financial guarantee for a joint venture Beijing Rungucheng Investment Management Co., Ltd.	15,742	-
	1,443	-
Associates		
Yizongliangheng	56,755	-
Rongcheng County Hengda Construction Investment Co., Ltd.	29,141	29,064
Bozhou Xiangju	15,576	16,484
Zhongyuan Environmental Protection Guangan Zhongcheng Real Estate Development Co., Ltd.	5,440	2,511
	-	568,995
Baoding Zhucheng	-	117,746
Chengdu New Era Tiancheng Properties Co., Ltd.	-	68,856
Dalian Runtian Housing Development Co., Ltd.	-	48,163
Hebei Zitan Real Estate Development Co., Ltd.	-	19,943
Xiaoyan Culture Communication Co., Ltd.	-	1,404
	530,015	873,166

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Long-term equity investments (Continued)

Key information of associates and joint ventures:

2019

	Principal place of business	Nature of business	Registered share capital	Percentage of equity attributable to the Company (%)	Accounting treatment/ Place of registration
Joint ventures					
Qinhuangdao Yuanji 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 Protection	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 management	100,000	29	Equity Method

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Long-term equity investments (Continued)

2018 (Restated)

	Principal place of business	Nature of business	Registered share capital	Percentage of equity attributable to the Company (%)	Accounting treatment/ Place of registration
Associates					
Rongcheng Hengda Construction Investment Co., Ltd.	PRC/PRC	Infrastructure construction	100,000	29	Equity Method
Baoding Xiaoyan Culture Communication Co., Ltd.	PRC/PRC	Culture and media	5,800	31	Equity Method
Dalian Runtian Housing Development Co. Ltd.	PRC/PRC	Property development	325,052	15	Equity Method
Baoding Zhucheng	PRC/PRC	Property development	20,010	51	Equity Method
Chengdu New Era Tiancheng Property Co., Ltd.	PRC/PRC	Property development	120,000	30	Equity Method
Guangan Zhongcheng Real Estate Development Co., Ltd.	PRC/PRC	Property development	50,000	30	Equity Method
Hebei Zitan Real Estate Development Co., Ltd.	PRC/PRC	Property development	50,000	40	Equity Method
Bozhou Xiangju	PRC/PRC	Construction management	150,000	11	Equity Method
Zhongyuan Environmental Protection	PRC/PRC	Construction management	167,380	5	Equity Method

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Long-term equity investments (Continued)

The following table sets forth the insignificant consolidated financial information of joint ventures:

	2019	2018 (Restated)
Total carrying values of investment	530,015	873,166
Total amounts calculated as per shareholding as follows		
Net profit/(loss)	8,572	(164,626)
Total comprehensive income/(loss)	8,572	(164,626)

As at the balance sheet date, the management of the Group considers that no impairment provision is required for long-term equity investments.

12. Other equity instrument investments

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
Baoding Taihang Heyi Cement 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>	

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Other equity instrument investments (Continued)

2018 (Restated)

	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.	47,500	493,000	-	Strategic investment
Baoding Taihang Heyi Cement Co., Ltd.	33,700	73,700	27,844	Strategic investment
Qinhuangdao Smooth Road Construction and Management Co., Ltd.	-	3,000	-	Strategic investment
	81,200	569,700	27,844	

As at 31 December 2019, the management of the Group considers that no impairment provision is required for other equity instrument investments.

The Group disposed of other equity instrument investments of RMB1,957,500 due to the disposal of a subsidiary, Hebei Construction Group Deyuan Concrete Co., Ltd. There were no transfer of accumulated gain and loss to retained earnings. Such other equity instrument investments were additions to investments in 2019 (2018: nil).

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Investment property

Subsequently measured by adopting the fair value model:

2019

	Houses and buildings
Opening balance	137,402
Adjustment on the fair value	(2,652)
Closing balance	<u>134,750</u>
2018 (Restated)	
	Houses and buildings
Opening balance	135,439
Adjustment on the fair value	<u>1,963</u>
Closing balance	<u>137,402</u>

Such investment property is leased to a third party under an operating lease.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Fixed assets

2019

	Land and 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	110	1,154	10,923	2,141	14,328
Disposal of subsidiaries	3,276	64	7,571	4,090	15,001
Closing balance	<u>(37,059)</u>	<u>(102,672)</u>	<u>(55,684)</u>	<u>(77,584)</u>	<u>(272,999)</u>
Carrying amount					
At the end of the year	<u>258,365</u>	<u>76,063</u>	<u>24,283</u>	<u>19,406</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>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Fixed assets (Continued)

2018 (Restated)

	Land and buildings	Machinery equipment	Vehicles	Office equipment and others	Total
Cost					
Opening balance	264,194	157,614	103,644	80,707	606,159
Acquisitions	37,731	13,914	3,751	21,293	76,689
Disposal or retirement	(11,275)	(12,226)	(21,529)	(1,097)	(46,127)
Disposal of subsidiaries	-	-	-	(3,446)	(3,446)
Closing balance	<u>290,650</u>	<u>159,302</u>	<u>85,866</u>	<u>97,457</u>	<u>633,275</u>
Accumulated depreciation					
Opening balance	(16,854)	(81,818)	(76,420)	(61,300)	(236,392)
Provision	(9,705)	(14,609)	(7,932)	(16,167)	(48,413)
Disposal or retirement	850	6,991	17,089	852	25,782
Disposal of subsidiaries	-	-	-	1,487	1,487
Closing balance	<u>(25,709)</u>	<u>(89,436)</u>	<u>(67,263)</u>	<u>(75,128)</u>	<u>(257,536)</u>
Carrying amount					
At the end of the year	<u>264,941</u>	<u>69,866</u>	<u>18,603</u>	<u>22,329</u>	<u>375,739</u>
At the beginning of the year	<u>247,340</u>	<u>75,796</u>	<u>27,224</u>	<u>19,407</u>	<u>369,767</u>

As at 31 December 2019, the Group pledged a fixed asset of RMB159,514,000 to secure a long-term bank borrowing of more than five years of RMB111,680,000 (31 December 2018: the Group pledged a fixed asset of RMB6,206,000 to secure a short-term bank borrowing of RMB42,000,000). For details, please refer to Note VI-19.

As at 31 December 2019, the management of the Group considers that no impairment provision is required for fixed assets.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Right-of-use assets

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)
Provision	(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 2019, 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)

16. Intangible assets

2019

	Land use rights
Cost	
Opening balance	42,862
Addition in the year	4,218
Closing balance	47,080
Accumulated depreciation	
Opening balance	(6,367)
Provision	(5,080)
Closing balance	(11,447)
Carrying amount	
At the end of the year	35,633
At the beginning of the year	36,495

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Intangible assets

2018 (Restated)

	Land use rights
Cost	
Opening balance	42,862
Closing balance	42,862
Accumulated depreciation	
Opening balance	(5,504)
Provision	(863)
Closing balance	(6,367)
Carrying amount	
At the end of the year	36,495
At the beginning of the year	37,358

As at 31 December 2019, the Group has no intangible assets with restricted ownership.

As at 31 December 2019, 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)

17. Deferred income tax assets/liabilities

Certain deferred tax assets and liabilities recognized have been offset and the Group presents such net amount after offset in the balance sheet. As at 31 December 2019, the offset amount was RMB74,614,000 (31 December 2018: RMB50,402,000).

Deferred income tax assets recognized:

	2019	2018 (Restated)
Asset impairment provision	229,319	277,002
Unrealized profit from internal transactions	2,366	14,268
Deductible losses	256	17,633
Withholding expenses	35,505	37,089
Profit and loss from changes in fair value	5,364	-
Prepaid enterprise income tax for the property companies	-	24,318
	272,810	370,310

The Group believes that if deferred income tax related to deductible losses and tax credits is recognized, sufficient deductible losses and tax credits will be able to generate an estimated basis for the taxable income before they are due.

As at 31 December 2019, the unrecognized deductible temporary differences for deferred income tax assets of the Group amounted to RMB143,275,000 (31 December 2018: RMB22,137,000) and the deductible loss amounted to RMB479,792,000 (31 December 2018: RMB47,816,000), falling due from 2020 to 2024 (31 December 2018: 2019 to 2023).

The Group believes that it is unlikely to generate the taxable income used to offset the above deductible temporary differences and deductible losses in the future, so the deferred income tax assets of the above items have not been recognized.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Deferred income tax assets/liabilities (Continued)

Deferred income tax liabilities recognized:

	2019	2018 (Restated)
Fair value adjustment for investment property	29,947	30,102
Fair value adjustment for other equity investments	44,667	20,300
	74,614	50,402

18. Asset impairment provisions

2019

	Opening balance	Provision for the year	Decrease during the year		Closing balance
			Reversal	Decrease due to disposal of subsidiaries	
Bad debt allowance	970,041	576,208	(627,572)	(63,066)	855,611
Impairment provision for contract assets	148,871	150,423	(139,264)	-	160,030
	1,118,912	726,631	(766,836)	(63,066)	1,015,641

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Asset impairment provisions (Continued)

2018 (Restated)

	Opening balance	Provision for the year	Decrease during the year <u>Reversal</u>	Closing balance
Bad debt allowance	865,541	430,781	(326,281)	970,041
Impairment provision for contract assets	<u>-</u>	<u>148,871</u>	<u>-</u>	<u>148,871</u>
	<u>865,541</u>	<u>579,652</u>	<u>(326,281)</u>	<u>1,118,912</u>

19. Assets with restricted ownership

	2019	2018 (Restated)
Currency funds	369,844	677,112 <i>Note 1</i>
Accounts receivable	16,451	- <i>Note 2</i>
Inventories	-	293,603 <i>Note 3</i>
Contract assets	1,295,121	- <i>Note 2 and 4</i>
Other equity instrument investments	53,527	- <i>Note 5</i>
Investment property	134,750	- <i>Note 6</i>
Fixed assets	159,514	6,206 <i>Note 7</i>
Construction in progress	<u>-</u>	<u>177,511</u> <i>Note 8</i>
	<u>2,029,207</u>	<u>1,154,432</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Assets with restricted ownership (Continued)

- Note 1:* As at 31 December 2019, the Group's currency funds with restricted ownership included bill deposits of RMB141,118,000, letters of guarantee of RMB15,993,000, with legally freezing of RMB202,733,000 and time deposit certificate pledge of RMB10,000,000. (2018: the Group's currency funds with restricted ownership included guarantee deposits for bank borrowings of RMB472,835,000, bill deposits of RMB98,717,000, guarantee deposits for mortgage loans of RMB81,944,000 and letters of guarantee of RMB23,616,000).
- Note 2:* As at 31 December 2019, the Group obtained a short-term bank borrowings 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 (2018: Nil).
- Note 3:* As at 31 December 2019, the Group obtained no bank borrowings secured by inventories with limited ownership (As at 31 December 2018, the Group obtained a three-year bank borrowings of RMB46,360,000 secured by inventories with the carrying amount of RMB293,603,000).
- Note 4:* As at 31 December 2019, the Group obtained a long-term bank borrowings of more than five years of RMB578,280,000 secured by contract assets with the carrying amount of RMB657,618,000 (2018: Nil).
- Note 5:* As at 31 December 2019, the Group obtained a two-year bank borrowings of RMB55,617,000 secured by other equity investment with the carrying amount of RMB53,527,000 (2018: Nil).
- Note 6:* 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 (2018: Nil).
- Note 7:* As at 31 December 2019, the Group obtained a long-term bank borrowings of more than five years of RMB111,680,000 secured by fixed assets with the carrying amount of RMB159,514,000 (As at 31 December 2018, the Group obtained a short-term bank borrowings of RMB42,000,000 secured by fixed assets with the carrying amount of RMB6,206,000).
- Note 8:* as at 31 December 2019, the Group obtained no bank borrowings secured by construction in progress with limited ownership (as at 31 December 2018, the Group obtained a long-term bank borrowings of more than five years of RMB169,090,000 secured by construction in progress with the carrying amount of RMB177,511,000).

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Short-term borrowings

	2019	2018 (Restated)
Unsecured loans	1,128,713	430,000
Guaranteed loans	810,000	1,163,700
Loans secured by pledges	212,000	-
Loans secured by mortgages	100,000	42,000
	2,250,713	1,635,770

As at 31 December 2019, interest rates of the above borrowings ranged from 4.4% to 10% per annum (31 December 2018: 4.7% 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:

	2019	2018 (Restated)
Within 1 year	26,760,003	28,848,884
1 to 2 years	7,669,895	8,032,785
2 to 3 years	1,296,826	1,474,833
Over 3 years	219,528	599,909
	35,946,252	38,956,411

The ageing of accounts payable was calculated since the date the procurement was recognized.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Contract liabilities

	2019	2018 (Restated)
Payable to customers for contract works	4,489,727	4,247,824
Sales of property in advance	-	818,132
	4,489,727	5,065,956

As at 31 December 2019, the decrease in contract liabilities was due to the disposal of the property business.

23. Employee benefits payable

	2019 Amount payable	Unpaid amount at the end of 2019	2018 Amount payable (Restated)	Unpaid amount at the end of 2018 (Restated)
Wages, bonuses, allowances and subsidies	726,172	89,739	607,211	74,134
Contribution to the social insurance	34,430	20,986	21,124	14,749
Including: Medical insurance	26,065	15,380	17,638	11,612
Work-related injuries insurance	3,524	2,426	1,520	1,366
Maternity insurance	4,841	3,180	1,966	1,771
Housing provident fund	45,755	31,261	27,319	24,780
	806,357	141,986	655,654	113,663
Defined contribution plans	66,847	43,968	54,901	40,515
Including: Basic pension insurance	64,093	42,207	52,786	39,161
Unemployment insurance	2,754	1,761	2,115	1,354
	873,204	185,954	710,555	154,178

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Taxes payable

	2019	2018 (Restated)
Enterprise income tax	601,766	705,646
Value-added tax	30,986	64,461
City maintenance and construction tax	1,883	17,313
Personal income tax	1,231	1,328
Land appreciation tax	-	6,354
Others	318	815
	636,184	795,917

25. Other current liabilities

	2019	2018 (Restated)
VAT amounts to be transferred to output	3,000,829	2,733,222
Financial guarantee contracts	15,742	898
	3,016,571	2,734,120

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Long-term borrowings

	2019	2018 (Restated)
Guaranteed loans	2,022,347	1,669,000
Guaranteed loans and loans secured by pledges	458,280	-
Loans secured by mortgages	167,297	215,450
Loans secured by pledges	120,000	-
Unsecured loans	10,000	115,000
	2,777,924	1,999,450
Less: Long-term borrowings due within one year	913,500	526,000
	1,864,424	1,473,450

As at 31 December 2019, interest rates of the above borrowings are 4.6% to 12.0% per annum (31 December 2018: 5.2%-12.0%).

The term analysis of long-term borrowings is as follows:

	2019	2018 (Restated)
Long-term borrowings		
Withing 1 year	917,500	526,000
1 to 2 years	1,184,714	1,069,360
2 to 5 years	181,430	404,090
Over 5 years	494,280	-
	2,777,924	1,999,450

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Lease liabilities

	2019
Lease liabilities of machinery equipment	22,032
Lease liabilities of buildings	16,693
	38,725
Less: Lease liabilities due within one year	8,900
	29,825

28. Share capital

	2019		2018 (Restated)	
	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

2019

	Share premium	Combination under common control	Total
Opening balance	1,462,156	124,776	1,586,932
Combination under common control	-	74,300	74,300
Closing balance	1,462,156	199,076	1,661,232

2018 (Restated)

	Share premium	Combination under common control	Total
Opening balance	1,388,526	124,776	1,513,302
H Shares on the Main Board of Hong Kong	73,630	-	73,630
Closing balance	1,462,156	124,776	1,586,932

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Other comprehensive income

Cumulative balance of other comprehensive income attributable to the owner of the parent company in the consolidated balance sheet:

	1 January 2019	Changes	31 December 2019
Other comprehensive income that cannot be transferred to profit or loss under the equity method			
Changes in fair value of other equity instrument investments	60,900	73,100	134,000
Changes in fair value of receivables financing	-	(14,443)	(14,443)
	<u>60,900</u>	<u>58,657</u>	<u>119,557</u>
	1 January 2018 (Restated)	Changes (Restated)	31 December 2018 (Restated)
Other comprehensive income that cannot be transferred to profit or loss under the equity method			
Changes in fair value of other equity instrument investments	-	60,900	60,900

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Other comprehensive income (Continued)

Current amount of other comprehensive income:

2019

	Amount before tax	Less: income tax	Attributable to the parent
Other comprehensive income that cannot be transferred to profit or loss under the equity method			
Changes in fair value of other equity instrument investments	97,467	24,367	73,100
Changes in fair value of receivables financing	(19,127)	(4,684)	(14,443)
	<u>78,340</u>	<u>19,683</u>	<u>58,657</u>

2018 (Restated)

	Amount before tax	Less: income tax	Attributable to the parent
Other comprehensive income that cannot be transferred to profit or loss under the equity method			
Changes in fair value of other equity instrument investments	81,200	20,300	60,900

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Special reserve

Safe production costs

	2019	2018 (Restated)
Opening balance	-	-
Appropriation for the year	721,653	905,396
Use in the year	(721,653)	(905,396)
Closing balance	-	-

According to the relevant requirements of the Administrative Measures on the Extraction and Use of Safe Production Costs of Enterprises, enterprises engaged in construction engineering and other industries are required to provide safe production costs. The changes in this year are the safety production costs accrued and used by the Group in accordance with the relevant requirements during this year.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Surplus reserve

2019

	Opening balance	Addition during the year	Decrease during the year	Closing balance
Statutory surplus reserve	295,246	122,435	-	417,681

2018 (Restated)

	Opening balance	Business combination under the common control	Addition during the year	Decrease during the year	Closing balance
Statutory surplus reserve	174,557	21,662	99,027	-	295,246

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.

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.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Retained earnings

	2019	2018 (Restated)
Retained earnings at the end of last year	1,625,641	606,270
Business combinations under common control	76,388	40,747
Effects of the initial adoption of the new lease standard	<u>(838)</u>	<u>-</u>
Opening balance for the year	1,701,191	647,017
Net profit attributable to owners of the parent	770,415	1,154,039
Less: Appropriation to statutory surplus reserve	122,435	99,027
Cash dividends paid (Note)	<u>588,415</u>	<u>-</u>
Retained earnings at the end of the year	<u>1,760,756</u>	<u>1,702,029</u>

Note: Pursuant to the resolution at the AGM on 20 June 2019, the Group declared a cash dividend of RMB0.30 (tax included) for each share, which amounted to RMB528,415,050 (tax included) based on the total share capital of the Company as at 31 December 2018. As at 31 December 2019, such cash dividend had not been paid. Garden Engineering declared the distribution of cash dividend to the original shareholders of RMB60,000,000 on 10 May 2019. As at 31 December 2019, such cash dividend was paid in full.

For the impact to retained earnings at the beginning of the period caused by the changes in accounting policies, refer to Note III-29.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Operating revenue

The operating revenue is as follows:

	2019	2018 (Restated)
Revenue from major business	40,196,157	45,877,180
Revenue from other business	880,872	1,981,534
	41,077,029	47,858,714

The operating revenue is as follows:

	2019	2018 (Restated)
Revenue from contracts with customers	41,055,621	47,849,135
Rental income	21,408	9,579
	41,077,029	47,858,714

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Operating revenue (Continued)

The operating revenue generated by contracts with customers is set out as follows:

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	-	6,687,868
Specialized and other construction	3,407,035	1,401,956	4,808,991
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	-	6,687,868
Specialized and other construction	3,407,035	1,401,956	4,808,991
Sewage treatment service	-	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 operating revenue generated by contracts with customers is set out as follows: (Continued)

2018 (Restated)

Reporting segment	Construction	Others	Total
Major operating regions			
China (excluding Hong Kong, Macau and Taiwan)	45,042,379	2,806,756	47,849,135
Major products			
Building construction	29,783,306	-	29,783,306
Infrastructure construction	11,465,910	-	11,465,910
Specialized and other construction	3,505,668	1,122,296	4,627,964
Sales of commercial housing	-	1,457,653	1,457,653
Sales of goods and others	287,495	226,807	514,302
	45,042,379	2,806,756	47,849,135
Timing of revenue recognition			
At a point of time			
Sales of commercial housing	-	1,457,653	1,457,653
Sales of goods and others	287,495	226,807	514,302
Within a period of time			
Building construction	29,783,306	-	29,783,306
Infrastructure construction	11,465,910	-	11,465,910
Specialized and other construction	3,505,668	1,122,296	4,627,964
	45,042,379	2,806,756	47,849,135

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Operating revenue (Continued)

The revenue recognized in this year included in the carrying amounts of the contract liabilities at the beginning of the year:

	2019	2018 (Restated)
Building construction	1,894,411	1,775,648
Infrastructure construction	971,658	1,144,074
Specialized and other construction	436,489	246,648
Sales of commercial housing	103,975	1,204,007
	<u>3,406,533</u>	<u>4,370,377</u>

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 is 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 fees

The operating revenue is recognized upon provision of relevant services. The contract price is usually settled within 90 days of delivery.

35. Finance expenses

	2019	2018 (Restated)
Interest expenses	485,159	368,421
Less: Interest income	158,720	158,022
Less: capitalized interest expenses	68,174	77,793
Exchange losses	5,377	29,006
	263,642	161,612

Capitalized borrowing costs amounted to RMB68,174,000 (2018: RMB77,793,000), in which RMB4,046,000 is included in construction in progress (2018: RMB18,337,000) and RMB64,128,000 is included in inventories (2018: RMB59,456,000).

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36. Other income

	2019	2018 (Restated)
Government subsidies related to daily activities	310	12,889

The government subsidies related to daily activities are as follows:

	2019	2018 (Restated)
Government subsidies related to income		
Sewage treatment subsidy (<i>Note 1</i>)	-	11,000
Special fund subsidy for comprehensive treatment of groundwater over-exploitation (<i>Note 2</i>)	-	491
Others (<i>Note 3</i>)	310	1,398
	310	12,889

Note 1: In November 2018, the Group obtained a special fund of RMB11,000,000 for water pollution prevention and control of the second phase of Dingzhou Sewage Treatment Plant.

Note 2: In December 2018, the Group obtained a special fund subsidy of RMB491,000 for the comprehensive treatment of groundwater over-extraction.

Note 3: Other government subsidies in 2018 mainly included that the listing award of RMB1,000,000 obtained from the Baoding Finance Bureau in September 2018.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Investment income

	2019	2018 (Restated)
Dividend income of other equity instrument investments held	85,141	27,844
Gains/(losses) on long-term equity investments accounted under equity method	8,572	(164,626)
Gains on disposal of subsidiaries	7,968	-
Others	75	-
	101,756	(136,782)

38. Gains from changes in fair values

	2019	2018 (Restated)
Financial assets at fair value through profit or loss	(69)	-
Investment property measured at fair value	(2,652)	1,963
	(2,721)	1,963

39. Credit impairment losses

	2019	2018 (Restated)
Bad debt gains/(losses) on accounts receivable	4,724	(206,804)
Bad debt gains on other receivables	46,640	102,304
Impairment loss for contract assets	(11,159)	(148,871)
	40,205	(253,371)

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. Expenses by nature

	2019	2018 (Restated)
Construction costs	38,310,356	43,663,921
Property development costs	91,851	967,801
Employee benefits for the management and sales staff	314,096	262,315
Research and development expenses	92,895	34,805
Depreciation and amortization in administrative expenses	11,383	12,912
Audit fees in management fees (<i>Note</i>)	3,200	4,600
Others	808,523	637,161
	<u>39,632,304</u>	<u>45,583,515</u>

Note: The auditor's remuneration incurred during this year was RMB3,200,000 (2018: RMB4,600,000).

41. Income tax expenses

	2019	2018 (Restated)
Current income tax expenses	406,131	548,515
Deferred income tax income	39,495	(82,614)
	<u>445,626</u>	<u>465,901</u>

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. Income tax expenses (Continued)

The relationship between income tax expenses and the total profit is as follows:

	2019	2018 (Restated)
Total profit	1,208,749	1,635,322
Income tax expenses at the statutory tax rate (Note)	302,187	408,831
Share of profits or losses of joint ventures and associates	(2,250)	41,157
Income not subject to tax	(21,304)	(6,961)
Non-deductible expenses	2,880	5,764
Deductible losses utilized from previous years	(1,799)	-
Unrecognized deductible temporary differences and deductible losses	157,738	11,986
Adjustment of difference in approved profit rate of subsidiaries	(2,728)	5,124
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	(5,598)	-
Income tax expense at the Group's effective rate	445,626	465,901

Note: Provision for the PRC corporate income tax expenses has been made at the applicable tax rates based on the estimated taxable profits.

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42. Earnings/(losses) per share

	2019 RMB/Share	2018 RMB/Share (Restated)
Basic earnings/(losses) per share		
Continuing operations	0.42	0.76
Discontinued operations	0.01	(0.10)

Basic earnings per share are calculated by dividing the net profit for the year 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 the basic earnings per share is as follows:

	2019	2018 (Restated)
Revenue		
Net profit/(loss) for the year attributable to ordinary shareholders of the Company		
Continuing operations	744,916	1,332,738
Discontinued operations	25,499	(178,699)
	<u>770,415</u>	<u>1,154,039</u>
Shares		
Weighted average number of ordinary shares in issue of the Company	<u>1,761,383,500</u>	<u>1,761,075,000</u>

As at 31 December 2019, 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)

43. Cash flow from operating activities

Reconciliation of net profit to cash flows generated from operating activities:

	2019	2018 (Restated)
Net profit	763,123	1,169,421
Add: Credit impairment loss	(40,205)	253,371
Listing expense	-	9,065
Depreciation of fixed assets	44,792	48,413
Depreciation of right-of-use assets	5,486	-
Amortisation of intangible assets	5,080	863
Gains on the disposal of fixed assets, intangible assets and other long-term assets	(304)	(2,377)
Losses/(gains) of changes in fair value	2,721	(1,963)
Decrease in short-term financial guarantee contracts	(292)	(13,276)
Finance expenses	279,690	159,765
Investment (gains)/losses	(101,756)	136,782
Decrease/(increase) in deferred income tax assets	39,971	(82,614)
(Increase)/Decrease in inventories	(395,378)	28,451,962
Increase in operating receivables	(2,778,292)	(39,875,821)
Increase in operating payables	2,510,987	10,677,867
Net cash flows from operating activities	335,623	931,458

VI. NOTES TO KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Cash and cash equivalents

	2019	2018 (Restated)
Cash	7,045,270	6,688,178
Including: Cash on hand	19,265	28,893
Bank deposits on demand	5,798,504	5,294,413
Other currency funds on demand	857,657	687,760
Restricted cash and cash equivalents of the Company or subsidiaries of the Group	369,844	677,112
Closing balance of cash and cash equivalents	6,675,426	6,011,066

	2019	2018 (Restated)
Closing balance of cash for the year	6,675,426	6,011,066
Less: Opening balance of cash for the year	6,011,066	5,406,814
Net increase in cash and cash equivalents	664,360	604,252

45. Investing and financing activities that do not involve cash receipts and payments

Investing and financing transactions that do not require the use of cash or cash equivalents but have a direct impact on current financial position or future cash flow:

	2019	2018
Conversion of debt into capital	66,000	-

VII. SEGMENT REPORT

1. Operating segments

For management purposes, the Group is organized into operating segments 2 operating segments as follows based on their products and services:

- (1) The construction contracting segment mainly engages in 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 operating segments 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.

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

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	87,212	10,774	(89,414)	8,572
Credit impairment losses	45,504	(40,376)	(45,333)	(40,205)
Depreciation and amortization	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
Long-term equity investments in associates and joint ventures	483,690	46,325	-	530,015
Increase in non-current assets other than long-term equity investments	47,013	34,815	-	81,828

VII. SEGMENT REPORT (Continued)**1. Operating segments** (Continued)

2018 (Restated)

	Construction contracting	Others	Adjustment and offset	Total
Sales to external customers	45,042,379	2,816,335	-	47,858,714
Intersegment sales	917,660	82,798	(1,000,458)	-
Losses/(gains) on investments in joint ventures and associates	(127)	164,753	-	164,626
Credit impairment losses	147,205	106,166	-	253,371
Depreciation and amortization	32,924	16,352	-	49,276
Total profit/(loss)	1,736,774	(39,694)	(61,758)	1,635,322
Total assets	67,779,095	9,813,436	(15,152,142)	62,440,389
Total liabilities	61,596,509	7,825,073	(12,913,538)	56,508,044
Long-term equity investments in associates and joint ventures	48,060	825,106	-	873,166
Increase in non-current assets other than long-term equity investments	184,721	61,189	-	245,910

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 of major customers

No operating revenue from a single customer amounted to 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:

2019

Financial assets

	Measured at fair value through total comprehensive income Required by the standards	Measured at amortized cost	Financial assets at fair value through profit and loss designated	Total
Currency funds	-	7,045,270	-	7,045,270
Held-for-trading financial assets	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
Long-term receivables	-	93,840	-	93,840
Other equity investments	-	-	779,054	779,054
	4,931	15,356,795	2,036,814	17,398,540

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**1. Classification of financial instruments** (Continued)

Financial liabilities

	Financial liabilities at amortized 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
Other current liabilities	15,742
Long-term borrowings	1,864,424
Lease liabilities	29,825
	46,710,305

2018 (Restated)

Financial assets

	Measured at fair value through total comprehensive income Required by the standards	Measured at amortized cost	Financial assets at fair value through profit and loss designated	Total
Currency funds	-	6,688,178	-	6,688,178
Held-for-trading financial assets	4,500	-	-	4,500
Accounts receivable	-	5,964,567	-	5,964,567
Accounts receivable financing	-	-	725,086	725,086
Other receivables	-	4,091,312	-	4,091,312
Other equity investments	-	-	569,700	569,700
	4,500	16,744,057	1,294,786	18,043,343

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**1. Classification of financial instruments** (Continued)

Financial liabilities

	Financial liabilities at amortized cost
Short-term borrowings	1,635,770
Bills payable	217,213
Accounts payable	38,956,411
Other payables	4,949,029
Non-current liabilities due within one year	526,000
Other current liabilities	898
Long-term borrowings	<u>1,473,450</u>
	<u>47,758,771</u>

2. Transfer of financial assets***Financial assets being transferred but not derecognized as a whole***

As at 31 December 2019, the carrying amount of bills endorsed to suppliers for settlement of accounts payable amounted to RMB428,700,000 (31 December 2018: RMB327,091,000). 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 2019, the carrying amount for settlement of accounts payable of the Group amounted to RMB428,700,000 (31 December 2018: RMB327,091,000).

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

2. Transfer of financial assets (Continued)

Financial assets being transferred but not derecognized 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 derecognized. 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 of 31 December 2019, the original carrying amount of accounts receivable transferred under such arrangements but not yet settled was RMB301,956,000 (31 December 2018: Nil). As of 31 December 2019, the carrying amount of the assets under the Continuing Involvement of the Group was RMB301,956,000 (31 December 2018: Nil) and the related liabilities amounted to RMB301,956,000 (31 December 2018: Nil), which was included in accounts receivable and short-term liabilities, respectively.

Transferred financial assets that are derecognized as a whole with continuing involvement

As at 31 December 2019, the carrying amount of bills endorsed to suppliers for settlement of accounts payable amounted to RMB814,360,000 (31 December 2018: RMB653,961,000). As at 31 December 2019, the bills has 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 account payables settled by the bills were derecognized. In the opinion of the Group, the fair value of the Group's Continuing Involvement is not significant.

During the year ended 31 December 2019, 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 customer 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.

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 such as the counterparty rating, guarantee method, collateral category, repayment method 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;

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

3. Financial instruments risks (Continued)

Credit risk (Continued)

- (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.

The assessment of a significant increase in credit risk and calculation of expected credit losses both involve forward-looking information. The Group identifies key economic ratios that influence credit risk and expected credit losses by historical data analysis.

The impact of these economic indicators on the probability of default and the loss given default varies to different businesses.

As at 31 December 2019, no impairment provision was provided for impairment losses for the amount which was overdue over 30 days based on 12-month expected credit loss (31 December 2018: Nil).

As at 31 December 2019, external financial guarantees of RMB127,500,000 (31 December 2018: RMB54,020,000) and no phased mortgage guarantees for property development business (31 December 2018: RMB1,932,089,000) were provided by the Group. Details of financial guarantee contracts are set out in Note XI. As at 1 January 2018, management of the Group assessed overdue status of relevant borrowings, financial position of relevant debtors, and economic condition in the debtor's industry. Management is of view that relevant credit risk of such part of financial guarantee contract has not increased significantly since initial recognition. Therefore, loss allowance for the Group's financial guarantee contracts are not determined based on the amount of lifetime expected credit loss, but measured at the amount of the future 12-month expected credit loss of the above financial guarantee contracts. In 2019, 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 and mortgage guarantees for property development business.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**3. Financial instruments risks** (Continued)**Credit risk** (Continued)

For information on exposure at default of accounts receivable, other receivables and contract assets, please refer to Notes VI-3, 6 and 8. The Group is also exposed to credit risk for providing financial guarantees, details of which are disclosed in Note XI.

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

2019

	Within 1 year	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>

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**3. Financial instruments risks** (Continued)**Liquidity risk** (Continued)

2018 (Restated)

	Within 1 year	1 to 5 years	Total
Short-term borrowings	1,690,356	-	1,690,356
Bills payable	217,213	-	217,213
Accounts payable	38,956,411	-	38,956,411
Other payables	4,949,029	-	4,949,029
Non-current liabilities due within one year	654,484	-	654,484
Long-term borrowings	-	1,575,310	1,575,310
Financial guarantee contract	10,807	7,130	17,937
	<u>46,478,300</u>	<u>1,582,440</u>	<u>48,060,740</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 2019, under the assumption that other variables were held constant, if the interest rate of borrowings increase/decrease by 100 basis points, the net profit/loss of the Group will increase/decrease by RMB16,537,000 (2018: RMB10,380,000) due to the changes in interest expenses of borrowings with floating interest rates.

VIII. FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)**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 optimize its capital structure in order to minimize the costs of capital.

The Group manages its capital structure and makes adjustment 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. No changes were made in the objectives, policies or processes for capital management for the years of 2019 and 2018.

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:

	2019	2018 (Restated)
Gearing ratio	85%	61%

IX. FAIR VALUE

1. Fair value of financial instruments

The Management has assessed that the fair values of currency funds, bills and accounts receivable, other receivables, bills and accounts payable, and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The followings are the carrying amount and fair value of financial instruments except for lease liabilities and the financial instruments that the difference between the carrying amount and fair value is immaterial:

	Carrying amount		Fair value	
	31 December 2019	31 December 2018 (Restated)	31 December 2019	31 December 2018 (Restated)
Long-term borrowings	935,464	849,360	927,030	837,417

At each balance sheet date, the financial department analyses the movements in the fair value of the financial instrument and determines the major input applicable to the valuation.

The fair value of financial assets and financial liabilities is determined based on the amount for which an asset could be exchanged or a liability 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 and short-term borrowings, bonds payable and etc., are 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 2019 and 31 December 2018, the Group's exposure to non-performance risk associated with the long-term and short-term borrowings is assessed as insignificant.

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 non-listed equity investments have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors 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 considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings and net assets measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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 RMB6,550,000; with the use of more favorable assumption, the fair value increased by approximately RMB7,180,000.

2. Fair value of investment properties using fair value model

	Valuation technique	Significant unobservable inputs	Range or weighted average	
			2019	2018 (Restated)
RT-Mart	Yield approach	Yield rate Annual market rental (<i>per square meter</i>)	8.7% 123-150	8.0% 103-203

IX. FAIR VALUE (Continued)**3. Fair value hierarchy**

Assets measured at fair value:

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 measured at fair value through profit or loss				
Others	4,931	-	-	4,931
Accounts receivable financing	-	1,257,760	-	1,257,760
Financial assets at fair value through other comprehensive income	107,054	-	672,000	779,054
Investment properties				
Leased properties	-	-	134,750	134,750
	111,985	1,257,760	806,750	2,176,495

2018 (Restated)

	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				
Held-for-trading financial assets				
Debt instrument investment	-	4,500	-	4,500
Accounts receivable financing	-	725,086	-	725,086
Financial assets at fair value through other comprehensive income	-	-	569,700	569,700
Investment properties				
Leased properties	-	-	137,402	137,402
	-	729,586	707,102	1,436,688

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IX. FAIR VALUE (Continued)

3. Fair value hierarchy (Continued)

The following is an overview of the important unobservable inputs in the fair value measurement of 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.	2019: 549,000	Listed companies comparison method	Median of peers P/B multiple	2019: 0.9-1.1
	2018: 493,000	Listed companies comparison method	Median of peers P/B multiple Discount for liquidity	2018: 0.3-1.3 2019: 30% 2018: 30%
Baoding Taihang Heyi Environmental technology Co., Ltd.	2019: 117,000	Listed companies comparison method	Median of peers P/E multiple	2019: 5.3-11.3
	2018: 73,700	Listed companies comparison method	Median of peers P/B multiple Discount for liquidity	2018: 3.8-5.8 2019: 30% 2018: 30%
Qinhuangdao Smooth Road Construction Co., Ltd.	2019: 10,000	Listed companies comparison method	Median of peers P/B multiple	2019: 0.8-2.0
	2018: 3,000	Listed companies comparison method	Median of peers P/B multiple Discount for liquidity	2018: 1.1-2.5 2019: 30% 2018: 30%
Leased properties RT-Mart	2019: 134,750	Discounted cash flows method	Yield rate Annual market rental (per square metre)	2019: 8.7% 2019: 123-150
	2018: 137,402	Discounted cash flows method	Yield rate Annual market rental (per square metre)	2018: 8.0% 2018: 103-203

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:

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	-	930,977	-	930,977

2018 (Restated)

	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	-	837,417	-	837,417

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Identification standard for related party

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) Associates of the Group;
- (7) Joint ventures 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;
- (10) Other enterprises under the control or common control of the Company's major individual investors, key management personnel or their close family members.

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

2. Parent companies and subsidiaries

Name of the parent company	Place of registration	Nature of business	Proportion of shareholding (%)	Proportion of votes (%)	Registered capital
Zhongru Investment Co., Ltd.	Beijing	Investment management	68.27	68.27	RMB 1,202,500,000
Qianbao Investment Co., Ltd.	Baoding, Hebei	Investment	5.54	5.54	RMB 97,500,000

The ultimate controlling party of the Group is Zhongru Investment Co., Ltd.

Details of the Company's subsidiaries are set out in Note V-1.

3. Other related parties

Name of related party	Related party relationships
Qianbao Investment Co., Ltd.	Parent company
Yizongliangheng	Associate <i>Note 1</i>
Bozhou Xiangju	Associate
Zhongyuan Environmental Protection	Associate
Baoding Zhucheng	Associate <i>Note 2</i>
Chengdu New Era Tiancheng Properties Co., Ltd.	Associate <i>Note 3</i>
Guangan Zhongcheng Real Estate Development Co., Ltd.	Associate <i>Note 4</i>
Hebei Zitan Real Estate Development Co., Ltd.	Associate <i>Note 5</i>
Qinhuangdao Yuanji Road Construction Management Co., Ltd.	Joint venture
Zhongming Zhiye	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
Key management personnel	Key management personnel of the Group

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

3. Other related parties (Continued)

Related party relationships		
Baoding Baofeng Agricultural Ecology Technology 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	<i>Note 6</i>
Xi'an Zhongyuan Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company	<i>Note 6</i>
Baoding Taiji Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company	<i>Note 6</i>
Huailai Jingsheng Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company	<i>Note 6</i>
Hebei Guangsha Property Management Co., Ltd.	Other enterprises under common control by the parent company	<i>Note 6</i>
Laiyuan Zhongcheng Construction Development Co., Ltd.	Other enterprises under common control by the parent company	<i>Note 6</i>
Luanping Zhongcheng Real Estate Development Co., Ltd.	Other enterprises under common control by the parent company	<i>Note 6</i>
Huailai Zhongcheng Construction Development Co., Ltd.	Other enterprises under common control by the parent company	<i>Note 6</i>
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	
Yingkou Haidong Ecology Industry 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	
Qianan Modern Service Park Co., Ltd.	Joint venture 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	

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

3. Other related parties (Continued)

- Note 1:* Yizongliangheng was jointly established by the Group, Guangyuan Hejian Xingqian Business Administration Centre (Limited Partnership) and Leshan Gaoxintou Qianwei Base Construction Development Co., Ltd. on 24 January 2019, in which the Group holds 15% of its shares. Accordingly, Qianwei County Yizongliangheng Project Management Co., Ltd. became a related party of the Group since 24 January 2019.
- Note 2:* In June 2019, the Group divested its real estate business to Zhongming Zhiye (a related party of the Group). Since then, Baoding Zhucheng ceased to be a related party of the Group.
- Note 3:* In June 2019, the Group divested its property business to Zhongming Zhiye (a related party of the Group). Since then, Chengdu New Era Tiancheng Properties Co., Ltd. ceased to be a related party of the Group.
- Note 4:* Zhongcheng Real Estate Development Co., Ltd. of the Group entered into an equity transfer agreement on 13 June 2018, pursuant to which 70% equity interest of Guangan Zhongcheng Real Estate Development Co., Ltd. was disposed of at RMB486,110,000. The date of disposal was 5 July 2018. Accordingly, since 5 July 2018, Guangan Zhongcheng Real Estate Development Co., Ltd. became a related party of the Group. In June 2019, the Group divested its property business to Zhongming Zhiye (a related party of the Group). Since then, Guangan Zhongcheng Real Estate Development Co., Ltd. ceased to be a related party of the Group.
- Note 5:* Zhongcheng Real Estate Development Co., Ltd. of the Group entered into an equity purchase agreement on 16 May 2018, pursuant to which 40% equity interest of Hebei Zitan Real Estate Development Co., Ltd. was acquired at RMB20,000,000. Accordingly, since 16 May 2018, Hebei Zitan Real Estate Development Co., Ltd. became a related party of the Group. In June 2019, the Group divested its property business to Zhongming Zhiye Co., Ltd. (a related party of the Group). Since then, Hebei Zitan Real Estate Development Co., Ltd. ceased to be a related party of the Group.
- Note 6:* As mentioned in Note V-3, the acquisition of Garden Engineering by the Group through equity swap and cash consideration constitute a business combination under the common control. The combination date is determined as 24 June 2019. Accordingly, Garden Engineering was not a related party out of the range of acquisition prior to 24 June 2019, while Zhongcheng Real Estate Development Co., Ltd. and its subsidiaries, Baoding Tian'e Real Estate Development Co., Ltd. and Sanhe Jinshibang Real Estate Development Co., Ltd. were related parties out of the range of acquisition after 24 June 2019.

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties**(1) Rendering of services to related parties**

	Note	2019 Amount	2018 Amount (Restated)
Baoding Zhucheng	(1)a	155,158	55,653
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	(1)b	111,595	-
Xi'an Zhongyuan Real Estate Development Co., Ltd.	(1)c	105,500	-
Qinhuangdao Yuanji Road Construction Management Co., Ltd.	(1)d	103,218	-
Huailai Jingsheng Real Estate Development Co., Ltd.	(1)e	100,683	-
Bozhou Xiangju	(1)f	60,068	-
Zhongyuan Environmental Protection	(1)g	51,299	-
Guangan Zhongcheng Real Estate Development Co., Ltd.	(1)h	22,787	44,571
Hebei Zitan Real Estate Development Co., Ltd.	(1)i	19,398	-
Zhongcheng Real Estate Development Co., Ltd.	(1)j	14,629	-
Sanhe Baolan Heat Co., Ltd.	(1)k	6,166	41,837
Datang Baoding Heat Supply Co., Ltd.	(1)l	6,011	3,879
Hebei Qianyuan Agricultural Technology Development Co., Ltd.	(1)m	5,685	-
Huailai Zhongcheng Real Estate Development Co., Ltd.	(1)n	3,780	-
Yizongliangheng	(1)o	1,773	-
Hebei Baocang Expressway Co., Ltd.	(1)p	1,028	406
Laiyuan Zhongcheng Construction Development Co., Ltd.	(1)q	513	-
Hebei Guangsha Property Management Co., Ltd.	(1)r	2	-
Chengdu New Era Tiancheng Properties Co., Ltd.	(1)s	1	58,817
		769,294	205,163

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)**(2) Receipt of services from related parties**

	Note	2019 Amount	2018 Amount (Restated)
Baoding Tianli Labor Service Co., Ltd.	(2)a	3,239,327	3,957,142
Hebei Tianbo Construction Technology Co., Ltd.	(2)b	3,317	615
Hebei Construction Group Qianqiu Management Co., Ltd.	(2)c	-	17,642
		3,242,644	3,975,399

(3) Related party leases

As lessee

	Note	Type of leased assets	2019 Amount	2018 Amount (Restated)
Zhongming Zhiye	(3)a	Office building	2,821	1,998

Note: The transaction price of property lease between the Group and its related party was determined by both parties through negotiation with referring to market prices and other factors.

(4) Guarantees to/from related parties*Providing guarantees to related parties***2019**

Guarantor	Note	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed	The actual guaranteed amount
Qinhuangdao Yuanji Road Construction Management Co., Ltd.	(4)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)

(4) Guarantees to/from related parties (Continued)

Receiving guarantees from related parties

2019

Guarantor	Note	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed	The actual guaranteed amount
Zhongming Zhiye	(4)b	108,000	2018/10/26	2022/10/25	No	108,000
Chengdu New Era Tiancheng Properties Co., Ltd.	(4)c	399,847	2019/3/26	2021/4/1	No	394,847
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	(4)c	399,847	2019/3/26	2021/4/1	No	394,847
Baoding Taiji Real Estate Development Co., Ltd.	(4)c	399,847	2019/3/26	2021/4/1	No	394,847
Xi'an Zhongyuan Real Estate Development Co., Ltd.	(4)c	399,847	2019/3/26	2019/8/1	Yes	-
Zhongcheng Real Estate Development Co., Ltd.	(4)c	399,847	2019/3/26	2021/4/1	No	394,847
Zhongcheng Real Estate Development Co., Ltd.	(4)c	399,847	2019/5/8	2021/4/1	No	394,847
Zhongming Zhiye	(4)c	399,847	2019/4/1	2024/4/1	No	394,847
Zhongcheng Real Estate Development Co., Ltd.	(4)d	400,000	2018/7/19	2020/7/18	No	280,000
Huailai Jingsheng Real Estate Development Co., Ltd.	(4)d	400,000	2018/7/19	2020/7/18	No	280,000
Zhongcheng Real Estate Development Co., Ltd.	(4)d	400,000	2019/5/8	2020/7/18	No	280,000
Zhongming Zhiye	(4)d	400,000	2019/5/8	2023/7/18	No	280,000
Zhongming Zhiye	(4)e	100,000	2019/11/25	2020/11/24	No	100,000
Zhongming Zhiye	(4)f	150,000	2019/11/25	2020/11/24	No	25,000
Zhongming Zhiye	(4)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) Guarantees to/from related parties** (Continued)

2018 (Restated)

Guarantor	Note	Amount of guarantees	Inception date of guarantee	Expiration date of guarantee	Whether guarantee has been performed
Zhongming Zhiye Co., Ltd.	(4)b	108,000	2018/10/26	2022/10/25	No

(5) Borrowings with related parties*Capital lending*

2018 (Restated)

	Note	Borrowing amount	Start date	Due date
Chengdu New Era Tiancheng Properties Co., Ltd.	(5)a	61,505	Indefinite	Indefinite
Baoding Baofeng Agricultural Ecology Technology Co., Ltd.	(5)a	2,918	Indefinite	Indefinite
Hebei Zitan Real Estate Development Co., Ltd.	(5)a	2,300	Indefinite	Indefinite
		66,723		

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)**(5) Borrowings with related parties** (Continued)*Interest expenses of placements*

	Note	2019 Amount	2018 Amount (Restated)
Zhongming Zhiye	(5)b	-	52,964
Hebei Baocang Expressway Co., Ltd.	(5)b	-	4,159
		-	57,123

(6) Other related party transactions

	Note	2019 Amount	2018 Amount (Restated)
Emolument of key management personnel	(6)a	9,079	8,431
Waive of interest on debts	(6)b	66,000	-
Commitment to acquisition of office building	(6)c	350,000	-
		425,079	8,431

Key management personnel comprise executive directors, supervisors, independent non-executive directors and senior management.

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

(6) Other related party transactions (Continued)

Notes:

(1) SALES OR PURCHASES OF GOODS AND RENDERING OR RECEIPT OF SERVICES

- (a) In 2019, the Group provided construction services to Baoding Zhucheng at the market price of RMB155,158,000 (2018: RMB55,653,000).
- (b) In 2019, the Group provided construction services to Chengde Summer Resort Cultural Industrial Park Co., Ltd. at the market price of RMB111,595,000 (2018: Nil).
- (c) In 2019, the Group provided construction services to Xi'an Zhongyuan Real Estate Development Co., Ltd. at the market price of RMB105,500,000 (2018: Nil).
- (d) In 2019, the Group provided construction services to Qinhuangdao Yuanji Road Construction Management Co., Ltd. at the market price of RMB103,218,000 (2018: Nil).
- (e) In 2019, the Group provided construction services to Huailai Jingsheng Real Estate Development Co., Ltd. at the market price of RMB100,683,000 (2018: Nil).
- (f) In 2019, the Group provided construction services to Bozhou Xiangju at the market price of RMB60,068,000 (2018: Nil).
- (g) In 2019, the Group provided construction services to Zhongyuan Environmental Protection at the market price of RMB51,299,000 (2018: Nil).
- (h) In 2019, the Group provided construction services to Guangan Zhongcheng Real Estate Development Co., Ltd. at the market price of RMB22,787,000 (2018: RMB44,571,000).
- (i) In 2019, the Group provided construction services to Hebei Zitan Real Estate Development Co., Ltd. at the market price of RMB19,398,000 (2018: Nil).
- (j) In 2019, the Group provided construction services to Zhongcheng Real Estate Development Co., Ltd. at the market price of RMB14,629,000 (2018: Nil).
- (k) In 2019, the Group provided construction services to Sanhe Baolan Heat Co., Ltd. at the market price of RMB6,166,000 (2018: RMB41,837,000).

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

(6) Other related party transactions (Continued)

Notes: (Continued)

(1) SALES OR PURCHASES OF GOODS AND RENDERING OR RECEIPT OF SERVICES
(Continued)

- (l) In 2019, the Group provided construction services to Datang Baoding Heat Supply Co., Ltd. at the market price of RMB6,011,000 (2018: RMB3,879,000).
- (m) In 2019, the Group provided construction services to Hebei Qianyuan Agricultural Technology Development Co., Ltd. at the market price of RMB5,685,000 (2018: Nil).
- (n) In 2019, the Group provided construction services to Huailai Zhongcheng Construction Development Co., Ltd. at the market price of RMB3,780,000 (2018: Nil).
- (o) In 2019, the Group provided construction services to Yizongliangheng at the market price of RMB1,773,000 (2018: Nil).
- (p) In 2019, the Group provided construction services to Hebei Baocang Expressway Co., Ltd. at the market price of RMB1,028,000 (2018: RMB406,000).
- (q) In 2019, the Group provided construction services to Laiyuan Zhongcheng Construction Development Co., Ltd. at the market price of RMB513,000 (2018: Nil).
- (r) In 2019, the Group provided construction services to Hebei Guangsha Property Management Co., Ltd. at the market price of RMB2,000 (2018: Nil).
- (s) In 2019, the Group provided construction services to Chengdu New Era Tiancheng Properties Co., Ltd. at the market price of RMB1,000 (2018: RMB58,817,000).

(2) PURCHASES OF SERVICES FROM RELATED PARTIES

- (a) In 2019, the Group received labour services from Baoding Tianli Labor Service Co., Ltd. at the market price of RMB3,239,327,000 (2018: RMB3,957,142,000).
- (b) In 2019, the Group received labour services from Hebei Tianbo Construction Technology Co., Ltd. at the market price of RMB3,317,000 (2018: RMB615,000).
- (c) In 2019, the Group did not receive labour services from Hebei Construction Group Qianqiu Management Co., Ltd. (2018: RMB17,642,000).

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)**(6) Other related party transactions** (Continued)*Notes: (Continued)*

(3) RELATED PARTY ASSET LEASES

- (a) As of 31 December 2019, the Group leased an office building from Zhongming Zhiye and incurred leasing fees of RMB2,821,000 under the lease contract (2018: RMB1,998,000).

(4) GUARANTEES TO/FROM RELATED PARTIES

- (a) The Group provided guarantee with an amount of RMB600,000,000 for Qinhuangdao Yuanji Road Construction Management Co., Ltd. at nil consideration from 29 August 2019 to 20 December 2036, and the actual guaranteed amount as of 31 December 2019 was RMB127,500,000 (2018: Nil).
- (b) Zhongming Zhiye provided guarantee with an amount of RMB108,000,000 for the Group at nil consideration from 26 October 2018 to 25 October 2022, and the actual guaranteed amount as of 31 December 2019 was RMB108,000,000 (2018: 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., Xi'an Zhongyuan Real Estate Development Co., Ltd. and Zhongcheng Real Estate Development Co., Ltd. provided the following items with their respective present value at the valuation date: an inventory of RMB200,620,000 (the collateral value as at 31 December 2019 was RMB134,530,000), the land use right of RMB350,211,000 (the collateral value as at 31 December 2019 was RMB290,605,000), the real estate and inventory of RMB135,385,000 (the collateral value as at 31 December 2019 was RMB135,385,000), the land use right of RMB52,661,000 (released on 1 August 2019), the real estate of RMB66,167,000 (the collateral value as at 31 December 2019 was RMB66,167,000) and the construction in progress of RMB161,760,000 (the collateral value as at 31 December 2019 was RMB161,760,000) as collaterals for mortgage guarantee; from 8 May 2019 to 1 April 2021, Zhongcheng Real Estate Development Co., Ltd. provided the 51% equity interests in Huilai Jingsheng Real Estate Development Co., Ltd. and its derived equity as collaterals for pledge guarantee; from 1 April 2019 to 1 April 2024, Zhongming Zhiye provided a credit guarantee. Together, the above companies provided guarantees for the debt of RMB399,847,000 of the Group. The actual guaranteed amount as of 31 December 2019 was RMB394,847,000.

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)

(6) Other related party transactions (Continued)

Notes: (Continued)

(4) GUARANTEES TO/FROM RELATED PARTIES (Continued)

- (d) 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 value at the valuation date: the construction in progress of RMB335,333,000 and an inventory of RMB343,308,000 as collaterals for mortgage guarantee; from 8 May 2019 to 18 July 2020, Zhongcheng Real Estate Development Co., Ltd. provided the 64% equity interests in Huailai Jingsheng Real Estate Development Co., Ltd. and its derived equity as collaterals for pledge guarantee; from 8 May 2019 to 18 July 2020, Zhongming Zhiye provided a credit guarantee. Together, the above companies provided guarantees for the debt of RMB400,000,000 of the Group. The actual guaranteed amount as of 31 December 2019 was RMB280,000,000.
- (e) Zhongming Zhiye Co., Ltd. provided guarantee with an amount of RMB100,000,000 for the Group at nil consideration from 25 November 2019 to 24 November 2020, and the actual guaranteed amount as of 31 December 2019 was RMB100,000,000 (2018: Nil).
- (f) Zhongming Zhiye Co., Ltd. provided guarantee with an amount of RMB150,000,000 for the Group at nil consideration from 25 November 2019 to 24 November 2020, and the actual guaranteed amount as of 31 December 2019 was RMB25,000,000 (2018: Nil).
- (g) Zhongming Zhiye Co., Ltd. provided guarantee with an amount of RMB200,000,000 for the Group at nil consideration from 30 December 2019 to 29 December 2023, and the actual guaranteed amount as of 31 December 2019 was RMB200,000,000 (2018: Nil).

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

4. Major transactions with related parties (Continued)**(6) Other related party transactions** (Continued)*Notes: (Continued)*

(5) BORROWINGS WITH RELATED PARTIES

- (a) In 2018, Chengdu New Era Tiancheng Properties Co., Ltd. borrowed RMB61,505,000 from the Group. The borrowing is non interest-bearing and repayment of RMB329,881,000 was received during the year.

In 2018, Baoding Baofeng Agricultural Ecology Technology Co., Ltd. borrowed RMB2,918,000 from the Group. The borrowing is non interest-bearing and repayment of RMB932,000 was received during the year.

In 2018, Hebei Zitan Real Estate Development Co., Ltd. borrowed RMB2,300,000 from the Group. The borrowing is non interest-bearing.

- (b) In 2018, the interest expenses of borrowings from Zhongming Zhiye Co., Ltd. was RMB52,964,000.

In 2018, the interest expenses of borrowings from Hebei Baocang Expressway Co., Ltd. was RMB4,159,000.

(6) OTHER RELATED TRANSACTIONS

- (a) As of 31 December 2019, the total emolument of key management personnel incurred by the Group amounted to RMB9,079,000 (2018: RMB8,431,000).

- (b) As of 31 December 2019, Zhongcheng Real Estate Development Co., Ltd. waived interest payable by the Group of RMB66,000,000 (2018: Nil).

- (c) Please refer to Note XIV.

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balance of amounts due from/to related parties**(1) Accounts receivable**

	2019		2018 (Restated)	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Zhongcheng Real Estate Development Co., Ltd.	14,370	2,695	-	-
Baoding Zhucheng Datang Baoding Heat Supply Co., Ltd.	6,299	-	-	-
Chengdu New Era Tiancheng Properties Co., Ltd.	4,217	554	88	-
Sanhe Baolan Heat Co., Ltd.	2,518	-	10,310	-
Hebei Zitan Real Estate Development Co., Ltd.	1,913	-	431	-
Baoding Taiji Real Estate Development Co., Ltd.	31	-	-	-
	3	-	-	-
	29,351	3,249	10,829	-

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balance of amounts due from/to related parties (Continued)**(2) Contract assets**

	2019		2018 (Restated)	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Yizongliangheng Guangan Zhongcheng Real Estate Development Co., Ltd.	156,298	-	-	-
Baoding Zhucheng Zhongcheng Real Estate Development Co., Ltd.	143,891	-	119,079	-
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	122,572	-	-	-
Xi'an Zhongyuan Real Estate Development Co., Ltd.	106,012	-	-	-
Bozhou Xiangju Huailai Jingsheng Real Estate Development Co., Ltd.	93,169	-	21,819	-
Qinhuangdao Yuanji Road Construction Management Co., Ltd.	63,867	-	-	-
Zhongyuan Environmental Protection	47,050	-	-	-
Chengdu New Era Tiancheng Properties Co., Ltd.	42,809	-	-	-
	42,152	-	-	-
	10,481	-	-	-
	7,039	-	23,822	-

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balance of amounts due from/to related parties (Continued)

(2) Contract assets (Continued)

	2019		2018 (Restated)	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Hebei Qianyuan Agricultural Technology Development Co., Ltd.	3,997	-	-	-
Sanhe Baolan Heat Co., Ltd.	3,983	-	24,047	-
Datang Baoding Heat Supply Co., Ltd.	3,836	-	-	-
Hebei Baocang Expressway Co., Ltd.	1,858	-	-	-
Laiyuan Zhongcheng Construction Development Co., Ltd.	1,350	-	-	-
Hebei Zitan Real Estate Development Co., Ltd.	291	-	-	-
Hebei Guangsha Property Management Co., Ltd.	200	-	-	-
Huailai Zhongcheng Construction Development Co., Ltd.	9	-	-	-
	850,864	-	188,767	-

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balance of amounts due from/to related parties (Continued)**(3) Prepayments**

	2019		2018 (Restated)	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Yizongliangheng	79	-	-	-
	79	-	-	-

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balance of amounts due from/to related parties (Continued)**(4) Other receivables**

	2019		2018 (Restated)	
	Book balance	Bad debt allowance	Book balance	Bad debt allowance
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	3,528	-	-	-
Guangan Zhongcheng Real Estate Development Co., Ltd.	460	-	-	-
Zhongming Zhiye Zhongcheng Real Estate Development Co., Ltd.	24	-	129,153	-
Qianbao Investment Co., Ltd.	20	-	-	-
Chengdu New Era Tiancheng Properties Co., Ltd.	-	-	455,749	-
Baoding Baofeng Agricultural Ecology Technology Co., Ltd.	-	-	45,946	-
Hebei Zitan Real Estate Development Co., Ltd.	-	-	2,300	-
	4,037	-	633,148	-

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balance of amounts due from/to related parties (Continued)**(5) Accounts payable**

	2019	2018 (Restated)
Baoding Tianli Labor Service Co., Ltd.	902,220	2,134,903
Hebei Tianbo Construction Technology Co., Ltd.	1,099	278
Hebei Construction Group Qianqiu Management Co., Ltd.	569	-
Baoding Zhucheng	137	-
Xi'an Zhongyuan Real Estate Development Co., Ltd.	122	-
Hebei Baoyu Surveying Service Co., Ltd.	87	-
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	17	-
Zhongming Zhiye	-	3,500
	904,251	2,138,681

(6) Other payables

	2019	2018 (Restated)
Qinhuangdao Yuanji Road Construction Management Co., Ltd.	52,001	-
Key management personnel	26,046	22,947
Baoding Taiji Real Estate Development Co., Ltd.	4,171	-
Hebei Construction Group Qianqiu Management Co., Ltd.	3,694	-
Zhongcheng Real Estate Development Co., Ltd.	3,233	-
Zhongming Zhiye	2,806	5,625
Hebei Zitan Real Estate Development Co., Ltd.	1,647	-
Baoding Zhucheng	-	123,696
Baoding Tianli Labor Service Co., Ltd.	-	14,653
Hebei Tianbo Construction Technology Co., Ltd.	-	1,000
	93,598	167,921

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(Continued)

5. Balance of amounts due from/to related parties (Continued)**(7) Contract liabilities**

	2019	2018 (Restated)
Huailai Zhongcheng Construction Development Co., Ltd.	32,842	-
Zhongcheng Real Estate Development Co., Ltd.	20,884	-
Baoding Zhucheng	16,243	3,642
Hebei Zitan Real Estate Development Co., Ltd.	13,006	-
Luanping Zhongcheng Real Estate Development Co., Ltd.	10,790	-
Xi'an Zhongyuan Real Estate Development Co., Ltd.	1,645	-
Chengde Summer Resort Cultural Industrial Park Co., Ltd.	300	-
Datang Baoding Heat Supply Co., Ltd.	63	-
Sanhe Baolan Heat Co., Ltd.	40	953
Hebei Tianbo Construction Technology Co., Ltd.	15	-
Hebei Baocang Expressway Co., Ltd.	-	45
	95,828	4,640

(8) Entrusted loan

	2019	2018 (Restated)
Zhongming Zhiye	-	115,000

Except for interest-bearing entrusted loan with Zhongming Zhiye Co., Ltd, receivables from and payables to related parties are non interest-bearing, unsecured and have no fixed terms of repayment.

XI. CONTINGENCIES

	2019	2018 (Restated)
Total contingent liabilities arisen from providing external guarantees (<i>Note 1</i>)	127,500	54,020
Total contingent liabilities arisen from mortgage loan guarantees (<i>Note 2</i>)	-	1,932,089
	127,500	1,986,109

Note 1: As at 31 December 2019, the banking facilities granted to third parties subject to guarantees given to the banks by the Group were utilised to the extent of approximately RMB127,500,000 million (31 December 2018: RMB54,020,000), and the guarantee contract liabilities amounted to RMB15,742,000 (31 December 2018: RMB898,000).

Note 2: The Group's guarantee periods commence from the dates of grants of relevant mortgage loans and end upon the issuance of building ownership certificates to the buyer, which generally becomes effective within one to two years after the buyer's payment. The management of the Group considers that the fair value of such guarantees is not significant. If there is a default in the mortgage loan, the net realizable value comprises outstanding principal amount, interest payable and interest penalties.

XII. LEASES**1. As lessor**

The Group leases out certain buildings for a term of 20 years which constitutes operating lease. Pursuant to the lease contracts, rents are adjusted annually based on prevailing market rates. In 2019, the Group's income derived from lease of buildings was RMB2,552,000. Leased buildings are presented as investment properties, please refer to Note VI-13.

The Group also leases out certain idle machinery equipment for a term within 1 year, which constitutes operating lease. In 2019, the Group's income derived from lease of machinery equipment was RMB18,856,000.

XII. LEASES (Continued)**1. As lessor** (Continued)**Operating lease**

Profit or loss related to operating lease is as follows:

	2019
Lease income	21,408

Pursuant to the lease contract entered into with the lessee, the minimum lease payment of non-cancellable lease is as follows:

	2019
Within 1 year (including 1 year)	3,663
1 to 2 years (including 2 years)	4,200
	7,863

Please refer to Note VI-13 for details of investment properties under operating lease.

2. As lessee

	2019
Interest expense on lease liabilities	2,332
Short-term lease expense under simplified approach through profit or loss	14,347
Revenue from subleasing right-of-use assets	13,872
Total cash outflow in relation to leases	30,400
	60,951

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 month to 5 years. Lease contracts usually provide that the Group shall not sublease the leased assets.

Significant operating lease (only applicable in Year 2018)

Pursuant to the lease contract entered into with the lessor, the minimum lease payment of non-cancellable lease is as follows:

	2018 (Restated)
Within 1 year (including 1 year)	10,735
1 to 5 years (including 5 years)	15,370
Over 5 years	<u>15,136</u>
	<u>41,241</u>

XIII. COMMITMENTS

	2019	2018 (Restated)
Contracted but not provided for		
Capital commitment	83,200	65,718
Property development commitment	-	169,597
Commitment to acquisition of office building	<u>350,000</u>	<u>-</u>
	<u>433,200</u>	<u>235,315</u>

XIV. POST BALANCE SHEET DATE EVENTS

On 31 December 2019, the Group entered into a new office building acquisition agreement with Baoding Zhucheng, an associate of Zhongming Zhiye, to acquire certain floors of the commercial office building of the Hebei Construction Business Center Project, which is located in Lugang Road, Baoding City, Hebei Province and boasts of 21 above-ground floors (excluding the 4th, 5th and 6th floor) with an area of approximately 41,017.39 m², 3 under-ground floors and a total of 300 under-ground car parking spaces. The consideration for acquisition was RMB350,000,000, of which RMB30,000,000 shall be settled after entering into the agreement, RMB170,000,000 shall be settled by 30 May 2020, and RMB150,000,000 shall be settled by 30 May 2021.

On 31 December 2019, the Group entered into a new office building acquisition agreement with Baoding Zhucheng, a related party, pursuant to which Baoding Zhucheng proposed to sell the target property at a consideration of RMB350,000,000 for use as the Group's office premise.

The counterparty, Baoding Zhucheng is held indirectly as to 51% by Zhongming Zhiye, and Zhongming Zhiye is owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the controlling shareholders of the Group.

The target property represents certain floors of the commercial office building of the Hebei Construction Business Center Project constructed by Baoding Zhucheng, which is located in Lugang Road, Baoding City, Hebei Province and boasts of 21 above-ground floors (excluding the 4th, 5th and 6th floor) with an area of approximately 41,017.39 m², 3 under-ground floors and a total of 300 under-ground car parking spaces. Its land use right shall be effective for the period from 11 July 2017 to 11 July 2057. Baoding Zhucheng had obtained the relevant licenses and approvals for the construction and pre-sale of the target property.

The overall development costs incurred by the target property upon being ready for delivery will be approximately RMB302.26 million.

On 12 May 2020, the Board of the Company held a meeting which considered and approved the 2019 profit distribution proposal to distribute cash dividends of RMB0.14 per share.

XV. OTHER IMPORTANT EVENTS

1. Discontinued operations

As stated in Note V. 3, the management of the Group decided to dispose 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	2018 (Restated)
Revenue	149,194	1,476,666
Costs and expenses	110,014	1,589,698
Total profit/(loss)	39,180	(113,032)
Income tax expenses	1,289	53,353
Net profit/(loss)	37,891	(166,385)
Net profit/(loss) from discontinued operations	37,891	(166,385)
Including: Net profit/(loss) from discontinued operations attributable to shareholders of the parent	25,499	(178,699)

Cash flow of the discontinued operations is as follows:

	2019	2018 (Restated)
Net cash flow used in operating activities	(115,968)	(72,379)
Net cash flow (used in)/from investing activities	(13,424)	183,685
Net cash flow from financing activities	7,428	7,674

XV. OTHER IMPORTANT EVENTS (Continued)**2. Other financial information**

Directors' and chief executive's remuneration is disclosed as follows:

	2019	2018
Fees	870	600
Others emoluments:		
Salaries, allowances and benefits in kind	1,620	1,955
Performance-related bonuses	5,122	5,020
Pension scheme contributions	438	514
	8,050	8,089

(1) Independent non-executive directors

	2019	2018
Xiao Xuwen	237	150
Shen Lifeng	211	150
Chen Xin	211	150
Chan Ngai Sang Kenny	211	150
	870	600

As at 31 December 2019, there was no other remuneration payable to the independent non-executive directors during the year (2018: Nil).

XV. OTHER IMPORTANT EVENTS (Continued)**2. Other financial information** (Continued)**(2) Executive directors, non-executive directors and chief executive**

	Note	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
2019						
<i>Executive directors:</i>						
Li Baozhong		-	187	743	41	971
Shang Jinfeng		-	157	594	41	792
Zhao Wensheng	(1)	-	139	422	41	602
Liu Yongjian		-	139	429	41	609
Liu Shuzhen	(2)	-	129	412	31	572
<i>Non-executive directors:</i>						
Li Baoyuan		-	162	737	-	899
Cao Qingshe		-	157	594	41	792
<i>Supervisors:</i>						
Yu Xuefeng		-	139	401	41	581
Liu Jingqiao		-	103	197	40	340
Feng Xiujian		-	103	205	40	348
Yue Jianming		-	102	188	40	330
Wang Feng		-	103	200	41	344
		-	1,620	5,122	438	7,180

Notes:

- (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;
- (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.

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2019

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XV. OTHER IMPORTANT EVENTS (Continued)

2. Other financial information (Continued)

(2) Executive directors, non-executive directors and chief executive (Continued)

	Note	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
2018						
<i>Executive directors:</i>						
Li Baozhong		-	223	720	48	991
Shang Jinfeng		-	184	576	48	808
Liu Shuzhen		-	175	461	48	684
Liu Yongjian		-	175	720	48	943
<i>Non-executive directors:</i>						
Li Baoyuan		-	164	720	-	884
Cao Qingshe		-	193	576	48	817
<i>Supervisors:</i>						
Yu Xuefeng	(1)	-	171	461	48	680
Mao Yuanli	(2)	-	111	461	48	620
Liu Jingqiao		-	138	85	45	268
Feng Xiujian		-	141	80	45	266
Yue Jianming		-	139	80	45	264
Wang Feng		-	141	80	43	264
		-	1,955	5,020	514	7,489

Notes:

- (1) Mr. Yu Xuefeng has been appointed as the supervisor and the chairman of the first session of the Board of Supervisors of the Company since 25 June 2018;
- (2) Mr. Mao Yuanli resigned as the supervisor and the chairman of the first session of the Board of Supervisors of the Company on 26 March 2018, and he still served the Company after from the date ceasing to be a supervisor to 25 June 2019.

There was no agreement under which the directors or chief executive waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included five directors (2018: 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

	2019	2018
Cash	18,562	27,483
Bank deposits available on demand	4,694,796	4,154,735
Other currency funds available on demand	648,103	392,992
Cash and cash equivalents of the Company or subsidiaries of the Group subject to restriction on uses	<u>204,874</u>	<u>565,482</u>
	<u>5,566,335</u>	<u>5,140,692</u>

As at 31 December 2019 and 31 December 2018, the Company's currency funds deposited overseas amounted to RMB16,554,000 and RMB11,453,000, respectively.

Interest income earned on the current deposits in bank is calculated by using the current deposit interest rate of the bank. The deposit periods for short-term time deposits vary from 1 day to 1 year depending on the cash requirements of the Group and the Group earned interest according to the respective time deposit rates of the bank.

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

2. Accounts receivable

The accounts receivable of the Group are mainly the construction contracting receivables. Accounts receivable have a credit period of one to three months in general except for project quality deposits which have a credit period of two to five years subsequent to the completion and acceptance of construction. Accounts receivable are interest-free.

The ageing analysis of accounts receivable is as follows:

	2019	2018
Within 1 year	3,595,362	2,466,240
1 to 2 years	412,625	1,436,403
2 to 3 years	176,585	334,502
Over 3 years	428,644	154,983
	4,613,216	4,392,128
Less: Bad debt allowance on accounts receivable	479,801	517,910
	4,133,415	3,874,218

Movements in bad debt allowance on accounts receivable are as follows:

	Opening balance	Accrual during the year	Reversal during the year	Closing balance
2019	517,910	314,937	(353,046)	479,801
2018	354,228	163,682	-	517,910

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:

	2019			
	Carrying amount		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	

	2018			
	Carrying amount		Impairment provision	
	Amount	Percentage (%)	Amount	Proportion (%)
Receivables for which impairment is provided individually	203,804	5	163,496	80
Receivables for which impairment is provided by portfolio of credit risk characteristics	4,188,324	95	354,414	8
	4,392,128	100	517,910	

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

2. Accounts receivable (Continued)

The expected credit loss on accounts receivable of the Company by ageing is as follows:

	2019			2018		
	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	3,437,812	0.00	38	2,426,037	0.49	11,796
1 to 2 years	334,917	0.49	1,656	1,435,903	1.13	16,234
2 to 3 years	91,169	100	91,169	171,401	100	171,401
3 to 4 years	89,340	100	89,340	45,198	100	45,198
4 to 5 years	42,112	100	42,112	24,348	100	24,348
Over 5 years	34,107	100	34,107	85,437	100	85,437
	4,029,457		258,422	4,188,324		354,414

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

3. Contract assets

	2019			2018		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Completed but unsettled	<u>32,612,358</u>	<u>(156,520)</u>	<u>32,455,838</u>	<u>25,203,415</u>	<u>(141,739)</u>	<u>25,061,676</u>
Including:						
Non-current segment	<u>45,333</u>	<u>(45,333)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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 recognizes 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 recognized 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.

The changes in the carrying amount of the contract assets include: (1) the contract assets are impaired; (2) the timing of the right to the contract consideration becomes an unconditional right (i.e., the contract assets are reclassified as receivables).

Changes of impairment provision for contract assets are as follows:

	Balance at the beginning of the year	Provision for the year	Reversal for the year	Balance at the end of the year
2019	<u>141,739</u>	<u>146,914</u>	<u>(132,133)</u>	<u>156,520</u>
2018	<u>-</u>	<u>141,739</u>	<u>-</u>	<u>141,739</u>

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

3. Contract assets (Continued)

	2019		2019	
	Carrying Amount	Impairment provision	Carrying Amount	Ratio for Provision
	Amount	Ratio (%)	Amount	Provision (%)
Impairment provision for a single item	1,478,847	5	145,542	10
Impairment provision through credit risk portfolio	31,133,511	95	10,978	0.04
	32,612,358	100	156,520	

	2018 (Restated)		2018 (Restated)	
	Carrying amount	Impairment provision	Carrying amount	Ratio for Provision
	Amount	Ratio (%)	Amount	Provision (%)
Provision for impairment on an individual basis	1,355,172	5	100,661	7
Provision for impairment according to credit risk portfolio	23,848,243	95	41,078	0.17
	25,203,415	100	141,739	

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

4. Long term equity investment

	2019	2018
Joint venture		
Qinhuangdao Yuanji Road Construction Management Co., Ltd.	405,918	-
Financial guarantee for joint ventures	15,742	-
	421,660	-
Associates		
Yizongliangheng	56,754	-
Rongcheng County Hengda Construction Investment Co., Ltd.	29,141	29,064
Bozhou Xiangju	15,576	16,484
	101,471	45,548
Subsidiaries		
Hebei Construction Company Tianchen Construction Engineering Co., Ltd.	347,832	200,000
Haiyang Hailong Automobile Innovation Park Development Co., Ltd.	270,000	270,000
Garden Engineering	205,041	-
Tibet Jiming Construction Co., Ltd.	200,000	200,000
Baoding Zhongze Water Supply Co., Ltd.	139,152	37,500
Hebei Construction Company Installation Engineering Co., Ltd.	110,000	110,000
Financial guarantee for subsidiaries	107,563	34,109
Hebei Construction Company Decoration Engineering Co., Ltd.	101,000	101,000
Hebei Construction Company Zhuocheng Road and Bridge Engineering Co., Ltd.	100,000	100,000
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
Hengshui Jizhou District Jiuchen Construction Development Co., Ltd.	50,000	50,000
Bozhou Qihang Transportation Construction Co., Ltd.	50,000	50,000

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

4. Long term equity investment (Continued)

	2019	2018
Hebei Tongchuang Liantai Hospital Management Co., Ltd.	31,000	-
Shandong Juhe Agricultural Service Development Co., Ltd.	29,370	-
Rongcheng County Xinrong City Development Co., Ltd.	24,240	24,240
Hebei Shenning Construction Engineering Co., Ltd.	20,000	-
Hebei Zhiping Construction Equipment Leasing Co., Ltd.	16,060	16,060
Hebei Construction Group Co., Ltd. Steel Structure Engineering Co., Ltd.	9,000	9,000
Yuncai Network Technology Co., Ltd.	8,000	8,000
Hebei Zhongru Software Technology Co., Ltd.	3,328	3,328
Hebei Construction Company 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	-
Zhongcheng Real Estate Development Co., Ltd.	-	183,800
Baoding Swan Real Estate Development Co., Ltd.	-	66,000
Sanhe Jinshibang Real Estate Development Co., Ltd.	-	6,050
	2,031,110	1,678,591
	2,554,241	1,724,139

XVI. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

5. Operating income

Operating income stated as follows:

	2019	2018
Income from principal operation	32,409,338	36,711,708
Income from other operations	540,565	467,707
	32,949,903	37,179,415

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 recognizes revenue according to the performance progress.

XVII. COMPARATIVE FIGURES

As stated in Note V.4, since the Group's holding and merger of Garden Engineering under the same control this year, refer to the Accounting Standards for Business Enterprises and the Group's accounting policies for business combinations under the same control. The controlling merger should be regarded as the reporting entity formed after the merger has been integrated and existed since the ultimate controlling party began to exercise control, which is reflected in its consolidated financial statements, that is, the reporting entity composed of the parent and subsidiary formed after the merger. Both its asset scale and its operating results should be continuously calculated. When preparing the consolidated financial statements, regardless of whether the merger occurred at any point during the reporting period, the consolidated income statement and consolidated cash flow statement reflect the profit and loss and cash flow realized by the reporting entity composed of the parent and subsidiary from the beginning of the year to the merger date, accordingly, the retained earnings item of the consolidated balance sheet should reflect the situation of the surplus reserves and undistributed profits that should be realized if the parent company and the subsidiary have been operating as a whole until the merger date. According to this, the Group has adjusted the opening balance of the then consolidated balance sheet (i.e. 2019) when preparing the consolidated financial statements in the year of the merger. At the same time, the relevant items of the comparative statements have been adjusted, which is deemed to have existed in the previous reporting entity after the merger.

FINANCIAL STATEMENTS AND NOTES

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XVII. COMPARATIVE FIGURES (Continued)

In addition, the comparative consolidated income statement has been restated in accordance with the assumption that the business has been discontinued this year (Notes V-3 and XV-1). At the same time, according to the “Notice on Revising and Printing the Format of General Corporate Financial Statements for 2019” (Caihui [2019] No. 6), for the balance sheet, “bills and accounts receivable” shall be split into “bills receivable” and “accounts receivable”, “bills and accounts payable” shall be split into “bills payable” and “accounts payable” and a new item of “accounts receivable financing” shall be included, in order to reflect the bills receivable at fair value through other comprehensive income on the balance sheet date. The Group has retrospectively adjusted the comparative amounts correspondingly. The changes in accounting policies have had no impact on the consolidated and the Company’s net profit and owners’ interests.

XVIII. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by resolution of the Company’s board of directors on 12 May 2020.

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				
	2019 RMB'000	2018 RMB'000 (Restated)	2017 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000
RESULTS					
Operating income	41,077,029	47,858,714	42,139,150	41,354,974	29,143,330
Less: operating cost	39,023,724	45,108,878	39,733,951	38,961,371	27,176,997
Taxes and surcharges	109,276	111,721	183,131	680,562	1,075,269
Sales expenses	10,237	28,370	39,300	66,299	13,913
Management expenses	505,448	411,462	400,756	336,038	266,119
Research and development expenses	92,895	34,805	29,600	28,123	-
Finance costs	263,642	161,612	9,774	63,135	58,901
Of which: Interest expenses	416,985	290,628	185,593	230,343	306,944
Interest income	158,720	158,022	178,140	171,155	129,635
Add: other income	310	12,889	3,003	360	1,401
Investment gains/(losses)	101,756	(136,782)	191,823	79,352	40,449
Of which: Investment gains/(losses) in associates and joint ventures	8,572	(164,626)	(3,559)	58,264	19,242
(Losses)/gains of fair value changes	(2,721)	1,963	2,069	(161)	2,241
Credit impairment gains/(losses)	40,205	(253,371)	-	-	-
Assets impairment loss	-	-	372,090	128,658	54,934
Asset disposal gains	304	2,377	39,980	6,558	33,353
Operating profits	1,211,661	1,628,942	1,607,423	1,176,897	574,641
Add: Non-operating income	1,490	14,369	9,725	4,894	492
Less: Non-operating expenses	4,402	7,989	29,677	94,736	7,856
Total profits	1,208,749	1,635,322	1,587,471	1,087,055	567,277
Less: Income tax expenses	445,626	465,901	457,492	273,452	157,044
Net profit	763,123	1,169,421	1,129,979	813,603	410,233

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i> (Restated)	2017 <i>RMB'000</i> (Restated)	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Classified by continuity of operations					
Net profit from continuing operations	725,232	1,335,806	1,103,257	1,050,731	543,049
Net profit/(loss) from discontinued operations	37,891	(166,385)	26,722	(237,128)	(132,816)
Classified by attribution of ownership					
Net profit attributable to the shareholders of the parent company	770,415	1,154,039	1,089,086	768,178	406,277
Gains/losses of minority interests	(7,292)	15,382	40,893	45,425	3,956
Other comprehensive income (net of tax)	58,657	60,900	-	-	-
Total comprehensive income	821,780	1,230,321	1,129,979	813,603	410,233
Of which:					
Total comprehensive income attributable to the owners of the parent company	829,072	1,214,939	1,089,086	768,178	406,277
Total comprehensive income attributable to minority interests	(7,292)	15,382	40,893	45,425	3,956

Assets, liabilities and minority interests:

	As at 31 December				
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i> (Restated)	2017 <i>RMB'000</i> (Restated)	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Total assets	60,926,571	62,440,389	51,792,886	61,406,992	52,142,699
Total liabilities	(55,022,999)	(56,508,044)	(47,273,992)	(58,317,314)	(49,970,930)
Minority interests	(182,962)	(525,854)	(429,022)	(255,443)	(90,862)
	5,720,610	5,406,491	4,089,872	2,834,235	2,080,907

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 75% 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

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Baoding Zhucheng”	Baoding Zhucheng Real Estate Development Co., Ltd. (保定築誠房地產開發有限公司), a company incorporated in the PRC on 29 June 2017 with limited liability. As of the Latest Practicable Date, Baoding Zhucheng is held indirectly as to 51% by Zhongming Zhiye
“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
“Board Committee(s)”	collectively, the Remuneration and Appraisal Committee, the Audit Committee and the Nomination 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 to take effective on 1 March 2014

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules, unless the context requires otherwise
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and as of the Latest Practicable Date, refers to Mr. Li Baoyuan, Qianbao Investment and Zhongru Investment
“CSRC”	China Securities Regulatory Commission
“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

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“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
“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)

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“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
“Jinshibang Real Estate”	Sanhe Jinshibang Real Estate Development Co., Ltd. (三河市金世邦房地產開發有限公司), a limited liability company incorporated in the PRC on 7 December 2018, and is a subsidiary held as to 55% by Zhongming Zhiye as of the Latest Practicable Date. Unless the context otherwise requires, its subsidiary(ies) is included
“Latest Practicable Date”	12 May 2020, 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
“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

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“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
“Qianqiu Management”	Hebei Construction Group Qianqiu Management Co., Ltd. (河北建設集團千秋管業有限公司), a company incorporated in the PRC on 17 December 2003 with limited liability. As of the Latest Practicable Date, it was a wholly-owned subsidiary of Zhongming Zhiye
“Remuneration and Appraisal Committee”	the Remuneration and Appraisal Committee of the Board

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Reporting Period” or “2019” or “the Year”	the year beginning from 1 January 2019 and ending on 31 December 2019
“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)
“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

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“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
“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